

Institutions, the governance of quality and on-farm value retention for Indonesian specialty coffee

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Fluctuating global commodity prices affect the livelihoods of millions of tropical farmers worldwide. In recent years, systemic oversupply of many tropical agricultural products, grown in countries such as Indonesia, has meant that agricultural incomes have continuously fallen below subsistence levels. Within an increasingly open global trade regime, along with the limited ability of governments to protect domestic farm prices, quality-informed product differentiation appears to offer an escape route from the trap of low commodity prices. However, ownership and governance of quality constructions are fundamental to determining who benefits from such differentiation. This paper examines the use of geographical identities as a specific tool for value-adding in agricultural produce, presenting the case of specialty coffee production in South Sulawesi, Indonesia. The potential for producer-driven geographical indications compete with corporate-driven quality constructions, where the latter are able to appropriate place-related quality associations by using trademarks, vertical integration and tightly coordinated supply chain controls. An emergent politic of quality governance and ownership in global commodity chains reveals the highly restricted institutional terrain within which growers of specialty coffee might attempt to retain a higher share of the economic rent associated with quality production.

Keywords: coffee, Indonesia, institutions, quality governance, global commodity chains, geographical indication

Introduction: Scalar notions of quality in the specialty coffee sector

For many tropical commodity producers, massive overproduction and global imbalance between supply and demand have eroded farm-gate prices to disastrously low levels. This has occurred in a context where tropical products are frequently used as undifferentiated raw inputs for downstream processing and value-adding in developed economies. With few other livelihood options, many farmers in the tropics continue to cultivate a limited number of raw agricultural commodities with which they are already familiar, and for which global market access is not restricted. Conditions within the global coffee industry are emblematic of this situation, where prices have for the most part crashed to historic lows. Coffee farmers are increasingly faced with two alternative strategies to simply retain access to global markets: compete as low-cost producers of a bulk commodity in a 'race to the bottom', or somehow differentiate their product in order to access quality-conscious markets. This paper shows that even those producers satisfying stringent quality requirements (including certification for the environmental and social attributes of production) are not guaranteed improved returns in the long term.

The removal of the 'economic clauses' from the International Coffee Agreements in 1989 resulted in the progressive dismantling of national marketing boards and the exposure of producer communities to the vagaries of the world market. Coffee prices, previously held relatively high despite continued overproduction, crashed immediately following the dissolution of the quota system. Paradoxically perhaps, the removal of

these stable macro-level institutional structures led to the wide-ranging emergence of dynamic, micro-level institutional forms in the global coffee sector. The post-1989 period has also been characterized by a booming specialty coffee sector, particularly in the world's largest coffee consuming country, the USA. The decline in prices for coffee as a bulk commodity has occurred simultaneously with widespread product differentiation, as consumers select from an array of organic, fair trade, shade grown, dark roasted and various single origin coffees. In a saturated market, product differentiation has allowed lead actors in the supply chain to construct entry barriers to protect their profit streams, shaping a new institutional environment, particularly with regard to the governance of quality.

This paper addresses a specific manifestation of the broader 'turn to quality' in the world coffee system: a tendency to associate geographies of origin with a quality-differentiated product. The growth of the international specialty coffee sector has been accompanied by widespread use of scaled geographical identities and romantic place imagery as an integral component of product marketing.

The conditions under which coffee is grown and processed vary significantly across the world's producing regions. Cup quality is thought to be influenced by production site variables such as altitude, soil, rainfall, prevailing winds, surrounding vegetation, and culturally regulated cultivation and processing techniques (Decazy *et al.*, 2003). The inherent assumption is that coffee grown in a specific region will retain certain quality attributes reflecting such geographic conditions of production. Accompanying the growth of the specialty coffee sector has been the proliferation of roaster-retailer chains offering a selection of single origin¹ coffees from around the world in addition to house blends. Yet, despite widespread use of place names within the global coffee industry, systems for regulating these uses remain essentially *ad hoc*. Asserting the authenticity of place is predominantly the responsibility of industry actors located in consuming countries, rather than a producer-driven initiative. The use and integrity of geographic identities is rarely confirmed by third party verification and does not generally enlist the involvement of supply chain actors from the producing regions.

Within a different geographical context, territorially-linked quality differentiation systems are the most economically important form of quality certification in the EU, far outdistancing organic agriculture (Sanz Cañada & Vázquez, 2005). Product differentiation through the presentation to consumers of quality attributes associated with geographical identities, however, does not automatically result in economic benefits for producers. Geographic specificity should not be equated with producer empowerment, particularly in the absence of appropriate institutional structures. This paper addresses the case of Sulawesi coffee production in eastern Indonesia, where geographical identities are an important signifier of quality throughout the supply chain. However, parallel systems of corporate governance are creating powerful regulatory spaces alongside and successfully substituting producer-driven place name protection.

Further, the appropriation and repackaging of geographical quality associations in the specialty coffee sector offers fertile ground for an analysis of the inherent political struggles within various scalar arrangements. Theorizations of scale in human geography attest that scale is socially constructed to reflect particular political and economic interests (Kelly, 1997; Swyngedouw, 1997; Brown & Purcell, 2005). The reconstruction and manipulation of scale in the presentation of the geographic attributes of coffee quality are integral to the ability of lead actors to maintain economic rents. Highly organized actors within the supply chain are able to control the parameters of quality construction by using these selectively scaled geographical identities. Borrowing from the fields of

institutional economics and the political economy of global commodity chains, the broad objective of this study is to demonstrate how control over the construction and governance of quality is intimately entwined with economic rent relations along the coffee supply chain, and as such, represents a contested political struggle.

The study

Extended periods of ethnographic research in the predominantly smallholder coffee production districts of South Sulawesi Province² were conducted during the peak coffee harvests of 2002 and 2003, with shorter follow-up visits across Indonesia in 2005 and 2006. During these periods, informal meetings were held with individual smallholders in 21 growing villages in four major coffee producing districts (repeat visits were made to farms in five of these villages in 2005 and 2006) (Figure 1). Managers of six of the seven commercial estates, which account for less than 5 per cent of Sulawesi's coffee production, were also interviewed. Thirteen highland coffee markets were observed across Sulawesi, including Sapan, Kalosi and Mamasa, and informal conversations held with local traders. Semi-structured interviews were held with 10 local district-level mill operators, and in Makassar, the provincial capital and port, with 10 of the 11 active green bean exporters (whose combined exports amounted to 99 per cent of the total volume for Sulawesi). Interviews with nine of the largest volume importers of Sulawesi coffee into the US, Australia and Europe were held in Oakland, Melbourne, Sydney, Hamburg, Amsterdam and Antwerp, and with representatives in Sulawesi of the largest volume importer of Sulawesi coffee into Japan. These interviews focused on how quality was perceived, measured, authenticated, financially rewarded and presented to overseas buyers. Additionally, the marketing material and language used by 18 coffee roasters offering Sulawesi coffee were studied for how quality attributes are presented to the consumer.

Other sources of information included communications with relevant persons in Indonesian government departments as well as the national Indonesian Coffee and Cocoa Research Institute (ICCRI) in East Java, Hasanuddin University in Makassar, the Makassar branch and Jakarta head office of the Association of Indonesian Coffee Exporters (AICE), the Specialty Coffee Association of American (SCAA) in Los Angeles, the French Agricultural Research Centre for International Development (CIRAD) offices in Jakarta and Bali, and the International Finance Corporation/World Bank. A comprehensive export database was compiled using primary sources made available by port authorities in Makassar.

Institutions and the governance of quality

Quality and its inherently subjective nature are central to emerging structures of re-regulation within the global food system. In this regard, '[Q]uality is a complex and contested notion, the meaning of which is socially constructed and thus variable according to different socio-cultural contexts' (Ilbery & Kneafsey, 2000: 218). Even supposedly objective quality criteria applying physical attributes such as colour, aroma and defects are themselves social constructs of the pre-existing political and economic influences that coalesced to institutionalize these standards. Following the approach of Renard (2005: 421): '[Q]uality, then, is not a condition inherent in a product. It must be constructed and then promoted in order to become a collective comparative advantage'.

Within a context of shifting consumer preferences, quality management plays a critical role in shaping governance structures within global commodity chains. The increasing



Figure 1. Location of the main coffee producing districts, places of origin and trading in South Sulawesi, eastern Indonesia.

influence of quality considerations in the re-regulation of food governance has been referred to by Goodman (2003) as a ‘turn to quality’ in the global agrifood system. Quality, moreover, has become an information-dense source of leverage for well-connected actors in the supply chain. In this context, Ponte (2002b: 4) argues that ‘choices aimed at solving quality information problems by key actors will then determine the way a certain value chain (or segment of a chain) is governed’. Intimately linked to the governance of quality is the strategic use of grade and standards by private sector actors, no longer as a technical instrument to reduce transaction costs, but as a tool to enhance competition through product differentiation. Reardon *et al.* (2001: 423) identify a broad shift in global agrifood trade where:

the new role of G&S [grades and standards] is increasingly to develop and differentiate markets, with standards being used as strategic tools for market penetration, system coordination, quality and safety assurance, brand complementing, and product niche definition.

Grades, standards, certification regimes and trademarks are emerging as vital instruments through which quality is constructed and entry barriers imposed by lead actors in global commodity chains to protect economic rents; as Mutersbaugh *et al.* (2005) point out, certification is also a critical site of conflict, negotiation and power.

In the mainstream global coffee sector, roasters possess complete information regarding the quality of the beans they purchase but release (through blending) a standardized branded product to consumers. Gibbon and Ponte (2005) argue that this information asymmetry is at the core of ensuring roasters maintain their dominant position in the mainstream coffee commodity chain. However, the rapid growth of the specialty coffee industry has been accompanied by a changing politics of information sharing amongst supply chain actors, with the suggestion that 'the emergence of strongly differentiated channels has begun to shift the locus of power' (Lewin *et al.*, 2004: 98) in the coffee industry. The response by the coffee majors, however, has been swift and it is now highly doubtful that this shift is occurring to the benefit of coffee producers in developing countries. Moreover, in their book *The Coffee Paradox*, Daviron and Ponte (2005) demonstrate how farmers' share of value along the value chain is less in the specialty sector than in the undifferentiated, bulk sector. An exploration of issues of quality governance, and the institutional environment within these differentiated supply chains, will help explicate the dynamics behind this response and its consequences.

The link between product provenance and quality has a long history in the southern European countries where exclusive rights to the marketing use of a local place name or appellation have provided legal protection to producers living in a bounded region. The assumption here, as in the specialty coffee industry, is that specific quality characteristics are bestowed on the product by the geographical setting of production. These systems include formal regulation of place-quality associations as intellectual property, which require supportive institutional structures and accompanying chains of authentication. Appellations are now recognized as geographical indications (GIs) under the World Trade Organization's (WTO) Agreement on Trade-Related Aspects of Intellectual Property (TRIPS). Unlike the case for organic or fair-trade products where price premiums may erode as supply increases (Mutersbaugh, 2005), GIs are able to align supply with demand and therefore preserve a price premium for producers. Thus, there is considerable interest in the literature about the potential of specialty food products using regional identities to provide an alternative development approach for rural regions (for example, see discussions in Moran, 1993; Ilbery & Kneafsey, 1999; Marsden *et al.*, 2000; Ray, 2001; Parrot *et al.*, 2002; Barham, 2003; Callois, 2004). The theoretical underpinnings of the production and trade of geographically specific food products, however, remain largely undeveloped. In this context, it is worth quoting the explanation for geographically specific appellations provided by Moran (1993: 272–3):

Viewed from the perspective of neoclassical economic theory, appellation systems are a type of collective monopoly that impose entry barriers on producers wishing to begin production (Perrier-Cornet, 1990). They are an example of an external economy imposed by a group of producers who wish to maintain the benefits of their real or created advantage and make it more difficult for other producers to benefit. In differentiating a product by its area of origin they are creating a type of differential rent (Harvey, 1982) which may also be viewed as a type of monopoly rent (Perrier-Cornet, 1990). By restricting supply and putting barriers on entry to the production they are likely to increase the price of the commodity that they are differentiating.

Further developing this economic understanding of rent capture for geographical identities in the specialty coffee sector, this paper borrows from the fields of political economy and institutional economics to reveal the structural limitations of effecting on-farm value retention by Indonesian coffee growers. In the political economy tradition of world-systems analysis, research on global commodity chains has concentrated on the strategies used by lead actors to drive chain governance (refer to the seminal work of

Gereffi & Korzeniewicz, 1994). This approach demonstrates how lead actors are able to incorporate less powerful agents to perform less profitable economic functions in the supply chain – in the case of coffee, primary agricultural production. Kaplinsky (2000) identifies the act of governance as the implementation of sophisticated forms of global coordination along with the complementary role of identifying dynamic rent opportunities. The economic rent of coffee production has gradually diminished over time largely because of the minimal entry barriers imposed on its cultivation. Instead, lead actors further down the supply chain have been able to accrue economic surplus at nodes in the chain through the establishment and maintenance of economic rent opportunities.

The serious challenges producers of specialty coffee face to capture the economic rent associated with geographically specific production (as described by Moran, 1993) are presented here as a function of lead actors being able to coordinate quality governance in the absence of adequate institutional supports within producer communities. Applying an institutional economics approach, Sanz Cañada and Vázquez (2005) identify the economic objectives of geographical protection as to obtain differential rents, reduce transaction costs through implementation of quality standards, and facilitate collective organization amongst producers – all of which bring to the fore the requirements for an appropriate institutional environment within the producing region itself. Amin and Thrift (1995: 102) refer to this ‘institutional thickness’ as composed of ‘interinstitutional interaction and synergy, collective representation by many bodies, a common industrial purpose and shared cultural norms and values’.

In their discussion of institutional constraints in Africa and South Asia under market liberalization, Dorward *et al.* (1998) claim that the neoclassical economics critique of state intervention holds a naïvely optimistic view about the potential of private sector agents to meet the institutional requirements of exchange for many primary agricultural commodities. Similarly, the undeveloped nature of the institutional environment in many coffee-producing countries has opened the way for increasing control of the supply chain by powerful, buyer-driven agents. Talbot’s (1997) analysis of the division of income along the coffee commodity chain, and of the superimposition of a new international inequality over older colonialist inequalities (Talbot, 2002b), present negative economic implications for producer countries of dismantling the global quota system. The increasing share of profits accruing to consuming country actors reflect their ability to mould a new set of institutional norms (such as futures markets, quality discourses and labelling, the use of trademarks, and blending and brand management) to ensure high entry barriers to competition. In the Indonesian specialty coffee sector, the relative absence of local institutional capacity to engage in the governance of quality is associated with the establishment of these new rent opportunities for lead actors in the commodity chain.

Geographical indications (GIs) and the institutional environment in Indonesia

The concept of geographically-informed legal rights emerged in rural France during the early nineteenth century. According to Brennan (1997), the French protected appellation (*appellation contrôlée*) system was a response to widespread product adulteration and market disorganization in the national wine industry at a time of rural crisis. For France, this system of protection has effectively prevented labelling fraud and allowed rural producers to capture the value of quality associations linked to geographic influences on production (Wenger, 2001). Pivotal to this system of geographical protection is the

notion of *terroir*, the spatially demarcated scalar area within which the appellation applies, and which embodies an entanglement of cultural practices and the natural environment.

Such collective intellectual property rights now recognized multilaterally as GIs by WTO members diverge substantially from other forms of legislation (usually in consuming countries) to protect consumers from misleading geographical labelling in the coffee industry.³ The economic benefits accruing from market premiums are invariably retained in the producing region as a form of economic rent explicitly linked to place, because of the alignment of supply and demand and the entry barriers related to inherent geographic restrictions on production.

Discussions elsewhere on the regulation of GIs (Moran, 1993; Parrot *et al.*, 2002; Barham, 2003; Mawardi *et al.*, 2004) have emphasized the substantial potential for supporting wider rural development and improving farmer incomes, particularly within developed economy country contexts. The role of supporting institutional arrangements in these contexts is paramount and not always fully acknowledged. In this regard, the study of protected designations of origin⁴ (PDOs) in Spain by Sanz Cañada and Vázquez (2005) has made an important contribution to the literature. Sanz Cañada and Vázquez emphasize the significance of the social space created through the PDO by interdependent networks which generate 'organizational qualities' facilitating knowledge diffusion, quality assurance and collective economic capture.

The institute responsible for implementation of the *appellation contrôlée* system in France (INAO) is a statutory organization under the Ministry of Agriculture, characterized by its complex bureaucratic structure and supported by a detailed legal code which regulates virtually all aspects of the national wine industry, including on-farm cultivation methods. France also possesses robust industry associations and highly developed forms of farmer organization that perform an important self-regulatory role. France and the EU have also been willing to ensure international compliance with these labelling regulations through bilateral and multilateral trade negotiations and through litigation (Barham, 2003). Sanz Cañada and Vázquez (2005) have similarly pointed out that the marketing activities of PDO regulatory boards in Spain (public-private partnerships themselves) are subsidized up to a maximum of 50 per cent of their expenditure by the EU. The role of both formal and informal socioeconomic institutions in the regulation of a GI is fundamental to its success.

Indonesia is in the early stages of establishing a legal framework within which a system of geographical protection will be possible, prompted by recognition of GIs in the Indonesian Trademark Act of 2001. Whilst interest in the country for GIs is high, general awareness is poor and the implementation of regulations to the 2001 Act are still being formulated and are said to cut across as many as eight government departments, resulting in substantial bureaucratic inertia. In 2002, ICCRI, in cooperation with the French CIRAD, commenced preliminary work on the establishment of a GI for a selected Indonesian coffee and has pushed forward on a pilot GI project in the Kintamani region of Bali. The experiences of this pilot project have emphasized the complexity of institutional coordination between producer groups, central and regional governments, extension providers, exporters and research institutes (Mawardi *et al.*, 2004). More pertinently, a large international coffee trader that has been enrolled in the Kintamani project to assist with global marketing of this relatively unknown coffee origin commented (during a field interview in 2006) that the GI is fast becoming extraneous because the company sets up its own supply chain control system (including financial assistance for organic certification), and creates its own marketing identity for the coffee.

Despite global acknowledgement of GIs as a legitimate form of collective intellectual property, many countries are currently unable to maximize the potential benefits of implementing such a system. In Indonesia, this is because of the unsupportive nature of the local institutional environment and the inherent complexity and cost associated with GIs. A functioning state extension service for coffee farmers does not exist in Sulawesi and there is no mechanism for translating research findings into farmer knowledge. As a result, extremely rudimentary cultivation and processing techniques are practised, coffee farmers are not organized into producer associations or cooperatives, and mills are not collectively owned or managed by farmers. The dominant industry association is the essentially ineffectual national AICE which lobbies government on behalf of domestic exporters while being beholden to a government-mandated export levy for its own revenue. Local trade networks in Sulawesi are extended and many farmers depend on inter-linked credit markets because of poor infrastructure, the inaccessibility of growing villages and the absence of formal credit institutions. Information asymmetries regarding price and quality are substantial within these interlinked markets, with highly dependent (and often exploitative) relationships the outcome.

The still partial state of an appropriate legal framework for GIs, together with poor government and community understanding of this highly specific form of intellectual property, has meant that no producer organizations have (as yet) successfully registered a GI under Indonesian Trademark Law.

GIs themselves are an institutional construct and, ultimately, a market intervention. The limited capacity of government or industry associations in Indonesia to administer and regulate a GI is a large obstacle to ensuring the on-farm retention of economic benefits of product differentiation. Moreover, the absence of a supportive institutional environment at the site of production opens the potential for better coordinated international players to assume control of geographically informed quality construction and regulation. Even in deregulated markets, the continued bearing of cultural norms, legal and government institutions, as well as industry organizations, act in often unexpected ways to influence the distribution of economic benefits along a supply chain. Place associations are as central to quality construction in the coffee regions of Sulawesi as the wine *terroir* of France, although the level of institutional support structures differs vastly. Sulawesi-based actors are not currently instigators of quality systems, nor are they actively engaged in presenting arguments of geographical specificity. The following discussion on the Sulawesi coffee industry demonstrates how control over quality discourses, frequently expressed through the ability to effectively codify selected quality attributes, has become a contested political arena that is increasingly under the corporate control of global coffee companies.

Geographies of quality and supply chain control in Sulawesi

Indonesia is the world's fourth largest coffee exporting country, with 442 687 tonnes of green beans generating USD 498 million in export earnings during 2005 (UN Comtrade, 2007). An estimated 90 per cent of this coffee is grown by smallholders, with average landholding sizes of less than one hectare. Indonesia is known globally as a bulk producer of the cheaper Robusta coffee, with 66 per cent of exports traded through the Panjang port in Lampung, southern Sumatra, in 2003 (the most recent year for which port-specific data is currently available), at an average price of only USD 0.61/kg (BPS, 2004). However, substantial volumes of higher quality Arabica coffee are exported each year from North Sumatra, Sulawesi and East Java, at prices regularly above

USD 1.60/kg in 2003, when the indicator price for Arabica coffee in New York averaged only USD 1.14/kg.

Sulawesi is a relatively small contributor to national exports (approximately 10 per cent of total Arabica exports), but this regional sector is a particular, interesting case study because of its global reputation as a rare specialty origin and the importance assumed by political struggles over geographical constructions of quality. Coffee in Sulawesi is also grown almost entirely by smallholders concentrated in the Latimojong mountain districts of Enrekang, Polewali Mamasa (or Polmas) and Tana Toraja (or Tator) in South Sulawesi. Commonly traded internationally as 'Kalosi', 'Toraja' or simply 'Sulawesi' coffee (Neilson, 2005), the region's coffee is presented in various sites of global consumption as a relatively high priced gourmet product. A secondary Arabica production region centred around Gowa District further south produces a poorly processed coffee of inferior quality that inevitably enters export markets, also presented as 'Kalosi' or 'Toraja'. In 2003, 3934 tonnes of coffee was exported from South Sulawesi at an average price of USD 1.70/kg, and coffee identified as 'Toraja' shipped to Japan at prices exceeding USD 3.00/kg (Deperindag, 2003). While these prices may be above average on the major exchanges, my own brief survey of consuming markets in 2003 found that Sulawesi coffee was marketed by roasters in the US as 'Aged Sulawesi Peaberries' for as much as USD 52/kg and in Japan as 'Toarco Toraja' for USD 40/kg, and that in Europe green beans were marketed by traders in Hamburg as 'Kopi Tongkonan Toraja' for USD 50/kg. Then, in 2006, Starbucks released a Sulawesi coffee, 'Kopi Kampung' as 'Black Apron Exclusive #3', selling for USD 57/kg (see <http://www.starbucksstore.com/products/shprodde.asp?SKU=650040>). The valorization of an otherwise bulk international commodity is based on assumptions of quality attributes associated with the specificities of place. However, once these assumptions are unpacked, scaled notions of quality are exposed as problematic and ultimately political.

The designation 'Sulawesi' trivializes the relationship between geography and quality as, far from constituting a homogeneous production zone, the numerous growing districts vary considerably in their physical settings, cultivation systems and processing methods. This diversity has important implications for quality construction. Conditions of production within Tana Toraja are such that coffee grown there is generally considered to be of superior quality to other sites of production. Presentations of 'Sulawesi coffee' to consumers, rather than the more locally scaled codifier 'Toraja', provide flexibility in sourcing arrangements for the roasters, whilst also maintaining their control over the use of the geographical imagery associated with product quality.

The quality of coffee produced in Tana Toraja, apart from the specific nature of agricultural production systems, is also attributed to the unique cultural characteristics of the Toraja people, who retain a complex ceremonial cycle and ancient traditions of ritual house construction that are among the top tourism attractions of Indonesia. The ability of an origin to tell a story is an important quality attraction within the specialty coffee market. Thus, Sulawesi coffee is commonly marketed (as easily seen from websites of the speciality coffee sector) as possessing distinctive quality attributes associated with the cultural embeddedness of production in an exoticized Torajan society, for example:

The Toraja people have an interesting cultural history that carries over to their methods of producing coffee in very traditional ways (Peets Coffee and Tea, see <http://www.peets.com/shop/coffee.asp>).

The region and the coffee, Toraja, are named after the colorful indigenous people of the region (The Coffee Review, see <http://www.coffeereview.com>).

'Kopi Tongkonan Toraja' is a rare and unique coffee cultivated in small home gardens by ten families belonging to the 'Toraja' tribe. . . . The coffee corresponds with the individuality of their culture in every respect (Interamerican Coffee, see http://iacoffee.co.uk/our_products/toraja).

As Tim Castle (1991: 86) declares, 'if a cup of coffee simply tastes good, it's not as great as one that reminds you it came from a place and that people grew it'. And so, discourses on production geographies are frequently reconstructed by roasters to add value to and differentiate the coffee within increasingly fragmented sites of consumption. And yet, despite widespread use of such place-specific marketing language, the underdeveloped systems of geographic authentication and the complexity of pre-export supply chains in Sulawesi had, until recently, made traceability to the purported district level virtually impossible.

In the absence of traceability back to origin, international buyers currently use internal verification systems, if any at all, to authenticate particular quality attributes. These systems are adopted by roasters and presented to consumers, thereby enabling the roasters to assume responsibility for processes of quality construction and regulation throughout the supply chain. Within Sulawesi, placenames such as 'Toraja', 'Kalosi', 'Rantepao' (an important centre of Toraja culture), 'Sulawesi' and the obviously fraudulent 'Mandeheling' are used interchangeably without correspondence to defined growing regions, and to signify quality characteristics that may or not be related to real sites of production. Thus, coffee bags are marked in Sulawesi warehouses with the geographical identities requested by global buyers. As quality standards or provenance specifications do not currently exist, selective misrepresentation or 'geographic fraud' is commonplace. Other cases of misrepresentation in the Sulawesi coffee sector include the liberal use of 'estate' designations (for smallholder purchases, to imply a higher quality) and the presentation of coffee as 'shade grown' (based on buyer's farm visits rather than any shade tree certification such as Smithsonian Bird Friendly) or as purchased from cooperatively organized farmers (where, in fact, a non-coffee-related cooperative is a silent shareholder in a mill). Internal verification systems clearly run the risk of falsely representing growing conditions with the use of uncertain criteria for the application of sometimes misleading designations. In this context, the use of social, environmental or geographical associations of quality are indistinguishable from wider processes of product branding.

The marketing divisions of international roasters responsible for recreating imagined conditions of production for presentation to the consumer, in the case of Sulawesi coffee, create marketing imagery that is explicitly geographical. Despite being objectified in romanticized marketing campaigns as ostensible gatekeepers of geographically informed quality attributes, growers themselves are not in control of quality construction and regulation in this supply chain. The potential for local mixing of beans, the absence of locally administered labelling regulation, the dominance of internally regulated supply chains and the corporate use of intellectual property rights have diluted any potential economic benefits from existing place-quality associations that would otherwise be available to coffee farmers in Tana Toraja.

The use of scaled notions of quality, however, is more than mere linguistic fancy. Perceived differences in quality associated with local geographies of production are resulting in the increasing penetration of multinational coffee companies into remote sites of production in Tana Toraja to ensure access to (geographically-informed) quality coffee beans, and various actors associated with the Sulawesi coffee supply chain have positioned themselves to benefit from the quality associations of this place-related product identity. International traders are developing supply chain systems (including joint ventures, contract arrangements and strategic partnerships with local suppliers) in an attempt to ensure authenticity – although no external verification is currently performed. Tightly

controlled supply chain systems are therefore evolving in response to the absence of local institutional capacity to authenticate origins.

According to key industry actors and personal observations at local coffee markets, smallholder Arabica production in Tana Toraja is estimated to be limited to around 1300 tonnes/year or one-third of annual exports from the Makassar port in 2003. The booming specialty coffee sector in the US has helped fuel a demand for higher quality coffees from Sulawesi, including particularly strong demand from roaster-retailers such as Starbucks (who, in addition to their 'Kopi Kampung', commonly present the coffee to consumers as 'Sulawesi'). Exports from Makassar to the US market since 2003 have been more than double those to Japan (the most important destination in the 1980s–90s), increasing steadily over successive harvests from 2001 (BPS, 2004). With production within Tana Toraja alone unable to satisfy global demand, it is inevitable that 'inferior' quality coffee grown in other districts in Sulawesi is sourced by international buyers. Substantial amounts of Sulawesi coffee exports continue to be designated as 'Toraja', far in excess of what is known to be produced in the district. In response to this situation, specialty coffee roasters have had to reassess and indeed reconstruct their own scaled notions of geographic quality.

Coffee roasting firms have traditionally been dependent on the ability of specialized global coffee traders to source high quality beans from particular geographic origins on their behalf. However, the changing purchasing requirements of some large specialty roasters are resulting in direct purchases from origin countries, which in turn are pushing global traders deeper into producing country supply chains. The magnitude of demand from the larger US specialty roasting firms is now so high that the minimum volumes of particular origins required are already so considerable that this in itself may be setting entry barriers for particular regional producers, as suggested by Ponte (2002b), who has also described how roasters increasingly rely on supplier-managed inventory, with stock management effectively outsourced to traders. As a result, traders are developing intimate relationships with exporters in producing countries to ensure reliable access to high volumes of particular origins.

One of Japan's largest integrated coffee companies, Key Coffee, operates its own plantation in Tana Toraja and actively purchases parchment coffee from growers and traders within the district, offering premium prices for coffee they believe to be grown locally. In 2003 and 2004, this company was responsible for almost all the Sulawesi coffee exported to Japan, largely because of their exclusive trademark rights for the use of the 'Toraja' identity within the Japanese market (Neilson, 2005). The hunt for 'authentic' Toraja coffee then led a large US-based business entity, in 1998, to establish a joint venture with a Sulawesi-based processor with buying stations in Tana Toraja; in 2004, another US firm financed the operations of a processing plant and warehouse in the district. By 2004, more than 50 per cent of all Arabica coffee exports from Sulawesi was conducted by firms with majority foreign ownership (Deperindag, 2004). Increasing competition amongst international buyers has also led to the establishment of purchasing stations in remote highland villages with otherwise extremely poor accessibility. A degree of vertical integration within the supply chain has resulted from specific global quality demands related to geographic origin and intense competition amongst foreign buyers.

Since 2005, there has been a heightened expectation that these suppliers meet rigorous ethical sourcing guidelines of major international buyers (exemplified by Starbucks' CAFE Practices, the European retailers' EurepGAP Code for Green Coffee and the Common Code for the Coffee Community), further fuelling the development of tighter upstream relationships. These actors are responsible for implementing extensive supply

chain control back to farm sources, representing a new form of social contract amongst private sector participants (Giovannucci & Ponte, 2005). For example, Starbucks has developed an elaborate code of farm and processing practices that suppliers will be required to adhere to in the form of independently verified supply chain networks (SCS, 2004). While these demands are predominately driven by motives of defensive brand management and the need to present social and environmental accountability to the consumer, these systems are integral to the capture of quality construction by branded roasting companies.

The previous reliance on industrial conventions and pre-shipment samples to determine taste-related quality attributes is also changing. There is evidence that the specialty market is evolving towards a regime of increased traceability as a response to progressively more complex sets of quality associations. The resulting chain governance structures for Sulawesi coffee are dominated by partial vertical integration, internal verification of production processes, and the use of intellectual property and privately regulated corporate codes of conduct.

Importantly, there are indications that the supply chain management, traceability and quality control capabilities of both traders and roasters are also becoming institutionalized in the form of protected trademarks for specific origins across Indonesia (such as 'Gayo Mountain Coffee' from Aceh in Sumatra, 'Toarco Toraja' and 'Kopi Kampung', and possibly 'Kintamani Bali'). The use of geographically-informed trademarks potentially conflicts with the establishment of a GI by producer organizations, and may not even accurately reflect true physical origins. By convention, trademarks are the property of a person or company, whereas a GI is an open system. In 2006, however, the Ethiopian government moved to secure trademarks for the well-known coffee origins, Sidamo, Harar and Yirgacheffe, thereby challenging the assumption that trademarks cannot be publicly owned. The controversy associated with this initiative has emerged as a major dispute between the government and Starbucks Corporation, and allegedly Starbucks used its clout in the National Coffee Association to block Ethiopia's registration in the US Patents and Trademarks Office (Hay, 2006; Oxfam, 2006; *The Guardian*, 2007). If successful, the Ethiopian initiative would significantly increase the capacity of producing countries to participate in quality construction and, therefore, alter the distribution of economic rents along the global coffee chain. This reality certainly helps explain the ongoing resistance among branded coffee companies in major consuming countries (Economist Intelligence Unit, 2006). Importantly, the logic of the Ethiopian initiative stems from the inherent institutional constraints and substantial costs facing producing countries in implementing a traceability-dependent system of GIs.

In the case of Toraja coffee too, despite the geographically specific niche product with strong demand in the international market, production and trade are not currently supported by an institutional setting conducive for negotiating quality attributes in the global market. Coffee farmers embedded within this sought-after *terroir* remain unable to effectively present quality constructions that would allow them to retain the economic benefits of geographical specificity.

Conclusions

Notions of quality in the global coffee market have departed substantially from a sole reliance on the industrial practices and standards prevalent in the conventional commodity exchanges. Customarily, physical appearances, grades and cup characteristics were applied to present quality attributes discernible within the coffee bean itself. It is

increasingly the case that quality is also being constructed and animated by discursive references, which may or may not rely on verification processes. The degree to which these discursive references are based on traceable realities is variable. The inability of intermediary actors to maintain the geographic integrity of Sulawesi coffee is partly solved by codification that uses various standards, labels, brands and other marks to designate product quality. Quality is embodied not only in taste and/or physical attributes, but also through a plethora of social, environmental, ethical, safety and other concerns.

The codification of quality attributes in the specialty coffee sector is increasingly dependent on the presence of traceability systems from sites of production through to consumption. Thus, this implies the ability to trace individual containers and bags of coffee from their agricultural origins, including details of provenance and production processes, through to consumers. Traceability is particularly important for the presentation of social and ecological traits to consumers and is also relevant for geographically specific food products. The ability to maintain and present traceability-informed quality characteristics to consumers is integral to benefiting from product differentiation. However, the costs of maintaining complex traceability systems, which can be substantial and often beyond the reach of many smaller players in the specialty coffee sector, currently contribute to the exclusion of local actors from the process of quality construction itself.

This paper has identified the important process of negotiating the scale at which geographic identities are attached. In the case presented, the appropriate scale could be, alternately, the entire island (Sulawesi), provincial (South Sulawesi), regional (the Lati-mojong Mountains), district (Tana Toraja), or an even more restrictive local scale (the Sapan Valley) – all of which are currently applied and could arguably be considered legitimate identities. The selection of scale necessarily results in exclusions and inclusions, and affects the ability to regulate and monitor geographical integrity, with consequences for the homogeneity of quality characteristics. In the contemporary context of promoting regional autonomy in moving towards democratization in Indonesia, the designation of scale (within a registered GI) would unavoidably be a politically mediated decision. Furthermore, in this case, given that scale has important economic consequences, it is overtly political. The ability of particular scales to conform to market volume requirements and be accommodated within supply chain authentication systems is as important as the influence of the *terroir* on quality attributes. International buyers, who currently implement arms-length coordination of their supply base, may applaud the development of a producer-driven GI as an information-rich quality mark capable of reducing transaction costs. Other buyers may find a GI unnecessary and a challenge to their information monopolies and, increasingly, to their use of registered trademarks to secure economic rents in their respective markets.

This paper presents evidence that complicates development strategies for tropical commodity producers premised on the assumption that improved quality will generate meaningful price premiums for farmers and, thereby, respite from currently depressed economic conditions. Of particular importance here is Mutersbaugh's (2005) study on Mexican coffee farmer organizations, which describes the decline in certified-agricultural rents over time caused by both increased competition and the high cost of compliance. Also at issue here is the appropriation of ethical credentials by the corporate sector and the inability of certified product lines to establish meaningful entry barriers linked to the construction of quality. Whilst Gereffi (1999) suggests that organizational learning from within the commodity chain itself can offer opportunities to perform industrial upgrading, it is unlikely to occur in Sulawesi. In a climate of minimalist state intervention, powerful supply chain actors have instead shown a remarkable ability to construct and

appropriate quality meanings within the supply chain. This ability, constructed around issues of quality governance, has been pivotal to controlling the economic benefits of place–quality associations.

Roasting firms in consuming countries have established themselves as lead firms driving governance structures in global coffee commodity chains (Fitter & Kaplinsky, 2001; Ponte, 2002b; Talbot, 2002a). This lead is achieved, in the case of Sulawesi coffee, through controlling the means of quality construction along the supply chain and its presentation to consumers. The ability to control quality discourses is critical to economic consolidation, providing a pivotal mechanism for powerful actors to drive supply chain governance. Ponte's (2002a) demonstration of how the construction of standards in the specialty coffee industry has set new entry barriers, and confers power to the institutions setting the standards, is particularly salient here. While quality in the specialty coffee sector is often presented as a function of production characteristics, the ability of corporate actors to author, negotiate and appropriate quality attributes through internally-controlled structures makes this issue explicitly political.

The case of Sulawesi coffee reflects a shift towards privately-regulated quality control systems managed by corporate interests. In these systems, quality management is addressed through indirect coordination of supply chains and a reliance on internal auditing and codes of conduct. In some instances, industry actors have adopted vertical integration throughout the entire supply chain, while others have maintained this coordinating role at a distance. In the absence of third-party or producer-driven certification in Sulawesi, powerful industry actors have assumed a self-regulatory role in the authentication of geographical attributes. Traceability systems internalized within corporate management structures act to allow quality constructions to be extracted wholesale from local geographical contexts. The sum effect of remote-control quality management strategies appears to be further the economic marginalization of growers, as they are removed from the critical processes of quality management. As argued by Freidberg (2003: 98), 'quality in countries and regions where producers have few alternative sources of income [. . .] are not necessarily less exploitative than others'.

Quality regulation offers a means for extensive supply chain coordination that can be used to assert control over often remote sites of production. The liberalization of international trade regimes and the deregulation of national agricultures have paradoxically created space for a diverse array of private sector regulation of global food systems. As with previous periods of tightly regulated markets, the specific forms of emerging regulatory systems are determined by social and political priorities. As argued by authors such as Le Heron (1993; 2003) and Larner and Le Heron (2002), it is a mistake to consider the current development of a neoliberal globalization project as politically neutral. Rather, the construction of new systems of regulation and their social and economic consequences assume pressing relevance in the study of the global agrifood system. In this context, the emergence of new quality governance structures offers important insights into the future of economic relations within global food provisioning systems.

Endnotes

- 1 Only a limited number of regional coffees are considered to possess favourable taste characteristics that allow their acceptance (unblended) by consumers. Indonesia possesses at least three regional coffees with existing international reputations as single origin coffees: Mandheling from northern Sumatra, Kalosi Toraja from southern Sulawesi and Java Estate from government estates in East Java.

- 2 For the purposes of this paper, the South Sulawesi region refers also to areas that since 2005 have been established as part of West Sulawesi Province, including the Polewali–Mamasa District.
- 3 As early as 1906, the Pure Food and Drug Act in the US prevented the sale of coffee under trade names which made improper claims, with an early ruling dealing specifically with the misrepresentation of ‘mocha’, then associated with beans from Yemen, and ‘Java’ coffees (Ukers, 1935).
- 4 Within the EU, a distinction is made in Regulation (EEC) No. 2081/92 between PDOs and PGIs, where the requirements of the former are more stringent than the latter. The reputation or quality referred to in a PGI ‘may be attributed to the geographical environment’, but for a PDO product quality is ‘essentially or exclusively due to a particular geographical environment’.

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