A SURVEY OF THE AFRICAN TEA, TOBACCO AND COFFEE AUCTIONS

John A. Houckamps
H. Laurens van der Uden

COMMODITY AUCTIONS IN TROPICAL AFRICA

AFRICAN STUDIES CENTRE
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Commodity Auctions in Tropical Africa

A survey of the African tea, tobacco and coffee auctions

John A. Houtkamp
H. Laurens van der Laan
Cover photograph: auctioneer in action; by courtesy of the Coffee Board of Kenya

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Summary

For a few African export crops it has proved possible and worthwhile to organize regular auctions in the countries of origin, close to the producers. These crops are tea, tobacco and coffee. It is noteworthy that the better qualities (with corresponding higher prices) tend to be the mainstay of the auctions. This is true for the arabicas among the coffees and for flue-cured Virginia among the tobaccos.

The growers or sellers, as the main beneficiaries, were the initiators of the auctions in Africa and have remained staunch supporters. The buyers willingly cooperate, provided the obstacles between them and the world market are small. Auctions, which depend for their success on specialists such as tea tasters, coffee liquorers, etc., rank as highly sophisticated institutions in the field of African export marketing.

The African governments are favourably disposed towards the auctions because of their wish both to increase export earnings and to make the market transparent. The recent drive towards the liberalization of trade has led to renewed interest in the auction system among the policy makers.

The auctions were first introduced in British East Africa in the 1930s. There is still a predominance of East Africa and of the former British territories (Kenya, Tanzania, Zimbabwe and Malawi) but export crop auctions can also be found in Ethiopia and Burundi.
Tea, Tobacco and Coffee Auctions in (East) Africa

Countries where auctions are currently held

Countries where auctions were held in the past

- Auction Town

- Present Tea Auction
- Former Tea Auction

- Present Tobacco Auction
- Former Tobacco Auction

- Present Coffee Auction
- Former Coffee Auction

0 500 km
Chapter 1. Introduction

This is a study in the field of agricultural marketing in Africa. Scholars in this field have often drawn attention to the fact that the marketing of export crops differs a great deal from that of domestic crops. In general export marketing is more complex. This report deals with some of the more sophisticated institutions for the marketing of export crops.

An auction may be defined as a 'public sale in which articles are sold to the highest of successive bidders' (Concise Oxford Dictionary). The key elements are the competitive bidding and the public character. The bidders hear or see the prices their competitors are offering to pay. Here lies an important difference with tender sales, where there is also competitive bidding, but only the seller knows what the bids are. The auction system of the British type (characterized by bidding in ascending order) has been somewhat modified in other countries. The American system was developed to suit tobacco auctioning. Its essence is the same but logistic considerations led to modification of details. Then there are the Dutch auctions, with descending prices. Here the first bid is also the only bid.

The attractiveness of the auction method for the seller lies in the competitive bidding by the would-be buyers, which is supposed to raise the selling price. The advantage for the would-be buyers is that at most auctions they are allowed to see and inspect the articles in advance. This is important when there are 'subtle quality characteristics' (Cassady, 1967), for which some buyers are willing to pay premium prices. They can make up their mind beforehand on the price they are willing to pay. Looking at the advantages on both sides those of the sellers seem to be greater. Hence, an auction usually is an initiative of the seller.

An important distinction is that between occasional auctions such as those organized to sell the assets of a company that has gone bankrupt, and regular ones. Agricultural auctions are normally regular ones, in the sense that they are repeated at regular intervals. This is also the case with the auctions discussed in this report. The regularity and continuity (often modified by seasonality of supply) create expectations among the would-be buyers, which are a major factor in the success of the auctions. We shall have much to say about the formal and informal rules on which these expectations are based.

In Africa (as in other parts of the world) the auction method has been applied to a limited number of crops, i.e. only those which exhibit the 'subtle quality differences' (see above), leading to price premiums (and discounts). The differences must be sought both at the production side (botanical varieties, climatic conditions, or the harvesting and
processing methods) and at the consumption side (choosiness of the ultimate consumer).
Tea is the auction crop par excellence. It is sold at auctions in many parts of the world.
The auction method is also associated with tobacco, but not used everywhere. At present,
there are tobacco auctions in the USA, Canada, India and Africa. Curiously, Africa is the
only continent where the auction method is used to sell coffee.

A central figure at an auction is the auctioneer. He conducts the process of auctioning. His
trustworthiness and skill are major factors in the success of an auction. His skill has a
bearing on three points. First, he determines the order in which the articles are offered for
sale. If there is a catalogue, the auctioneer is responsible for its contents. Second, there
should be no uncertainty about the person who acquires the article, in the jargon of the
trade 'the successful bidder'. Third, he should speed up the proceedings, so that the
auction session does not last longer than a few hours. Many of the auctions discussed in
this report are held once a week or once in two weeks. This means that selling is not
continuous during this period but concentrated in, say, two hours.

Auctioneers are normally brokers to whom the owners consign their goods, but
occasionally, and within the rules of the game, the auctioneer also acts as a trader buying
and selling on his own account. In principle one auctioneer is enough but at some of the
auctions discussed here there are several. The people coming to the auctions to buy are
called 'buyers', although 'would-be buyer' is more correct. Some of them are merchants
or dealers and others merely agents or intermediaries for outsiders. Moreover, some
alternate the two roles.

The fact that auctions are 'public' does not necessarily mean that everybody is
admitted to the auction room or floor. But it certainly means that any would-be buyer can
bid and buy indirectly, that is through an intermediary. Again, 'public' does not mean that
would-be buyers who want to remain anonymous are forced to come into the open. They
can preserve anonymity by using an intermediary. For those unfamiliar with Africa, it
should be emphasized that most auctions in this report are not 'public' in the sense of
'linked to the government'. In some cases they intervene to strengthen the auctions. They
are set up and operated by private enterprise, but we should add that the African
governments are generally favourably disposed towards auctions for agricultural
products.

Auctions are vulnerable for several reasons. On the supply side it is important that
the volume offered is large enough to make it attractive for many buyers. On the demand
side it is essential that many would-be buyers attend to guarantee a sufficient level of
competition. Again, if the buyers form a secret 'ring' to restrain competition, the auction
method does not work as it should.
The study of export agriculture has long been a special line of the African Studies Centre in Leiden. This has resulted in two articles in which the African auctions were discussed as part of a larger subject (Van der Laan, 1986; 1987). In the overview of the first article 14 auctions in 8 countries are mentioned. Auctions were confined to four crops: tea, tobacco, coffee and cotton, but it was indicated that the cotton auctions had ceased in the late 1970s. In 1993 research was resumed, with the limited objective of compiling a comparative, exploratory report over the period since 1980, as now lies before us. This objective determined the nature of the research undertaken. Most of the material was collected in libraries, but, where gaps remained, supplementary interviews were conducted. No in-depth research was undertaken in Africa, as it was considered too early (and too expensive) at this stage. We hope, however, that this report will inspire further research in Africa.

In gathering information on the auctions we discovered a curious skewedness. In the trade journals, that is the journals catering to the professional traders in tea, tobacco and coffee, there is an abundance of information. But in other publications auctions are hardly mentioned, let alone seriously discussed. From our search of the literature we conclude that the subject of auctions has almost completely failed to attract the serious attention of economists on the one hand and policy makers on the other. Our first purpose has therefore been to summarize and communicate the knowledge of the professional commercial world to academics and policy makers. This is done in the chapters 2 - 4, each chapter covering one crop. These chapters are primarily descriptive, although the last section of each chapter contains a first assessment. Table 1 provides an overview of the ten auctions studied. It should be noted that all these auctions are operating in East Africa, mainly in anglophone countries. Later we shall see that there is a link with the period of British colonial rule. It is noteworthy that there have never been export crop auctions in West Africa.

Our second purpose is to compare and interpret this descriptive material. Comparison is desirable because there are many similarities but also significant differences between the tea, tobacco and coffee auctions. It is expedient to pull the strands together. Our efforts to arrive at a thorough comparison automatically led to a (preliminary and tentative) interpretation of the material. This centres on the questions of whether the auctions have been successful, for what reasons, and why they are confined to a few crops. Both comparison and interpretation are dealt with in the final chapter. There we also touch upon the current debate on structural adjustment in general and that on the liberalization of trade in particular. Interest in the auctions has increased in recent years, because they are now seen as an instrument of liberalization or at least a step towards greater transparency in trade.
For publications cited, see literature at the end of chapter 5.

<table>
<thead>
<tr>
<th>Country</th>
<th>Town</th>
<th>Tea</th>
<th>Tobacco</th>
<th>Coffee</th>
</tr>
</thead>
<tbody>
<tr>
<td>Burundi</td>
<td>Bujumbura</td>
<td>***</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ethiopia</td>
<td>Addis Abeba</td>
<td>***</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Dire Dawa</td>
<td>***</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Kenya</td>
<td>Mombasa</td>
<td>***</td>
<td></td>
<td>(***</td>
</tr>
<tr>
<td></td>
<td>Nairobi</td>
<td>(***</td>
<td></td>
<td>***</td>
</tr>
<tr>
<td>Malawi</td>
<td>Lilongwe</td>
<td>***</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Limbe/Blantyre</td>
<td>***</td>
<td></td>
<td>***</td>
</tr>
<tr>
<td>Tanzania</td>
<td>Moshi</td>
<td></td>
<td></td>
<td>***</td>
</tr>
<tr>
<td>Uganda</td>
<td>Kampala</td>
<td>(***</td>
<td></td>
<td>(***</td>
</tr>
<tr>
<td>Zambia</td>
<td>Lusaka</td>
<td></td>
<td>(***</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Chipata</td>
<td>(***</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Zimbabwe</td>
<td>Harare</td>
<td></td>
<td>***</td>
<td></td>
</tr>
</tbody>
</table>
Chapter 2. Tea auctions in Tropical Africa

1. Introduction

Tea is pre-eminently an auction crop. It is the only agricultural commodity in this report of which the bulk of the world exports is sold by public auction. In 1992, over 82 per cent of the world tea exports\(^1\) moved through auctions, the majority being sold at the auctions in the tea producing countries. The remaining 18 per cent of the world tea exports was sold by private treaty. The last ten years the amount of tea sold at auctions as a percentage of the world tea exports varied between 77 per cent in 1989 and 92 per cent in 1985, with an average percentage of 84. When auction sales are expressed as a percentage of the world production one gets a different picture, mainly because of the large domestic markets in China and the former Soviet Union. In addition, these countries traditionally bypass auctions in selling their tea on the world market.

The first 'free' tea auctions were held in 1834 in the Plantation House at Mincing Lane in the city of London.\(^2\) Auctions subsequently opened in several producing countries (see table 2.1), the first being established in the 19th century in Calcutta (India) and Colombo (Sri Lanka). However, as shown in table 2.1, most 'local' auctions were established after World War II in both Asia and Africa. London has remained the centre of the world tea trade, although the volumes of tea sold at the London auction started to decline since about 1970. Measures of governments of producing countries to reduce volumes being sold at London, took their effect and increasing amounts of tea were sold at the (newly established) 'local' auctions.

The increase in local sales, together with the decline of the UK consumption of tea, reduced the amount of tea exports being sold in London from an average of 30 per cent in the 1960s to less than four per cent (38,500 tonnes) in 1992. This percentage includes some 8,000 tonnes of tea that were auctioned off-shore. London off-shore auctions (CIF sales\(^3\)) were introduced in 1982, in addition to the on-land sales, in order to arrest the decline of the London tea auctions. In the case of off-shore auctions, tea tasters examine air-lifted tea samples before the corresponding tea lot is landed. The testing results are included in the London selling catalogue. Until 1992, volumes sold at off-shore auctions never exceeded 10,000 tonnes. The main sellers at the off-shore auctions are based in Kenya, Malawi and Zimbabwe.

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\(^1\) The figure on world tea exports includes some 105,000 tons of green tea exports (about 10 per cent of all exports).
\(^2\) Since 1971 the London tea auctions are conducted at Sir John Lyon House.
\(^3\) Since 1989, off-shore sales are also conducted on a free on board basis (FOB).
The London auctions can still be regarded an 'irreplaceable thermometer of price and quality of tea' (Forrest, 1983, p. 128), because it still attracts teas from all over the world and relative prices can be established immediately. However, as most tea buyers have agents or representatives in most 'local' auction centres, who can send samples of tea on offer to head offices for comparison, this argument is not convincing anymore (UNCTAD, 1982, p. 7). Recently over 95 per cent of all auction sales are conducted in tea producing countries. The largest absolute growth of auction sales is observed in the India auction centres and the largest proportionate growth in Indonesia (Jakarta) and in Kenya (Mombasa) (UNCTAD, 1982, p. 4).

'Local' tea auctions in Africa were first established in Nairobi in 1956, following the expansion of the Kenya tea sector. Thirteen years later, they were transferred to the coastal town of Mombasa. The same year a second African tea auction was established at Blantyre/Limbe in Malawi. In 1990 the Mombasa auction, together with the Blantyre/Limbe auction, accounted for almost 17 per cent of all auction sales in the world and handled about half of the African tea exports. While auction supplies for the Mombasa auction come from several tea producing countries, sellings at Blantyre/Limbe only concern tea produced in Malawi.4

Because tea auctions in Africa are restricted to those present in Mombasa and Blantyre/Limbe, this chapter is primarily confined to the tea industries in Kenya and Malawi and their respective tea auctions. Some reference will be made to the tea industry of African countries that move (part of) their tea exports through Mombasa, like Uganda, Burundi, Rwanda and Zaire. Where relevant, (figures of) the African auctions will be compared with the London tea auction and 'local' auctions in Asia.

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4 Some tea from Zimbabwe has recently been sold at the Blantyre/Limbe auction on an experimental basis.
Table 2.1: Tea auction centres of the world

<table>
<thead>
<tr>
<th>In countries of consumption:</th>
<th>Established in:</th>
</tr>
</thead>
<tbody>
<tr>
<td>London</td>
<td>UK</td>
</tr>
<tr>
<td>Amsterdam</td>
<td>Netherlands</td>
</tr>
<tr>
<td>Antwerp</td>
<td>Belgium</td>
</tr>
<tr>
<td>Hamburg</td>
<td>Germany</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>In Asian countries of production:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Calcutta</td>
<td>India</td>
</tr>
<tr>
<td>Colombo</td>
<td>Sri Lanka</td>
</tr>
<tr>
<td>Cochin</td>
<td>India</td>
</tr>
<tr>
<td>Chittagong</td>
<td>Bangladesh/Pakistan</td>
</tr>
<tr>
<td>Coonoor</td>
<td>India</td>
</tr>
<tr>
<td>Gauhati</td>
<td>India</td>
</tr>
<tr>
<td>Jakarta</td>
<td>Indonesia</td>
</tr>
<tr>
<td>Siliguri</td>
<td>India</td>
</tr>
<tr>
<td>Coimbatore</td>
<td>India</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>In African countries of production:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Nairobi</td>
<td>Kenya</td>
</tr>
<tr>
<td>Mombasa</td>
<td>Kenya</td>
</tr>
<tr>
<td>Blantyre/Limbe</td>
<td>Malawi</td>
</tr>
</tbody>
</table>

* auction sales later discontinued
** first free auction sale after the East India Company’s monopoly was ended
*** year of reopening after World War II

N.B.: From 1981 until 1986 tea was also auctioned at Singapore. This was the only tea auction for producers in developing countries outside the producing countries. In 1976 part of the Uganda tea production was sold at a tea auction at the capital city of Kampala. This auction centre closed after a few sellings.

Source: Forrest, the world tea trade (1983); International Tea Committee, Annual Bulletin of Statistics (1991); UNCTAD, The marketing and processing of tea (1982).

2. Tea in Kenya

2.1 Production

Unlike the coffee and tobacco plants, tea is not indigenous to the African continent. In some African countries, however, the climate, soil conditions, altitude and rainfall distribution are eminently suitable for the tea plant (Karanja, 1977, p. 54). In Kenya, tea has two flushing periods that coincide with the long rains of mid-October to December and the short rains of March to June. Although higher yields are generally obtained during these periods, quality is rather uniform, which means that certain qualities are available
throughout the year (Karanja, 1977, 75). However, this does not mean that the Kenyan tea industry produces a uniform product. Characteristics of accepted grades can vary considerably from district to district and even from estate to estate (Eden, 1976, p. 197).

The story of Kenya tea is supposed to have started in 1903, when a settler, C.S.L. Caine, imported seed from India and began to produce quality leaf on a two-acre tea farm (Forrest, 1983, p. 78). Other planting experiments by pioneer British settlers followed in the white settlement areas in the Kenyan highlands and in 1925 the first tea plantation companies were established. In 1931, plantation owners formed the Kenya Tea Growers Association (KTGA). This association has grown since, its major objective being the promotion of the common interests of all its members in the cultivation and manufacture of tea in Kenya and the maintenance of good industrial relations in the industry (Orao Obura, 1989, p. 23). Currently there are 52 'voluntary' members of the KTGA. They occupy 33 per cent of the area under tea and are responsible for about 52 per cent of the total tea leaf production in Kenya. The large estates/plantations are situated in Limuru near Nairobi and in the Western part of the country round Kericho, Sotik and in the Nandi hills.

The Kenya tea industry can be divided into two separate sectors: the above mentioned plantation sector and the smallholder sector. The latter has its roots in the late 1950s, when tea planting was introduced on an experimental basis in the former 'African Land Units' (Karanja, 1977, p. 55). Because of its success, a Special Crops Development Authority was established that soon after independence in 1963 evolved into the Kenya Tea Development Authority (KTDA hereafter). After the Kenyan government entrusted the KTDA with the supervision and control of the small-scale tea development, the smallholder sector developed energetically alongside the foreign owned estates. These estates played an important role in shaping the conditions under which the smallholder tea scheme could develop (Dinham & Hines, 1983, 102). Especially Brook Bond Liebig Kenya, the largest company involved in the Kenya tea industry, succeeded in fashioning the smallholder scheme to its own advantage by making demands in return for provided assistance. It is worth mentioning that some KTDA members own large plots of over 100 hectares. However, the majority of the approximately 150,000 KTDA members own plots of less than 0.5 ha each. The plantation sector covers over 30,000 hectares.

The tea industry in Kenya is supervised by the Ministry of Agriculture through a special body: the Tea Board of Kenya (TBK). The TBK is made up of KTGA and KTDA representatives and government officials. The main functions of the board are: licensing of the growing, manufacture and export of tea, advising the government on policy for the tea industry, levying cesses on tea, promoting the tea industry, and financing the Tea Research Foundation (TRF) (Orao Obura, 1989, p. 27). The KTGA and the KTDA are also members of the East African Tea Trade Association (EATTA), an independent body
operating from Mombasa, which is made up of tea producers in East Africa and tea brokers and buyers in Mombasa. The responsibilities of the EATTA are to organize and control the tea auctions in Mombasa as well as private sales, and to advise the TBK on international tea marketing.

As has been described, tea is not a seasonal crop. It can be grown and plucked as well as sold the whole year through. Smallholders have to deliver their green tea at one of the over 1,000 KTDA buying centres located along the roads in the tea growing areas. The growers are paid in two instalments. The first payment is made every month for leaf delivered during the preceding month. The second payment is dependent both on world tea prices and the general performance of the tea factory where the tea was processed (Obura, 1989, 32). Processing and grading takes place at a tea factory owned by the KTDA or a plantation. The plantation sector owns 17 tea processing factories, the KTDA 39. The factories are all situated close to the growing areas to avoid deterioration of leaf quality during transport.

2.2 Tea marketing

After tea has been processed and graded at one of the 56 tea factories, the black, or manufactured tea is packed in chests or, more recently, multiply paper bags. Paper bags are increasingly being used to pack tea due to a shortage of wood in tea producing countries and measures that discourage the use of tea chests. The chests or bags are marked with the name of the grower or estate, the grade and the place of origin. The bulk of the tea is transported to the sellers' warehouse, where it is stored prior to selling. Most warehouses are situated in or near Mombasa. Plantation growers take care of their own transport and storage, smallholders are charged a fee by the KTDA.

All tea growers in Kenya are obliged to sell part (10-12 per cent) of their tea production to KETEPA, the Kenya Tea Packers Ltd.. The black tea is transported directly from one of the tea factories of the KTDA or the plantations to the KETEPA factories at Kericho. At these factories the tea is blended and packed for the domestic market. KETEPA is owned by both the plantation growers and the smallholders through the KTDA. The remainder of the Kenyan tea production is sold on the export market. Table 2.2 gives an impression of the growth of the tea production in Kenya and the relative importance of auction sales in selling the Kenyan exports on the world market.

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5 Except for some representatives of the Tanzanian tea industry, the EATTA is entirely made up of Kenyan tea producers.
6 Tea cannot be described as a seasonal crop because between six and twelve per cent of the annual crop comes in any one month (Etherington, 1972).
7 Prior to 1978, Brooke Bond had the sole local marketing licence.
Table 2.2: Production, Export and Marketing of Kenyan tea, 1975-1992

<table>
<thead>
<tr>
<th>Years</th>
<th>(1) Production (metric tonnes)</th>
<th>(2) Exports % of production</th>
<th>(3) Auction sales % of exports</th>
<th>(4) Local auction sales % of exports</th>
</tr>
</thead>
<tbody>
<tr>
<td>1975</td>
<td>56,730</td>
<td>92.8</td>
<td>55.7</td>
<td>27.6</td>
</tr>
<tr>
<td>1976</td>
<td>61,984</td>
<td>95.9</td>
<td>55.1</td>
<td>29.4</td>
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<tr>
<td>1977</td>
<td>86,291</td>
<td>81.4</td>
<td>67.6</td>
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<td>1978</td>
<td>93,373</td>
<td>91.0</td>
<td>64.1</td>
<td>36.3</td>
</tr>
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<td>1979</td>
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<td>1981</td>
<td>90,941</td>
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<td>78.7</td>
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<td>1982</td>
<td>96,033</td>
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<td>59.9</td>
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<td>1983</td>
<td>119,738</td>
<td>84.1</td>
<td>62.9</td>
<td>46.4</td>
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<tr>
<td>1984</td>
<td>116,172</td>
<td>78.5</td>
<td>75.1</td>
<td>56.0</td>
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<td>53.5</td>
</tr>
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<td>1986</td>
<td>143,317</td>
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<td>67.5</td>
<td>53.0</td>
</tr>
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<td>1987</td>
<td>155,808</td>
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</tr>
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<td>1988</td>
<td>164,030</td>
<td>84.3</td>
<td>67.2</td>
<td>54.2</td>
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<td>1989</td>
<td>180,600</td>
<td>90.4</td>
<td>70.5</td>
<td>59.3</td>
</tr>
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<td>1990</td>
<td>197,008</td>
<td>86.1</td>
<td>84.0</td>
<td>71.2</td>
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<tr>
<td>1991</td>
<td>203,589</td>
<td>86.2</td>
<td>80.9</td>
<td>68.3</td>
</tr>
<tr>
<td>1992</td>
<td>188,072</td>
<td>88.5</td>
<td>76.9</td>
<td>65.2</td>
</tr>
</tbody>
</table>


The tea auctions in Mombasa can be described as semi-optional to the Kenyan tea producers, for they are legally obliged to sell at least 20 per cent of their tea production at the 'local' tea auction. Hence, producers are free to sell about 70 per cent (about 10 Per cent is sold to KETEPA and 20 per cent at the Mombasa auction) of their tea production outside the auction. However, although part of the Kenya tea production is sold by private treaty, the majority of the tea exports, about 77 per cent in 1992, is sold by auction in either London (about 12 per cent) or Mombasa (over 65 per cent). Auction sales in London as well as in Mombasa take place via a selling broker, who acts on behalf of the producers. Incidentally, a selling broker also mediates in direct sales (private treaty). Buyers can make purchases for their parent company, or overseas customers (agent) or buyers can act as independent exporters or trader. The latter have to sell their purchases to a blender/packer. Except for tea meant for the domestic market, blending and packing takes place outside Kenya.
3. The Mombasa tea auction

3.1 Growth of the Mombasa tea auction

The Kenya tea auctions were first set up in 1956 in the capital city of Nairobi. The establishment of a 'local' tea auction at Nairobi is often described as an associated development of the expansion of the tea sector in Kenya from 1954-1964 (Arvo, 1968). Taking into account the fact that large-scale growers dominated the Kenya tea industry during this period, the establishment of tea auctions was largely in response to the interests of the large growers.

However, as has been described in the introduction of this chapter, the shift from auctions in the consuming countries to those in the producing countries, is an international trend, which is also relevant. Because 'local' auctions are believed to have advantages over 'central' auctions in consuming countries (see section 6 of the present chapter), several governments made efforts to reduce their sales on these auctions in order to increase 'local' sales through auctions. In Kenya, the government supported the 'local' tea auction from the beginning. Also the tea industry in neighbouring countries like Uganda, Tanzania and Zaire contributed to the establishment and growth of the Kenyan auction.

In 1969 the Kenyan tea auctions were transferred from up-country Nairobi to the coastal town of Mombasa. Whether this was a compromise towards foreign suppliers or the ultimate aim of those involved in the Kenyan tea industry is unknown. Nevertheless, the harbour of Mombasa is well connected with all tea growing areas via railway lines and roads, so manufactured tea can rapidly be delivered for auctioning and/or overseas shipment. Mombasa has become an outlet for several African tea producers like Uganda, Burundi, Rwanda, Tanzania and (East) Zaire. In section 3.4 the foreign supplies on the Mombasa auction will be further elaborated.

3.2 Selling operations

The auction sales at Mombasa are organized by local tea brokers or auctioneers on behalf of the East African Tea Trade Association (EATTA) and are held each Monday afternoon in the auction room of the Ralli House on Nyerere Avenue. Prior to 1977 only one broker firm operated in Mombasa, but due to an increase in turnover, two other firms were brought into business in the 1980s. At present, seven broker firms are operating at the Mombasa auction. Three of these broker firms are partially owned by UK-based firms.

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8 African Tea Brokers Ltd., Anjeli Ltd., Bicorm Exim Ltd, Combrok Ltd., Tea Brokers East Africa Ltd, Union Tea Brokers Ltd. and Venus Tea Brokers Ltd.
Some producers use more than one broker in order to improve the services (if not the prices) they obtain at the different firms. Brooke Bond Liebig Kenya, for instance, sells tea through almost all brokers.

The broker firms take care of the complete selling process. After the tea has arrived at the sellers' warehouse in Mombasa, the producer (a plantation owner or his agent or a KTDA representative) takes samples of the tea on offer and sends them to the broker firm(s) of his choice. Sampling takes place two to three weeks prior to the sale. The samples of manufactured tea are on average one to two kilograms, representing one lot of tea. One lot of tea is usually 60 chests or paper bags of on average 50 to 60 kilograms each (UNCTAD, 1982, p. 8). After tasting and valuing by a professional tea taster, the broker prints the testing results in a catalogue which is distributed among the local buyers as well as some overseas buyers. Except for the grades and volumes of the tea on offer, the catalogue also mentions the date of sale, the order of sale (at the auction the auctioneer firms sell in rotation) and the warehouse where the tea on offer is stored. Prior to the auction sale, most prospective buyers do also receive a sample of the tea on offer, for pre-inspection.

The average supply at the Mombasa auction lies between 40,000 and 45,000 chests or bags of tea per week (about 2,400 tonnes). Although producers are able to regulate supply by for instance withholding tea from the auction, fluctuations in supply are almost entirely due to seasonal variations. Stocking tea supplies in order to regulate the market is generally too expensive and not without risk, notably the risk of stock depreciation when prices fall.

The actual selling of the tea takes place in an auction room where the buyers are seated. As contrasted with tobacco auctions (see chapter 3), no tea is available at the selling. The auctioneer sets a starting price that is somewhat above the reserve price and the bidding (of the ascending type) starts. The reserve price is generally based on prices received for comparable grades in earlier sales. Four to five days before the sale, the producers are informed about this reserve price. Theoretically producers can object to this price and set a minimum price on their own. If bidding does not reach the reserve price (or the minimum price set by the producer), the auctioneer or the grower at his discretion can withdraw the tea from the auction and re-offer the lot on a later sale, usually two to three weeks later. Naturally, the producer can also decide to offer the tea on the London auction or to sell the tea directly. However, about 95 per cent of the tea on offer is sold at the first sale. Only five per cent has to be 're-printed'.

When a lot is knocked down, the successful buyer receives a Delivery Order. The tea can now be moved from the sellers' warehouse to the warehouse of the new owner.

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9 At auctions where catalogues are prepared prior to the sale, re-offerings are generally referred to as re-printings.
Payments have to be made within 14 days after the sale. After delivery at the buyer's warehouse, the buyer compares his purchases with the sample he received prior to the sale. However, it is not possible in principle to cancel the purchase made at the auction. Only when the tea is severely damaged or defected can the buyer appeal to the auctioneer. Hence, such a situation is exceptional.

Post-sale activities are dependent on the position of the buyer. When a buyer acts as an independent tea exporter, he buys at his own risk. In that case he will be keen on selling his stocks as quickly as possible to a blender or blender/packer to reduce warehouse costs. On average, the interval between the auction and shipment equals four weeks, an interval that has to be financed by the exporter. The main reason for an independent exporter to speed up selling is to minimize risks of falling prices. If prices fall after the auction, his business will be injured because he has to sell in a falling market. The buyer-exporter will therefore keep a close check on the development of prices at other auction centres. However, most of the tea buyers at the Mombasa auction are not independent exporters and consequently do not incur comparable risks. They make purchases for their (primarily United Kingdom-based) parent company, or act on a regular basis as buying agents or buying brokers for overseas clients that do not have an office at Mombasa. These overseas customers pay a buying commission of one to two per cent of their purchases to their agents in Mombasa. After the auction, the non-independent buyers only have to report to the head office or principal about their purchases. Means of communication are of crucial importance for all buyers. It appears that buyers in Mombasa face few problems in contacting prospective buyers, principals and head offices.

In order to buy tea at the Mombasa auction, a buyer has to register at the EATTA. All 93 (1983) registered buyers are allowed to buy tea at the Mombasa auction, but in practice about 30 to 40 buyers make regular purchases and only 15 of them are really active. EATTA buyers that are not based or registered in Kenya must have permission from their exchange control authorities to purchase tea at the auction. The concentration of buyers is high. Five major buyers/blenders account for about 60 per cent of all tea purchases. Four of these buyers represent leading packing companies based in the United Kingdom.

The majority of the buyers registered at the EATTA is not able to play a significant role in the trade because of their limited bargaining strength. The position of some buyers has further been weakened by the 1992 decision to conduct auctions henceforth in US Dollars. Prior to this decision sales were conducted in local Kenyan Shillings. Especially local tea buyers find it difficult to finance their purchases in US Dollars. Some buyers concentrate their buying activities on certain grades of tea. Forrest (1983, p. 7), mentions
for instance, the tea buyers from Somalia who specialize in the lower grade teas. These specific grades can probably not be found at the London auction.

3.3 Quantities and prices at the Mombasa tea auction

In 1992, the brokers at the Mombasa auction were responsible for selling about 119,000 tonnes of tea (about two million chests), with a total value of almost six billion Kenyan Shillings (about 185 million US Dollars). By comparison, in 1990 the London and Colombo auctions sold amounts of about 44,000 and 215,000 tonnes of tea respectively. Currently (1992), the Mombasa auction handles almost 12 per cent of the world tea exports and well over 50 per cent of the African tea exports (see also next section on foreign supplies). Table 2.3 presents some figures on the Mombasa auction from 1975 to 1992.

Table 2.3: Sales at the Mombasa tea auction, 1975-1992

<table>
<thead>
<tr>
<th>Years</th>
<th>Total supplies</th>
<th>Kenyan supplies</th>
<th>Foreign supplies</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Volume (metric tonnes)</td>
<td>Value (000 Ksh)</td>
<td>Volume (metric tonnes)</td>
</tr>
<tr>
<td>1975</td>
<td>25,122</td>
<td>201,730</td>
<td>14,533</td>
</tr>
<tr>
<td>1976</td>
<td>24,727</td>
<td>251,474</td>
<td>17,499</td>
</tr>
<tr>
<td>1977</td>
<td>39,619</td>
<td>688,578</td>
<td>27,110</td>
</tr>
<tr>
<td>1978</td>
<td>37,591</td>
<td>466,880</td>
<td>30,855</td>
</tr>
<tr>
<td>1979</td>
<td>44,599</td>
<td>543,662</td>
<td>41,896</td>
</tr>
<tr>
<td>1980</td>
<td>34,616</td>
<td>466,624</td>
<td>32,264</td>
</tr>
<tr>
<td>1981</td>
<td>40,341</td>
<td>587,768</td>
<td>37,110</td>
</tr>
<tr>
<td>1982</td>
<td>36,638</td>
<td>654,721</td>
<td>34,027</td>
</tr>
<tr>
<td>1983</td>
<td>48,572</td>
<td>1,236,643</td>
<td>46,728</td>
</tr>
<tr>
<td>1984</td>
<td>55,144</td>
<td>2,228,369</td>
<td>51,048</td>
</tr>
<tr>
<td>1985</td>
<td>72,030</td>
<td>1,879,263</td>
<td>67,448</td>
</tr>
<tr>
<td>1986</td>
<td>68,156</td>
<td>1,819,765</td>
<td>61,716</td>
</tr>
<tr>
<td>1987</td>
<td>80,791</td>
<td>1,741,046</td>
<td>74,978</td>
</tr>
<tr>
<td>1988</td>
<td>77,038</td>
<td>1,856,616</td>
<td>74,849</td>
</tr>
<tr>
<td>1989</td>
<td>99,386</td>
<td>3,092,892</td>
<td>96,772</td>
</tr>
<tr>
<td>1990</td>
<td>124,253</td>
<td>4,212,662</td>
<td>120,706</td>
</tr>
<tr>
<td>1991</td>
<td>126,115</td>
<td>4,936,141</td>
<td>119,905</td>
</tr>
<tr>
<td>1992</td>
<td>118,602</td>
<td>6,795,076</td>
<td>108,496</td>
</tr>
</tbody>
</table>


---

10 One US dollar equaled 22.9 Kenyan Shillings in 1990.
In general, the prices paid for tea at the London auction\textsuperscript{11} are considerable higher than prices realized at the Mombasa auction. In the last ten years, the average prices of tea at the Mombasa auction were between 88 (1983) and 77 (1989) per cent of the London prices. Although part of this difference may be due to the fact that some lower-grade teas, for instance Broken Mixed Fannings, are auctioned only locally, the price difference can be described as 'periphery discount'. The London prices include costs of ocean-transport, storage, warehousing, etc.. When we compare the prices of tea sold at London and tea sold at Mombasa after discount of these costs the difference is not so clear.\textsuperscript{12}

3.4 Foreign countries selling tea at the Mombasa auction

The port of Mombasa serves a wide hinterland, including Uganda, Rwanda, Burundi and Eastern Zaire. Tea producers in those countries have to route their exports through Mombasa and have found it convenient to use the auctions there. But it should also be recognized that they are free to bypass them and to use other selling methods. Thus, Uganda experimented with tea auctions in Kampala in 1976, without success.

In the past Tanzania sold part of its tea at the Mombasa auctions, but regular offerings ceased in 1977. In 1991 and 1992 Tanzania tea returned in the selling catalogue of the Mombasa auction. The tea sellers on Mauritius and the Seychelles have occasionally used the Mombasa auctions, probably in an attempt to widen their range of selling methods.

In the 1970s, a considerable part of the total supply in Mombasa came from foreign suppliers. In 1975, for instance, over 40 per cent of the total supplies came from Tanzania (1,410 tonnes), Uganda (9,095 tonnes) and Zaire (only 84 tonnes). In 1990, the foreign supplies equaled just 3,500 tonnes and accounted for less than 3 per cent of the total tea supplies at the Mombasa tea auction. In the late 1970s the foreign supplies started to decline (see table 2.4). From 1980 until 1990 the foreign supplies amounted on average to about 3,500 tonnes per year, but their relative importance seems to be decreasing due to growing Kenyan supplies. However, since 1991 the foreign supplies are growing again and they exceeded 10,000 tonnes in 1992 (8.5 per cent of the total supplies). Especially Uganda and Tanzania are responsible for this recent increase.

\textsuperscript{11} London prices are prices of on-land sales (prices of tea auctioned offshore are excluded).

\textsuperscript{12} We were told that London prices are somewhat lower, presumably because of the large share of re-offerings in London.
The fact that the relative importance of foreign supplies on the Mombasa auction decreased until recently does not imply that for foreign suppliers the Mombasa auctions became less important. Some countries continued to sell a considerable part of their tea exports through the Mombasa auction. For instance, between 1985 and 1990, Uganda tea producers sold annually about one third of their tea exports through the Mombasa auction, and tea producers from Zaire over 40 per cent. Also the small countries of Rwanda and Burundi frequently make use of the Mombasa auction. In fact, almost all tea exports of these four land-locked countries is shipped through Mombasa. Table 2.4 presents some figures on the relative importance of the Mombasa auction in selling tea exports of the foreign suppliers from 1975 to 1992.

Table 2.4: Countries using the Mombasa tea auction, 1975-1992

<table>
<thead>
<tr>
<th>Years</th>
<th>Kenya</th>
<th>Burundi</th>
<th>Rwanda</th>
<th>Uganda</th>
<th>Zaire</th>
<th>Mauritius</th>
<th>Tanzania</th>
</tr>
</thead>
<tbody>
<tr>
<td>1975</td>
<td>27.6</td>
<td>0.0</td>
<td>0.0</td>
<td>53.6</td>
<td>2.1</td>
<td>0.0</td>
<td>13.6</td>
</tr>
<tr>
<td>1976</td>
<td>29.4</td>
<td>0.0</td>
<td>9.7</td>
<td>45.0</td>
<td>0.0</td>
<td>0.0</td>
<td>13.1</td>
</tr>
<tr>
<td>1977</td>
<td>38.6</td>
<td>0.0</td>
<td>36.7</td>
<td>68.8</td>
<td>1.4</td>
<td>0.0</td>
<td>3.3</td>
</tr>
<tr>
<td>1978</td>
<td>36.3</td>
<td>0.0</td>
<td>32.3</td>
<td>57.0</td>
<td>0.0</td>
<td>3.4</td>
<td>0.0</td>
</tr>
<tr>
<td>1979</td>
<td>44.6</td>
<td>36.5</td>
<td>22.8</td>
<td>68.3</td>
<td>0.0</td>
<td>0.8</td>
<td>0.0</td>
</tr>
<tr>
<td>1980</td>
<td>43.1</td>
<td>14.1</td>
<td>28.2</td>
<td>18.4</td>
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<td>6.6</td>
<td>0.0</td>
</tr>
<tr>
<td>1981</td>
<td>49.1</td>
<td>18.0</td>
<td>31.2</td>
<td>3.8</td>
<td>32.4</td>
<td>9.6</td>
<td>0.0</td>
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<tr>
<td>1982</td>
<td>42.3</td>
<td>27.4</td>
<td>17.1</td>
<td>34.6</td>
<td>26.4</td>
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<td>0.0</td>
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<tr>
<td>1983</td>
<td>46.4</td>
<td>18.6</td>
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<td>29.9</td>
<td>36.9</td>
<td>0.0</td>
<td>0.0</td>
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<tr>
<td>1984</td>
<td>56.0</td>
<td>44.5</td>
<td>14.5</td>
<td>38.7</td>
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<td>0.2</td>
<td>0.0</td>
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<td>25.2</td>
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<td>64.8</td>
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<td>41.5</td>
<td>34.6</td>
<td>55.2</td>
<td>40.2</td>
<td>3.1</td>
<td>0.1</td>
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<td>51.9</td>
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<td>0.2</td>
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<tr>
<td>1988</td>
<td>54.2</td>
<td>18.6</td>
<td>2.2</td>
<td>14.1</td>
<td>40.1</td>
<td>0.0</td>
<td>0.0</td>
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<tr>
<td>1989</td>
<td>59.3</td>
<td>14.7</td>
<td>1.7</td>
<td>33.1</td>
<td>30.8</td>
<td>0.0</td>
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<tr>
<td>1990</td>
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<td>10.1</td>
<td>4.4</td>
<td>32.8</td>
<td>57.8</td>
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<td>0.0</td>
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<tr>
<td>1991</td>
<td>68.3</td>
<td>24.9</td>
<td>3.1</td>
<td>45.8</td>
<td>43.0</td>
<td>0.0</td>
<td>3.0</td>
</tr>
<tr>
<td>1992</td>
<td>65.2</td>
<td>29.4</td>
<td>1.5</td>
<td>43.1</td>
<td>39.3</td>
<td>0.0</td>
<td>22.3</td>
</tr>
</tbody>
</table>

N.B.: In 1991 and 1992 sellers from Zambia made some small offerings at the auction. The figures in italics are provisional.

Some reference has to be made to prices obtained for tea sold at the Mombasa auction. It appears that Kenyan tea consistently tops the price charts in Mombasa, followed closely by Rwanda and Burundi tea. During the period 1985-1990, the average year price of Kenyan tea equaled 27.8 Ksh per kilogram, and that of Rwanda and Burundi 26.1 and 23.9 Ksh/kilogram respectively. In London, however, Rwanda tea tops the charts (140.1 pence/kilogram), followed at some distance by Kenya (120.8 pence/kilogram) and Burundi (120.1 pence/kilogram). In Mombasa as well as London, prices of other African teas are considerable lower than prices of Kenya, Burundi and Rwanda tea.

In short, foreign supplies at the Mombasa auction can be considered marginal. If these supplies would cease, the Mombasa auctions would probably continue without any problems. By contrast, the Mombasa auctions are not marginal to the foreign suppliers. Uganda, Zaire and Burundi, countries that sell a considerable part of their exports through the Mombasa auction, are cases in point.

4. Tea in Malawi

Malawi is the only territory in East or Central Africa with its tea-growing origins rooted in the Victorian age (Forrest, 1983, p. 83). Tea was first produced on a commercial basis at the end of the 19th century in the Mulanje District in the southern part of the country. By the time tea plantations were established in Kenya, large estates in Malawi had already been in full operation for 25 years. At present most large estates are located in the two southern districts Mulanje and Thyolo. These large estates, almost all owned by companies from the United Kingdom, are responsible for the bulk of the tea production in Malawi. As in Kenya, a smallholder scheme operates alongside the large estates. The Smallholder Tea Authority (STA) is responsible for about 5,000 farmers that cultivate between 2,000 and 3,000 hectares. The STA started its activities in the 1960s. Both estate owners and STA (on behalf of smallholders) are members of the Tea Association of Malawi (TAM).

Unlike Kenya, Malawi is a seasonal grower of tea. About 80 per cent of the tea is produced from December to April. This naturally leads to peak demands in labour, processing, etc. and peak supplies of tea at the auction in Blantyre/Limbe. The fluctuation of yields within the rainy period is another problem of the Malawi tea industry. They lead to significant variation in quality and prices. Quality as well as prices of Malawi tea are considered rather low compared to other African teas from for instance Kenya, Rwanda and Burundi. Malawi tea estates make intensive use of high-yielding clones, largely developed by the Tea Research Foundation of Central Africa with stations in both Mulanje and Thyolo.
Tea production in Malawi is almost completely directed to export. Only a small part goes to the domestic market. Traditionally, most of the Malawi tea meant for export was consigned to London, but in the last five years (1988-1992) only a minor part (just 15 per cent) of the Malawi tea exports was sold at the London auction.\textsuperscript{13} During the same period, over 45 per cent was sold at the auction at Blantyre/Limbe. The balance was sold by private treaty. Table 2.5 shows some figures on the Malawi tea industry. This table clearly shows the increasing importance of local auction sales and the declining role of the London auctions in selling tea exports.

<table>
<thead>
<tr>
<th>Years</th>
<th>Production (metric tonnes)</th>
<th>Exports % of production</th>
<th>Auction sales % of exports</th>
<th>Local auction sales % of exports</th>
</tr>
</thead>
<tbody>
<tr>
<td>1975</td>
<td>26,256</td>
<td>92.0</td>
<td>46.2</td>
<td>16.9</td>
</tr>
<tr>
<td>1976</td>
<td>28,322</td>
<td>104.6</td>
<td>47.7</td>
<td>19.0</td>
</tr>
<tr>
<td>1977</td>
<td>31,734</td>
<td>94.3</td>
<td>45.6</td>
<td>19.2</td>
</tr>
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<td>1978</td>
<td>31,690</td>
<td>96.5</td>
<td>56.7</td>
<td>22.7</td>
</tr>
<tr>
<td>1979</td>
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<td>1980</td>
<td>29,915</td>
<td>104.5</td>
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</tr>
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<td>31,965</td>
<td>97.1</td>
<td>53.7</td>
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<tr>
<td>1982</td>
<td>38,482</td>
<td>94.6</td>
<td>52.5</td>
<td>28.9</td>
</tr>
<tr>
<td>1983</td>
<td>32,010</td>
<td>112.4</td>
<td>52.4</td>
<td>26.4</td>
</tr>
<tr>
<td>1984</td>
<td>37,530</td>
<td>99.0</td>
<td>51.7</td>
<td>27.4</td>
</tr>
<tr>
<td>1985</td>
<td>39,954</td>
<td>93.4</td>
<td>67.3</td>
<td>30.1</td>
</tr>
<tr>
<td>1986</td>
<td>38,976</td>
<td>103.1</td>
<td>67.5</td>
<td>30.2</td>
</tr>
<tr>
<td>1987</td>
<td>31,908</td>
<td>104.7</td>
<td>61.9</td>
<td>27.7</td>
</tr>
<tr>
<td>1988</td>
<td>40,157</td>
<td>92.1</td>
<td>62.4</td>
<td>40.3</td>
</tr>
<tr>
<td>1989</td>
<td>39,476</td>
<td>101.1</td>
<td>57.8</td>
<td>43.3</td>
</tr>
<tr>
<td>1990</td>
<td>39,059</td>
<td>110.2</td>
<td>63.5</td>
<td>48.2</td>
</tr>
<tr>
<td>1991</td>
<td>40,530</td>
<td>83.8</td>
<td>70.5</td>
<td>57.0</td>
</tr>
<tr>
<td>1992</td>
<td>28,136</td>
<td>135.0</td>
<td>51.9</td>
<td>43.8</td>
</tr>
</tbody>
</table>

N.B.: Some years the export sales exceed the production figures.

Source: First column: Annual Bulletin of Statistics, International Tea Committee

\textsuperscript{13} This percentage of 15 per cent includes 6.5 per cent off-shore auction sales. Together with Kenya and Zimbabwe, Malawi is one of the major supporters of the London offshore auctions.
5. The Blantyre/Limbe tea auction

The Blantyre/Limbe tea auction was established in 1970 and is modelled after the Mombasa auction in Kenya. Motives for the establishment of a local auction in Malawi were largely the same as those brought forward in the case of Kenya, although one must realize that the time gain realized by local auction sales is bigger in landlocked Malawi than in Kenya. In addition, the Mombasa auctions are much larger than the auction in Blantyre/Limbe. Currently the Blantyre/Limbe auction handles between 15,000 and 20,000 tonnes of tea per year with a highest total value of 54 million Malawi Kwacha (about 20 million US Dollar) in 1990.

Malawi producers are practically the only suppliers at Blantyre/Limbe auction; their total production is just one-fifth of the tea production in Kenya. Because the tea production in Malawi is unlikely to show much expansion, the annual turnover will probably always remain less. Table 2.6 presents some figures on the Blantyre/Limbe auction from 1975-1992.

<table>
<thead>
<tr>
<th>Year</th>
<th>Volume (metric tonnes)</th>
<th>Value (Malawi Kwacha)</th>
<th>Year</th>
<th>Volume (metric tonnes)</th>
<th>Value (Malawi Kwacha)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1975</td>
<td>4,081</td>
<td>2,776.304</td>
<td>1984</td>
<td>10,182</td>
<td>24,975.428</td>
</tr>
<tr>
<td>1976</td>
<td>5,663</td>
<td>7,598.047</td>
<td>1985</td>
<td>11,231</td>
<td>20,067.551</td>
</tr>
<tr>
<td>1978</td>
<td>6,939</td>
<td>5,606.018</td>
<td>1987</td>
<td>9,255</td>
<td>14,863.530</td>
</tr>
<tr>
<td>1979</td>
<td>6,882</td>
<td>5,677.650</td>
<td>1988</td>
<td>4,905</td>
<td>31,653.749</td>
</tr>
<tr>
<td>1980</td>
<td>6,993</td>
<td>6,190.903</td>
<td>1989</td>
<td>17,285</td>
<td>46,304.787</td>
</tr>
<tr>
<td>1981</td>
<td>8,345</td>
<td>8,458.492</td>
<td>1990</td>
<td>20,744</td>
<td>54,214.444</td>
</tr>
<tr>
<td>1982</td>
<td>10,516</td>
<td>14,491.048</td>
<td>1991</td>
<td>19,360</td>
<td>47,265.504</td>
</tr>
</tbody>
</table>

Another difference between Mombasa and Blantyre/Limbe concerns the selling period. As mentioned above, tea growing in Malawi is seasonal. Consequently, supply at the Blantyre/Limbe auctions is seasonal and so is selling. Auctions are conducted weekly during the season from October until May, and fortnightly during the off season. Auctions are held on Tuesdays at Kidney Crescent at Blantyre/Limbe. As in Mombasa, the auction firms are in charge of the complete selling process. At present there are two auction firms operating at the local auction that supervise the auction sales on behalf of the Tea Association of Malawi (TAM).\textsuperscript{14} The TAM is concerned with the interests of both tea producers and auctioneers. The Tea Buyers Association (TBA) represents the buyers operating at the Blantyre/Limbe auction. The number of buyers is considerably less than in Mombasa, but most of the buyers of Mombasa are also present in Blantyre/Limbe.

We can be brief about the selling process at the Blantyre/Limbe auction because it is basically the same as the selling process in Mombasa. The major differences originate from the above-mentioned seasonality and smaller annual turnover. The post-sale activities can be a major problem. Because Malawi is completely land-locked and its chief outlets in Mozambique, Beira and Ncala have often been unreliable because of guerilla warfare, transport routes are long and costs are considerable. Most tea is routed to Durban in South Africa by truck and rail. Forrest (1983, p. 84) estimates that transport may put about 5 pence per kilogram on the costs. This may be a reason why Malawi was, and still is (together with Kenya), the major user of the London off-shore auctions (CIF and FOB).

6. Selling tea by auction: Some concluding remarks

As has been described in the introduction of this chapter, tea is pre-eminently an auction crop. The tea industry does not produce a uniform product and even accepted grades vary to some extent. Other differences determined by the season of the year during which the tea leaf is harvested and processed are compound on these broad differences (Eden, 1976, 197). The quality differences on both the production side and the consumption side (consumer preferences) make the crop very suitable for selling by auction. Presently 12 tea auctions are held on a regular basis in seven countries, 11 of which are situated in six tea producing countries (see table 2.1). In 1992 the annual turnover at these auctions equaled about 820 thousand metric tonnes; 82 per cent of the world tea exports and an estimated 34 per cent of the world tea production.

\textsuperscript{14} Tea and Coffee Brokers Ltd. and Tea Brokers Central Africa Ltd.
In contrast with some tea auctions in Asia, such as the Colombo tea auction in Sri Lanka, the African tea auctions are semi-optional. This means that producers or processors are allowed to sell part of their tea crop outside the auction, for instance by private treaty. Apparently there is no need on the part of the Kenya and Malawi governments to make tea auctions compulsory and to avoid private deals, for the auctions are sufficiently supported by both sellers and buyers without being compulsory. In addition, it must be clear that it is generally accepted that tea auctions have been introduced in response to the interests of plantation growers. The large estates, often owned by foreign multinationals, are keen on having more selling (and buying) alternatives (see also chapter 5).

From the 1970s onwards, export sales at (newly established) 'local' auctions started to increase at the expense of the London auction sales. Government measures in tea-producing countries to support 'local' sales through 'local' auctions proved effective. 'Local' auctions or 'domestic auctions' are believed to have certain advantages over 'central' auctions; i.e. auctions held in the countries of consumption. Some of these advantages are enumerated by UNCTAD (1982, p. 7). First of all, export authorities prefer selling close to the place of origin so that they can keep a close check on the unit value of the exports. A second advantage for the producing countries is the absence of foreign exchange costs when tea is sold in the country of origin. Also the bargaining strength of individual producers tends to be stronger at local auctions. It is much easier to withdraw tea from local auctions for sale elsewhere than to withdraw tea from the London auction. A third, and major advantage of domestic auctions is the speed of payment after the tea has left the factory. In the African case, payments are delayed about six months when tea is sold at the London auction, while the time span is approximately six weeks when the tea is auctioned locally.

One general argument in favour of auctions on the part of the producers is the competitive bidding of would-be buyers which pushes up prices to a higher level than prices obtained when using other selling systems like private treaty. However, the high concentration of buyers implies danger of collusion and lower prices. UNCTAD (1982, p. 12) mentions that a common practice that creates the impression of collusion is that of lot division. Lot division means that a buyer asks a bidding buyer a part of the lot on offer instead of bidding for that lot himself. Consequently, big buyers do not have to outbid each other, but can divide the lots among them. Such practices can be detrimental to a selling system that strongly depends on competition. Lot division is generally allowed for lots of more than 20 chests.

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15 UNCTAD (1982, p. 7) rightly notes that countries other than Kenya that sell their tea through the Mombasa auction also incur foreign exchange costs.
Ironically, the system of lot division is legal and has been introduced to increase competition by involving more small buyers in the auction process. However, two major buyers/blenders are more inclined to share a lot between them than with a smaller company (UNCTAD, 1982, p. 12). At the Mombasa auction about 70 per cent of the lots is divided this way. Also Forrest (1983, p. 76) mentions the practice of lot division at Mombasa. At the London auction lot division is offset by regulations concerning the amount of tea which may be sold daily. Regulations are applied by the Orderly Marketing Committee. Orderly marketing, close supervision and involvement of all sectors of the industry in the marketing process is probably the best way to prevent collusion.

Acronyms

Kenya

EATTA  East African Tea Trade Association
KETEPA  Kenya Tea Packers Ltd.
KIDA  Kenya Tea Development Authority
KTGA  Kenya Tea Growers Association
TBK  Tea Board of Kenya
TRF  Tea Research Foundation

Malawi

TAM  Tea Association of Malawi
TBA  Tea Buyers Association
STA  Smallholder Tea Authority
7. Literature on tea


And various articles in: *Tea and Coffee Trade Journal* and *World Tea Situation*. 
Chapter 3. Tobacco auctions in Tropical Africa

1. Introduction

Selling tobacco by auction is by no means new in Eastern Africa. The first auction sales of tobacco in what was then Rhodesia were held as early as 1910. In this year the 1908-1909 Rhodesian crop, consisting of about 45,000 kilograms of Virginia flue-cured tobacco, was sold in the streets of the new town of Salisbury (Harare) by individual farmers. In 1911, the newly formed Tobacco Planters Cooperative Society took over the responsibility for marketing the tobacco crop of its members.

Compulsory auctions in Rhodesia were agreed upon in 1935. The system adopted was very much the same as the system used on the tobacco markets in the United States ever since the start of tobacco auctions in 1859 in Danville, Virginia.\textsuperscript{16} Two auction floors\textsuperscript{17} were constructed in Salisbury and both opened in April, 1936. Currently, auctions of Zimbabwe tobacco are carried out on one huge selling floor in Harare that came into operation in 1986. A similar system to that of Zimbabwe operates in neighbouring Malawi. Auction sales first started in Limbe in 1938 and are also conducted in the capital city of Lilongwe since 1979. Based on the USA system, but profiting from their own experiences, the Zimbabweans and Malawians built up a highly organized and most efficient selling system (Akehurst, 1983, p. 624). Although the system has undergone some changes and modifications since their establishment in the mid thirties, selling tobacco by auction has remained basically unchanged in both Zimbabwe and Malawi until today.

Up to 1977, Zambia also used open auctions to sell their tobacco production. Initially, tobacco from North Eastern Rhodesia (Eastern Zambia) was auctioned at Ford Jameson (Chipata) from 1939 until 1952. This floor however closed in 1952 due to lack of competition. Selling of the North Eastern Rhodesia crop first shifted to Salisbury, where also the tobacco grown in North Western Rhodesia (Western Zambia) was auctioned. From 1961 until 1967 the crop was sold on the Limbe floor. After Zambian independence in 1964 auctioning of the own tobacco crop moved to the newly established floor of Lusaka. However, the free and unfettered auctions in Zambia were replaced by a system of classification and private treaty back in 1977. Only a short return to open auctions was made in 1980.

\textsuperscript{16}The free and unfettered auctions of the United States have evolved in a price support system, a system that is typical for developed tobacco-producing countries. A price support system is meant to attain price stability on the floor by over-pricing to commodities on offer.

\textsuperscript{17}Unlike at the tea- and coffee auctions, at the tobacco auctions the product to be sold is present, which requires large auction halls.
At present the Zimbabwe and Malawi auctions are the only free and unfettered tobacco auctions in Africa (see table 3.1). Cameroon and Central African tobaccos are offered for sale via a system of "secret auctions" or registered sales, but these auctions are neither free nor unfettered. In addition, these sales do not take place in Africa, but in France and are therefore not covered by this report. Tobacco auctions were planned in Tanzania in the late 1960s, but they never came off. Consequently, this chapter will primarily focus on auction sales in Zimbabwe and Malawi. Whenever relevant, reference will be made to auctions in Zambia prior to 1977.

### Table 3.1: Present and former tobacco auctions in Africa

<table>
<thead>
<tr>
<th>Country</th>
<th>Established</th>
<th>Suspended</th>
<th>Varieties auctioned</th>
</tr>
</thead>
<tbody>
<tr>
<td>Malawi</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Limbe/Blantyre</td>
<td>1938</td>
<td></td>
<td>All varieties grown</td>
</tr>
<tr>
<td>Lilongwe</td>
<td>1979</td>
<td></td>
<td>Burley and Flue-cured Virginia</td>
</tr>
<tr>
<td>Zambia</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Chipata</td>
<td>1939</td>
<td>1952</td>
<td>Flue-cured Virginia</td>
</tr>
<tr>
<td>Lusaka</td>
<td>1966</td>
<td>1977</td>
<td>Flue-cured Virginia</td>
</tr>
<tr>
<td>Zimbabwe</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

N.B.: Zambia made a short return to open auctions in 1980

### BOX I: Tobaccos grown in Malawi and Zimbabwe

The two most important tobacco varieties grown in the African countries under study are **Virginia flue-cured** and **burley**. Tobacco of the Virginia-type is grown all over the world and is the main source of light tobacco today. In Zimbabwe and Malawi this type of tobacco is exclusively cured artificially in barns by heating, making use of a flue system. Although the costs for producing flue-cured tobacco in Africa are low compared with those in for instance the United States, the method of curing entails some investments and requires constant supply of scarce fuel. Therefore the bulk of the flue-cured Virginia is produced on large estates. Burley tobacco is also a high value crop but is more suitable for smallholders. It can be grown on a small scale basis and capital requirements are less. Burley is air-cured and therefore no flue system has to be installed in the curing barns. Other tobacco varieties grown in Zimbabwe and Malawi are **Oriental** or **Turkish** (Zimbabwe and Malawi), **dark fire-cured** and **sun/air cured** (only Malawi). These crops are primarily grown on a small-scale basis by peasant farmers.
2. Tobacco auctions in Zimbabwe

2.1 The tobacco auctions in retrospect

The tobacco plant is indigenous to both Mashonaland and Matabeleland.\(^{18}\) Prior to the arrival of the first white pioneers in the late 19th century, the population of these territories already cultivated some tobacco varieties for barter and trade. Experimental plantings by white settlers started in 1885 and the first detailed report of a tobacco crop concerns one that was grown in 1894-95 in the vicinity of the city of Mutare by one Lionel Cripps (Kille, 1986, 30). His yield amounted to about 25 kilogramsm of tobacco. Currently tobacco amounts to about 60 per cent of the total value of agricultural crops and about 25 per cent of the total value of all exports, and provides work for an estimated ten per cent of the Zimbabwe workforce.

Flue-cured Virginia, the single most important trade commodity in Zimbabwe for years, was first produced in 1903. In 1992 about 2,700 (registered) growers are engaged in the production of Virginia flue-cured tobacco, of which about 1,000 are small-scale growers (TJJ, 1992, p. 14). The highest yield on record is that of 1992 and amounts to 200,000 tonnes. Flue-cured Virginia, however, is not the only tobacco variety grown in Zimbabwe. In the late 1950s growing experiments were carried out with burley tobacco and a few years later it was reintroduced as a commercial crop. In 1992 over 10,000 tonnes of burley tobacco were produced by primarily small-scale farmers. As contrasted with Virginia flue-cured, burley is not sold by auction but has been sold by classification to a buyers consortium since 1976. Regular burley auctions were suspended in 1976. A return to auctions in the short term, probably 1994, is expected. The very small Oriental crop (Turkish tobacco) is marketed in a similar way as burley. As far as we know, oriental tobacco has never been sold over the auction floors.

As mentioned in the introduction to this chapter, compulsory auctions of flue-cured Virginia started in 1936. Well before 1936, some growers had looked to the system of auctioning tobacco practised in the United States to bring order into the marketing of the Rhodesian crop (Clements & Harben, 1962, p. 119). However, most growers opposed them, being afraid that only buyers would be in favour of auctions. After visiting the United States in 1934, Winston Field, a young tobacco grower, convinced most growers of the merits of a free auction system. In addition, the tobacco growers association RTA (Rhodesia Tobacco Association) accepted the principle of selling tobacco by auction. After RTA agreement, the government set about the drafting the Tobacco Marketing Stabilization Act. This Act was passed and completed the legal framework of the tobacco industry giving power to the Tobacco Marketing Board (TMB) to license

\(^{18}\) Mashonaland and Matabeleland were renamed Rhodesia in 1895
auctions floors and buyers, and to control sales. Two tobacco auction floors were established and in April 1936 the voices of the auctioneers gave the first "chant" (Allen, 1985, p. 19).

This system of selling flue-cured Virginia tobacco by auction has lasted until today. It was suspended, however, in 1965 when the UN applied economic sanctions against Rhodesia after Ian Smith's Rhodesian Front declared unilateral independence from the United Kingdom (UDI). The selling system was temporarily changed to selling by classification. However, this system only lasted a few seasons before a return to auction sales was made in 1974 (see also section 2.4).

Only one year after reintroduction of flue-cured auctions, auctions of burley tobacco were suspended due to ever decreasing volumes of burley on offer.19 Burley auctions, first established in 1963 and reintroduced in 1972, were replaced by a fixed grade price system as an interim measure. This system implies that after classification by a professional grader, growers receive fixed prices for their tobacco according to the grade produced. It was stated that a return to auctions would be made as soon as the crop reached over seven million kilograms. Up to now, the complete burley crop, 10 million kilograms in 1992, is purchased by the Burley Consortium at prices negotiated prior to the the start of the selling season by the Consortium and the Air-Cured Tobacco Association (ACTA), the growers association which represents the interests of all non-flue-cured growers. The Burley Consortium consists of Carrington & Michaux and Tabex, two major buyers of burley tobacco. New systems of selling the burley tobacco crop, like auctions making use of a Dutch clock system, are under discussion. At the end of 1992, this auction system was also about to be given a trial for selling flue-cured tobacco (TJI, 1992, p. 16).

2.2 The Tobacco Marketing Board

The Tobacco Marketing Board (TMB) was originally formed under the Tobacco Marketing Stabilization Act of 1936. It was reconstituted under the Tobacco Marketing and Levy Act of 1977 to administer that act and to supervise the selling of tobacco on the auction floor (Kille, 1983, p. 18). The TMB is a statutory body and is equally represented and financed by the Tobacco Trade Association (TTA) and the Zimbabwe Tobacco Association (ZTA).20 The TTA represents the majority of the tobacco merchants in Zimbabwe, while the ZTA represents the interests of the flue-cured tobacco growers in the country. The "independent" chairman of the board is appointed by the Minister of

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19 The increase in flue-cured tobacco quotas in the mid 1970s was a main factor in the decline of the burley production.
20 The Zimbabwe Tobacco Association (ZTA) was established in 1928 and was then known as Rhodesia Tobacco Association (RTA)
Agriculture. In spite of the fact that burley and oriental growers have their own association, ACTA, they have no voting grower representative on the Tobacco Marketing Board. However, in 1987 ACTA formed a sub-association, the Burley Marketing Association (BMA), to handle and manage the burley selling floors in Harare and Mutare.21

The staff of the TMB has three divisions: (a) the administrative division, (b) the technical division and (c) the service and information division. The staff is controlled by a general manager who is responsible to the board. Generally speaking, the main function of the TMB is to control and regulate the marketing of tobacco, internally as well as externally. However, each division of the TMB in fact has its own responsibilities. Kille (1983, pp. 19-20) summarizes these responsibilities as follows.

(a) The administrative division is responsible for the registration of all tobacco growers in Zimbabwe and the licensing of tobacco buyers, tobacco traders as well as auction floors. The division is also responsible for orderly marketing of all tobacco crops, control of production, the monitoring of pesticide contamination, the control of tobacco pests and liaison with the government.

(b) The technical divisions' main responsibilities are: leaf classification (on the auction floor), crop assessment on the farms prior to the selling season, the collection of crop statistics, arbitration between grower and buyer, crop inspections and lecturing to primarily the growers section of the tobacco industry.

(c) The service and information division, formed in 1981, is responsible for controlling and issuing of all tobacco export licences (with the authority of the Revers Bank), allocating rail trucks for exporting, and gathering information covering stock figures and exports. Furthermore this division is responsible for promotion, protection and maintenance of tobacco sales.

Because the TMB controls and regulates marketing of the Zimbabwe tobacco crop, the board is largely responsible for the international reputation of the countries' tobacco industry. The fact that all sections of the tobacco industry work close together to ensure order in marketing definitely contributes to the high reputation of Zimbabwe tobacco sales.

21 These tobacco selling floors are not auction floors
2.3 Tobacco auction floors

Auctions of Zimbabwe flue-cured tobacco are carried out on the world’s largest Virginia auction floor, which opened its gates in 1986. The floor is located in the industrial area of Willowvale, some nine km from the city centre of Harare. The floor complex covers about eight hectares of which nearly three hectares are under roofing. The actual selling floor is well over 8,000 square metres and is designed to handle 16,000 bales of tobacco per day and 150 million kilograms in a 110-days selling period.

Since 1985, the year the growers association ZTA took over TSL Limited,22 the Zimbabwe tobacco auctions can be described as a "grower-owned exchange". TSL Limited is the holding company for Tobacco Sales Floor Limited, the company which at the time of the ZTA take-over controlled the single tobacco auction floor facility in Zimbabwe: Tobacco Sales and Producer Floor (TS & PF) at Beatrice Road in Harare.

The TS & PF had the monopoly of auctioning tobacco since 1981. In this year, Tobacco Sales purchased the goodwill of its sole competitor TA Holdings Limited.23 This company controlled the other auction floor Tobacco Auctions (one of the two pioneer auction floors established in 1936), which operated on short distance from the Tobacco Sales and Producers Floor (TS & PF) from 1976 to 1981, before UN sanctions were lifted.

The take-over by ZTA in 1985 did not come as a surprise, since a growers-owned exchange had been the ultimate aim for years. Growers often expressed their concern at the high costs of tobacco transfer on the auction floor, and already in 1981 both an independent international consultancy firm (the P.E. Consulting Group) and a committee of local tobacco experts (the McDonald Committee) recommended that the auction floor should be owned and controlled by the growers. The offer to purchase the floor was made in 1984 after the option of building, buying or leasing a new floor in competition to the auction floor controlled by TSL Limited was considered highly unattractive; not the least because of the fact that ZTA already owned over 43 per cent of TSL Limited.

In 1985, plans to build a new tobacco auction floor were already underway. The formal decision was made in 1984, after consultations with the ZTA and the trade organization TTA. After a suitable site had been selected and the parameters for the new selling facility were established, site clearance started in 1985 and the floor opened a year later, on the 50th anniversary of tobacco auctions in Zimbabwe. The other selling facilities at Beatrice Road are not used for tobacco auctions anymore. As flue-cured tobacco

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22 Already in 1967 the growers association RTA, the forerunner of the ZTA, became major shareholder in Tobacco Sales Limited.
23 TA Holdings Limited considered that it could put its auctioning facilities at Beatrice Road to more profitable use. The holding continued its wide range of business operations.
growers now own and control the single auction floor in Zimbabwe, they are able to determine the selling charges of transferring tobacco from grower to merchant.

As mentioned earlier, burley tobacco is not sold by auction, although a return to auctions is planned. Burley tobacco is currently sold by classification on two floors, situated in Harare and Mutare. A new burley sales floor in Harare, situated close to the flue-cured auction floor at Willowvale, is expected to open in 1994. Like the two already existing floors, this new floor will be managed by the BMA. Decentralized burley sales are a new feature of the Zimbabwe tobacco industry; new in the sense that tobacco sellings in Zimbabwe have until recently been highly centralized. The decentralized sales are implemented to save traveling time and transport costs, and fit well within the policy of decentralization currently executed by the Zimbabwe government. Although a large majority of the flue-cured growers are suspicious of decentralized selling, some think that the establishment of a new auction floor at Chinhoyi, situated on the road to Harare, would save time and money, and would thus be beneficial to the tobacco industry. However, implementation of decentralized flue-cured sales will only be considered when the new burley sales prove to be a success.

2.4 Open auctions in Zimbabwe

The tobacco selling season
The tobacco auctions in Harare open early in April and are generally completed within a 110 selling days period. This period of 110 days was agreed upon by all sectors of the tobacco industry in 1985, when the parameters of the new flue-cured auction floor in Harare were considered. In the past, the selling season occasionally lasted over 150 days. The longest selling season on record is that of 1956, when it took 167 days to sell a crop of just 78 million kilograms.

A reduction in auction market time is important in to eliminate overlaps with and influences of other major flue-cured markets in the world. An earlier opening of auctions has been discussed, but because of increased crops and improved curing, most tobacco growers are not able to deliver tobacco for sale much earlier. Each year, the Tobacco Marketing Board sets the opening date of tobacco sales. Although it may be commercially attractive, a fixed opening date is impossible because tobacco deliveries to the floor are dependent on the characteristics of the growing season.

24 Before the opening of the auction floor in the industrial are of Willowvale, all tobacco sellings were conducted within the so called "Tobacco mile" in Harare.
During the selling period, auctions are held daily from Monday to Friday. The tobacco is delivered to the Willowvale complex one day prior to the auction. Each morning a maximum of 16,000 bales of Virginia flue-cured are offered for sale. This number is divided into four sales, in four sections, that run concurrently. Because each section of the floor can be used five times, a maximum of 3,200 bales is on offer at one time, each sale comprising 800 bales. This selling rate allows for a disposal of 150 million kilograms within a selling period of 110 days. The movement of the bales is completely mechanized. Conveyors and battery-powered tractors that pull trolleys with bales of tobacco take care of tobacco transport at the Willowvale complex.

The auction floor participants
On the Harare auction floor, all tobacco is offered for sale by individual tobacco growers. No co-operative or parastatal is involved in marketing of Zimbabwe tobacco. The ZTA, both representing the growers and owning the auction floor exchange, is of course indirectly involved in tobacco marketing. The tobacco growers deliver the tobacco to the floor at their own expense. They are allocated a delivery quota based on their estimated production, and a delivery day in order to avoid congestion on the floor. This is part of the new strategy of delivering one day and selling the next, which started with the opening of the new auction floor in 1986.

As has been described in section 2.2, tobacco marketing is controlled and regulated by the Tobacco Marketing Board. Prior to the sale, the floor staff inspects the bales on offer and systematically draws samples from each bale. All bales on offer are sold unidentified by name, although the numbers of the more prominent growers will be known to the buyers (Akehurst, 1981, p. 624). As distinct to the open sheets of loose leaf in the United States, the bales are well packed and tied. A team of classifiers of the technical division of the TMB classifies the tobacco for statistical purposes and marks every sales ticket with a classification. This team also operates as a 'quality guard', for it has the power to reject bales on offer when they are found to be mouldy or damaged. If the tobacco is found to be mixed, funkied or badly handled, it is also declared as such by the team. The selling of tobacco is carried out by a selling team of the auction house. The actual selling procedure will further be elaborated in the next section.

In 1985, ten tobacco merchant companies were able to participate in the buying of tobacco on the Harare sales floor, because they had been granted "A" licences by the TMB. All 25 (1990) tobacco merchant companies, with or without "A" licences, belong to the Tobacco Trade Association (TTA). Merchant companies without "A" licences purchase tobacco through the licensed companies, who charge a buying commission for their auction floor operations. Most of the orders are placed by overseas customers through one or more merchant companies registered at the TTA on a commission basis.
Some countries place their orders on a tender basis. Merchants interested in tendering will buy at the auction in the hope of their offer being accepted. There are two classes of buyers on the auction floor. Class A buyers are buyers who must purchase about one million kilograms per year and may not re-sell over ten per cent of their purchases. Class B buyers may re-sell all their purchases if they want to, and are thus essentially merchants.

The selling procedures
After classification and grading, the actual selling of tobacco starts. A selling team, consisting of a starter, an auctioneer and two price recording clerks, and the buying team face each other across the bale. Both teams move along the rows with a sale taking place about every six seconds. As in the traditional American auction system, each bale is sold individually, although the presentation of double bale lots (of identical leaf) is allowed. Some tobacco leaf is on top of the bale so the would-be buyers can have a quick check prior to the sale.

The starter is a key person at the auction as he sets the price of each lot upon which the auctioneer commences the bidding. The starting price is in fact the result of an assessment of the usability of the lot in relation to the strength and demand of the market at that time (Akehurst, 1981, p. 624). The auctioneer will either lower or raise the price until the bale is knocked down. To minimize continuous vocal strain, auctioneers have developed a sing-song chant which intrigues every visitor to the auction floor. For the same reason auctioneers take turns on a regular basis. Once a bale (or lot) has been knocked down, the sales ticket is endorsed with the bid-price and the buyers' mark. If the grower, or his representative, agrees upon the bid-price, the bales are removed from the floor and transported to one of the packing plants in Harare.

A feature of the open Tobacco auctions is the possibility to cancel and counter-cancel a sale. Immediately after the sale, the grower, or his representatives, can refuse to accept the price paid for his tobacco by tearing the ticket or marking the sales ticket with a red cross and can re-offer the tobacco for sale. In addition, the buyer is offered the opportunity to counter-cancel the purchase of other bales that he bought from that grower, within a price range of ten per cent. In such cases sales tickets are marked with a blue cross, and those bales have to be re-offered for sale at a later date.

If no bids are made for the bale on offer or if the starter believes that the bid-price is too low, the bales also have to be re-offered for sale. In the last case the starter bids for the bale himself and it is knocked down to him. However, tobacco bought by the starter has to be resold to the grower's account. Before 1980 this was not the case. The starter was empowered to purchase for later resale with his company as the owner, usually at a

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25 A team of growers representatives is provided by the auction floor.
price fractionally lower than the maximum value he believed the bale to be worth (Berry, 1980, p. 61). Now, in fact, the grower’s representatives are the ones who decide whether a sale can stand or not. This measure has been taken to minimize the number of bales on re-offer and consequently shorten the selling season. However, in a difficult growing season, the amount of tobacco on re-offer can still be very high due to grower’s dissatisfaction with prices. In the 1986/87 season 190 million kilograms were offered for sale and finally 128 million kilograms was sold. A lot of bales were offered more than once on the floors and the rejection rate amounted to 58 per cent on the opening day and well over 30 per cent on average.

If buyers find any defects that were not previously declared in a bale, they can appeal to officials of the TMB after the sale. Appeals can be made when bales are found to be badly handled, moulded, funkled, damaged or mixed. In the last case, senior representatives of the merchant companies arbitrate on the bale(s) in question. However, the right to repudiate a bale on the grounds that it is mixed, is limited to only a small percentage of the purchases made by the company. If the bale is found to be not up to standard, it has to be re-handled (re-packing in new bales) and re-offered at another sale. Re-offering of the bale without re-handling is also possible. However, in that case the defect responsible for the appeal must be declared on the sales-ticket.

Prices
Until the 1992 selling season, the Harare auctions were conducted in the local currency: the Zimbabwe dollar. Prices on the floor were quoted in Zimbabwe dollar cents, and growers were paid in Zimbabwe dollars. Devaluation of the Zimbabwe dollar, actual as well as expected, has always had major effects on the auctioning of tobacco. It has often led to disappointing returns in real terms on the one side, and buying incentives on the other. In 1992 it was decided to auction tobacco in US currency. This decision was made to bring stability in the tobacco sales and to avoid price escalations due to (expected) devaluation of the Zimbabwe dollar. Such an escalation was seen in the growing season 1990/91, when a devaluation was expected and finally occurred in September, at the end of the selling season. Growers, however, still receive their payments in Zimbabwe dollars at the ruling exchange rate.
Tobacco exports and problems of transport

Tobacco is an almost completely export-orientated crop. On average 98 per cent of the annual production is exported to more than 70 countries all over the world. The merchant companies registered at the Tobacco Trade Organization (TTA) are primarily responsible for global marketing of the Zimbabwe tobacco crop. These companies follow an active marketing strategy in order to gain new markets. Their expenditures on tobacco purchases amount to billions of Zimbabwe dollars a year, and are seasonally financed by the local banking sector.

After purchase the bales of tobacco are transported either directly to the processing plant or the warehouse. Upon arrival, the bales are inspected by classifiers and checked by the tobacco buyers and their leaf directors to confirm the grade for each bale. At this time the tobacco is ready for packing and processing. All packing and processing plants are owned by the merchant companies themselves. Those merchants who do not have their own factories at Harare, make use of the facilities of the companies who have. Packing and processing charges are calculated each year. At the tobacco factories the tobacco is processed according to the instructions of the customer. Packing of the consignment depends upon the type of shipment that can be either general cargo or containerized, and the handling and storage facilities at destination. A lot of tobacco is shipped to countries of the European Community (EC). Because Zimbabwe is a party to the Lomé Convention it has duty free access to the European Community.

The movement of the tobacco exports to a port of shipment is vital to the Zimbabwe tobacco industry. Since Zimbabwe is landlocked, transport always involves the crossing of borders and movement via the transportation facilities of neighbouring countries. Traditionally all Zimbabwe tobacco exports bound for overseas destinations were handled at the port of Beira in Mozambique. This port is situated at just 600 kilometres from Harare, and is one of the cheapest outlets of Southern African countries like Botswana, Malawi, Zambia and Zimbabwe. However, for many years several problems have been connected with the use of this port. The port itself had inadequate facilities and the Beira corridor, the transport link between Mutare in Zimbabwe and Beira on the coast, has long been disrupted by the civil war in Mozambique. Consequently most tobacco exports moved through the port of Durban in South Africa since this civil war started back in 1975.

In order to reduce political and economic dependency on South Africa and to save transport time and costs, Zimbabwe made a lot of efforts to rehabilitate the Beira port and to secure transports through the Beira corridor. Also donor agencies realized the importance of the Beira port to the economies of several countries in southern Africa, and an enormous amount of technical and financial aid has been given to rehabilitate both the port and the corridor. Currently the port of Beira is increasingly being used by the trade to
move exports to overseas customers. No doubt the port will be used to a greater extent in the near future now that new facilities have recently (1992) been commissioned (Llevelt, 1992, p. 68). Other outlets to the coast besides Beira are Maputo in southern Mozambique and Ncala (via Malawi) in northern Mozambique.

**Tobacco selling under UN sanctions (1965-1981)**

After Rhodesia's Unilateral Declaration of Independence (UDI) in November 1965, economic sanctions against the country were applied by almost every nation in the world. Until then the Zimbabwe tobacco industry had flourished. During the 1964/65 selling season over 110,000 kilograms of tobacco were sold over the auction floors. Tobacco was auctioned over three floors operating close to each other and Salisbury was acknowledged as the largest flue-cured marketing centre in the world. A steady expansion up to 500,000 lbs (about 225,000 kilograms) was anticipated by the country's Tobacco Export Promotion Council. However, soon after the sanctions took effect, the Zimbabwe tobacco industry started to wither, giving the opportunity to other tobacco producing countries like Brazil, Korea, Malawi and Tanzania to expand at Zimbabwe's expense.

Tobacco growing as well as tobacco marketing came under severe restrictions. Because the free auctions would facilitate the identification of sanctions-busting buyers, it was impossible to continue selling the crop under this system (Allen, 1985, p. 21). In addition, auctions were considered unnecessary, since the government assumed responsibility for the purchase of the national crop, after sanctions had been applied (Berry, 1980, p. 59). It was decided to sell the crop under a system of classification by which each particular bale would receive a fixed value with bonus or penalties according to desirable type. One tobacco sales floor was set aside for these purposes. The two remaining tobacco sales floors began to diversify into all sorts of commercial activities other than tobacco selling in order to survive. The byword of the tobacco industry during the sanction-period became contraction (Dearlove, 1980, p. 11), and development gave way to survival.

Although the system of selling tobacco under classification kept most tobacco growers in business, this method of sales was never satisfactory for both growers and buyers. The price received for a bale never represented the true market value because the lack of competition. This was the main reason why a return to auctions was made already under UN sanctions. However, as Berry (1980, p. 61) clearly points out, these auctions were by no means conducted in an open market situation. Access to the floors was very rigidly controlled and the public was completely excluded from the floors.

A major difference between the 'open auctions' and the 'closed auctions' under UDI concerns the tobacco buyers. The emphasis on sales changed from a situation dominated by manufacturer buyers prior to UDI to one exclusively catering for merchant
buyers (sanction busters). Soon after UN sanctions were lifted in 1980, a return was made to free and unfettered auctions. However, this return did not bring the relief that was hoped for. Due to a combination of world oversupply of Virginia flue-cured tobacco, a domestic tobacco stock held over from the sanction period, and lack of confidence in the Zimbabwe tobacco industry after independence on the part of the trade, prices received at the floors were well under the costs of production. In 1981 the tobacco industry recovered from this heavy blow when auction prices almost doubled compared to prices realized during the year of international comeback.

3. Tobacco auctions in Malawi

3.1 The tobacco auctions in retrospect

As in Zimbabwe, the growing of tobacco is indigenous to the Nyasaland territory, nowadays known, and further on referred to, as Malawi. Well before the arrival of Europeans, the people of Malawi already produced a tobacco variety locally known as "Labu" (Nicotiana Rustica). It is reported that in the late 19th century, when the first European pioneers arrived, tobacco was transported to the eastern seaboard of Africa. The tobacco was sold in rolls or balls of twist, and can still be seen on the Malawi markets today.

The first tobacco of the Virginia type was planted as early as 1893 by one John Buchanan. In 1899 just over 1,000 kilogram of Virginia flue-cured were exported to England. Today, tobacco is the main export commodity from Malawi and can be described as the backbone of the Malawi economy. Both in terms of value and quantity, the country is the major exporter of burley tobacco in the world today. The overall crop in 1992 amounted over 120 million kilograms, while the crop targets for the 1993 season are between 139 and 144 million kilograms. Currently tobacco accounts for over 70 per cent of the value of all Malawi exports and around six per cent of the world leaf trade.

Prices for all types of tobacco fluctuated considerably during the 1920s and the 1930s. From 1933 to 1937, when the prices were extremely low due to the world economic crisis, new selling systems were taken into consideration. At that moment tobacco was sold by a system of private treaty. In imitation of Zimbabwe, Malawi decided to introduce auctions for selling the national tobacco crop in 1938. Both private growers and the Native Tobacco Board (NTB) agreed to support the new selling system. Just three years after the first Zimbabwe tobacco auctions, Malawi tobacco auctions started in

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26 The Native Tobacco Board (NTB) was formed in 1926 in order to deal with the expanding production of fire-cured and sun/air-cured tobacco in the Central Region of Malawi. The board was the precursor of the present Agricultural Development and Marketing Corporation (ADMAC) which purchases all smallholder tobacco in Malawi.
Limbe/Blantyre in 1939. The selling system adopted was very much the same as the system used in Zimbabwe.

Since independence in 1964, and especially since 1966 when UN sanctions were imposed on Rhodesia, there has been an enormous increase in tobacco production. In 1964 a total of 12.3 million kilograms of all types of tobacco was produced, while in 1977 production reached over 30 million kilograms. In order to deal with this increase, extensive improvements were made to the Limbe/Blantyre floor in 1973/74. In addition, a new auction floor was constructed in Lilongwe in 1979. Currently, the Malawi tobacco crop is sold over these two auction floors.

In contrast with tobacco selling in Zimbabwe, all Malawi tobacco must be sold over the auction floors. An exception is the relatively small Oriental (Turkish) tobacco crop. This crop is purchased from the smallholder growers by the Agricultural Development and Marketing Corporation (ADMARC) and is sold by private treaty. All other tobacco varieties grown on customary land (primarily dark fire-cured and sun/air-cured) as well as on large estates by tenants (burley) or large landowners (flue-cured), have to be marketed via the auction system.

3.2 The Tobacco Control Commission

Under the "Control of Tobacco Auction Floors Act", all aspects of tobacco marketing in Malawi are controlled by the Tobacco Control Commission (TCC). The TCC, originally formed in 1937, is a statutory body appointed by the Minister of Agriculture and Natural Resources. The commission is composed of representatives of all sectors of the Malawi tobacco industry. It comprises two members representing ADMARC, two members representing the Tobacco Association of Malawi (TAM), two members representing the Tobacco Exporters' Association of Malawi, four members representing tobacco farmers and two members representing the government. The chairman of the commission is appointed by the Minister.

The main responsibility of the TCC is the organization and supervision of auction sales for all types of tobacco, except for Oriental, in both Limbe/Blantyre and Lilongwe. Other powers include the issuing of licences to the auction floor, buyers and commercial graders, the setting up of rules regarding packaging, presentation and sale of each type of tobacco, the collection and distribution of relevant statistics, and issuing of certificates of origin for all exports of Malawi tobacco. The TCC is also responsible for fixing marketing quota for all those involved in tobacco growing. In order to receive a marketing quota, tobacco growers are required to register with the TCC. Tobacco marketing without registration is prohibited. Just like the Tobacco Marketing Board in Zimbabwe, the
Tobacco Control Commission is largely responsible for the reputation of the Malawi tobacco sales internationally.

Although the responsibilities of the TCC are very much the same as those of the Tobacco Marketing Board in Zimbabwe, the Malawi government, via the TCC chairman, its own representatives and ADMARC, seems to be much more involved in marketing of tobacco than the Zimbabwe government. This may be due to the fact that a lot of Malawi government officials, for instance the president and some ministers, are involved in large-scale tobacco growing. However, it is expected that the role of the government and its agencies will diminish under current Structural Adjustment.\(^\text{27}\) The role of ADMARC in tobacco marketing has already been reviewed by consultants and other authorities are undergoing reorganizations. Yet, the principle of selling tobacco by auction fits well within the objectives of Structural Adjustment and economic liberalization, so major changes in the selling system are unlikely in the short term.

3.3 The Malawi auction floors

As mentioned earlier, the auction floors in Malawi are located in Limbe/Blantyre and the capital city of Lilongwe. The Limbe/Blantyre sales floor was established as early as the first compulsory auctions in Malawi in 1939 and was extensively improved in the mid 1970s. Since these improvements, about 45 million kilograms of tobacco can be handled annually. Prior to completion of the second auction floor at Lilongwe in late 1978, the Malawi tobacco industry was centred around Limbe/Blantyre. The establishment of a new modern auction floor at Lilongwe, which followed the expansion of tobacco growing in the Central Region and the Northern Region, facilitated the regionalization of tobacco trade and the tobacco industry in Malawi.

Although the tobacco auction floor at Lilongwe is modern in design and equipped to handle 55 million kilograms of tobacco per year, the degree of mechanization can be described as low, especially when compared to the flue-cured auction floor at Harare. For instance, bales of tobacco are all moved by hand, while at the Harare auction movement is completely mechanized. This has been a clear choice of the Malawi government. It was decided to employ as much 'cheap' labour as possible instead of using scarce foreign currency for mechanization. Labour costs are indeed considerably lower in Malawi than in neighbouring Zimbabwe. Also at the Limbe/Blantyre floor, mechanization is avoided. The major difference between the two auction floors, which run concurrently, is that the Limbe/Blantyre floor handles all types of tobacco grown in Malawi, while at Lilongwe

\(^{27}\) Malawi was one of the first African countries to obtain a structural-adjustment loan with the World Bank in 1981.
only flue-cured and burley are sold. This is the outcome of the spatial pattern of tobacco growing in Malawi.

Both selling floors are owned and operated by Auction Holdings Limited. Auction Holdings Limited started its activities back in 1936, when a group of major tobacco growers established this co-operative in order to sell their tobacco at better prices. As contrasted with the two original floors in Zimbabwe, their warehouse was not intended to make any profit out of selling tobacco. It was only established to bring order in tobacco selling. Currently, Auction Holdings Limited is still not allowed to make a profit on its auctioneering services, thus the issue of high transfer charges on the auction floor, a bone of contention for years in Zimbabwe, is not present in Malawi.

The charges growers have to pay are used to cover operating and maintenance costs of the auction floors, including the reserves for off-season expenses. Part is paid to the shareholders as dividend after which the balance is paid back to the producers, according to their sale costs. In 1988 ADMARC held a 59 per cent holding in Auction Holdings Limited, but it was anticipated that it would soon reduce its holding to a 51 per cent majority. Most minority shares are in the hands of original shareholders or their families.

3.4 Open auctions in Malawi

The system of selling tobacco by auction in Malawi is very similar to the Zimbabwe selling system, and need not therefore be discussed separately in detail. Instead of this we will focus on some significant similarities and major differences between the auctioning of the Malawi tobacco crop and that of Zimbabwe.

The tobacco selling season in Malawi roughly coincides with the Zimbabwe selling season. The selling of flue-cured and burley tobacco start at the same time in both Limbe/Blantyre and Lilongwe, but often the Lilongwe sales last longer. Generally, the auctions run from late in March or early in April until September, October and occasionally until November. Sometimes the Malawi auctions are delayed when the opening of the Harare auction appears to be unsettled or when prices are low. However, this is never given as the official reason for delayed selling.

A major difference between the Zimbabwe and the Malawi auctions concerns the auction floor participants. While at the Harare auction all tobacco is offered by individual farmers, a considerable part of the tobacco crop in Malawi is offered for sale by the agricultural marketing board, ADMARC. ADMARC has a buying and selling monopoly for all tobacco grown by smallholders on customary lands: dark fire-cured, sun/air cured,

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28 The non-profit basis is only partly retained, as only tobacco selling is carried out on a non-profit basis. Like TSL Limited, the holding company of auction floors in Zimbabwe, Auction Holdings is engaged in diverse commercial, profitable operations.
and Oriental. Currently the World Bank, with the assistance of ADMARC, encourages the production of burley on customary lands, while large estates are allowed to grow the traditional ADMARC tobacco in addition to their major crop.

The rigid division between the above mentioned ADMARC-tobacco and tobacco traditionally grown on large estates (flue-cured Virginia and burley) is fading. However, ADMARC still takes care of the marketing of the production of smallholders. On a pre-assigned day growers have to deliver their cured and graded tobacco at a buying station, after which it is graded by an ADMARC grader and paid for. Payments are based on a price schedule that is published in October and takes effect in April. After purchase, the tobacco is packed at an ADMARC warehouse and re-graded by a commercial grader or an ADMARC grader. Next, all tobacco, except Oriental, is delivered to the Limbe auction floor where it is offered for sale. Just like individual growers, ADMARC can reject the price offered for its tobacco after inspection of the Crop Controller. However, because ADMARC is licensed to export, ADMARC is also allowed to sell the tobacco itself to local customers as well as overseas customers.

Except for 'ADMARC-tobacco', all tobacco is offered for sale by the growers themselves. Flue-cured growers sell their tobacco directly from the farm. Burley 'growers' first have to purchase the tobacco from their tenants. Because the burley is grown by so many tenants, grading and preparation of bales is a major problem for the burley 'growers'. The bulk of the flue-cured crop is sold in April, May and June, while the highest volumes of burley tobacco pass the floor between June and September. As in Zimbabwe, all tobacco sold on the Limbe/Blantyre and Lilongwe auctions must be graded. Grades, which are set by the Tobacco Control Commission (TCC), are marked on the tickets attached to the bales. In contrast with the Harare auction, the selling ticket also mentions the seller's name (besides grade and weight). So the Malawi tobacco, at least the flue-cured and most burley, is sold identified by name. Flue-cured tobacco is always sold in one-bale lots. Burley, dark fire-cured and sun/air-cured, however, are sold in two- and three-bale lots. Sales are conducted and prices are quoted in local tambalas.

The actual selling is carried out by a selling team with the same composition as the Harare selling team: a starter, an auctioneer and two ticket markers. Because the selling of flue-cured Virginia and burley run concurrently at Lilongwe, there are two selling teams of the same make-up. On the Limbe/Blantyre floor operates only one selling team. The buyers facing the selling team are often the same buyers that also visit the Harare auction. There are over 20 registered merchant-buyers in Malawi who purchase tobacco primarily for export. Tobacco is exported to countries all over the world except South America. Like Zimbabwe, Malawi has duty free access to the market of the European Community.

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29 At the Harare auction the numbers of most growers will be known to the buyers.
30 one Malawian Kwacha equals 100 Tambala.
Other major export markets are the United States, Japan and South Africa. Only a small part of the tobacco purchases is for local consumption.

Concerning transportation for export, landlocked Malawi faces the same problems as neighbouring Zimbabwe. As in Zimbabwe, the traditional export outlet of Malawi was situated in the coastal area of Mozambique. After the outbreak of civil war in Mozambique in 1975, transport for shipment gradually shifted to the South African port of Durban. Some merchants used the port of Dar es Salaam in Tanzania for export. However, this route proved to be unreliable for several reasons including delays and is now only used incidentally. The port of Durban is much more reliable, but situated at a considerable distance. Tobacco being sold in Limbe/Blantyre is normally on the seas within 10 days of leaving the packing plants in the industrial town. Transport however is costly and time-consuming. It has been suggested that if all tobacco were be shipped via ports in Mozambique, this would cut the costs of transport over land by two-thirds. In addition, it is estimated that about 40 per cent of foreign currencies earned by Malawi are expended in moving imports and exports.

4. Tobacco auctions in Zambia

Tobacco growers in Zambia have had the opportunity to sell their product at regular auctions since 1939. In that year auctions were established in Fort Jameson, now Chipata. After these auctions were discontinued in 1952, many tobacco farmers began to sell their tobacco in Salisbury, now Harare. In 1961 there was another change when farmers began to sell their tobacco in Blantyre/Limbe in Malawi. This continued until 1966 when a modern auction floor was opened in Lusaka, a new central location, which was more suitable for the flue-cured Virginia produced in Western Zambia. The Lusaka tobacco auctions were supervised by the Tobacco Board of Zambia (TBZ), like the Tobacco Marketing Board in Zimbabwe and the Tobacco Control Commission in Malawi a parastatal body.

It soon turned out that there was a shortage of skilled sales staff to auction the tobacco crop via the 'American system'. In order to solve this problem, it was decided in 1967 to introduce a Dutch clock system to auction the flue-cured tobacco crop from Western Zambia. In contrast with the tobacco auctions in Harare and Limbe/Blantyre, this auction system follows a descending-price pattern. The auctioneer determines the starting price after which the price indicator starts to drop. This goes on until a buyer presses the button and stops the clock at a price he is willing to pay for that specific lot. However, this auction system was abandoned after just one selling season as a costly failure. It is not quite clear whether the introduction of the Dutch auction system contributed to the decline of the Zambia tobacco industry.
In 1967 there was a return to the American system, which was maintained for ten years. The suspension of the tobacco auctions in 1977 was due to decreasing production volumes, a trend which began around independence in 1964. In 1990 Zambia produced only about 25 to 30 per cent of the flue-cured Virginia and about 50 per cent of the burley it produced at the time of independence (TJI, 1990, p. 58). After 1977 both flue-cured Virginia and burley tobacco are sold by classification. Only a short return to free auctions was made in 1980. Currently the classification sales are carried out on two selling floors in Chipata and Lusaka.

It would take us too far afield to look in detail at what went wrong with the Zambian tobacco industry. At this point it is sufficient to say that a lot can be attributed to too much government interference. No wonder that economic liberalization and Structural Adjustment, introduced in the mid-1980s, was welcomed by the tobacco industry of Zambia. Currently the parastatal sector, which controls about 80 per cent of Zambia’s economy, is privatized and the policy is already being applied to the tobacco industry. A return to tobacco auctions in the short term is not feasible yet because of production volumes.

5. Selling tobacco by auction: some concluding remarks

Auctions can be described as "a public sale of property to the highest bidder". Because the prices paid are the result of competitive bidding of would-be buyers, auction prices represent true commercial value and are generally higher than prices obtained via other selling systems. The wish to obtain fair and especially higher prices for their tobacco crop was the main reason for Zimbabwe and Malawi tobacco growers to introduce auction sales.

Although auction sales have a good number of advantages, the system also has got its weaknesses. This is why the tobacco auctions (especially in Zimbabwe) have frequently come under discussion since their introduction in 1936 (Zimbabwe) and 1939 (Malawi). In 1987 for instance, the Zimbabwe Tobacco Association (ZTA) set up a committee of inquiry to review the performance of the auction sales of some previous seasons. However, as had happened before, the committee concluded that the system of selling tobacco by auction was the best system the country had and that only some minor modifications might be necessary.
Only once, in 1976, did a commission recommended partial abolition of auctions. In this year the Future Marketing Committee, set up by the Rhodesian Air-Cured Tobacco Association (RACTA), had concluded that the ever decreasing burley crop was primarily responsible for indifferent buying and low prices. Competition was lacking, and since this is the driving force behind auction sales, burley auctions were replaced by another selling system.

Inquiries or evaluations are always the result of poor prices in the previous selling seasons. This was the case in 1976 when burley auctions were abolished as well as in 1980 and 1987, when many flue-cured farmers were driven out of production due to the fact that prices received were under the production costs. Although in most instances the disadvantages are counter-balanced by numerous advantages, it is useful to pay some attention to the weaknesses of the tobacco auction sales, before turning to the merits of this selling system.

First of all we have to consider the system of price-making. As indicated, auction prices present real commercial value since the price is determined by supply and demand. The supply position on both the Zimbabwe and the Malawi markets should be known in advance of sales. Furthermore it is not liable to massive fluctuations during any one season (TJI, 1987, p. 175). Therefore, demand has a bigger influence on the price than supply. Tobacco is grown without price guarantees, and minimum prices on the auction floor are absent, so growers have to produce the right styles at right quantities in order to sell their tobacco at good prices. Yet, the period between first sowing and final marketing can last 14 to 15 months, which makes it very difficult to attune to changing demand.

A major problem of the tobacco auctions concerns long and short price troughs, like those that occurred on the auction floors of Zimbabwe in 1980 and 1987 and those of in Malawi in 1983. In 1980 and 1983 the governments intervened in the tobacco market. The Zimbabwe government introduced a price support scheme to guarantee farmers' returns when farmers called for closing down the floors. The Malawi government, together with three members of the tobacco trade, established a pool system to take in burley tobacco that did not fetch the minimum support price. Short-term price variations between similar styles, however, are a common feature of the African tobacco auctions and are, as in any other free auction system, inevitable. These price variations primarily occur beyond the force of world demand and can for instance be attributed to the composition of the buying line; rumours concerning crop sizes; or currency devaluations.

31 The Rhodesian Air-Cured Tobacco Association is the forerunner of the Air-Cured Tobacco Association (ACTA), the growers association of all air-cured farmers.
A general disadvantage of the auction system lies in the fact that buyers can manipulate prices by organizing themselves in a ring. This is especially true of tobacco auctions because the number of buyers on the floor is restricted and the number of major tobacco companies is few. The involvement of all sectors of the tobacco industry in tobacco marketing via the TMB in Zimbabwe and the TCC in Malawi seems to be the best option to avoid abuses on the auction floor.

Outside the control of the TMB and TCC, but at least partly within the that of the government are the returns to growers in real terms. Unlike other tobacco selling systems, such as single channel markets or price support systems, the African auctions take no cognizance of production costs or inflation. This means that if growers sell their tobacco at true commercial prices at the auction, they are not sure if they are realizing comparable prices in real terms. Much attention is paid to the weak status of the Zimbabwe dollar against major dealing currencies, rather than local inflation (TJI, 1985, p. 121). This is completely understandable from the viewpoint of competition on the world tobacco market.

To end with, an 'American auction' is a highly sophisticated and expensive selling system that requires a lot of know-how, experienced staff and investments. It is impossible to organize auction sales in a situation where skills and means for investment are lacking. The situation in Zambia after independence is illustrative. In addition, seasonal supply has to be considerable in order to create a system of competitive bidding. It is hard to estimate the minimum production volume; this naturally varies from situation to situation. Some suggest that supply should exceed 20 million kilograms to have a real auction. However, Zambian auctions came under criticism when annual production amounted to about 8 million kilograms, while Zimbabwe burley auctions were abolished at a production rate well under this figure. Currently, the production of burley tobacco in Zimbabwe is 15 million kilograms (1993) but a return to auctions is still not made. Tobacco production in Tanzania for some time fluctuated between 15 and 20 million kilograms, but auctions never came off, although there were plans to open an auction floor at the city of Morogoro when production would reach about 10 million kilograms.

As mentioned above, in most instances the weaknesses of the (tobacco) auction system are outweighed by numerous advantages. To start with, selling tobacco using a system of competitive bidding generally generates higher prices then selling under another system. This in spite of short and long term price variations on the auction floor. Prices obtained at open tobacco auctions in Africa represent true commercial value close to the area of origin. This is why these tobacco prices are often used to fix prices for tobacco sold under other selling systems in other countries like Zambia.
Competition on the African tobacco auctions is not restricted by minimum and maximum prices, nor by price support schemes or intervention schemes. Minimum and maximum prices are often applied to single channel marketing with payments being based on fixed grade prices set prior to the selling season. Examples are the burley sales system in Zimbabwe and the tobacco sales in Zambia. These prices are inflexible to world demand and often prejudice the growers' side of the industry or the body responsible for marketing. Stocks can accumulate quickly under this selling system, influencing tobacco growers in the next seasons. By contrast the tobacco auction system leaves no stocks in the hands of growers or others involved in marketing, because every season the entire production passes the floor.

As described above, once in a while the Zimbabwe and the Malawi governments intervene on the auction floor by giving price support to the growers. This however is not common at the African auctions. Yet it is done at the tobacco markets of the United States and some other developed countries. Farmers are paid a price for their tobacco that is higher than the commercial value. The growers' tobacco is over-priced in order to keep them in production. This short-term relief can however evolve into a dramatic situation when demand falls away.

Prices paid for tobacco at the open auctions include a premium to growers who produce tobacco of high quality. In this way, the growers are induced to produce right style tobacco of high quality. Proper presentation and grouping of tobacco on the auction floor, as well as supply of right styles at high standards is beneficial to the growers and indirectly to the national tobacco industry.

Another advantage of the auction system is that tobacco growers are in charge of supply. Although the growers are restricted by marketing quotas, there seems to be enough room for the growers to rearrange their deliveries. Growers can for instance deliver their best tobacco at the most opportune time, thereby obtaining higher prices. When prices are low, growers can stop the delivery of better qualities to the floor in order to force the buyers to make positive price adjustments. In such a situation, an abundance of poor quality tobacco floods the floor because farmers' action usually snowballs (TJI, 1987, p. 176). Given the growers' freedom to rearrange into consideration, the realization of prices representing true commercial value is only a reflection of demand for the tobacco on offer.

The major advantage of selling tobacco by auction in both Zimbabwe and Malawi is that it is well known by all who participate in the selling of tobacco. It is long established and can be described as "a product of custom, tradition and expertise by an evolutionary process" (Berry, 1980, p. 63) spanning almost a century. All those involved in tobacco selling and buying appreciate the system because of its fairness and transparency. Only in situations of bad growing seasons or (world) over- or under-supply
does the system come under discussion. Because free and unfettered auctions in Africa have been gradually established by custom and tradition, it is hard to transfer the system to a non-African situation. That it is possible to use the principles of open auctions in tobacco marketing in other countries is shown in India, where some years ago a system of open auctions for tobacco was introduced.

**Acronyms**

**Malawi**

<table>
<thead>
<tr>
<th>Acronym</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>ADMARC</td>
<td>Agricultural Development and Marketing Association (former NTB)</td>
</tr>
<tr>
<td>TAM</td>
<td>Tobacco Association of Malawi</td>
</tr>
<tr>
<td>TCC</td>
<td>Tobacco Control commission</td>
</tr>
</tbody>
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**Zambia**

<table>
<thead>
<tr>
<th>Acronym</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>TBZ</td>
<td>Tobacco Board of Zambia</td>
</tr>
</tbody>
</table>

**Zimbabwe**

<table>
<thead>
<tr>
<th>Acronym</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>ACTA</td>
<td>Air-Cured Tobacco Association (former RACTA)</td>
</tr>
<tr>
<td>BMA</td>
<td>Burley Marketing Association</td>
</tr>
<tr>
<td>TMB</td>
<td>Tobacco Marketing Board</td>
</tr>
<tr>
<td>TRB</td>
<td>Tobacco Research Board</td>
</tr>
<tr>
<td>TTA</td>
<td>Tobacco Trade Association</td>
</tr>
<tr>
<td>ZTA</td>
<td>Zimbabwe Tobacco Association (former RTA and RZTA)</td>
</tr>
</tbody>
</table>

6. Literature on tobacco


*Tobacco International* (abbreviated as TI):
At 50-year mark, world's largest auction floor opens in Harare. (1986, no. 20, pp. 26, 28, 30, 32, 35).

*Tobacco Journal International* (abbreviated as TJI):
Free and unfettered auctions: a jewel in world tobacco marketing. (1985, no. 2, pp. 118, 120-121)
Tobacco industries in Central Africa growing steadily apart. (1990, no. 3, pp. 54-58)

*Foreign Agriculture Circular* (abbreviated as FAC):
Tobacco in Malawi (1980, no. 3, pp. 1-17)
Special report: Tobacco in Malawi (1988, no. 2, pp. 32-49)


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Chapter 4. Coffee auctions in Tropical Africa

1. Introduction

Coffee is the most important tropical commodity in international trade. In the 1980s it contributed about one per cent of the total value of world imports and exports, provided revenue of about ten billion USD annually to the producing countries, and work for an estimated 20 million people (Wrigley, 1988, p. 1). For many of these countries, practically all developing countries, coffee has been the main source of foreign exchange. This is still the case in spite of the low prices currently paid for coffee on the world market (see Box III).

Coffee can either be sold in the cash or physical markets or in the future markets. While sales in the cash markets (spot markets and shipment markets) entails the trade in actual coffee, future markets provide a market place for trading in future contracts. The future markets are used to avoid the risk of price fluctuations or to assume the risk of price fluctuations (speculation). The importance of future contracts in the international coffee trade is increasing. Important future markets are the New York Coffee, Sugar and Cocoa Exchange and the London Coffee Terminal Market (UNCTAD, 1983, pp.12-14).

As contrasted with the export marketing of tea, and to a lesser extent with the export marketing of tobacco, selling by auction is not a common phenomenon in the international coffee trade. Most coffee producing countries in Latin America, Asia and West Africa sell their crop directly to exporters and overseas buyers. In general, only Anglophone coffee producing countries in East Africa make use of auctions to sell their green coffee on the export market. In most of these countries government controlled marketing boards do have, or until recently had, a buying and/or re-selling monopoly of the green coffee in their respective countries. Consequently these boards are important actors on the African coffee auctions. Burundi is the only Francophone country in this report that (lately) has introduced auctions to sell part of the national coffee crop meant for export.32

Coffee auctions in Africa were first introduced in Kenya in 1935, and subsequently opened in Uganda (1954), Tanzania (1952)33, Ethiopia (1972), and Burundi (1991). The coffee auctions of Kampala (Uganda) were suspended in 1964 and have, in spite of various recommendations for re-establishment, not resumed up to now. The African coffee auctions primarily concern washed and unwashed arabicas (see Box II). Robusta coffees are less suitable for auctioning because the quality differentiation

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32 At present, the whole Burundi coffee crop meant for export goes through the auction sales.
33 The first auction sales under supervision of a central controlling agency (Tanganyika Coffee Board) were conducted in 1962.
between robusta lots is far less than the differentiation between arabicas. However, robusta coffees used to be auctioned at Kampala in Uganda (in addition to the arabica sales) and at Mombasa in Kenya, where robusta coffees from Kenya were sold in addition to the robustas from Tanzania (FAO, 1958, p. 158) and Uganda. Robusta coffees have been included in the Tanzania coffee auctions at Moshi since the mid 1970s.

In this chapter we deal in detail with Kenya, Tanzania, Burundi, Ethiopia and Uganda. For the sake of completeness we mention Malawi and Zimbabwe. As coffee production in these countries is small, they are not treated in detail. We simply mention that in Malawi for some years coffee has been auctioned at the Malawi tea auctions in Limbe/Blantyre. The coffee on offer is listed in the tea catalogue. Until recently Zimbabwe sold its coffee by regular tenders (conducted about every six weeks) at Harare. These sales were suspended when the coffee crop declined and the number of buyers fell. At present the Zimbabwe coffee crop is sold through a broker in South Africa.

**BOX II: Coffee species and coffee processing**

From an economic point of view, three species of the Coffea are significant: *Coffea arabica*, *Coffea canephora* and *Coffea liberica*. *C. arabica*, or arabica coffee, accounts for over 75 per cent of the world coffee trade. Arabicas are primarily grown in the tropical highlands of Latin America, East Africa, India and Papua New Guinea, and are used largely in ground roast blends. *C. canephora*, commonly known as robusta coffee, is produced in the tropical lowlands of Africa, Brazil and Indonesia and accounts for about 23 per cent of the world coffee trade. Robusta coffee is primarily used in instant blends. *C. liberica* is grown in similar conditions and altitudes to robusta coffee, and was originally found near Monrovia in Liberia. Although it is believed that it has been of widespread occurrence in Africa, *C. Liberica* accounts for less than one per cent of the trade.

After the harvest the coffee cherry can be processed making use of the **dry method** or the **wet method**. The two methods differ principally in the bean separation stage. The dry method, commonly used in for instance Brazil, Ethiopia and the robusta producing countries in Africa, involves a simple and cheap process by which the coffee cherries are dried after which they are pounded and hulled and the released beans are detached from their outer layers mechanically. The wet process takes longer, is more expensive and requires a lot of clean water, but is used everywhere to produce mild coffees and increasingly for the production of other coffees, sometimes even robusta coffees. In short, the cherries are washed and sorted after which the cherries are pulped to remove the flesh. The remaining mucilage, that is insoluble in water, is broken down by fermentation. After fermentation the coffee is repeatedly washed to remove the mucilage and is dried to get the parchment coffee to be machined (hulled and polishing) into green coffee. The wet method produces a cleaner bean which usually sells at a higher price.
BOX III: Export quotas under the International Coffee Agreement

A large number of coffee exporting and importing countries negotiated the International Coffee Agreement (ICA) in 1962. Its goal was the achievement of a balance between supply and demand in the world coffee market. Its main instrument was a system of export quotas. The agreement was renewed in 1968, 1976 and 1983, but not in 1989.

The countries mentioned in this chapter (Burundi, Ethiopia, Kenya, Malawi, Tanzania, Uganda and Zimbabwe) are all members of the International Coffee Organization (ICO), which was established under the ICA. As exporting members they have undertaken to administer and police the export quotas which, until 1989, were annually fixed by the International Coffee Council, usually in September, so as to apply to the "coffee years", from 1 October to 30 September.

Administering the country's export quota is not an easy task. First, export quotas are not a continuous feature, because they are inoperative as long as the agreement is not renewed. Moreover, when the world market prices rise above a certain level, the quotas are automatically suspended. (They are automatically reintroduced, when prices return to lower levels.) Thus, export quotas operated from 1 October 1980 to 1 July 1989, interrupted by a period of suspension from February 1986 to October 1987. Second, in many years export quotas are adjusted in the course of the year in response to movements in world market prices (as registered by the ICO Composite Indicator Price). Third, exports to non-quota members do not have to be taken into account under the quota administration, which often leads to a two-tier market. For exports under the quota a system of ICO stamps is used.

Those responsible for the conduct of the auctions cannot ignore the export quota, even if another organization is responsible for its administration. Obviously, demand at the auctions will decline sharply, when exports have reached the quota level. Thus, the auctions in Kenya and Tanzania were influenced by the quotas of the period 1980 to 1989. Notably Kenya had problems because its production considerably exceeded the quota (in Ethiopia the auctions were largely divorced from the administration of the quota during this period, simply because the auctions are conducted in a different way). Burundi started the auction system in 1991, that is, after the ICA quotas ceased to operate. Burundi may face the problem for the first time when export quotas are reintroduced, either under the ICA, or possibly under the Coffee Producers' Retention Scheme of 1993. In Uganda the tender sales will have to be coordinated with any new system of export quotas.
Table 4.1: Coffee exports of selected countries, 1983-1992

<table>
<thead>
<tr>
<th>Years</th>
<th>Kenya</th>
<th>Tanzania</th>
<th>Burundi</th>
<th>Ethiopia</th>
<th>Uganda</th>
</tr>
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<tbody>
<tr>
<td>1983</td>
<td>1,402</td>
<td>814</td>
<td>451</td>
<td>1,550</td>
<td>2,405</td>
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<tr>
<td>1984</td>
<td>1,580</td>
<td>944</td>
<td>535</td>
<td>1,454</td>
<td>2,220</td>
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<tr>
<td>1985</td>
<td>1,698</td>
<td>710</td>
<td>559</td>
<td>1,133</td>
<td>2,538</td>
</tr>
<tr>
<td>1986</td>
<td>2,046</td>
<td>843</td>
<td>637</td>
<td>1,250</td>
<td>2,347</td>
</tr>
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<td>1987</td>
<td>1,600</td>
<td>790</td>
<td>457</td>
<td>1,226</td>
<td>2,482</td>
</tr>
<tr>
<td>1988</td>
<td>1,411</td>
<td>613</td>
<td>516</td>
<td>1,408</td>
<td>2,405</td>
</tr>
<tr>
<td>1989</td>
<td>1,763</td>
<td>823</td>
<td>564</td>
<td>1,699</td>
<td>2,940</td>
</tr>
<tr>
<td>1990</td>
<td>1,969</td>
<td>1,019</td>
<td>585</td>
<td>1,074</td>
<td>2,353</td>
</tr>
<tr>
<td>1991</td>
<td>1,558</td>
<td>871</td>
<td>688</td>
<td>841</td>
<td>2,095</td>
</tr>
<tr>
<td>1992</td>
<td>1,384</td>
<td>828</td>
<td>646</td>
<td>734</td>
<td>2,017</td>
</tr>
</tbody>
</table>


2. Coffee auctions in Kenya

2.1 Production

Coffee is a major export crop and one of Kenya's largest foreign exchange earners. Coffee accounts for about one-third of the total export earnings. Kenya produces mainly washed arabicas that find their way to about 40 countries. Arabica coffee is grown in the highlands at altitudes of 1,400 to 1,900 metres above sea level. Some robusta coffee is cultivated on a small scale in the lowlands of Busia District near Lake Victoria. While most of the arabicas are grown for export, robusta coffee is used in domestic instant blends. Yet, before 1970, robusta coffee was also grown on a small scale for export.

The first plantings of coffee in Kenya were undertaken in 1893 by Christian missionaries in Kibwezi. Only three years later the first crop was harvested and new plantings started in the Kiambu District. The first coffee plantations or estates were established after the Crown Ordinance of 1902, which made it much easier for white pioneers to acquire land for settlement. Although African smallholders started to produce coffee through co-operatives as early as 1935, the coffee industry remained essentially a plantation sector until independence in 1963. Only three years later the production of the smallholder sector overtook that of the estate sector. Most of the estates have been gradually bought by Africans since independence. Some are owned by public companies.
Since independence, coffee production in Kenya trebled to about 130,000 tonnes (over two million bags) in 1986. In 1992 coffee production amounted to only 1.5 million bags. About 60 per cent of the total output is produced by the smallholder sector, and 40 per cent by the estate sector. Smallholders are organized in cooperative (primary) societies. The cooperatives in fact provide the framework for the smallholder sector in Kenya. Every smallholder wanting to grow and sell coffee has to be a member of one of the 240 (1992 figures) primary societies. The cooperatives perform collective services for the smallholders such as processing (in one of the about 800 processing factories). In addition, most cooperatives provide services such as extension services and loans through which farmers can pay for school fees, fertilizers, local taxes, etc. Most of the primary societies are federated in District Cooperative Unions.

The coffee industry in Kenya is supervised and regulated by the Coffee Board of Kenya (CBK). The CBK is a statutory body first set up in 1933. Apart from its responsibilities for the production side of the industry, the CBK is the only coffee receiver at the national level of both smallholder coffee and coffee from estates. The Board receives the national coffee crop through the Kenya Planters' Cooperative Union Ltd. (KPCU), which owns and operates the mills at Nairobi and Endebess (Western Kenya) and storage facilities at Nairobi, Dandora, Meru, Sagana, Nanyuki, Kisumu, Nakuru and Bungoma. The KPCU, formed in 1937 by large-scale coffee growers around Thika, is a growers' association jointly owned and financed by cooperative and estate coffee farmers. Every coffee grower in Kenya, directly or through his cooperative, must be a member of the KPCU.

2.2 Coffee processing and marketing

The processing of washed arabicas - the bulk of Kenya's coffee - takes place in two stages. The initial processing takes place in small factories either at the estates or, in the case of smallholders, at the village cooperative factories. Initial processing consists of pulping, fermenting, washing and drying and turns the coffee "cherries" into "parchment coffee". The pulping factories, of which there are some 1,500 in Kenya (800 serving cooperative societies and 700 at estates), dispersed over the production areas, are the suppliers or "producers" of parchment coffee.

The second stage of processing consists of hulling and grading. The parchment and silver skin are removed by hulling. The beans are sorted by size and density, and defective or faulty beans are removed by various means. Thus, parchment coffee is turned into graded "green coffee" ready for export. There are a maximum of seven grades for washed arabicas (AA, AB, C, PB, TT, T and F). The secondary processing is concentrated in the KPCU mills at Nairobi (some processing is also done at Endebess and
there are plans to establish private milling facilities). Because of this geographical concentration a great deal of the parchment coffee has to be hauled over long distances. The transport of the smallholder coffee is normally taken care of by the cooperative unions acting on behalf of the member societies. The cooperative societies, and not the unions, appear as "producers" in the KPCU administration.

The processing of the unwashed arabicas, locally known as mbuni coffee, is based on the dry method, in contrast with the wet method described above. With the dry method the coffee cherries are dried in the sun (or artificially). This simplifies village processing but results in a lower quality. The mbuni coffee is transported to the KPCU mill in Endebess for hulling and grading. For mbuni only three grades are distinguished (M, MH, and ML). Coffee that does not fit the grading criteria of the KPCU is classified as UG (ungraded).

When the parchment coffee is delivered at the KPCU mills samples are taken from each producer's deliveries. The samples are then examined by CBK employees to determine grade and quality of the coffee. These are communicated to the producer concerned. If he wants to appeal against the classification, he must do so within ten days. His coffee is kept separate for this period to permit the taking of new samples. If the CBK certificate is not contested, it serves as a basis for payment from the "pool" (see section 2.4).

After the ten-day waiting period the KPCU processes the coffee. During the process the identity of the coffee of the smaller producers is lost, and merged or bulked coffee is produced. The coffee is packed in jute or sisal bags and is stored at CBK, KPCU and other warehouses. Then samples are drawn from each grade and sent to the Sample Room of the Coffee Board for classification or "grading by flavour". This is done on the basis of tasting, the so called "cup-quality". There are special tasters or liquorers to do this. The washed arabica is classified in ten classes, '1' being the highest, '10' the lowest. The major quality classes are 4 to 6 with between 60 and 70 per cent of all coffees. Mbuni is classified as single-quality. When both class and grade are known, the CBK can prepare its catalogue for the auctions. While the grading done by the KPCU is mechanical and objective, the classification of the CBK depends on human experience. Although training standardizes the classification as much as possible, it is never as objective as grading.
2.3 The Nairobi coffee auction

The Kenyan coffee auctions are compulsory. All coffee meant for export (about 97 per cent) must be sold by auction. Until recently, local roasters could buy coffee directly from the CBK at subsidized prices. However, since 1990 these roasters also have to make their bids at the Nairobi auction.

Auctions are organized by the Coffee Board of Kenya and are held nearly every Tuesday morning at Wakulima House in Nairobi. Because the CBK is the only receiver of coffee at the national level, the Board is also the only supplier at the auctions. The coffee is sold by the CBK on behalf of the producers. Farmers do not receive a fixed price for their produce but receive the approximate proceeds (minus marketing costs) obtained at the auction sales (see also section 2.4). The actual auctioning is carried out by Kenya Coffee Auctions Ltd. (KCA), the sole brokers to the Board. The KCA, set up by the Coffee Board in 1935, is a private company, jointly owned by the CBK and the Valentine family with the Board as major shareholder.

In advance of the sales, the KCA prepares a catalogue of the lots on offer and sets reserve prices. This catalogue mentions the number, mark, grade and volume of each lot. The lot size ranges between about 40 and 140 bags of 60 kilograms. Reserve prices are set by the CBK with reference to prices obtained at previous auctions for similar coffees and market developments during the week. The board controls an auction programme to avoid flooding of the market and to achieve a balanced supply in terms of different coffee grades and classes. In line with the auction programme, on average 2,000 to 3,000 tonnes (33,000 to 50,000 bags) is brought into the auction each week.

The KCA brokers are allowed discretion to the extent of about ten per cent either way of the reserve price during the bidding. Coffee that does not obtain prices within this price-range is withdrawn for reconsideration, repricing and subsequent resubmission to the market. The results of the auction sales (prices, turnover, etc.) are reported in the Nairobi newspapers one day after the sale, to guarantee transparency.

The Coffee Board keeps a record of revenues received for each grade and quality of coffee. The proceeds of the weekly auctions are paid in a pool for the year. When the funds (in the pool) accumulate, interim payments are made to the producers. Final payments are officially made within three months of the end of the coffee year in September (see also section 2.4).

All bidders at the Nairobi coffee auction (about 60 in 1990 of which about 30 are active) are private exporters except for the local roasters and the Kenya National Trading Corporation (KNTC): a state-owned trading company. The merchants licensed by the Coffee Board, referred to as Licence "A" holders, all belong to the Mild Coffee Trade Association (MCTA). Licensing is carried out by the Licensing Committee of the Board.
The licensed buyers, however, represent a far greater number of clients and agents from all over the world. When the exporters receive samples prior to the sale, they in turn liaise with their overseas customers. Samples are regularly air-lifted to overseas buyers or roasters for tasting before orders are placed. Successful bidders at the auction are given seven days to pay for the coffee by banker’s cheque. For a long time payments had to be made in local currency, but since 1992 the payments must be in US dollars. This decision has put a lot of exporters (temporarily) out of business for they find it hard to get bank credit to finance their purchases. The number of export buyers since the dollar-switch has been greatly reduced. This has increased the concentration of buying at the auctions.

The buyers are given a short period during which their coffee can stay in the Board’s warehouses free of storage charges. After this period the export buyers have to pay for storage until they remove their coffee. This way exporters are prompted to move their purchases from the CBK’s warehouses to their own in Nairobi or Mombasa. Most coffee is railed to Mombasa for shipment to overseas customers. Europe is the main market for Kenyan coffee. The higher qualities are primarily sold to Germany and Finland. The lower qualities go to the United States and countries that formerly were described as non-quota countries. The exporters are constantly looking for new markets. The CBK assists the trade by all kinds of promotion activities. Altogether Kenya coffee is currently sold to about 40 countries, where roasters blend it with coffee from other origins. In some countries, Kenya coffee can be bought in pure form.

2.4 The pool system

It is a long-established feature of Kenya that the washed arabicas of the various producers are pooled. In general pooling has a bad reputation because it tends to remove the incentive for producers to improve quality. In the case of Kenya this problem has been faced (as early as the 1940s) and approached in the following way.

The basic idea of the approach is this: (1) Coffee should be examined extensively before it is pooled. (2) The examination should closely resemble the later examination, i.e. the one that precedes the sale at the auctions. (3) Payments based on the pre-pooling examination should correlate with the premiums for good quality (and discounts for poor quality) obtained at the auctions. (4) Payments to producers are staggered over the year, with initial, interim and final sums, so as to prevent liquidity problems in the marketing channel. These four elements guarantee an equitable, fair price and ensure that the producer is in touch with the wishes of the market, and is rewarded for catering to these wishes.

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34 The selling catalogue of the KCA mentions that all coffee which is despatched to Mombasa may only be transported by Kenya Railways Corporation and their contractors.
As the pool system relates to a coffee year (from 1 October to 30 September), it cushions producers against price fluctuations during this period. Thus, if the market is down at the beginning of the year, but recovers towards the end, the producer does not notice this, for he receives the average price, that is the revenue for a particular quality class of coffee, divided by the tonnage of this quality sold at the auctions.

The pool system was well designed and has been retained without great changes for over forty years. At the same time we should be aware of its vulnerability. First, the pre-pooling examination is very labour-intensive, because the samples have to go through micro-hullers before grading and have to be roasted before classification. To have the examination complete and consistent is difficult. Second, with smallholders there is also pooling at cooperative society level, and here the incentive to improve quality may be lost. Third, the system is based on the assumption that producers are only influenced by the payments they receive, but in practice they may give much weight to other factors such as delay in payment.

In 1992 the possibility of 'direct sales' was introduced. When a producer makes use of this option, he still has to sell at the auctions with the CBK as his agent, but his coffee is kept separate at the KPCU so that it can still be identified as his coffee at the auctions. At first it was planned to offer this opportunity only to the estates, which, as large coffee producers, might be better able to benefit from this alternative method of sale. To limit the attractiveness of 'direct sales' the timing of payment was fixed as follows: the producer did not get any payment until after the sale of his coffee at the auctions. It was anticipated that this would discourage all but the financially strong producers. This proved wrong, because smaller producers and cooperatives are also making use of 'direct sales'. It may well be that producers underrate the risks of 'direct sales', notably those associated with the volatility of the market. If a producer's coffee happens to be auctioned when the market is down, this is bad luck for him, because he receives a lower price than under the pool system. In the current year about 70 per cent of all coffee producers opted to sell directly.

Although the total turnover at the auctions is not reduced by 'direct sales', the evening out of the supply in the course of the year has become much more difficult. It is too early to say whether this will disrupt the Nairobi coffee auctions.

35 Quality may be negatively affected by accidents beyond the control of the producer, for instance during transport and storage. Coffee may easily take the odour of products stored closeby or transported in the same lorry or railway wagon.
3. Coffee auctions in Tanzania

3.1 Production

Coffee is the main source of foreign exchange earnings in Tanzania. Before the collapse of the International Coffee Agreement in 1989, coffee accounted for about 40 per cent of the export earnings of Tanzania. As in Kenya, arabica coffee was introduced in Tanzania by missionaries in about 1890. Arabica coffee was first planted in the Uluguru mountains (south of Morogoro) and the Kilimanjaro area. The first fields of coffee were established in about 1900 near Morogoro and Moshi (Kilimanjaro), after which coffee cultivation was spread by German settlers to other parts of the country. Currently there are three main coffee growing areas in Tanzania: the highlands of the South (a.o. Mbeya and Songea), the highlands of the North (an area covering the Oldeani Plateau, Mt. Meru, Mt. Kilimanjaro, and the Pare and Usambara ranges), and the Bukoba Region to the West and South of Lake Victoria, where robusta coffee has been grown for almost 300 years.36

Total coffee production varied between 700,000 and 900,000 bags in the late 1980s (between 15 and 25 per cent robusta coffee). Coffee production is almost completely export oriented. Only two per cent of the total production is consumed locally (about 1200 tonnes on average). Coffee production in Tanzania is predominantly a smallholder business. An estimated 95 per cent of total area under coffee cultivation can be described as smallholder area. As in Kenya, the small coffee farmers are organized in cooperative (primary) societies at the grassroots level. In turn, the cooperatives are grouped in cooperative unions that purchase the complete coffee crop. In Tanzania the cooperatives are formed from a single village or a group of villages that can be considered an economic unit. Moreover, primary societies in Tanzania do not perform the same functions as those in Kenya. For instance, in Tanzania farmers are allowed to process their own cherries, using a small hand-pulping machines, and to take the parchment coffee to the cooperative of their choice.

The roots of the cooperative movement in Tanzania can be traced back to the early 1930s, when the British allowed these societies to register. The cooperative movement developed alongside the private trade (Asians and Arabs) that dominated the domestic marketing of most agricultural commodities in many areas until independence in 1961. After independence the influence of these traders declined and the role of the government and the cooperatives in agricultural marketing increased.

Government intervention culminated in the period between 1976 and 1984. The voluntary farmers’ cooperatives were dissolved with the villagization campaign, unions were abolished and marketing of most agricultural commodities was restricted to

36 The robusta coffee tree of the Bukoba Region was introduced by the Bunyoro of northwest Uganda.
parastatals with village councils as sole buying agents. In fact the cooperative sector was completely dismantled.

The Tanganyika Coffee Board evolved in the Coffee Authority of Tanzania (CAT). However, the new system proved to be highly ineffective, and the cooperative marketing system was reinstated by the Cooperative Act of 1982. In 1984 the cooperative sector again became operational in a more liberalized form. In addition the Coffee Authority of Tanzania was converted into the Tanzania Coffee Marketing Board (TCMB). This TCMB remained the only coffee receiver at the national level until the late 1980s. Also the "three-tier single-channel marketing system", instituted under the Agricultural Products Act of 1962, largely remained unchanged until recently.

3.2 Coffee processing and marketing

The marketing of smallholder coffee takes place through the cooperative societies, which in turn sell the coffee crop to the cooperative unions. At the level of the primary societies, farmers are paid average prices for their coffee, which means that there is no price differentiation according to quality. Hence, there is no quality incentive for the farmer. In most cases, the cooperative unions deliver the parchment coffee to the coffee factories for processing and curing.

In the highlands of the North, the parchment coffee (all washed arabica) is routed directly from the village to the curing facilities of the Tanganyika Coffee Curing Company Ltd. (TCCC)\textsuperscript{37} in Moshi, where the coffee is weighed and sampled upon arrival. The produce from each primary society is labelled as such and is kept separate during the complete curing and grading process. This means that the coffee is offered at the auction in lots of a specific quality of a named primary society. Hence, the lots of mild arabica coffee can be relatively small. The TCCC produces well over 400,000 bags of clean coffee per year, of which about 50 per cent comes from the powerful KNCU; the Kilimanjaro Native Cooperative Union. All coffee from the North is shipped through Tanga.

In the highlands in the South there are two coffee curing factories, in Mbinga and Mbozi. They were built for the TCMB in the 1980s. Since then the cooperative unions have become shareholders. As in the North, the coffee of each primary society is kept separate during the curing and grading process. After local processing, the coffee is stored in the South and sold by the TCMB at the Moshi coffee auctions. Coffee from the southern production areas is shipped through Dar es Salaam.

\textsuperscript{37} All Tanzania coffee used to be processed at the TCCC curing works, but, at present, only parchment coffee of the nine cooperative unions which are shareholders of the factory is processed here.
In the Bukoba region the entire coffee production, primarily consisting of robustas and some hard arabicas, is processed at the Bukop factory in Bukoba. This factory is able to deliver between 200,000 and 300,000 bags of clean coffee within a six-month period. In contrast with the processing of mild arabicas in the North and the South, the Bukoba coffees are kept separately per cooperative union, but not per primary society. This is probably because of the limited quality differentiation between the robusta lots. After processing at the Bukop factory, the coffee is transported to Tanga; first the train wagons are shipped by ferry from Bukoba across Lake Victoria to Mwanza after which the wagons are railed to Tanga. The transport to Tanga, organized by the cooperative unions, takes about two weeks. In case of special orders from overseas buyers, part of the coffee has to be handpicked at Tanga to improve quality.

After their reinstatement in about 1985 the cooperative unions had to pass all their purchases on to the Tanzania Coffee Marketing Board for selling at the Moshi coffee auctions. However, due to liberalization of the agricultural economy in recent years, the system is changing. Cooperative unions are no longer obliged to sell their purchases to the TCMB. They have been granted full ownership of the coffee they handle from the farm gate to the ultimate buyers in the foreign or domestic markets (ICRA, 1991). But, the whole crop must still go through the Moshi coffee auctions (according to the Coffee Industry Act). At present, the TCMB merely acts as a trading agent at the auctions and sells coffee on behalf of the unions, for which the TCMB receives an agreed commission of 1.6 per cent of the auction price. Also the cooperative societies are no longer prohibited to sell to buyers other than the cooperative union to which they are affiliated.

3.3 The Moshi coffee auctions

The coffee auctions in Moshi were established in October 1952, to facilitate independent sales of mild arabicas by coffee producers in what was then Tanganyika.38 Robusta coffees were originally auctioned in Mombasa, but these sales shifted to Moshi in the mid 1970s. The Moshi coffee auctions continued for about a decade without a central controlling agency. This situation changed in 1962 when Tanzania joined the International Coffee Agreement and the government found it necessary to establish an organization that had more extensive control over domestic and export marketing (Kriesel, 1970, p. 43). In the same year the Tanganyika Coffee Board39 became the central controlling agency of the coffee auctions.

38 From the beginning of World War II until the early 1950s, all coffee trading associations sold their entire output to the British Ministry of Food, usually on a long term contractual basis (Kriesel, 1970, p. 41).
39 The Tanganyika Coffee Board was established in 1957, but it provided for no particular powers over the marketing of coffee until 1962 (Kriesel, 1970, p. 42).
At present the coffee auctions, which are clearly modelled after the Kenya coffee auctions, are held every other Thursday on the first floor of Kahawa House in Moshi. They are supervised by the Tanzania Coffee Marketing Board, which, as already mentioned above, acts as a kind of trading agent for the unions. The board receives an agreed commission of 1.6 per cent of the auction price for their assistance in selling. The TCMB is also responsible for the preparation of the selling catalogue listing the characteristics of the lots on offer. Catalogue as well as samples are available two weeks prior to the auction. In general only arabica coffee is liquored. Robusta coffee is bought on so called eye-identification.

The actual selling of the coffee is carried out by two TCMB appointed auctioneers. Bids at the auction are made in US dollars (since the 1989/90 selling season) and are standardized at Dar es Salaam and Tanga FOB prices for overseas buyers who do not attend the auctions physically. For local buyers, the prices are ex-warehouse TCCC, ex-warehouse Mbozi factory, ex-warehouse Makambuku (ex-Mbinga coffee factory) and ex-Tanga warehouse (Bukop coffee). Bids can only be made by licensed exporters. The 22 licensed export traders, some of them being Kenya-based, have organized themselves into the Tanzania Coffee Traders' Association (TCTA).

On average about 40,000 bags are brought into the auction every two weeks. The whole coffee crop is brought in auction; washed (mild) and unwashed (hard) arabica coffee as well as robusta. At present the robusta sales at Moshi are the only robusta auctions in the world. At the auctions arabica coffee is available from October until July/August next year and robusta from October to September/October next year. Recently, some of the coffee (about one third) was by-passing the auctions and in bilateral deals negotiated by the Coffee Buyers Club (CBC) in exchange for oil (ICRA, 1991, p. 94; Schluter, 1993, p. 5). Because the CBC sales resulted in lower prices and delays of payments to the farmers, these sales were recently terminated.

The coffee on offer at the Moshi auctions is identified as follows. The lot mentions either the name of the primary society (mild arabicas from the North and the South) or the name of the union (coffee from Bukoba). The lots in Moshi are somewhat smaller on average than those in Nairobi. This means that buyers at the auction have to assemble more lots to fill their containers (one container contains about 300 bags). Robusta coffee is already bulked in container-size lots at the Bukop factory in Bukoba. The activities of the export-buyers after the auction in Tanzania are largely the same as those of the buyers at the Nairobi coffee auctions.
4. Coffee auctions in Burundi

4.1 Coffee in Burundi

Coffee growing in Burundi is almost entirely a smallholder business. In the late 1980s about 850,000 rural families were engaged in coffee growing, covering a total area of about 60,000 hectares. The Burundi coffee growers primarily produce washed arabicas. The last five years on average only just three per cent of the total annual production (between about 500,000 and 650,000 bags in the last five years) is robusta coffee. Robusta is only grown in the lowlands of the Imbo Region. Arabica coffee is grown in the other parts of the country at altitudes of between 1,250 and 1,950 metres above sea level. The coffee industry is of major importance of the Burundi economy. Before 1989, coffee contributed over 90 per cent of the total export earnings of Burundi.

The coffee producers can either take care of initial processing themselves and sell their parchment coffee to local merchants or deliver their red coffee cherries to "stations de dépulpage-lavage" for processing. In order to improve the overall quality of the coffee crop, the Burundi government has established five private washing station management companies: "Société des gestion des stations de lavage" (SOGESTAL). The SOGESTALs operate some 130 washing stations in most regions of Burundi and cater for an increasing number of smallholders. The number of washing stations is expected to rise to about 200 in 1995. The parchment coffee delivered by the SOGESTALs is called "fully-washed" coffee. All other "traditionally washed" arabica is called "washed" coffee.

Eventually, all parchment coffee is purchased at fixed producer prices by the government and is delivered at the coffee mills at Bujumbura and Gitega for further processing. The fully washed arabica is delivered to the coffee mill in Gitega. All other coffee is delivered to the mill at Bujumbura.

Because of the absence of quality incentives, bulking of the farmers' produce at the mills has no impact on the farmer. However, it is intended that in the near future the coffee will be milled by grower or origin and that prices paid to farmers will reflect the prices obtained at the auction. The milling used to be the responsibility of the "Office de Cultures Industrielles du Burundi" (OCIBU), but both coffee mills, and coffee warehouses, are now operated by the "Société de Déparchage et de Conditionnement" (SODECO). Like the SOGESTALs, SODECO is established by the government to prepare the way for privatization of the Burundi coffee industry.

After processing at the mills, the green coffee is delivered for sale by auction to the "Office du Café". In recent years, export selling of the coffee crop is also increasingly being privatized through the introduction of regular auction sales (see section 4.2). The coffee export crop used to be marketed entirely by the Burundi Coffee Company (BCC).
For two years the BCC operated alongside the auction sales in Bujumbura, but the company was required to join the auction system in 1993.

As part of the recent restructuring of the Burundi coffee industry, the supervision of coffee has become the responsibility of the new "Office du Café". The trademark of the former "Office de Cultures Industrielles du Burundi", OCIBU, has been transferred to the new "Office du Café", probably in order to retain the goodwill of the overseas buyers. The office has its headquarters in the capital city of Bujumbura and consists of a number of departments that operate under a general manager. The Board of Directors of the Office represents all sectors of the Burundi coffee industry. The goals of the Office du Café are the improvement of the quality of the coffee crop and the implementation of plans to restructure the coffee industry. In essence, the major responsibilities of the Office are the supervision of production and marketing of the Burundi coffee crop, the operation of a financial pool, the development and application of classification systems, the issuing of certificates of origin and export licences, and maintenance of relations with international organizations.

4.2 The Bujumbura coffee auctions

An important step towards restructuring and privatization of the Burundi coffee industry was the establishment of regular coffee auctions in Bujumbura in 1991 to sell part of the Burundi coffee production to private exporters. During the first selling season (1991/92) about 12,000 tonnes were made available for auction sales and this amount was planned to increase to 50 per cent of the 1992 crop, with a minimum of 18,000 tonnes (about 300,000 bags). At the end of the 1992/93 selling season it was decided to discontinue the dual sale system and to make auctions compulsory as in Kenya and Tanzania. The Burundi Coffee Company (BCC) was allowed to continue, but now as one of several licensed exporters at the auctions.

Currently about 20 private exporters have been granted export licences by the "Office du Café". Only these licensed buyer/exporters are allowed to bid at the auctions. The export licences are issued by the "Office du Café" after review by a licensing committee. This committee consists of representatives of both the "Office du Café" and the "Association Burundaise des exportateurs du Café" (ABEC). In order to apply for an export licence, a buyer/exporter must be a member of the recently established trade organization ABEC. Only organizations that establish a presence in Burundi may be granted licences.

The auctions are organized by the "Office du Café", and are held every Wednesday morning during the season at the offices of the "Office" at the Boulevard du Port. Last season the auctions started in July and ended in February (the crop was
relatively small). During the selling period, the "Office" does control an auction programme in order to achieve a balanced supply in terms of quantity and of quality proportional to the availability within the Burundi coffee crop.

Coffee is offered at the auction in container lots ready for export. Samples of the lots on offer are taken by employees of SODECO and are distributed to the buyers about two weeks prior to the auction sale by the "Office". In advance of the sales, experts of the "Office" prepare a catalogue and set the reserve prices. The actual selling at the auction is carried out by auctioneers employed by the "Office du Café". Bids at the auction are in local currency (Francbu) and basis ex-warehouse Gitega or Bujumbura.

When a lot has been knocked down at the auction, the buyer is automatically authorized to export. Certificates of origin, quality, weight, etc. are supplied by the "Office" after the sale. As in Kenya, the buyers are given seven days to pay for their purchases. After payment the coffee is routed to the ports of Dar es Salaam or occasionally Mombasa. In order to improve transport, the Burundi government has made large investments in the Bujumbura harbour as well as in its rail and road connections. The majority of the Burundi coffee is exported to Europe.

The Burundi coffee auctions are the first regular auctions ever conducted in Francophone Africa. They have been established by the Burundi government 'as part of the drive towards privatization of the coffee industry', and are supported by the World Bank.

As auctions have proved to be a success in Burundi, they will be introduced in neighbouring Rwanda as well.

5. Coffee auctions in Ethiopia

5.1 Coffee in Ethiopia

Coffee is the most important agricultural commodity in the Ethiopian economy. Prior to 1989 (before the suspension of the International Coffee Agreement), coffee contributed about 65 per cent of the foreign exchange earnings and about 30 per cent of the government revenue. It is estimated that nearly 25 per cent of the population directly or indirectly depends upon coffee growing (African Coffee, 1984). The total area under coffee is about 500,000 hectares, of which 10 per cent is believed to be under wild coffee. The average annual coffee production is estimated to be somewhere between 180,000 and 200,000 tonnes, which makes Ethiopia one of the largest coffee producing countries in the world and the second largest coffee producer in Africa.

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40 One container lot consists of 300 bags or 18,000 kilograms.
In contrast with other African coffee producing countries, Ethiopia has a significant domestic market for coffee. On average well over 50 per cent of the total coffee production is consumed locally and local consumption is still rising. To maintain its share in the international market in the short term, the government tries to curb local consumption in order to promote export (African Coffee, 1988). In the long term the production must increase to over 300,000 tonnes to satisfy both local and export demand. Cofees grown in Ethiopia are entirely of the arabica type. This comes as no surprise as the Ethiopia highlands are the origin of the Coffea arabica. The variety of coffee trees occurring wild in Ethiopia all belong to this species. Coffee is grown in almost all regions.41 The major coffee producing regions are Kaffa, Sidamo, Harar (Harrargie), Wollega and Illababor. In these regions coffee is grown at altitudes of between 1,300 and 1,800 metres above sea level. The bulk of the Ethiopian coffee production is dry-processed (sun-dried and unwashed). The production of washed arabicas, which are largely exported, has slumped in recent years to a few thousand tonnes. But the potential for washed arabica is ample -- 40,000 tonnes seems realistic -- especially as Ethiopian washed arabicas command high prices in the world market.

Most of the Ethiopian coffee is produced by peasant farmers. In 1986 only 2.4 per cent of the exportable production came from large state farms, and the balance from smallholders. In the early 1980s, the government established the Coffee Plantation Development Corporation (CPDC) in order to increase the total production as well as its own share in total production. The aim was that the plantations under the CPDC had to develop 60,000 hectares with a projected production of 50,000 tonnes. About 80 per cent of this tonnage should be wet-processed. Recent data on the progress of this project are lacking.

The Coffee Plantation Development Corporation has been set up by the Ministry of Coffee and Tea Development (MCTD). This Ministry was created in 1979 to promote both the coffee and tea industries in Ethiopia. Until recently, the MCTD was responsible for the supervision of the coffee and tea industry. But the MCTD evolved into the Ministry of State Farms, Coffee and Tea Development (MSFCTD) in 1992. The Ethiopian Coffee Marketing Corporation (ECMC) is the marketing arm of the ministry. It was established in the early 1970s to regulate the coffee sector and to engage in the processing and exporting of coffee. Since 1982 a centralized Coffee Liquoring Unit (CLU) has been in operation, which deals with quality evaluation and quality improvement of coffee meant for export.

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41 Some coffee producing areas are located around Asmara in the former Ethiopian Region Eritrea.
5.2 Coffee marketing and the coffee auctions

In Ethiopia, both production and marketing are largely in the hands of small producers and middlemen. The coffee growers sell most of their 'sun-dried' produce at one of the about 150 markets to local buyers. The markets are scattered over the coffee producing areas. From these small markets the coffee is transported to bigger markets for bulking and hulling. Export coffee is routed to Addis Abeba and Dire Dawa by wholesalers (chagnis) to be sold at the auctions regularly held in those towns.

The coffee auctions in Addis Abeba were established in 1972, and have remained the focal point of the coffee export trade. The auctions at Dire Dawa (established in the late 1970s) serve the coffee growers in the Harrar region. Prior to 1972 coffee was sold directly by local coffee dealers to processor/exporters in the same two towns, in private deals that obscured the real value of the smallholders' coffee. The introduction of coffee auctions meant an important step towards a transparent market while it provided the Ethiopian government with an instrument to gain more effective control over coffee marketing.

A special feature of the Ethiopian auctions is the practice of selling coffee "on the truck". The sellers send their loaded lorries to the auction area in the morning. This allows time for sampling and visual inspection before the auction begins at 3 pm. It seems to be the task of the government-appointed auctioneer to determine the order in which the lorries appear at the auction site. Then the bidding (in local currency) starts, with the highest bidder acquiring the "lot". The lorry is then driven to his warehouse, where the coffee is unloaded, weighed, and paid for against the price agreed upon at the auction.

The buyers at the auction are not only exporters, but also processors, because the coffee they buy is not yet ready for export. It still has to be graded and sorted. Most of the processing facilities are in Addis Abeba and Dire Dawa. The milled or clean coffee is railed to Djibouti, for shipment. Export is not permitted unless the ministry's grade and cleanliness standards are met. The final inspection involves close examination of 300 gram samples. Coffee below grade 5 or coffee with over 100 defects in a 300 gram sample is of non-exportable quality.42

In 1992 there were 12 private exporters. The ECMC buys coffee both at the auctions and in the interior. This is in contrast with the private exporters who are obliged by law to buy all their coffee at the auctions. For many years price formation at the auctions was not free, because the government imposed a ceiling price above which no exporter was allowed to bid. This was unfavourable not only for the producers, but also for many private exporters. The main beneficiary of the ceiling price was the ECMC. In

42 African Coffee (1984, no. 3) provides some detailed information on classification, defects, and description of quality of Ethiopian coffees.
the 1980s Ethiopian coffee was exported to about 30 countries, of which about 20 were ICO members. The main importers of Ethiopian coffee are the United States, Germany, Japan, France, Italy (ICO importers), Saudi Arabia and South Korea (non-quota markets). In this period the ECMC handled about 70 per cent of all coffee exports. This pattern may have changed since the overthrow of the Mengistu regime in 1991.

There are some significant differences between the coffee auctions in Ethiopia and those in Kenya, Tanzania and Burundi. In the latter the coffee offered at the auctions is ready for export, while in Ethiopia it still has to be graded and sorted. The quality evaluation in Ethiopia is therefore less accurate and refined: the coffee is visually inspected but not tasted. It seems likely that the incentive for producers to improve the quality of their coffee is smaller under the Ethiopian system than elsewhere. It is further clear that the role of the buyer/exporters is heavier in Ethiopia, because they play a greater role in processing as well as in financing the trade. Their work is further complicated by the fact that auction sales in Ethiopia are not temporally spaced like those in Kenya, Tanzania and Burundi, but are conducted whenever coffee is available for selling. In fact, coffee auctions are conducted almost every day in Ethiopia, also outside the main season from December to June. It must be mentioned that deliveries to the market are often slowed down due to adverse weather conditions and other difficulties with regard to transport of coffee. But, whatever the differences with the auctions in neighbour countries, the fact remains that the auctions in Ethiopia are characterized by competitive bidding and transparency, like the other auctions.

6. The former coffee auctions in Uganda

6.1 Coffee in Uganda

Coffee growing is the single most important production activity (70 per cent of the population depends on coffee) and the major foreign exchange earner in the economy of Uganda. This in spite of the dramatic production decline the coffee industry experienced during the 1970s and the early 1980s due to political upheaval and prevailing insecurity. Prior to the suspension of the International Coffee Agreement in 1989, coffee accounted for about 90 per cent of the country's foreign exchange earnings. In the last five years (1988-1992) the annual production varied between two and three million bags, which is almost entirely exported. The Uganda coffee exports consistently exceed the coffee export figures of both Ethiopia and Kenya.

Like in Kenya and Tanzania, arabica coffee was introduced in the late 19th century. First the coffee industry was confined to the foreign-owned estates, but after the
decline of the estate sector in the early 1920s the industry was opened up to African producers as well. In the 1930s the government started to promote coffee growing by smallholders. Especially the growing of robusta coffee expanded, thereby displacing cotton as Uganda's major export crop in the late 1950s. Currently, coffee growing is dominated by smallholders who primarily grow robusta coffee (between 90 and 95 per cent of the total annual production). All smallholders are members of cooperative societies, which sell the produce of their members to Regional Unions. After initial processing, the rough-hulled coffee is transported to the central processing unit at Bugolobi, where each exporter pays for the processing of his own coffee.

The Coffee Marketing Board (CMB) was established in 1958\(^{43}\) and has legally controlled the marketing of Uganda coffee until recently (1990). All coffee processed by the regional unions had to be sold to the CMB, the sole coffee buyer at the national level. According to the Coffee Marketing Act of 1969 (agreed upon just after the second ICA went into operation), the board had the exclusive right to sell Uganda coffee in the quota market. Licences to sell to non-quota markets were issued by the CMB. Coffee sold outside the marketing board channels included arabica coffee and wet-processed robusta.

The buying and selling monopoly of the CMB came to an end in 1990. Late that year four cooperative unions were licensed to export: the first private exports in Uganda for 20 years (Schluter, 1993, p. 5). The four cooperative unions are united in UNEX: United Export Services. Working through this joint marketing office, the unions sell their coffee by tenders held every two weeks. The next selling season (1991/92) another five private exporters were licensed to sell their coffee directly on the world market.

Also the internal coffee market in Uganda has increasingly been liberalized. Cooperatives are no longer obliged to sell their entire produce to the Board and coffee producers enjoy an ever growing degree of freedom in selling their coffee. In addition they are paid market-sensitive prices for their produce and they are paid cash on delivery. In this respect, Uganda appears to be one step further than Kenya and Tanzania (Schluter, 1993, p. 7). However, a dependable supply throughout the year is essential to tender sales. Hence, it is necessary to even out the supply over time.

6.2 The Kampala coffee auctions

The Coffee Marketing Board used auctions between 1954 and 1964 to sell coffee on the world market. The Uganda coffee auctions were conducted on a weekly basis at Kampala with the CMB as sole seller. However, in 1964 the coffee auctions were abruptly suspended and have, in spite of various recommendations for their return\(^{44}\), not been

\(^{43}\) From 1953 to 1958: Coffee Industry Board.

\(^{44}\) A government committee, set up to review the coffee industry, already advised a return to auctions in 1967.
resumed. From 1967 until 1990, the CMB sold all Uganda coffee directly to the world market. Since 1990, part of the coffee production is sold by licensed exporters through tenders that are held every two weeks in Kampala. The establishment of regular tenders has weakened the pressure to re-introduce auctions.

Why were the Uganda coffee auctions suddenly discontinued in 1964? The cause was not a drop in coffee production and decreased volumes on offer at the Kampala auction, because the production and exports continued to increase until the early 1970s. Presumably the reason for their suspension lay in the composition of the increased coffee produce. As has been mentioned in the previous section, the production increase during the 1950s and 1960s primarily concerned robusta coffee. The relative importance of arabica coffee has declined ever since and arabicas were in fact auctioned in addition to the robusta coffees instead of the other way around. Because robusta coffees are less suitable for auctioning (see the introduction to this chapter) than arabica coffees, the CMB probably considered that coffee auctions were not necessary anymore.

An additional reason for the suspension of coffee auctions may have been the fear that it would be hard to ensure compliance with the export quota following the first International Coffee Agreement of 1962. But this is unlikely, for in neither Kenya nor Tanzania the ICA export quota caused any problems at the auctions. It is even argued that export quota improved trading at the auctions in those countries during the ICA periods. Other possible reasons for abolishment relate to general weaknesses of the auction system like the dangers of collusion and manipulation. However, these dangers are widely known, and so are the possibilities to avoid them. It is therefore hard to imagine that general objections to the auction system played a major part in the decision to stop the Kampala coffee auctions.

Because the arguments for establishing robusta auctions are weak and the production of arabica coffees is relatively small, resumption of coffee auctions in Uganda is considered unlikely especially since the current tender system has proved to be a satisfactory alternative. Tender prices are generally high while the tender system also satisfies the criteria of both transparency and integrity. Transparency is important to both cooperatives and the government. Cooperatives need transparency for their members while it provides the government with a possibility to monitor export prices. The integrity criterion is easy to satisfy because there is no incentive to record a low, faked sales price, since there are no export duties and no foreign exchange restrictions.

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45 Unless arabica production increases.
7. Selling coffee by auction

Africa is the only continent where coffee producers use auctions to sell their crop. As we have seen, the coffee auctions are generally restricted to coffees of the arabica type grown in some East African countries. Robusta coffee, representing the bulk of the coffee production in Africa and pre-dominant in West Africa and for instance Uganda, does not justify the extra work of selling by auction, for this crop displays less quality differentiation. Robusta coffee can simply be sold 'on description'. Nevertheless, in Tanzania robustas have long been sold at the Moshi coffee auctions in addition to the arabicas.

The first African coffee auctions were established in Kenya in 1935. The introduction of regular auctions by the Coffee Board of Kenya (CBK) was largely in response to the interests of 'large' and sophisticated coffee growers, (who in fact pioneered the auction system). In the 1950s and the 1960s, the auctions system was modified to serve an increasing number of coffee growing smallholders, who are organized in cooperatives. A system was designed in such a way as to enable the smallholders' cooperatives to benefit from premiums paid for their coffee at the auctions and to preserve incentives for the farmers to deliver good quality.

The Kenya coffee auctions served as an example for other coffee producing countries. In fact most coffee auctions in Africa seem to be modelled after those in Nairobi. Tanzania introduced coffee auctions in 1952. They came under supervision of a central controlling agency (TCB) in 1962. Uganda established coffee auctions in 1954, but they were terminated by the CMB after only ten years and have not been reintroduced until now. Ethiopia, the major producer of arabica coffee in Africa, started auctions in 1972. In spite of the significant differences between the coffee auctions in Ethiopia and those in other East African countries, the decision to introduce auctions may well have been inspired by the success of the coffee auctions in Nairobi.

The continuity (and success) of the long established African coffee auctions (especially those in Nairobi), combined with the drive towards transparency and integrity in the context of market liberalization, resulted in renewed interest in auctions in the 1980s and the 1990s. In the late 1980s Malawi started coffee auctions in addition to the tea sales at the Limbe/Blantyre auction, while Burundi introduced regular auctions in 1991 as a step towards restructuring and privatization of the country's coffee industry. Neighbouring Rwanda, like Burundi a producer of arabica coffee, is also working on the establishment of an auction system.
As we have seen, it seems unlikely that auctions for robusta coffee will be resumed in Uganda. In addition, the pressure to re-establish coffee auctions has weakened since the recently introduced tender sales seem to be a reasonable alternative to auction sales, for they satisfy both the criteria of transparency and integrity and do not lead to substantially lower prices. The main difference between auctions and tenders is the fact that while buyers are able to adjust prices during bidding at the auctions, this is not possible in tender sales. After the buyer has made a bid, he remains uncertain until he hears from the seller. In the interval the buyer is hampered in his operations. Consequently it is much harder for buyers to secure the volume they want at tender sales than at auction sales. For the most part, buyers working with tender sales find it difficult to develop regular business contacts. Until recently, tender sales were also conducted in Zimbabwe.

Nearly all observers are positive about the African coffee auctions. They are seen as beneficial, provided collusion among buyers is prevented. It is hard to find dissenting voices. We found only one. Ellis and Hanak (1980), criticized the Tanzania coffee auctions, describing them as 'an outmoded tradition' that was highly inflexible in relation to the speed of other methods of communication. These critics were inspired by the opinion that the Tanzania coffee auctions were only a satellite of the Kenya coffee auctions in Nairobi; the Moshi coffee auctions were organized in such a way as to suit primarily the Kenyan buyers who dominated the Tanzania coffee auctions, which made the system disadvantageous for Tanzania. In addition Ellis and Hanak were convinced that the temporal spacing of auctions depressed prices. The arguments of both authors are not subscribed by other writers or observers of the auction system.

It should be remembered that the auction system is a rather sophisticated selling system that requires careful management. For instance, a dependable supply of coffee throughout the year is crucial to its operation. Evening out of the supply has become more difficult through the introduction of 'direct sales'. The question whether liberalization of domestic marketing will disrupt auction sales will become clear in years to come.

**Acronyms**

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Full Form</th>
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<tr>
<td>ICA</td>
<td>International Coffee Agreement</td>
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<td>ICO</td>
<td>International Coffee Organization</td>
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<td>International Coffee Council</td>
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Burundi

ABEC  Association Burundaise des Exportateurs du Café
BCC   Burundi Coffee Company
OCIBU Office des Cultures Industrielles du Burundi
ODC  Office du Café
SOGESTAL Société de Gestion des Stations Lavage
SODECO Société de Déparchage et de Conditionnement

Ethiopia

CLU    Coffee Liquoring Unit
CPDC  Coffee Plantation Development Corporation
ECMC  Ethiopian Coffee Marketing Corporation
MCTD  Ministry of Coffee and Tea Development
MSFCTD Ministry of State Farms, Coffee and Tea Development

Kenya

CBK    Coffee Board of Kenya
KCA    Kenya Coffee Auctions
KPCU  Kenya Planters' Cooperative Union
KNTC  Kenya National Trading Corporation
MCTA  Mild Coffee Trade Association

Tanzania

CAT    Coffee Authority of Tanzania
CBC    Coffee Buyers Club
TCB   Tanganyika Coffee Board
TCCCC  Tanganyika Coffee Curing Company
TCGA  Tanganyika Coffee Growers Association
TCMB  Tanzania Coffee Marketing Board
TCTA  Tanganyika Coffee Traders' Association
Uganda

CMB Coffee Marketing Board (of Uganda).
UCDA Uganda Coffee Development Authority
UNEX Union Export Services

8. Literature on coffee


Various articles in: *Café d'Afrique/African Coffee, Kenya Coffee, Tea and Coffee Trade Journal*, and *APROMA Bimonthly Review*
Chapter 5. Concluding remarks

If continuity is taken as proof of success, it may be claimed that the auction method has been successful in agricultural marketing in tropical Africa. At the same time it has to be admitted that the method has been applied in a highly selective manner. It is confined to three crops and to eight countries, nearly all of them anglophone.

1. Auction crops versus non-auction crops

The decision to confine our report to three crops means ignoring many major export crops such as cocoa, cotton, groundnuts, rubber and palm kernels (as well as many minor crops such as pepper, cloves and ginger). In general the export marketing arrangements for these, what we may call, non-auction crops are simpler and cheaper. This is due to the fact that 'grades' exist for these crops. The grades are quality standards that are generally accepted in international trade. They are objective in the sense of being defined in terms of measurable characteristics. It is therefore possible to buy and sell 'on description'. Samples may be used but are not essential.

Auction crops differ from non-auction crops because the grading system is incomplete. Within each grade there are differences in taste, smell and/or appearance, which are big enough to influence the price. These differences cannot be measured objectively, but can be ascertained subjectively, for instance by tasting. This makes samples essential and promotes the emergence of a group of specialists, such as the tea tasters, who distinguish these subtle differences in quality and describe them. It is on the basis of these distinctions that samples are classified and transactions are made.

Traders have always been interested in attempts to replace subjective evaluation by an objective standard. These attempts have, until now, been unsuccessful with the auction crops of this report (as well as with wool) but they may succeed in the future. Economic history shows that some crops that were sold at auctions in the past are now sold on description. Thus, considerable volumes of cotton were auctioned in Africa from the 1930s to the 1960s.\textsuperscript{46} And in the chapter on coffee we saw that, while arabicas are clearly an auction crop, robustas, which display less quality differentiation, are largely sold on description.

The 'subjective quality evaluation' -- a term which is sufficiently general to apply to all three crops studied here -- marks a particular point in the marketing channel. Before this point the product (or a particular grade of it) is 'undifferentiated' and must be valued at an

\textsuperscript{46} The auctions for cotton were held in Kampala, Dar es Salaam and Port Sudan.
average price. After this point there are many classes or types, which must be valued separately. The assumption is that the value of one tonne of classified and differentiated product is higher than that of the undifferentiated product. Moreover, the increase in value is high enough to exceed the costs involved in the quality evaluation and the subsequent differentiation of the stocks. Unfortunately, it is impossible to test this assumption statistically because auction crops are rarely sold in undifferentiated form. Hence, comparative figures are lacking. But there is circumstantial evidence in the fact that traders are content to refrain from subjective quality evaluation in the case of the non-auction crops.

The common element of the auctions covered in this report is the fact that the quality evaluation takes place in Africa, or, what is more telling, before the shipment across the oceans to Europe, America, etc. In the past, that is before the auctions were established, Africa exported 'undifferentiated' products and the precise quality evaluation took place after transoceanic transport in the country of consumption. This also meant that a precise price could only be determined late in the marketing channel. The establishment of the auctions may be interpreted as resulting from a firm conviction that it was better to have the precise quality evaluation done in the countries of origin rather than in the countries of consumption, that is, before transoceanic shipment rather than afterwards, and, in terms of the calendar, some two months earlier. This conviction has continued for some 60 years, from the early auctions in the 1930s until today. It remains to be established (later in this chapter) who held this conviction and how the advantages were perceived. But first we should discuss some differences between the auctions.

2. Technical differences

There is a significant technical difference between auction floors (for tobacco) and auction rooms (for tea and coffee). At the tobacco auctions the product to be sold is present and buyers see what they buy at the moment of purchase. By contrast the product is not available at the tea and coffee auctions. Instead the buyers look at the catalogues prepared by the auctioneer to identify the lot they are considering. This has important logistic consequences. Auction 'floors' require a large auction hall, where the bales of tobacco are placed in long lines, along which the buyers, the sellers' representatives and the auctioneer walk, dealing with bale after bale in an agreed order. By contrast auction 'rooms' are small. They accommodate the buyers seated in rows and facing the auctioneer behind a table. The product to be sold is absent and there is no need for the sellers or their representatives to be present.

47 This is a reasoned guess. In many cases it may be more than two months.
Obviously, the logistic problems of tobacco auctions are considerable, because all tobacco has to pass the 'floor'. To handle the in- and outflow expeditiously requires special feats of management, notably just before the opening of the auction and just after closing. By contrast, the tea and coffee lots that are the object of a particular auction session do not have to be concentrated in one spot but may be scattered over various warehouses, usually, but not necessarily, in the vicinity of the auction room. This difference influences the temporal spacing of the auctions. While tobacco auctions have to be held daily, certainly at the height of the season to avoid bottlenecks on the floor, with tea and coffee there may be an interval of one or even two weeks between the auction sessions without causing logistic problems.

This is not to say that tea and coffee auctions never face bottlenecks and rush hours to meet deadlines. Of course, they exist but they come at a different moment, namely during the preparation of the catalogues and notably with decisions on lots which arrive late. Is it possible to include them still in the catalogue (and hence the sale) or not? For the seller postponement to the next catalogue may be a serious setback.

A related difference is that tea and coffee auctions strongly rely on sample taking during the interval between the day on which the catalogue is distributed and the day of the auction, while the tobacco auctions mainly rely on (visual) inspection on the day before the auction and at the moment of purchase. This in turn means that the buyers of tobacco are entitled to more protection against disappointing quality than the buyers of tea and coffee.

The way products are packed for ocean transport differs: tobacco is transported in bales, coffee in bags, and tea in chests (now also in paper bags). This influences the size of the lots at the auctions. At the tobacco auctions the typical lot size is one bale. At the coffee auctions the average lot size consists of 100 bags or about 6000 kilograms, while at the tea auctions some 20 - 60 chests form a lot. There are always small lots for those qualities which are rare. In that case it is difficult to assemble a large homogeneous lot. As we saw, homogeneity of a lot is essential for the auction system.

3. Geographical differences

The location of the auctions is a significant variable. In the chapter on tea we saw that there was a 'central' auction in London and 'local' auctions in the country of production. The latter should be further distinguished into a) the interior or up-country auctions, and b) the coastal auctions in the port of shipment. (These are our own terms.) It is significant that of the ten auctions in our report only one is 'coastal'. The others are held in the areas
of production, which reduces the logistic problems of the growers and processors and
brings forward the moment on which they are paid, but, of course, an interior location
increases the physical and financial problems of the buyer/exporters, the banks and the
shipping agents. They have to organize more internal transport than the buyers at the
coastal auctions. Also important is the longer interval over which bank finance has to be
obtained by the buyer/exporter.

A geographer or a transport expert is bound to assume that the prices at an interior
auction are lower than those at a coastal auction, with the latter again lower than those at a
central auction. This is a logical consequence of transport and related costs. Individual
producers may indeed verify this price relation. For instance, a tea plantation in Malawi
may sell similar consignments of its tea in Limbe (interior), or Mombasa (coastal) or
London (central). But for outsiders it is impossible to establish a statistical relationship.
This is due to the way prices are recorded at auctions. As it is impossible to publish prices
for each type, only an average price (averaged over all transactions during the auction
day) is published. A valid comparison of these average prices for the central, coastal and
interior auctions is only possible if the composition of the teas sold is the same. This
condition is rarely fulfilled. We would like to make it clear that we do not expect that it
will ever be possible to prove statistically that local auctions are better for the producers in
Africa (and indirectly for the country) than central auctions. To those who would like to
contest this view we may point out that it is significant that, as far as we know, no
statistician or econometrician has ever attempted to publish such proof. Moreover, general
economists have not shown much interest in the question. There is not even the beginning
of a debate on the desirability of local auctions.

The statistical complexity may well be a reason why proposals to decentralize the
auction system by establishing a second auction in the country are often ignored. While it
is agreed that in terms of logistics a second auction would mean an improvement, there is
always the lurking fear that the new auction will be less attractive to buyers and that prices
will be lower. At present there are only two countries with two auctions for the same
product: Ethiopia (coffee) and Malawi (tobacco). There have been many proposals to
decentralize in Zimbabwe and to establish a second auction at a suitable location, but
nothing has been done as yet.

National boundaries play their part but it would be facile to associate interior auctions
with landlocked countries, and coastal auctions with coastal countries. This argument is
faulted by the facts in two ways. First, in coastal countries such as Kenya and Tanzania

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48 This is slightly easier when the auctions are held close to railway stations. Auction conditions often specify FOR - free on rail - terms.
there are up-country auctions at Nairobi and Moshi, which are centrally located with regard to production. Apparently, the wishes of the growers prevailed. Second, the tea producers of the landlocked countries Uganda, Rwanda and Burundi (as well as those of Eastern Zaire) rely on the coastal auctions in Mombasa, apparently to their satisfaction. The point remains that some auctions may operate (or may be perceived to operate) as the satellites of others. Thus the tobacco auctions in Malawi are in some respects satellites of those in Harare. Similarly, the coffee auctions at Moshi were sometimes seen as a satellite of the Nairobi auctions. Whether on balance this meant a disadvantage or an advantage will be hard to establish. But it is clear that the coffee auctions cannot ignore each other, as may be concluded from the fact that the Nairobi, Moshi and Bujumbura auctions are held on different days of the week.

4. Economic and legal differences

As we saw in the introductory chapter, auctions belong to the private, rather than the public sector. The initiative to establish auctions comes from private enterprises, but this requires cooperation among them as well as a sectoral organization, which can count on broad support, within and beyond the sector. A common name for such organizations is 'trade association'. When a trade association establishes a system of regular auctions, it cannot compel producers to sell through the auctions, because the whole arrangement depends on voluntary cooperation. Such auctions may be called 'optional'. In some countries the government, for reasons to be explained below, has made sale through the auctions compulsory for all producers within the sector. Auctions where producers are obliged by law to sell their entire output will be called 'compulsory' below, and those where only a specified percentage has to be sold 'semi-optional'.

In general governments have four reasons for making auctions compulsory, of which the first two can count on sellers' approval and support. First, there is the fear that, without compulsion, the turnover at the auctions may fall below a certain critical level, which is necessary to keep the auctions attractive to buyers. In commercial jargon: if the market becomes too thin, price formation becomes unreliable to the detriment of sellers. In practice, it is hard to put a figure to this critical level. As a result not everybody is convinced that compulsion is justified, but anxious growers tend to urge the government to make the auctions compulsory.

Second, in most agricultural markets there is the risk of a seasonal glut at harvest time, with a depressing effect on prices. Measures to prevent a glut -- by spreading auction supply -- are an instance of 'orderly marketing'. When sellers cannot agree on the necessary measures, they may ask the government to step in by making the auctions
compulsory and by charging a central organization with an orderly marketing programme, which will spread supplies over time. If the government is also prepared to provide finance for the stocks that may temporarily arise, it may count on wholehearted support from the growers.

The third reason for compulsory auctions is condoned but not supported by the sellers. It derives from the administrative desire to provide the authorities with reliable information about prices. Auction prices are acclaimed as transparent and honest in the sense of difficult to manipulate or to fake. Governments always have fiscal and monetary reasons to be keen on reliable prices. They tend to worry about under-invoicing (with faked prices on the export invoice) because it reduces revenue from export duties as well as export earnings. Especially in landlocked countries the authorities are worried about the reliability of prices. Since the port of shipment is outside the country's boundaries, verification of the shipping documents and related bank documents is difficult. African governments have always been sure of full and active support from the donor countries in their attempts to straighten out their export sector. Since about 1980 it has even become a condition for continued foreign aid. This is a powerful motive for retaining the compulsory element.

A fourth reason applies to the coffee auctions only. Because of the export quotas under the International Coffee Agreement or under the Producers' Retention Scheme of 1993 (for details see the chapter on coffee) a coffee exporting country needs a central authority to register export volumes and to prevent exports above the quota. The auction system can fulfil this task, but only if the auctions are compulsory.

Compulsory auctions are the rule for coffee (in practice arabica coffee) and tobacco, while optional and semi-optional auctions are associated with tea. It is not quite clear why tea is an exception. Part of the explanation must be that the tea sellers have not asked the governments to make auctions compulsory. We must bear in mind that tea producers are relatively large and sophisticated operators, who can look after themselves in the commercial arena. Furthermore, the seasonal element in tea production is slight. As a result there is little or no need to prevent a glut in the market. The only surprise is then that the government relinquishes its opportunities to verify prices. We gather that there is no real concern about faked prices when the tea sellers are known to switch often from auction sales to private deals and vice-versa. Finally, there is no international tea agreement with export quotas.
In some countries with compulsory auctions there is a small but not negligible domestic market. It is then a matter of debate whether domestic sales should be channelled through the auctions or not. In Kenya the auctions were made compulsory for domestic sales in 1990. Whether this is the beginning of a general trend in Africa remains to be seen.

5. Economic theory

What does the economist, in particular the theoretical economist, think about the agricultural auctions studied in this report? The answer depends on whether his specialization is price theory or institutional economics. Those who investigate price formation see the auctions as an ideal market, where supply and demand are facing each other in ideal circumstances, and where the process of price formation approximates the market of economic theory. Again, the competitive bidding is close to the ideal of perfect competition. In the chorus of praise the adjectives 'free' and 'unfettered' stand out. Finally, the public character is highly valued. Information on prices and turnover is published within hours after the closing of the auction session. This makes price formation transparent and open to scrutiny, which has the merit of thwarting both collusion (in a 'ring', see Chapter 1) and dishonesty. The latter point is taken up when the auctions are recommended as an instrument of integrity. The emphasis on integrity cannot be appreciated without some knowledge of the experience with private deals in several African countries. When exportation was entrusted to a marketing board, sale by private treaty predominated and there are many rumours that the secrecy inherent in private deals was abused by the employees of the marketing boards. Thus the public character of the price formation at the auctions is welcomed as the antidote to this.

We believe that the view that auctions resemble the perfect market of economic theory, is one-sided and somewhat naive. Another branch of economics, 'institutional economics', should be consulted to obtain a more balanced picture. Institutional economics studies the rules and regulations around markets, the continuity they provide and the expectations they raise. We must therefore look at the trade association, which sets the rules for the auctions. Is this association in a position to influence the market and thus price formation? Indeed, there are several ways in which this is possible. First, the association determines the size of the lots which are offered for sale. When the average lot is large, this may restrict competition by excluding some potential buyers. This point should be mentioned, although it does not seem a real problem at the auctions we studied.\textsuperscript{49} Second, the trade

\textsuperscript{49} The practice of lot division at the Mombasa tea auctions, discussed in section 6 of chapter 2, may, however, suggest that some buyers consider the lots as too big.
association determines the interval between the auction days. While demand is active at the auctions, it is dormant during the interval. This temporal concentration of demand into a few hours is an artificial way to intensify competition, but buyers accept this without complaints provided they can depend on the schedule of auction days. A dependable schedule means that their expectations are not disappointed. Third, the trade association regulates supply in the sense of evening it out over time. This is often (but vaguely) called 'orderly marketing' and refers to the timing or scheduling of supply. In terms of volume the auctioneer must observe a higher and lower limit per auction day. He may refine this by observing limits for the major classes or types of the product. This leads to a dependable supply at the auctions, which the buyers value highly because they know that they can cover their demand at successive auction days. In some countries they can even sell forward, that is they sell, say, coffees they have not yet bought, but which they expect to see and buy on an auction day in the near future. This is another element of 'dependable' supply, which buyers appreciate and which makes them loyal supporters of the system. But, of course, dependable supply has drawbacks: the growers occasionally have to wait in the queue; the auctioneer has to show more ingenuity (at the same time avoiding the impression of favouritism); and finance has to be found if some stocks have to be held back, even if this is for short periods only.

Outsiders who attend the auctions are always surprised at the speed with which they are conducted. This would be impossible without relations of trust between the buyers and sellers. Indeed, high standards of integrity are essential. In particular the auctioneer has to preserve the reputation of the auctions, but of course he must be backed up by the trade association that bears the ultimate responsibility. There are formal and informal rules to safeguard the reputation for integrity of the auctions.

Apparently, numerous rules and regulations are necessary to make auctions a suitable market. They are rarely mentioned explicitly in studies on price and competition, but are, in the view of institutional economics, an essential part of the market.

6. The interests of growers and sellers

We must start by carefully defining the 'seller'. The seller at an auction is the entrepreneur who can be identified as the owner/supplier of a particular lot on the auction floor or in the auction catalogue. (In practice, either his name or his code number is given. In the last case the buyer cannot identify the owner, but the auctioneer is always able to trace him.) If 'sellers' are defined in this way, auctions vary between those with several hundreds of sellers to those with only one. We must now investigate when and where the grower is a 'seller' and when this is not the case.
At the tobacco auctions in Harare growers and sellers are identical and there are many hundreds of them. Any premium for superior quality is automatically and directly received by the grower. The incentive aspect is well taken care of. The disincentive for inferior quality is also felt directly. At the tobacco auctions in Malawi the large growers or estates are 'sellers', but smallholder tobacco is sold by the marketing board ADMARC. We must therefore distinguish the seller (ADMARC) and the growers (smallholders).

At the tea auctions the processor is the seller, and there are a few dozens of them. The processor's name is on the lot, because the quality of the product depends almost entirely on the care taken with the processing. As we saw, most tea comes from estates, where production, harvesting and processing are coordinated within one organization, and where grower and seller are the same. But it is interesting to look at an exception. At the Kenya Tea Development Authority cultivation and harvesting are in the hands of smallholders. It has been the challenge for the KTDA management to aim at high quality, both in its own factories and on the farms of the smallholders. A further challenge concerned a fair division of the premiums for good quality earned at the auctions.

At the coffee auctions the situation is complex. In Kenya there are three kinds of "sellers": the estates, the cooperatives and the board on behalf of the producers whose deliveries are too low. In Tanzania the sellers are cooperative societies or unions, and in Burundi the names of the new washing stations or of local merchants are on the lots. It has been the special merit of the Coffee Board of Kenya to devise and operate a system which preserved incentives for the small growers to deliver good quality. This system involves the quality determination of the coffee delivered by individual producers before these deliveries are merged. The board attempts to make this process of quality determination resemble the final quality determination as closely as possible. In this way the premiums earned at the auctions can be retrospectively passed back to the producers, thus providing them with an incentive to maintain or improve quality.

We must now turn to the organizational or logistic problems of coordinating supply. These are small for the tea auctions because supplies become available more or less regularly. The reasons are that tea leaves are picked throughout the year, and the factories work the year round. For coffee the problems are also limited because the final processing tends to spread supplies over the year. The capacity of the mills largely determines the rate of delivery of clean or milled coffee at the auctions. The greatest problems occur at the tobacco auctions, where production and harvesting are seasonal and where there are many growers selling on their own account. It has proved impossible to allow farmers to choose freely the day on which they offer their tobacco for sale at the auctions. Such freedom caused great irregularity of daily supplies and added a speculative element in the sense that farmers speeded up supplies or withheld them on the basis of
their price expectations. Coordination and a system of 'orderly marketing' proved inevitable. Farmers have to adhere to a rigorous time schedule for delivering their product. Thus daily volume variations are kept within narrow limits. As we saw, 'orderly marketing' is a deviation from the free market, but without it the auction system would break down.

There is no doubt that many sellers appreciate the value of local auctions. Apart from the advantages they have in common with central auctions, there is the time gain. The sellers prefer the local auctions because they bring forward, by some two months, the moment at which they have certainty about the price they receive for their product. Selling in the local auction also brings forward the moment at which they receive payment. On the whole sellers attach much value to these two advantages. Indeed, this has prompted them to establish and maintain regular auctions. Our research seems to confirm that large, sophisticated growers are the strongest supporters of local auctions. This seems to be true for the tea estates of Malawi and Kenya, the tobacco farms of Zimbabwe and the coffee estates of Kenya. We will not try to define 'large', but we suggest the following points. The output of one grower must be valuable enough (and sufficiently homogeneous) to make it attractive at an auction. Only in these circumstances can the lots be identified with the growers' own name, so that he receives the premium for special quality.

Under the umbrella of 'large' growers the small and medium-sized ones may join. But there is a lower limit on size. If the output of a grower is very low, it is too cumbersome to sell it separately. In practice smallholders are excluded from the auctions or their output is merged by a processing and/or marketing organization owned by either a cooperative or a marketing board or a private entrepreneur (as the cotton ginners in Uganda were). It is then the duty of the processing or marketing organization to pass any auction premium on to the smallholders. When buying he has to distinguish high-quality from low-quality. This makes his buying operations quite complex. But if he fails to do so, average quality is likely to deteriorate and he will lose the premiums he used to receive at the auctions.

It appears that there has also been a cultural element in the appreciation of the advantages of the auction system. The system has always been popular in England, more so than e.g. in France. The auctions in Africa were pioneered by British settler farmers in the 1930s. While not large entrepreneurs, they had the sophistication to see production and marketing as an integrated enterprise. And when the auctions proved viable, they seem to

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50 In fact, they may benefit more from auctions than the large growers. Sometimes because they lack the organization to sell their undifferentiated product profitably, and sometimes because the charges and fees for using the auctions bear more heavily on the large growers -- the others are, to a certain extent, 'free-riders'.

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have stimulated a shift towards the auction crops, which increased supply and thus strengthened the auctions further. Assuming a cultural element in the adoption of auctions is helpful in explaining why so few countries have been interested. Until 1972 they occurred only in countries which had been under British rule. Even today only two other countries have adopted auctions: Ethiopia and Burundi.

7. Alternatives to auctions

It is necessary to distinguish 'selling systems' which relate to countries, and 'selling options' which relate to the individual entrepreneur. There are four systems. Under system A there are no local auctions at all, and sellers have two options: consignment sales and private deals. Under System B there are (optional) local auctions and sellers can either use the auctions or make a private deal. Under system C the local auctions are compulsory and the seller has only one option. Finally, system D consists of tender sales, which are compulsory for export transactions. In this enumeration there are some new terms which require explanation, but before we do so, we would like to point out that the order of the four systems is largely historical.

Before 1935 system A prevailed in Africa. Then, with the establishment of the local auctions, system B was introduced. Later again governments intervened and made some auctions compulsory in the 1940s. Finally, tender sales were introduced in the late 1960s. While we believe that system B was an improvement on system A, we do not claim that C and D are a necessary or desirable evolution from B. Again, before going into detail we should stress that systems B and C depend on the presence of a sufficient number of specialists who are skilled in subjective quality evaluation. These specialists are not required for systems A and D. A government may favour auctions, but systems B or C cannot be started (either by government or private interests) unless there are enough of these specialists in the country.

Before the auctions were established consignment sales were important. The producer shipped his product to Europe, consigning it to his agent, who sold it for him. This yielded a true world market price but meant a long period of uncertainty for the producer and problems of finance during this same period. Many producers therefore decided to sell before shipment. This meant negotiation by cable with various importers, leading in the end to a 'private deal' (just as for the non-auction crops). The price agreed upon in such a deal was relatively low, because the importer in Europe was unwilling to pay a premium for special quality, simply because he could not inspect the product. When the local auctions began to operate the consignment sales largely ceased. The private deals continued but they soon changed in character. With the presence of the new specialists in
Africa it became possible for every seller to estimate within narrow limits the premium his product could command. He could now negotiate better with the importers abroad. The possibility to send samples by air further improved the private seller's position. What we said above about the differentiation of the product on the basis of the subjective quality evaluation not only was the basis for the auction system but also altered the private deals. An alert producer would often switch from auctions sales to private deals and vice-versa and see what was better, price-wise and in terms of timing. And this seems to be still the case today, notably with the tea auctions.

Tender sales are a relatively new development. They have sometimes been called telegraphic auctions. And this is a good way of understanding how they work. The seller offers various lots to a number of overseas customers -- the information provided resembles an auction catalogue -- and invites them to cable their bids before a specified deadline. When the bids arrive, the highest bidder is selected and the seller enters into a sales contract with him. Tenders are held at regular intervals, but, normally, there are no samples, and the importers, who are the majority of the buyers, remain in their own offices at home. Tenders are simpler and cheaper than auctions, but they also prompt competitive bidding (which favours the sellers). Again, dishonest behaviour is easy to detect and prevent. Thus transparency and integrity are achieved. It is interesting that in the late 1970s the cotton auctions in Tanzania were replaced by tender sales. Apparently, this simplification was not feared as leading to substantially lower prices. Again, Uganda has long considered proposals to resume the coffee auctions, but in the end opted for tender sales, which may be good enough in view of the fact that most of the country's coffee consists of robustas. We also note that Zimbabwe, which produces only small quantities of coffee, sold its coffee by tender, with the actual arrangements entrusted to a parastatal marketing organization. In all these cases it is the government that introduces the tender system and, consequently, prohibits sale by private treaty.

To sum up, from the perspectives of competition and integrity both auctions and tenders are similar, but from the marketing channel perspective systems B and C should nevertheless be contrasted with systems A and D. With B and C the subjective quality evaluation takes place within the country, that is before transoceanic shipment, and this means that any premiums for special quality are secured as early as possible. This is an advantage for the producers, who, as we saw, now have early certainty about the price for their product and receive early payment. Naturally these advantages do not come free. Certain skills, which previously were confined to the countries of consumption, now have to be employed at the local auctions in the countries of production. The
corresponding fees add to marketing costs before shipment. As a general rule it is cheaper to export undifferentiated products than auctioned products.\textsuperscript{51}

There is another way of looking at the advantages of the sellers. Are they matched by disadvantages of other actors in the marketing channel? If so, which actors are involved? We identify those primarily as the buyers at the auctions. And the disadvantages manifest themselves when these buyers export the products they have bought at the auctions. In our eyes these entrepreneurs should be called 'buyer/exporter' because the two roles are inseparable. Our basic contention is this: It is more difficult to sell an auctioned product than an undifferentiated product. For the latter there is a wide market, but for the former only a narrow market.\textsuperscript{52} It is the exporter's job to find an importer abroad who is interested in the special quality the buyer/exporter has just acquired, and sufficiently interested to pay a premium corresponding to the premium the buyer/exporter paid himself at the auction.\textsuperscript{53} In our opinion the success of the local auctions in Africa largely depends on the business acumen and competence of the buyer/exporters.

8. The buyer/exporters

What are the conditions under which the buyer/exporters can operate successfully? Or, put differently, under which conditions can they successfully cope with the commercial risks just described? First, good international communications are important. They must be able to cable, fax or telephone without delay to potential importers in the countries of consumption. In this context we should also mention air connections, because the sending of samples continues to be important.\textsuperscript{54}

Second, there must be regular ocean transport so that the buyer/exporter can indicate the probable date of arrival in the port which the importer specifies. In a narrow market uncertainty about this date is a serious handicap. This condition highlights the work of the shipping agent. Close cooperation between the buyer/exporter and the shipping agent is essential. It is also difficult, when the auctions are held in the interior. Judiciously choosing between ports (from Mombasa in the north to Durban in the south) and quickly switching from one port to another is extremely important for landlocked countries, notably for Malawi.

\textsuperscript{51} This is only true when we confine our calculations to the upper part of the marketing channel. For the entire marketing channel the costs should be roughly the same.

\textsuperscript{52} This can be valued positively. In that case one speaks of a niche market, for instance for the gourmet trade.

\textsuperscript{53} If he cannot find such an importer or if he cannot find one quickly enough he has to revert to the wider market for the undifferentiated product, where he can sell at once, but without a premium.

\textsuperscript{54} The fact that none of the auctions in Africa started before regular air lines were inaugurated in 1931 seems significant.
Third, there must be reliable internal transport from the place where the auctions are held to the port of shipment, as this allows the exporter to give a firm undertaking about the date of shipment. This is a special problem for the landlocked countries, but can also be observed in Kenya and Tanzania for the coffees auctioned in Nairobi and Moshi. Problems with internal transport (now largely containerized) are feared for two reasons. First, they may lead to default on the international contract, and, second, they lengthen the period over which the buyer/exporter has to borrow money from the banks.

Fourth, there must be special commercial banks, where the buyer/exporters can obtain credit. Normally, they have to pay for the products bought at the auction within a week or a fortnight. This is the moment their need for trade credit begins. Some weeks later, normally as soon as the products have been loaded in a ship, their credit needs are lowered, but the interval between these moments is difficult and expensive to finance. For the exporters in Mombasa this interval is four weeks on average, but for those operating at the interior auctions the interval is considerably longer. In considering the role of the banks we should not only think of their competence and the financial standing they have in international trade, but also of the currency restrictions that obtain in the country. Circumstances are ideal for the buyer/exporter when the currency is freely convertible. But this is the exception today. This makes the role of the bank more difficult. In some countries an important change was made a few years ago, when prices at the auction were no longer quoted in local currency but in US dollars (see below).

Finally, it must be pointed out that the commercial risks of the buyer/exporters are not constant over time. When world prices are steady, the risks are negligible, but when prices fluctuate widely, the risks are enormous, prompting buyer/exporters to expedite their negotiations with overseas importers as much as possible.

In view of the problems which buyer/exporters face it is not surprising that many seek security in a special relation with one or more importers. There is maximum security when they operate as agent or broker of those importers. Less security is provided by informal association, where the importer provides financial and technical assistance. As nobody is keen to disclose details, there is much uncertainty about the precise relationship between individual buyer/exporters and the importers abroad. There is one exception to this vagueness: some importers and/or manufacturers have set up their own subsidiary in Africa, which is then operating as a buyer at the auctions.

To protect their interests the buyers at most auctions have established their own trade associations, which represent a form of countervailing power against the power of the growers and/or sellers. These associations take part in negotiations about the way in

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55 This was the case in the colonial period, when the older auctions were started.
which the auctions are conducted. At times they demand changes in the running of the auctions.

9. Other forms of government intervention

The major form of intervention — making auctions compulsory — has already been discussed. Three other, smaller forms of intervention should now be reviewed. First, government may provide price support in periods of very low auction prices. We came across one example of this: the tobacco farmers in Zimbabwe have occasionally obtained price support.

Second, the government may license the buyer/exporters. The intention may be to select competent and honest traders (and to weed out the incompetent and dishonest ones by not renewing their licences). Another intention may be to favour citizens of the country. There seems to have been a general change-over from expatriate to local buyers. We have been unable to pinpoint the years of this change-over, which suggests that it occurred smoothly. We have doubts about the necessity of a licensing system. These doubts are related to earlier comments on the complicated and comprehensive relationship between the importers abroad and the buyer/exporters in Africa. No amount of administrative scrutiny in Africa (in the context of a licensing system) could ever equal the economic scrutiny of the importers!

Third, government may insist that bidding at the auctions is done in a foreign currency, say, US dollars, rather than in local currency. This measure (briefly mentioned above) is adopted to increase government's control over export earnings. It is typically a measure of a government which is anxious to obtain as much foreign exchange as possible by closing all loopholes through which it could leak away.56 There are rumours that donor organizations were also strongly in favour of the switch to US dollars. This seems plausible in the light of the prevailing view that producers in Africa should be guided by world prices (and not by possibly distorted domestic prices).

10. The future

When an institution has successfully survived for many years and has been copied in neighbour countries, this is prima facie evidence that it works well. It is also a reason not to tamper with it. Indeed this section is prompted by our fear that reorganizations will be harmful, rather than by our wish to recommend changes. If we nevertheless broach the subject, it is in order to show that the opportunities for change are extremely limited, in

56 The irony is that the anxiety is greatest when the currency is overvalued — a situation often caused (or not remedied) by the same government.
fact we see only three basic lines. The first line of reorganization merely shifts tasks and responsibilities forward or backward in the marketing channel. The second widens the scope for private deals; the third loosens a pool arrangement.

Some proposals for reorganization simply amount to a shift of tasks within the marketing channel. In our view the tasks which have to be performed between the farm and the ship are more or less given. As a result they cannot be reduced, but only shifted. We have seen that local auctions reduce the difficulties of the growers at the expense of the buyer/exporters. We have also seen that auctions in the production areas (and not in a coastal town) shift problems forward, i.e. in the direction of the buyer/exporters. On the other hand the switch from local currency to US dollars increases the problems of the growers and reduces those of the buyer/exporters, although the immediate effect seemed to suggest the opposite.

Other proposals, presented in the context of liberalization, advocate more freedom for the sellers: they should be free to choose between selling at the auctions or by private treaty. Accordingly, compulsory auctions should be changed into optional or semi-optional ones. We have seen that this freedom may be self-defeating, because, if private deals become predominant, the turnover at the auctions may fall below the critical level, and the auctions may lose their function as benchmark to the detriment of all sellers.

Thirdly, there are proposals for a system of 'direct sales' within the context of compulsory auctions. This is described in the section on the coffee auctions in Kenya and amounts to a loosening (or liberalization) of the pool arrangement.

The last two proposals show the ambivalence in the thinking about auctions. On the one hand they are acclaimed as the ideal market and as an instrument of transparency and integrity, but on the other it is recognized that some auctions cannot survive without a government measure making them compulsory. And this restricts the freedom of the seller and the liberalization of trade. This is an inherent dilemma. The champions of liberalization are inclined to demand, first, that auctions become optional so that the sellers can sell by private treaty, and, second, that direct sales are permitted in a system of compulsory auctions, but they may restrain their demands because they recognize the danger of the auctions shrivelling away if their proposals were to be fully implemented.
11. Literature on auctions in general


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The African Studies Association cooperates closely with the African Studies Centre in promoting research and education relevant to African studies in the Netherlands. The Association advises the Netherlands Foundation for the Advancement of Tropical Research (WOTRO) on applications for research funding in the social sciences and the humanities concerning Africa. The secretariat is based in the Institute's offices.

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