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STATEMENT OF

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BEFORE THE

SUBCOMMITTEE ON FOREIGN ECONOMIC POLICY

COMMITTEE ON FOREIGN RELATIONS

UNITED STATES SENATE

ON

COFFEE MARKETING

Mr. Chairman and Members of the Subcommittee:

We are pleased to participate in your hearings on U.S.-Ugandan Economic ties with the objective of providing the Subcommittee with information on worldwide coffee production and marketing systems, and to the extent possible, Uganda's role in these systems. We had conducted a study and prepared a report to the Congress on, "Coffee: Production and Marketing Systems," dated October 28, 1977, at the request of the Chairman of the Subcommittee on Domestic Marketing, Consumer Relations, and Nutrition of the House Committee on Agriculture. The information in the report was based on work performed during the period March through August 1977, and related primarily to coffee production and marketing in 1976 and the early part of 1977. Our work was performed in the five largest coffee producing countries and consequently did not include Uganda. However, some information on Uganda and other coffee producing countries was obtained from sources in the United States.

The Exporters

Coffee is produced in 53 countries and territories and is vital to the economies of many underdeveloped countries. In 1976 its export value was more than $8 billion, second only to petroleum in international commodity trade.

For the 1976/77 crop year Uganda was the seventh largest coffee producing country having produced 2.7 million bags each weighing 60 kilo. In 1976 Uganda exported 2.6 million bags valued at $298 million. This represented about 83 percent of its total exports.

Coffee marketing systems of the producing countries consist of growers, processors, brokers or other intermediaries, domestic roasters, exporters and either a government or quasi-government agency charged with carrying out the countries' coffee policies. Such policies may be directed toward any number of objectives--from controlling production, inventories, and exports, to allocating or maximizing government revenues, and curbing inflation. To help allocate income within the coffee sector and stabilize income to the growers, producing countries set minimum internal prices to growers in conjunction with export taxes and minimum export registration prices.

In Uganda the main coffee producing area is in the south central part of the country around Kampala. Almost all production come from over half a million small farms --half of which are less than 2 acres. The Uganda Coffee Marketing Board, an official governmental body undertakes a variety of activities including the purchase and export of coffee. Growers sell mainly to agents of the Board at a guaranteed price established by the Board. The Board exports coffee by consignment through commercial exporters at the port of Mombasa, Kenya.

United States imports

In 1976 the United States imported 19.8 million bags of coffee valued at $2.6 billion, of which 5 percent or 941 thousand bags valued at $106 million reportedly came from Uganda.

The principal ports of entry for coffee in the United States are New York, New Orleans, and San Francisco. There is no duty on coffee, but it is subject to customs formalities. A customs permit to deliver and appropriate shipping documents must be presented to the Customs Service. The coffee is also subject to inspection by the Food and Drug Administration.

The Customs Service furnishes data to the Bureau of Census which compiles and reports general imports by commodity, country of origin, and value. The country of origin is normally the country where the merchandise is grown. However, where the country of origin cannot be determined, the transactions are credited to the country of shipment. Therefore, the "origin" statistics for Uganda or, for that matter, any other country could be over or understated. Our study did not include any assessment of this potential error margin.

The capability to obtain precise "origin" data is further compromised by the 1976 International Coffee Agreement which differs from the 1968 Agreement on the use of export quotas. The 1968 Agreement had continuously operative quotas, and required member countries to prohibit the entry of coffee from another member country that was not accompanied by a Certificate of Origin or Re-export. The 1976 Agreement provides for export quotas when prices fall to between 63 and 77 cents a pound. As prices have been substantially above the trigger price since the inception of the Agreement, export quotas have not been in effect, and consequently origin certificates are not required.

To implement a coffee tracking system designed to provide the International Coffee Organization, which administers the Agreement, with statistical data, the Customs Service collects Certificates of Origin or Import Returns covering coffee entering the United States. As the procedures are voluntary on the part of importers, no shipments of coffee are delayed or denied entry if the documents are not furnished.

Buyers of green coffee operate in the spot, shipment, and futures markets. The spot market concerns trading among importers, brokers, jobbers, and roasters of coffee that has actually arrived from producing countries and is already landed and in warehouses. The shipment market involves the purchase or sale of actual coffee for shipment from a producing country at a given time. The futures market involves the sale and purchase of contracts on the New York Coffee & Sugar Exchange for the future delivery of coffee. However, under normal conditions actual delivery against such contracts is seldom made; the main purpose of futures contracts being to effect hedges against holdings or short sales of actual coffee.

The Green Coffee Association, a trade association, performs various services including the gathering of statistical data on the quantity of coffee arrivals. The Association compiles the statistics by exporting country and importing company. The 1976 statistics indicate that about 15 percent of the imports are for "order" or no specified purchaser. For the Atlantic and Pacific Coast ports the statistical data shows imports from Uganda of 276,478 bags of which 96,433 bags or about 35 percent were consigned to "order".

Representatives of the trade estimate that 75 percent of the coffee imported is handled by coffee merchants while the remainder is purchased directly from producing countries by processors.

Mr. Chairman, this statement is very brief and hardly does justice to the intricacies of the international coffee marketing system. With your permission, I would like to submit for the record our previously cited report to provide a more complete description of the system. This completes my prepared statement and we would be pleased to address any questions which the Subcommittee may have.