

Book Reviews

World Coffee Market and ICA

The World Coffee Market and the International Coffee Agreement. M.Th.A. Pieterse and H.J. Silvis. Wageningen Economic Studies, 9. Wageningen Agricultural University/Pudoc, Wageningen, The Netherlands, 1987. 115 pp., Dfl.27.50/US\$19.00. ISBN 90-6754-118-4.

The book contains a report presenting “a descriptive analysis of the international coffee market and its regulation by the International Coffee Agreement (ICA)”. Production and marketing, consumption and processing, and ICA and its role in world trade are the main topics dealt with in the report. No special training in economics is required for a profitable reading of this introductory text to the intricate questions arising from the coffee market. However, a little more analytical consideration by the authors would certainly help in predicting future developments, an important aspect that is missing in the book.

ICA is defined as a “consumer-supported producers’ cartel” which was created in 1962 with the purpose of stabilizing prices in a market previously dominated by Brazil, still the major producing country. As Brazil tried to exploit its monopoly power, production was growing both in other Latin American countries and in Africa. Market control was then implemented through producers’ organizations, several of which were created before the U.S.A. and other consuming countries decided to join the International Coffee Organization for economic and political reasons.

A somewhat loose commitment of members to the established rules has always been a characteristic of ICA. In addition, the rigidity of the export quota system and the substantial heterogeneity of the product have made centralized control of the market rather ineffective. Examples are the usual undershipments, frequent undeclared shortfalls, and sales to non-member countries at lower prices in a continuously growing second market. As a consequence, consumers now seek a more active role in the organization.

If consumers succeed in their attempts to obtain a supply composition more responsive to consumers’ preference, many dissident producers will be able to get larger shares of the market at the expense of Brazil’s declining participation. Since Brazilian production shows a high variability due to weather conditions, a reduction in its share is expected to be a move toward supply and price stability in the international market. Whether this move will indeed take place or not depends on how much of its traditional power within OIC Brazil still retains. The question is left unanswered by the authors, however.

Although a very good descriptive report is presented in the book, the reader

will probably not feel satisfied with regard to future prospects for ICA. One may be tempted to conclude that its chronic problems will finally lead ICA to collapse. A possible clue in this context may be obtained by observing the developments related to the domestic coffee institutions and policies which are going on within Brazil. A more privately oriented marketing system is a possible outcome. If this move is followed by other major producing countries, couldn't we expect the rise of a more flexible and efficient world trade? Another point to be taken into account is the present effort by producers (Brazil included) toward reallocation of production to more adequate regions – to avoid unfavorable weather conditions – and of obtaining a more diversified output in terms of the coffee categories.

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Agricultural Marketing Enterprises for the Developing World

Agricultural Marketing Enterprises for the Developing World. J.C. Abbott. Cambridge University Press, Cambridge, Great Britain, 1986. 200 pp., hardcover £20.00/paperback £6.50.

The book's subject matter is the role of agricultural marketing enterprises in developing countries. The presentation of many interesting case studies gives the reader a good insight into how those enterprises can stimulate and extend development within specific local conditions. Indigenous private enterprises, transnational enterprises, co-operatives and parastatals are the types of marketing enterprises analyzed. To each a complete chapter is dedicated. The book also features a comparative analysis of those enterprises, indicating possible advantages of each, especially for small farmers. A final chapter presents some principles of management for the enterprises considered.

The formation of successful indigenous private enterprises is attributed mainly to such individual characteristics of entrepreneurs as personal initiative, ability to take quick decisions, willingness to work hard for long or irregular hours, agricultural background and so forth. Government support, such as basic infrastructure and access to finance and training, may be required. Advantages are the low costs derived from economies in use of equipment, management and ability to improvise and to find practical solutions.

Transnational enterprises, according to the author, can provide developing countries with scarce technology, management, capital, market know-how and

training of local people. Adequate infrastructure, water and power supply, possibility of importing needed equipment and raw materials, repatriation of profits and realistic price-control policies are requirements for entry of those enterprises.

Co-operatives present the advantages of exploring possible scale economies in transport and other services, improving bargaining power and assuring farm supplies. Support requirements for co-operatives may include concessional finance, preference in distribution of farm supplies, tax exemption, training facilities and government supervising.

Parastatals may be designed to stabilize prices by trading alongside other enterprises, increasing bargaining power as an export monopoly, and improving trade patterns as a domestic monopoly. Management and operational autonomy and the absence of the profit motive would be the major attributes. Lack of competition may result in several forms of economic inefficiency, however. Parastatals are important means of direct government intervention into the economy, raising funds and attracting investment.

Each type of marketing enterprise has proved to be best suited to particular local conditions. This seems to be the fundamental point of view argued in the book. Indigenous private enterprises are advantageous when products, with high variability in quality, are traded in small quantities. Transnationals are specially efficient in export and domestic marketing, as well as in farm-supply marketing, when application of high technology and advanced commercial management are expected. Co-operatives are well suited to undertaking assembly of standard, not very perishable, products and inputs. Parastatals in general are involved with marketing commodities such as maize, rice and wheat ('political' grains) and coffee, cocoa and cotton, all typically sold by standard quality specifications.

The major contribution of the book probably is its collection of case studies, and it should be recommended to intermediate-level students and other readers interested in marketing questions in developing countries. At the end of each chapter, and of the book, the author analyzes the characteristics of an enterprise that may possibly lead it to succeed or to fail. Possible problems or difficulties which enterprises face in their day-to-day operation are emphasized. Favourable situations to be duly explored are also discussed.

Only a short review of related economic theory is presented, which includes the neoclassical theory of pricing, and very condensed considerations regarding the Marxist view and the role of marketing enterprises in the process of economic development. A possible criticism is the lack of a more explicit use of that theory in the remaining parts of the book.

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Marketing Improvement in the Developing World

Marketing Improvement in the Developing World: What Happens and What We Have Learned. Agricultural Services Section, Food and Agriculture Organization, Rome, 1984, 1986 (revised edition). 237 pp. ISBN 92-5-101427-2.

J.C. Abbott and his colleagues in the marketing group of FAO's marketing and credit service have had a wealth of practical experience in formulating and advising on agricultural pricing and marketing policy in developing countries. Mr. Abbott's book, intended as a primer on marketing improvements in developing countries, is a useful and non-doctrinaire compilation of FAO experience, addressed to policy makers, marketing leaders, and officials of donor agencies. It has all the strengths – and some of the weaknesses – of what FAO has attempted to achieve in this area in the last four decades. It includes a combination of case studies prepared by Mr Abbott's colleagues, who were engaged in establishing pricing and marketing units, followed in each chapter by issues for discussion.

The various chapters of the book cover topics such as food and agricultural marketing improvements, government support services, markets and marketing enterprises, fruit, vegetables, meat, fertilizers, and other inputs. Mr. Abbott discusses several lessons to be learned. These include the need for a stock that is 10–25% of the marketed production, the need to establish floor prices without a government monopoly to implement them, and the possible need for a monopoly of imports that could be taxed in order to cross-subsidize foods consumed by the poor. Unfortunately, the discussion leading up to these lessons is not very rigorous in either the economic, financial, or management disciplines. For example, there is no discussion of the factors that should determine whether 10–25% of the crop marketed is sufficient for stabilization. The reader is left wondering, for instance, how the percentage of population in the urban sector, the percentage of lowest-income groups which are market-dependent, the degree of production instability, the distances between consuming and producing markets, and the reliability of imports as determined by the availability of port facilities should determine the size of stocks.

There is a chapter on training staff for marketing enterprises and services of foodgrains which points out that, recently, short-term visits to other countries have acquired greater currency relative to long-term training of nationals. Short-term visits are often necessary to broaden the horizons of developing country officials, and they are cheaper. These visits are of course no substitute for the long-term training that gives developing country officials the necessary

technical skills to determine the costs and benefits of alternative pricing and marketing policies. These skills are crucial to improving price policy, especially given that so many policies are devised and implemented with the political objectives that Mr. Abbott points out. In this connection Mr. Abbott does not stress the more recent existence of a number of very well-trained nationals, especially in Africa, who are not being utilized by national policy makers in operating pricing and marketing units while demand for expatriate technical assistance to staff such pricing units continues unabated.

There is a small paragraph on private markets, but there is no reference to a great body of literature that exists on the subject, especially pertaining to Asia. Mr. Abbott laments that such studies are rare. The discussion in the book instead focuses mainly on public sector activities, which have been the strength of FAO's pricing and marketing assistance, and on the question of how to construct publicly financed physical infrastructures. There is some useful mention of the Government of India's Regulated Market Act, and on its efforts to standardize weights, measures, and market information – interventions which cost few financial resources, which were politically dynamic when introduced, and which have done a great deal to improve competitiveness of markets in India (Lele, 1971). There is not enough discussion in the book, however, to help developing governments install such systems. Also, little emphasis is placed on pointing out the many physical investments, especially market yards, which governments have developed with international aid. These have had low returns as the investments are underutilized, but new taxes are imposed on producers to recover costs.

The book's most useful discussion is on the experience in building the price policy units in the public sector, aiming to formulate prices where governments wish to establish price and supply stabilization operations; these discussions provide many insights into the politics of price interventions. For instance, the establishment of the National Farm Produce Supply Board (INA) in Colombia in the 1950s to support a higher than c.i.f. wheat price was justified to increase domestic self-sufficiency and to protect the smaller farmer. In reality, according to Mr. Abbott, the well-equipped larger farmers – a great number of whom were politicians – benefitted from the high prices as their costs of production were lower than those of small farmers. INA was also a typical white elephant project involving the construction of elaborate headquarters that occupied four floors of an expensive modern building with 18 branches, modern concrete silos, and storage the politician in charge suggested be built next to his farm.

In Somalia, Mr. Abbott considered price and supply stabilization measures essential when the grain marketing agency was established in 1967. Once again, Mr. Abbott reports problems. Repeatedly in such examples the only solution

appears to have come when the politician in charge left office. This then raises the issue of how to get governments to formulate a strategy that is economically sound, politically feasible, and administratively and financially implementable. Given Mr. Abbott's vast experience, a few more insights for the training of marketing officials in this regard would have been quite possible and very useful.

References

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Agricultural Marketing Strategy and Pricing Policy

Agricultural Marketing Strategy and Pricing Policy. A World Bank Symposium. Dieter Elz (Editor). The World Bank, Washington, DC, 1987. 133 pp. ISBN 0-8213-0830-0.

This publication is the outcome of a seminar which was held in Washington, DC, in May 1985, the purpose of which was to provide a forum for the discussion of agricultural marketing, including marketing institutions, price formulation and policies, and the relation between agricultural marketing and the general economy. The discussion was mainly focused on the problems of the developing economies, although these problems were presented in the context of experiences from developed market economies. The publication consists of a set of papers which give a quite unanimous picture, even if there are differences in both quality and views of the papers.

The message is that efficiency of agricultural marketing plays a crucial role in the successful development of the Third World. The marketing system of the developing countries will play an important role in the development of those countries' national economies. Due to increased commercialization and urbanization, and growth in both population and per-capita consumption of food, the volumes which are to be handled in the food-marketing system will increase considerably.

The message is, however, more distinct than this. It is not enough to continue and improve the present dominating marketing- and price policies; there

is a need for a rather radical shift in strategies. The need for a change is primarily focused on the role of the private marketing sector in the developing countries. The role of private wholesalers and retailers has often been criticized and its importance underestimated. This attitude must be changed if the agricultural marketing sector is to be developed in a way that is needed.

Many of the countries concerned have actively tried to regulate the domestic food markets in such a way that the incentives for private traders would be taken away. In spite of this, there is an important private sector in most countries which has developed parallel to the officially sanctioned ones. The existence of this parallel market channel has probably made the effects of the low productivity of the channels protected by the governments, i.e. parastatals and cooperatives, less acute. When the importance of the private traders is now reconsidered, the immediate effect should not be anticipated to be too large in the short term. Nevertheless, the need for change toward liberalization of the domestic food markets is great, and the substantial efficiency gains should be expected when the regulations have been taken away and the private sector is free to develop skill and acquire capital.

The donor community can provide technical advice and economic analysis and ideas about how to proceed with a liberalizing reform. There is in the report a well informed discussion about the relevance of different barriers to change towards liberalization in the developing countries. In an interesting article, Elliot Berg argues against the 'vested interest-urban bias' type of explanation. According to Berg there may be other factors which are the real barriers to change, i.e. ideas about how markets work and preoccupation with the ethnic distribution. It is Berg's opinion that if these factors are confronted when liberalization programs are designed, the probability of success will increase. My criticism on this point is that Berg and the other authors in their discussion focus on the interests of the urban elite and their roles as barriers towards change. There is less discussion of the political barriers connected with the shift from a situation of cheap food for the poor urban population due to the prevalent situation of negative protection rates.

The study includes some international comparisons of the relative efficiency of the marketing systems in different regions of the developing world. In all their simplicity, the data presented give some indication that aid resources are being misallocated, especially in African countries where the need for infrastructural improvements is great.

In an article about the role and nature of international grain trade, Simon Pinninger clearly brings out that the underlying factor of the development and success of this industry is the high degree of competition. The role of the international grain trade as an efficient translator of price is essential as an information system of the supply-and-demand situation. Price changes that may have substantial effects, for both importers and exporters, should or could not be met by protectionistic or similar measures. The strategy for the volatile

developing countries towards the international grain market must be to learn to operate in those markets and utilize the instruments that are available to minimize risks. Penninger points out that countries that can least afford losses are doing little or nothing to manage their price risks.

A special section of the publication is focused on price policies, and in this section there are some articles which are concerned with specific countries and their policies. A more general article in this field is written by Peter C. Timmer, who argues that analysis of price policies cannot get very far in an empirical setting without knowledge of the domestic marketing sector. The strength of the publication is also in its combination of simultaneous well-informed discussions on both price policy and marketing sectors. The message should be carefully considered by those who have responsibility for the development strategies for the Third-World countries. Another group of people who should read the publication are those fighting for further food-sector protection in the developed countries and are thereby prepared both to decrease the efficiency of domestic agricultural marketing and to cut the necessary information link inherent in the international price system, thus increasing the price volatility in the international markets.

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