

Role and development policy in promoting coffee export supply chain

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Abstract:

Coffee is an important commercial crop of the tropics and is the native of tropical rain forests of Ethiopia and Central Africa. It is of great significance in the world economy as the largest single commodity entering the international trade, after petroleum and petroleum products and it is being grown in more than 80 countries. The reports of International Coffee organization details that coffee is supporting millions of small farmers and creates enormous employment opportunities in rural areas. The importance of coffee as an export driven commodity can be judged from the fact that a major quantity of world production of coffee is diverted towards world exports botanically, coffee belongs to the family Rubiaceae. Coffee is grown in three regions of India with Karnataka, Kerala and Tamil Nadu forming the traditional coffee growing region, followed by the new areas developed in the non-traditional areas of Andhra Pradesh and Orissa in the eastern coast of the country and with a third region comprising the states of Assam, Manipur, Meghalaya, Mizoram, Tripura, Nagaland and Arunachal Pradesh of Northeastern India, popularly known as “Seven Sister States of India”

Karnataka is among pioneering Indian states to frame suitable policies aimed at encouraging local firms’ export activities. Promotion and facilitation of firms to look beyond national market was achieved by creating a strong enabling institutional framework, supporting expansion of productive capacity and helping exporting firms gain access to required physical infrastructure. As a result of such policies, exports from the Karnataka have been growing rapidly, with Karnataka contributing over half a quarter of Indian exports of commodities and software. It examines the relevance of various factors pertinent to the exports by Karnataka manufacturing firms and deduces implications for development policy of the state.

Key words: coffee, export, supply chain, institutions, framework

Introduction

Indian coffee is known for the world's best shade-grown 'mild' coffees (COFFEE BOARD, 2011) since most of the coffee cultivation is under shade in India. Unlike in Mexico, Brazil, Uganda where coffee is cultivated under open conditions 'Sun coffee' (DAMODARAN A, 2002). It occupies a place of pride among plantation crops in India. Coffee grown here is typically mild and not too acidic and possesses an exotic full-bodied taste with a fine aroma. In the year 2009-10, coffee production in India stood at 289,600 Mt (Metric tons) of which Arabica variety contributed 33 percent and Robusta variety contributed to 67 percent (COFFEE BOARD OF INDIA, 2011). In spite of huge domestic consumption, a large amount, 75 percent of the coffee produced in India is annually exported to the international markets mainly to Europe, Far East and North America. The introduction of Coffee in India dates back to 1600 A.D. It is said to have been introduced in the hills of Chikmagalur in Karnataka state by a Mohammedan Saint by name 'Baba Budan' in the Chandradrona Parvatha by sowing seven seeds. Coffee seedlings gradually came to be popular in the backyards and gardens of most of neighboring villages especially in Attigundi. It is from these gardens the seedlings were introduced to Nalakand in Kodagu, which subsequently spread on luxuriant Kodagu plantations of today. In 1857, there were as many as 200 British planters in Kodagu. However, Commercial production was started during 1820's supported by British investments. Traditional coffee-growing regions in India are located in South India, mainly in the state of Karnataka, Kerala and Tamil Nadu. Robusta dominates with 60-70% of the total coffee production. Karnataka accounts for 57 per cent of the planted area, contributing about 71 per cent of the Indian production. Kerala with 21 per cent and Tamil Nadu with 8 per cent of planted area account for 24 and 7 per cent of Indian coffee production, respectively. However, in Karnataka, Coorg district accounts for higher production of 111,200 MT (metric tones) during 2009-10 (COFFEE BOARD OF INDIA, 2011). Today, Indian coffee enjoys a free market and coffees are easily and readily available. One can buy them directly from farm gate, through disciplined weekly auctions held in India, through reliable export houses, through experienced facilitators and get them shipped through established clearing and forwarding agent.

Objective

Key objective of the paper is to study the roles of institutions/policy making on coffee export. This paper also seeks to suggest alternatives to improve policy making framework fiscally or otherwise

Coffee marketing

Prior to liberalization, coffee was the only commodity to be marketed through a statutory organization viz., the Coffee Board. It was carried under a system in which coffee was often pooled from the producers and auctioned in two separate auctions for the domestic market and the export market. After harvest, washed coffee was pulped and dried, and unwashed cherry was dried and both were delivered to a curing factory licensed by the Coffee Board. On delivery, growers were paid in advance for their coffee; with the remainder following after the coffee had been sold at the auction. However, because of inefficiencies in the system, many growers did not receive the

final payment for their coffee until up to two years after the Coffee Board had taken possession of it. This was accompanied by problem of higher export tax which was a burden for the small growers. After liberalisation in 1992-93, there was an end of Monopoly behavior of the Coffee Board in supply of coffee. Growers became the sole masters of their produce. They were free to market their produce either in uncured or cured form to the domestic dealers or exporters. They were given opportunity to register themselves as exporters and supply the coffee to the world market. In spite of all these, there still exists the problem of sales tax which is affecting the efficient marketing. This is still a hurdle for the small growers which always reduce the price they get for their produce. This has often led small growers to remain far away from directly selling to exporters. Coffee prices are often influenced by the size and availability of coffee stocks worldwide. In dollar terms it is the most traded agricultural product in the world supporting millions of small farmers and their families. India's domestic coffee price moves in tune with the International price of the same. With world coffee prices being at their lowest levels for many years the very existence of many small growers is at stake. Such prices represent a real threat to the industry (CHATTOPADHAYAY et al, 2007). Coffee supply chain works in an international way, the direct link between producers and consumers are not present. Coffee is traded down a complex line of intermediaries, ranging from local traders, exporters, international traders, roasters and retailers, who each capture a percentage of the retail value of coffee.

In Karnataka, Coorg district accounts for higher production of coffee with large number of farmers involvement in its cultivation. Out of total population, more than 52 percent are dependent on coffee cultivation and out of the total cultivable land 50 percent of the land is under coffee. Coffee cultivation is the main source of income in Coorg. Coffee supply chain works in an international way. To get a better understanding of where the small coffee farmers stand in the global value chain, it is important to analyze who the actors are and what their interactions are like. Analyzing the chain of supply of coffee is important to capture the enormous share of profits of intermediaries which in turn help to understand farmer's position in the chain and help them to realize the better retail prices. Thus with this background, the present study focused on having in depth analysis of value chain in coffee with the key research question

ICTA Auction AND Futures Markets in India

Since after liberalization of market, management of price volatility has been a major concern for Indian producers. In order to address this issue, a range of initiatives have been carried out which includes creation of a private auction system and the creation of different coffee contracts by Indian newly-established futures auctions. The Indian Coffee Traders Association (ICTA) was created in 1993, just after the liberalization. In the initial period, the auction was "successful", with an average 23,000 MT per year being traded at the auction. However, now it has been declined to 10,000 MT i.e. less than 5% of the total production as the preference of the growers

has changed to sell their coffee at the farm gate to exporters' or curing works' agents. Also, there is decline in number of members from 450 to 250 in the first five years. Due to alarming

fall in coffee volumes traded on the ICTA in recent years, Carritt Morgan, one of its three auctioneers, has withdrawn its membership from ICTA since May 2008. Furthermore, there is a taxation of 4% is to all the coffee traded at the auction and duration of settlement at the auction is between 10 and 15 days. Also, the system offers less facilities compared to facilities offered by agents which have facilitated the development of agents on a larger scale. In spite of this, the Positive impacts of the ICTA auction include a local price-discovery mechanism for all grades of coffee. This has also become an important means of supply for small and medium local roasters through which they are able to get year round supply of coffee even though they lack storage facilities.(DAVIDANDCLEMENTINE,2008) In Indian Coffee industry there has been huge developments in the Future markets in coffee. Despite the efforts to disseminate information, participation of smallholders in the future markets has been relatively low so far. However, it has helped in widening the access to markets, empowering farmers to make better cropping and selling decisions. Furthermore, it has facilitated the upgrading in storage, grading and technology infrastructure. Indeed, there is reduction in information asymmetries.

Opportunities for Upgrading

As we saw earlier, that the coffee value chain being a buyer-driven value chain (roaster driven), there is less space for upgrading for small producers. Market power of International traders has hindered the capacity of Small scale farmers to move into higher value-added activities. To make the coffee producers competitive in the global value chain and to help them to escape from poverty by improving their livelihood, upgrading forms the major concern. In this study, the notion of upgrading is understood as ability of producers to create and manage the value-added activities and help them to attain the coffee with various quality attributes that fetches them a good price in the market. We saw that in the value chain, roasters and retailers are said to capture the larger profits while farmers are left at the end. Roasters occupy a sheer size in the volumes and also from the brand power and are flexible in blending formulas. Indeed, this imposes a major constraint to small scale producers. Most coffees sold in consuming countries are blends of various coffee beans from different sources of origin. As a result, roasters in the importing countries rely upon on a few numbers of international traders to supply their base. This type of governance mode also allows roasters to pressure price which results in lower margins for the producers. This hinders the opportunity of small scale producers to go for higher investments in production to upgrade the activities which is having an effective impact on the coffee farmers to be competitive in the global coffee market and control activities that generate more value. All these factors make lead us to think there is a necessity of encouraging the upgrading activities in Coorg region.

Product upgrading requires investments in the improvement of inherent coffee quality to participate successfully in the niche markets. It was seen that small producers in Coorg region lack technical support for improving productivity and reduce the disease and insect attack. However, Coffee Board of India is making efforts in training the producers, yet, it is not yet up to the mark. Coffee Board is actively involved in the promotion of organic coffee in the region which is having high market value. Also, income losses could be reduced if higher quality products are produced. Process upgrading: we saw that the producers in Coorg region mostly followed the basic methods (wet process to get dry parchment) in processing of coffee cherries and they lack proper storage facilities which made them to sell their produce at lower prices. According to the producers there were willing to adopt the advanced methods in processing of the farm level if proper training is given. Training of farmers is required to improve the product management through proper extension services.

Institutional development

Coffee Board of India is the key player in India to strengthen the coffee sector. Although, it carries many activities like research and development, conducts extension and training, we saw that it is not effective in the study region. Therefore, more efforts have to be made in implementing the developmental activities effectively and bringing particularly the small producers closer to higher productivity level. At present, Coffee Board has been completely de-linked from marketing domain. Involvement of the Coffee Board in marketing again will minimize the role of middlemen. Meanwhile, Local level advisory consultants should be encouraged to guide the small producers in focusing conserving biodiversity and ensuring sustainable livelihoods by transforming land-use practices, business practices and consumer behavior. First and foremost responsibility for the Coffee Board extension services is to carry out training effectively to help to manage the farm efficiently. Extension officers should be more open to the producers in order to transfer the development oriented research activities. Successful examples would encourage the small growers to implement the new ideas. Furthermore, an institutional arrangement is essential to pool the produce and transport it efficiently to the processing units. This would not only reduce burden of the transportation cost but also avoids the inconvenience faced by many small and medium growers. Subsidies has to be given to buy the farm inputs and machineries which would help them to mechanize the farm activities and help them to overcome the problem of labour scarcity and care should be taken to see that it is reaching the needy hands. A cordial understanding between the labour community and coffee growers is important as the labour needs to be employed almost throughout the year. Innovations in mechanization should still be explored as a potential supply side solution for the labour scarcity (AKARSHA, 2009).

Financial Support

Most important factor in the production process is the money to invest. In the study region, although the interest rate is high, most of the producers take the credit from the agents since they do not ask to pledge their properties. This also has bounded them to remain in the clutches of the agents and are forced them to sell their produce to the agents. And often the farmers are caught in relationships that are unfavorable to them

because of the low, sometimes unfair, prices paid to them. It becomes very essential on the part of the Government to make attempts to provide loans at the lower interest rates for the small producers to boost their investments in production and upgrading their activities. Investment in enhancing the productivity by the coffee growers will also lead to larger margins. Enhancing the productivity will not only increase the profits but also creates more employment opportunities due to reinvestments

Role of Co-operatives and Farmers Associations- to transfer the knowledge

It was seen that the relationship between the producer and buyer is loose and indirect which has left with less opportunities for transfer of knowledge, skills and services to the producers. This arises the concern for the Government in making efforts to transfer the knowledge and skills which can be done easily through farmers associations and co-operatives and Self- help groups. The cooperative movement in the Coorg region has lost much of its attractiveness to farmers due to factors of mismanagement, Efforts have to be made to revitalize these associations and initiatives must be taken to rebuild the confidence of the producers for these associations. These associations could act as a pathway to transfer the knowledge and technical skills to the producers. Additionally, Many number of producers organizations and Self-Help Groups should be encouraged, providing important information to growers about how to improve and optimize coffee production on their farms.

Also, the attempt of delivering credit through Self-Help groups should be undertaken on larger scale. Such groups allow the management of credit amount and repayment in an efficient manner. Most important thing is to see that the credit amount reaches the producers in time. This would help the farmers to use the credit for the productive purpose and will avoid the miss-use of the credit. Coffee production is the catalyst for development of rural economy, balancing the livelihoods of the people in the region. The study has indicated that the livelihood of the people in coffee plantation sector is at stake mainly due to the challenges arising from different problems related to production and marketing. Further, research on the other issues like weather , avoiding migration of labour force from coffee growing regions and other problems can help in obtaining comprehensive idea about the overall problems in coffee plantation sector and to take appropriate policy measures in tackling the problems.

This objective majorly focused on the important policies to improve the livelihood of small producers. Most important is the development of institutions in the study region focusing on the initiation to be taken in the flow of the knowledge. Focus is also on the role of co-operatives and farmers associations in the transfer of the knowledge in efficient manner. Collective action of the producers helps in increasing their bargaining power in the market and helps them to get a better price. Financial support and developmental oriented activities is very essential in bringing the producers from the clutches from the agents. Yet a combination of approaches with the participation of coffee growers, agents and government has to be adopted for sustenance of this sector for mutual benefits.

Collective action to gain direct access to the international market

In the recent years, there is huge demand for certified and specialty coffee including the traceability of the product in the chain. However, this requires meeting of certain standards from the level of production. Value addition to the green coffee involves cost of certification, promotion of quality improvement, raising the reputation of the origin, good marketing skills and also sometimes costly physical investments (PONTE 2001: 19). This requires a certain level of good organizational development for producers to meet the legal, quality, and volume requirements of the international buyers. It is not possible to meet this huge demand from the international buyers by a single small scale producer, Hence, efforts should be made to bring the small scale producers together and link them directly to the export market. This also tries to reduce their dependence on the intermediaries and thereby their margin can be improved. Linking group of producers can bring about improvements in the margin of profit received by the farmers. Also, when the direct contracts are set between farmers and the exporters, exporters can control the quality of the coffee. Exporters, though to a lesser extent, have recently engaged in sourcing certified coffee directly from the producers.

Major proportion of agricultural production is been taken by the small farms. Coffee, being a commercial crop in the tropics is playing an important role in the economy of the people. Coorg district in Karnataka accounts for higher production of coffee with large number of farmers involvement in its cultivation. More than fifty per cent of the total population in this region is involved in coffee cultivation making it as major source of income. There have been various developments in the coffee marketing. Prior to liberalization, coffee was marketed through Coffee board wherein the producer's coffee was pooled and then auctioned in two separate auctions for the domestic market and the export market. This scenario was changed after liberalisation making an end to the monopolistic behaviour of coffee board. This opened a free market to producers to sell their produce. This was beneficial to the farmers in one way, however made it easy for the entry of intermediaries. Coffee follows a complex chain from crop to cup wherein a coffee bean goes through various processes which adds value at each stage involving different actors. Coffee supply chain also works in an International way. Hence the present study made an attempt to understand the position of the farmers in the value chain and help them to improve their livelihood focussing mainly on i) To describe important marketing and actors involved in coffee value chain. ii) To analyse the co-ordination among different actors in the coffee value chain iii) To analyse how value added is distributed between the different actors. Furthermore based on the above objectives last objective aims at discussing for the improvement of the livelihood of these small producers.

Conclusion

The main actors in the coffee value chain include producers, hullers, agents, curers, exporters, roasters and retailers and finally consumers. Most traded channel was found to be through the local purchasing agents Also, Curers and Local roasters are important players in the chain. Although majority of produce is exported, the direct contact of producers and exporters was less. The co-operative movement has been a failure, while, new

forms like Self-help groups have been emerging. Also, in the recent years future trading is becoming more prominent in the value chain helping to widen the market.

In India, the market for coffee is open where the producers are free to sell their produce to any of the buyers. However, the fact that will focus our attention is transparency in the trade that had found to be less. Producers had less price negotiation for their produce while the information found to be was low to medium (table 7). Trade of coffee was found to be highly influenced by trade since most of the farmers (75%) farmers interviewed said they sell their produce since they trust the millers (curers). This was because most of the produce was sold at the farm gate level to the local purchasing agents or curers as they were easily accessible and the growers were more bounded to them. Furthermore explanation is given in the following sections.

The co-ordination in the value chain is mostly the buyer-driven since roasters being the major actors in the value chain. The trade between the producers and curers is mostly due to the trust gained over the years. However, it is also market co-ordinated. The Transparency in the flow of the information is being low in the chain. And there was less bargaining power for the small growers

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