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DEVELOPMENT POLICY IN THE VENEZUELAN ANDES: THE CASE OF COFFEE COMMERCIALISATION (1974 — 1991)

Abstract

In Venezuela the post 1958 period has been characterized by the existence of strong modernizing pressures emanating from the state. These pressures reached even the most isolated rural areas of the Andean region through a development policy centered upon state intervention in the commercialization of coffee. After 1974 this policy helped create a bureaucratic monopolistic institution, the National Coffee Board (Fondo Nacional del Café or FONCAFE), and a network of producers' associations (PACCAS and CRAM) sponsored by the state and the two main political parties, Democratic Action (Acción Democrática, AD) and the Christian Democratic Party, COPEI. This paper analyzes this development policy, and its socio-economic and political effects in the Andean region, to show how its main objectives were not achieved because of the combination of two factors: first, the persistence of traditional patterns of behavior and relationships, and, second, the emergence of new socio-economic groups deriving power from their position in the bureaucratic structure related to the commercialization of coffee.

1. Coffee Commercialization (1958 — 1974)

After the fall of the dictatorship of General Marcos Pérez Jiménez in January 1958 oil rich Venezuela entered a process of accelerated modernization based on the consensus that: first, „no major interest group ... could be excluded from participation in the growing prosperity, although the relative degree of gain and the mechanichs of participation could be changed;" and second, the government „must adhere to a minimum standard of technical competence in the management of Venezuela's affairs." On the basis of this agreement Venezuela's various interest groups supported the electoral system and competed within the rules of the democratic political game with the aim of obtaining their share of the national wealth.[1] It is worth noting here that, as Peter Lord[2] has posited, „the unique accomplishment" of the Venezuelan experience has been the incorporation into the political process of middle sector groups, labor and the peasantry, „without destroying the traditional forces of the military, the conservatives, or the Church." Modernization took place within a populist political system „of elites' conciliation"[3] where the participation of non-elite sectors (workers and peasants) was achieved through mediation by the main political parties.

The incorporation of peasants from the Andean region in the new system was based on a policy that made coffee-marketing the key factor. Venezuelan governments controlled by AD between 1959 and 1969 chose this development policy as an alternative strategy in an area where agrarian reform held little attraction since most peasants were small property-owners.[4] Also the Andean region was not in the area of peasant mobilization initiated by AD from 1936 on. The peasant unions were organized there by COPEI after 1958;[5] and by 1966 the peasant federations in the States of Trujillo, Mérida, and Táchira, [the Andean region] where dominated by COPEI.[6]

A development policy centered upon state intervention in the commercialization of agricultural products — in this case, coffee, took some time to develop and it followed from a series of official studies that established that the marketing system was taking most of the benefits out of the hands of small producers and placing them in the hands of intermediaries belonging to the traditional oligarchic sectors of the Andes. Without these benefits reverting to the direct producers there would be no hope of amelioration of their socio-economic position and their possibility of being incorporated into a rapidly modernizing Venezuela. Two further goals of this policy were to avoid increasing rural-urban migration,[7] and, for AD a means to challenge the COPEI domination in the region.

Three official studies were the basis for the decision to create a state monopoly of coffee — marketing in 1974, once AD was back in power after a short COPEI interregnum. The first study was carried out by the Agricultural Bank,[8] collected statistics from different states about coffee production and analyzed the effects of the different government programs in this sector after 1958. According to the data presented, coffee production was increasing in the Andean states, something that was attributed to the effect of „peasant credits" begun in 1958 (Plan BAP-MAC) with the aim of reactivating coffee planting by the smallest producers — estimated to be 90 per cent of total coffee producers within this region. In 1974, another report suggested that the marketing system was responsible for the limited economic benefits obtained by the small coffee producers.[9] Only the major producers had the possibility to choose to whom and when to sell. All the small producers (less than 1 ha — 19.9 has) consistently sold to merchants („bodegueros"), medium and large producers, and owners of trucks („camioneros") who went from production unit to production unit in the countryside during harvest time until they had filled up their trucks. Though in 1959 the government had created the National Coffee and Cocoa Board (Fondo Nacional del Caféy el Cacao, FNCC) with the aim to buy directly from producers, by 1971 only 2.9 per cent of the producers sold their coffee to PACCAS, the producers' organization created to deal with the direct marketing of the product.

In 1978 the Central Bank of Venezuela published another study of the coffee sector with data from the period 1961-1972,[10] including statistics that showed the separation between coffee production and coffee-marketing (See Figure 1 in Annex). The publication concluded that approximately 80 per cent of coffee production was still handled by intermediaries and that the system was depriving small producers of almost Bs. 20 on the sale of each „carga" made up of some 60 kg of coffee. By 1967 the Ministry of Agriculture had already calculated that intermediaries' profit was almost 30 per cent from the final export price of Venezuelan coffee, a difference that should have gone to the producers.[11]

These studies show the perpetuation of the traditional system that had developed at the end of the XIX century, when coffee was the principal export of the Andes. At that time coffee-exporting was in the hands of German and Italian merchant houses, situated in the port of Maracaibo, with branches in various Andean towns. In these towns most of the coffee arrived on the back of mules brought down steep mountain trails, to be taken later by the same means to the shores of the Lake of Maracaibo, and, from there, by boat to the port of Maracaibo. During the period 1880-1918, when coffee dominated the regional economy, two clearly defined sectors developed: coffee producers with property of the land and another dedicated to commerce. Neither sector was homogeneous in size or importance, and large and small producers and large and small merchants were involved in the coffee trade. Small producers sold to large ones and these either organized the mule trains or sold to even larger producers able to afford the investment necessary to take the product to the merchants in town. Relationships among small, medium and large producers, as well as small, medium and large merchants, resembled a pyramid.[12]

During the 1930s, when the international coffee market fell abruptly, German and Italian firms left the area but small producers kept on cultivating coffee because of the lack of alternative crops. They remained tied to coffee production through relations based on the exchange of advance credit from large producers and/or local merchants for the coffee harvest. At the end of the 1950s coffee began to be promoted by different governmental agencies, like the Fondo Nacional del Caféy el Cacao, but still they continued to rely on their traditional local structures for credit and marketing until 1974, when the Venezuelan state established the monopolistic structure, FONCAFE, as the center for all internal and external marketing.

2. State Monopoly of Coffee Marketing (1974 — 1990)

In 1974 the Venezuelan government established minimum prices of coffee for producers and signed an agreement with the National Association of Coffee Industrialists („torrefactores") which accepted that the National Coffee and Cocoa Board would be the only supplier of coffee to the industry. Shortly after, the National Coffee Board (FONCAFE) was established as the only agency for selling or buying coffee.

FONCAFE developed a bureaucratic structure at different levels: in Caracas and, in the case of the Andes, in San Cristóbal, Táchira State. These were the central organizations at the national and regional levels, but they needed a structure able to reach out to the small producers in order to control coffee-marketing. This structure entailed the creation of mixed enterprises of coffee producers and the state: the so called PACCAS (from the Spanish initials of Productores Asociados para el Comercio del Café), in the coffee areas of the country. Some of them had already been established in the 1960s but they had little impact on the overall marketing of coffee. In the case of the Andean region PACCAS mostly came after the creation of FONCAFE or were simultaneous with it. For example, PACCA Santa Cruz de Mora and PACCA Mesa Bolívar in Mérida State, both founded in 1975.

The PACCAS of the Andean region operated in an environment where previously there had not been any organizations of coffee producers or any other institutions responsible for the functioning of the commercial circuit of coffee.[13] This situation can perhaps be explained by a combination of the following factors: geographical isolation of coffee producers in a region characterized by difficult communications, and the lack of a coherent state policy towards the coffee sector before 1974. The turning point came through decisive state intervention in the commercialization of coffee. This meant that FONCAFE had to assure credit and technical expertise for the small producers, local offices to purchase the product, better road communication from these offices to the more centrally located PACCAS, and, finally, managerial personnel linked to the decision-making body of the PACCAS. The Assembly of shareholders [individual producers with land under coffee cultivation between 3 and 100 has., FONCAFE and the organization of all Venezuelan coffee producers, the Asociación Venezolana de Caficultores, AVC] became the head of PACCAS but, in fact, these were and still are administered by a Council made up by a president, elected by the Assembly, a vice-president appointed by FONCAFE and a manager, who is a paid employee of the enterprise with responsibility for the daily activities of the organization. It is this Council that decides on the matters of credits to be granted and the amounts of coffee to be bought or sold.[14]

Also in the Andes an alternative to these state- dominated producers associations appeared with support from producers unwilling to associate with an institution sponsored by an AD government. They organized themselves into a cooperative system and created the Centro Regional de Acopio y Mercadeo (CRAM), with support from COPEI. Both PACCAS and CRAM were recognized by the state as producers' associations and thus were able to buy coffee from producers, store it, and channel it afterwards to either the national coffee industry or the ports. All these activities were performed in the name of and according to the decisions and prices established by FONCAFE. The central institution received payments made by coffee industrialists and exporters and made this money available to PACCAS and CRAM to pay back the producers. FONCAFE had the final say in credits granted to producers and also the appointment of technicians to local offices and of vice-presidents to PACCAS. The first managers of PACCAS were usually people who had already worked at the central level of the National Coffee and Cocoa Board and already had some knowledge about the marketing of the product[15] (Figure 2 in Annex shows the functioning of the system).

The commercialization of coffee under a state monopoly accelerated the integration of Andean producers into a network linked to the overall national and international coffee markets. In this way producers entered mixed enterprises with the state or producers' cooperatives, and even the most remote coffee-producing villages established linkages with some local office or other in order to sell coffee. Local offices were tied to specific PACCAS or CRAM, which became points of articulation between producers and the state within the system of commercialization created in 1974. The system managed to secure common prices for the same quality of coffee throughout Venezuela and access to credit and technical advice, but it resulted in an extreme dependence of producers upon the state, PACCAS and CRAM. We will deal here with the most obvious case of state penetration as represented by PACCAS.

The managers of PACCAS came to be key actors in the day to day operations, mainly buying coffee according to a fixed classification which they interpreted, and recommending, or not, the granting of credits to specific producers. They obtained this degree of power through the exchange of their expertise in marketing deals and their knowledge of the workings of the bureaucratic apparatus at the central and regional levels. In many cases they also became coffee producers and/or entrepreneurs who maintained fleets of trucks to take coffee to the processors or to the ports. They used their knowledge of „the outside" (the urban capital), and later of „the inside" (the Andes), and were able to buy land from other producers giving up coffee cultivation or to forge personal linkages with established producers willing to profit and make use of the manager's know-how to their own benefit. Thus a situation developed in which PACCAS Councils tended to perpetuate themselves once elected, and managers with ten or more years in their posts became practically the norm, accompanied almost always by a process of personal aggrandizement. A clear example of this can be seen in the PACCA in Santa Cruz de Mora where only three Assemblies took place in fifteen years, and the last one, in October 1990, reelected the previous Council.[17]

How did these new power groups develop within the state monopoly of coffee commercialization? Declarations by coffee producers and personnel from FONCAFE, as well as other local observers, recorded in Mérida State and Caracas during the period 1988 to 1991 suggest different means of enrichment. The most usual complaint from producers seems to be the underclassification of coffee at the local offices, where producers can be paid a lower quality price for their coffee which the PACCA will later sell as first-class, even for export. Another complaint from the same source points to fixing of the weighing of coffee. A prevalent practice also aimed at obtaining some profit, this time from the coffee industry, is to mix a certain amount of lower quality coffee with some first-class and sell it to the „torrefactores" at the price of the best coffee.

But the main system of enrichment is linked to the mechanism of payment by FONCAFE to PACCAS. This is done by a quota system throughout the period of the coffee harvest and in practice during many years payments from the state became delayed regularly, especially after the fall of the international oil prices after 1981. Up to then Venezuelan governments had a regular source of money entering the economy and payments were more or less regular, but then they became unpredictable. In 1976 FONCAFE began to pay as well what is called the „remanente" (the rest) to all producers selling coffee to PACCAS and CRAM calculated on the amount of coffee sold each year. The „remanente" is the difference between the international price of coffee and the national price to producers. This scheme was developed by FONCAFE when the international price of coffee went up but the government refused to let the price of coffee for Venezuelan consumers float with international prices. Protection of consumers forced the creation of the „remanente" as a mechanism to avoid coffee being smuggled out of the country with consequences for the national industry. As the international price can vary during the period while one coffee harvest is being sold internationally, and as it is impossible to foresee how much coffee any one producer will sell in a given harvest, the „remanente" was paid after the coffee year was over. It became regularly delayed as the state was unable to continue to subsidize the system.

Delays in payment facilitated the further enrichment of the new groups established in the points of articulation: PACCAS. Here they could exert their power in paying first to producers linked to them, and delaying payment to others. Also payment could be retained in whole and used by members of PACCAS Councils, whom, through intermediaries, could buy more coffee at discount prices from discouraged producers, unable to hold onto their product any longer. That coffee was sold then to the same PACCAS at regular prices. Another practice is that, when payment from FONCAFE is long delayed, large producers, associated to the PACCAS or not, buy from smaller producers the sale receipts that the local office gives them when they sell their coffee. These receipts are bought at a discount and can later be redeemed in full when the FONCAFE money arrives in the PACCAS.

In 1986 coffee producers reacted against state monopolistic control of coffee-marketing in the so-called „Manifesto of Santa Cruz de Mora," named after the Andean town, seat of one of the strongest PACCAS, where all the coffee organizations of Merida State and the Asociación Venezolana de Caficultores (AVC) met to discuss the performance of FONCAFE.[18] The document concluded that the organization was acting like the large foreign commercial houses had done in the past, with the added disadvantage that these used to pay regularly in cash and now the state paid when it could. If foreigners were operating with their own capital, FONCAFE was doing so with capital that truly belonged to the producers and not to the state. That same year the AVC asked for a restructuring of FONCAFE and PACCAS. A harsh exchange of accusations and counteraccusations between members of the board of the national organization and those of the producers' associations followed. Both groups blamed the other for delaying payment to small producers and using coffee money to undertake business dealings to their own benefit.[19]

In 1986, after the end of the quota system previously maintained by the International Coffee Organization (ICO), coffee was experiencing a phase of very high prices on the international market. At the same time the devaluation of the Venezuelan currenca made its coffee more competitive on the world market.[20] Coffee, after being for some time subsidized crop for producers and consumers, now became a profitable export item. The insistence of FONCAFE infixing moderate prices in order not to affect the national industry and keep prices low for Venezuelan consumers brought about a situation in which, during the harvests of 1986/87 and 1987/88, coffee from the Andean region sold to FONCAFE through PACCAS and CRAM declined relative to the amount sold in the previous harvest.[21] It is worth noting that the largest fall came in the variety „lavado fino." i.e. the best quality coffee for export. There was not any fall in production in those years, which producers recall as being good harvest years. They acknowledge, however, that most of the „lavado fino", got very high prices from intermediaries who came to buy it directly at the production units in order to smuggle it out of Venezuela across the nearby frontiers of Colombia or through the Caribbean island of Curacao.

It is interesting to note that, with the opening up of a lucrative international market for coffee producers, the differences between FONCAFE and PACCAS became accentuated. At the beginning of 1989, for example, coffee producers occupied for 44 days the FONCAFE regional office for the Andes in San Cristóbal, Táchira State. At the same time a different group applied the same technique in the office of the Santa Cruz de Mora PACCA (Mérida State). Producers finally got the government to acknowledge the existence of a problem and to establish a joint commission to revise the marketing system for coffee.[22] The proposals of this commission summarized the demands of the new coffee groups linked to PACCAS: First, to transfer technical assistance from the central office to these mixed enterprises; second, to grant them the right to deal directly with marketing, both nationally and internationally; third, to allow PACCAS to enter the field of industry by processing the product: and finally, to create a financial organism directed exclusively toward the coffee sector.[23]

The producers wanted to diminish the role of FONCAFE in marketing, technical assistance and financing, and transferring these activities to the PACCAS. It can be said that managers of these enterprises and the producers linked to them have seen the advantage of marketing without the intermediation and/or interference of FONCAFE. In a way, from being a creation of FONCAFE, they have become (or aspire to become) the ruling force within the marketing system, and so appropriate for themselves the benefits. Not all PACCA groups are in this situation and only four of these producers' enterprises (PACCAS in Santa Cruz de Mora and Rubio, from the Andean region, and Sanare and Rion Claro, outside the Andes) were finally granted in late 1990 the right to commercialize coffee at the internal and external levels.[24] In this year, the government accepted an enlarged role in commercialization by the PACCAS which did not have outstanding debts with FONCAFE, however, maintained the right to buy and sell coffee from the rest of PACCAS and CRAM, and to also fix minimum prices for producers.[25] PACCAS can offer higher prices, however, and in fact the largest enterprises do, to attract more coffee for the export market. This new system will operate for the first time during the 1991-1992 harvest, when it will be possible to make an evaluation of its performance, especially the effects on small Andean producers.

3. Socio-economic and Political Consequences of the Policy of State Intervention in the Commercialization of Coffee

The most obvious consequence of the system of state commercialization since 1974 is the fact that it has not caused the intermediary to disappear. Moreover, it has helped create a new type of „intermediation" in which a bureaucratic position usually obtained by belonging to the clientelistic network of a given political party, has been transformed into a source of personal aggrandizement. However, in the case of the Andean region this entailed the building of a network of relations with some elements from the traditional coffee sector, mainly large or medium producers, sometimes belonging to the same political party. The traditional intermediary has not disappeared but nowadays he tends to work through the channels of the bureaucratic system sponsored by the state. Family names of powerful traditional producers still appear among the elected members of PACCAS Councils, and those groups that regularly question and want to force new elections to unseat the established members and take their places. Thus both insiders and outsiders recognize the power accrued by exercising control over the associations that articulate the whole system of channelling coffee and money.[26]

The establishment of FONCAFE was part of an expansionary phase of the Venezuelan state participation in the economy, related to the boom of the international oil prices. The overvaluation of the Venezuelan currency caused by the rise in oil prices in the 1970s negatively affected exports of coffee and other products until 1983. In that year a dramatic devaluation permitted a more competitive position for Venezuelan agricultural products in the international market.[27] Since then new power groups built especially around PACCAS have wanted to take direct marketing of coffee in their hands. Only a minority of PACCAS are so far ready to profit from dealings in the international market, where coffee prices are currently going down again.[28]

Though the state system built around FONCAFE implied the distribution of resources from the center to the most remote areas in order to protect small coffee producers from intermediaries, it helped develop a new power group of intermediaries, who found their own bureaucratic and economic space in the PACCAS. If, in practice, the state „expropiated" the product of a private sector, in order to determine to whom and when to sell coffee and at what prices, bureaucrats within the system and larger producers associated with them appropriated the resources of the state to create their own bases of economic and political power in the Andean region. They established their own power structures, parallel to the traditional power structure which was based on the ownership of production forces.[29]

We may conclude that, in the case of the Venezuelan development policy formulated around coffee commercialization after 1974, the main objective — freeing small producers from ambitious intermediaries — has not wholly been achieved, in spite of the fact that the general situation of small producers has improved. Intermediation has become more complex and even more important for them in the sense that they have become more dependent than before in terms of their credit requirements, technical assistance, and transport facilities. Recent changes in coffee marketing are propelling them once again into the hands of regional groups that can exercise even more discretionary power than the central state. It is expected that, at least for a while, competition for coffee among some PACCAS may lead to better prices for producers, but, on the whole, the system makes the small producer dependent upon private economic groups interested in maximizing their profits, and devoid of any social consideration of their role vis-a-vis those producers.

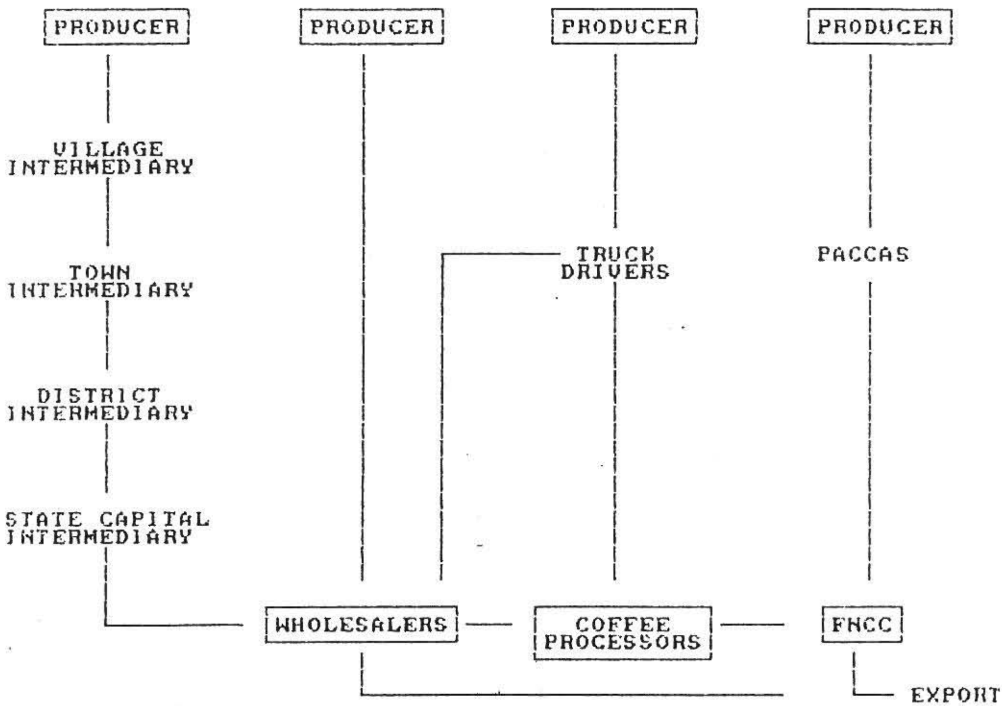
Summary

From 1974 the commercialization of coffee in the Venezuelan Andes was carried out by a monopolistic state organism, FONCAFE. Its principal goals were to integrate small Andean producers into a modernizing economy and freeing them from ambitious intermediaries who retained a considerable percentage of the benefits accruing from the distribution of coffee both nationally and internationally. In practice the system allowed the formation of a new kind of intermediation, based on bureaucratic control of the producers' associations in charge of buying, storing, and channeling coffee to the national industry or for export. In the process new power groups developed in these associations, combining bureaucrats from FONCAFE and large producers associated with traditional landholding families. Since 1986 these groups have felt powerful enough to question the system itself and obtain changes in its

operation. One can say that the small coffee producers have become more integrated into the national economy, but they risk falling under the control of these new power groups, repeating once again a familiar story of exploitation.

FIGURE 1

Marketing Channels

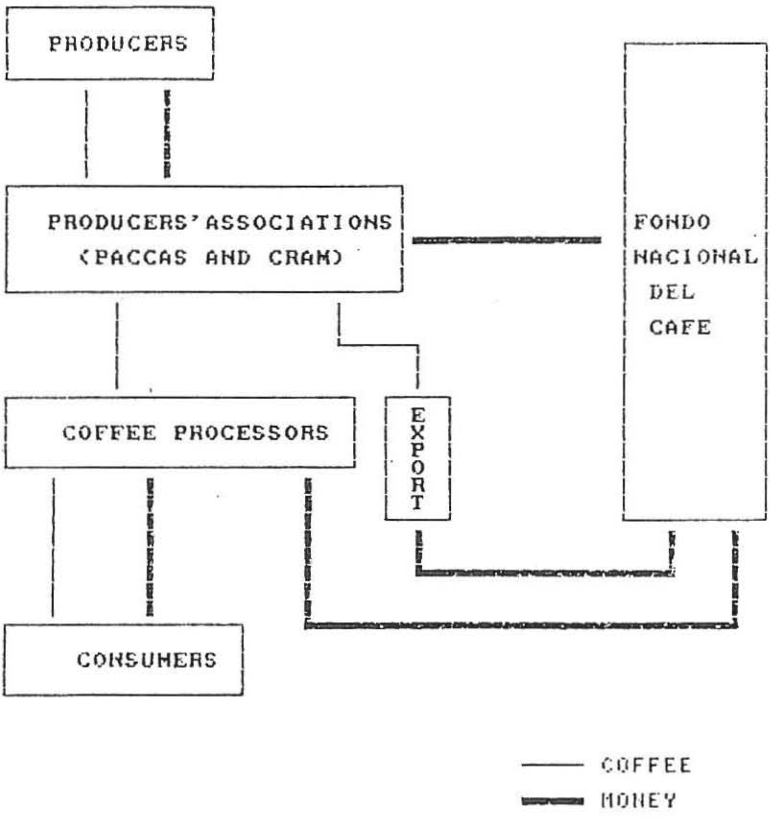


SOURCE: BCV. ESTUDIO INTEGRAL 1973, p. 148.

FIGURE 2

COFFEE COMMERCIALIZATION

(1975-1990)

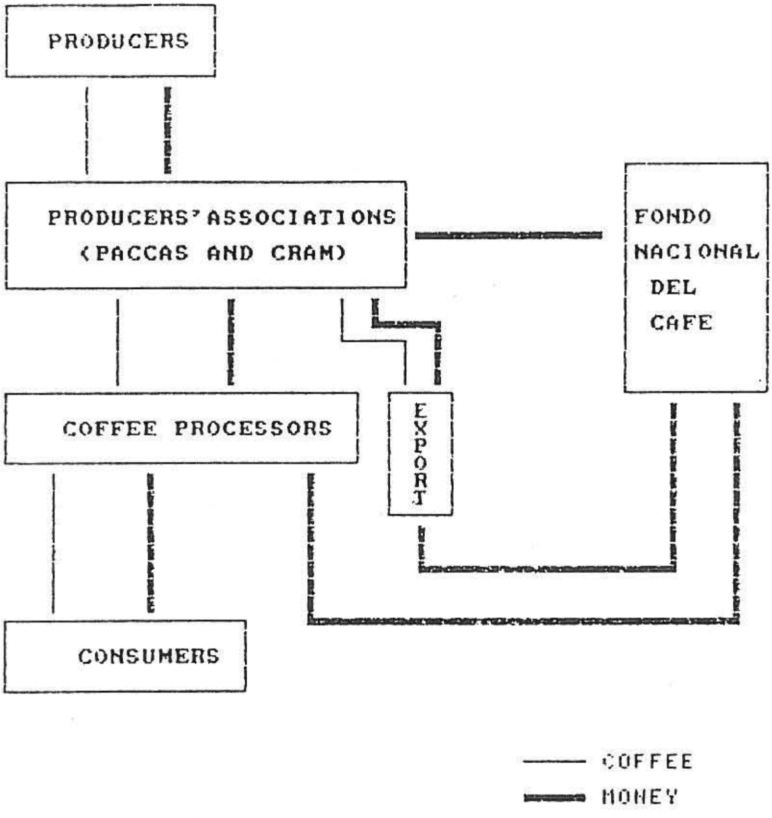


SOURCE:FONCAFE. CHAPOLA. 3:8. 1984.

FIGURE 3

COFFEE COMMERCIALIZATION

(1991-)



ADAPTED FROM: FONCAFE. CHAPOLA. 3:8. 1984.

NOTES

1. John V. Lombardi. Venezuela: The Search for Order, The Dream of Progress (New York: Oxford University Press, 1982), p. 232.
2. Peter P. Lord. „The Peasantry as an Emerging Political Factor in Mexico, Bolivia and Venezuela" (Madison, Wisconsin: The Land Tenure Center, May 1967), p. 67.
3. Aníbal Romero. „Situación y perspectivas del sistema político venezolano" in Sistema Político Venezolano, Clubes Franceses y Tendencias Electorales (Caracas: Consejo Supremo Electoral, 1989)
4. The Agrarian Reform Law was initiated in 1960 by the AD government of Rómulo Betancourt. For a study of its origins and characteristics see John D. Powell. Political Mobilization of the Venezuelan Peasant (Cambridge, Massachusetts: Harvard University Press, 1971)

5 Ibid., p. 128.

6 Ibid., p. 202.

7 El Vigilante (Mérida), Sept. 26, 1976.

8 Banco Agropecuario. El BAP y el café (Caracas: BAP, 1968)

9 Ministerio de Agricultura y Cría. Estudio integral de la caficultura en Venezuela (Caracas: 1974)

10 Banco Central de Venezuela. Cacao-café-caña de azúcar-tabaco. Estudio integral del sector (Caracas: 1978)

11 Ministerio de Agricultura y Cría. El café en Venezuela (Caracas: 1967)

12 William Roseberry has analized this process in the case of the Andean town of Boconó, Trujillo State, in his book Coffee and Capitalism in the Venezuelan Andes (Austin, Texas: University of Texas Press, 1983)

13 Ada F. MoraleS. „Origine Historique et Fonctionnement des PACCAS dans les Pueblos del Sur de l'Etat de Mérida" (Paper presented at the 47th International Congress of Americanists, New Orleans, July 1991), p. 2.

14 Ibid.

15 C. Zambrano, FONCAFE technician, Canaguá, Interviewed on March 26, 1991; C. Cañas, former president of the Municipal Council, Canaguá, Interviewed on March 24, 1991.

16 In the case of the Pueblos del Sur, one of the most isolated and traditional areas of Mérida, even today producers from the Guaimaros take their coffee to the PACCA and CRAM offices in Canaguá by means of mule trains.

17 See PACCA, Santa Cruz de Mora. Informe de la Junta Administradora, 1/10/86 a 31/03/90 (Mérida: 1990), and Frontera (Mérida), April 27, and Oct. 23, 1990. Since then this PACCA has been intervened by FONCAFE and there have been legal proceedings against members of its Council.

18 El Vigilante, April 25, 1986.

19 Ibid., May 18, 1986, and Frontera, June 11, 1986.

20 FONCAFE. Memoria y Cuenta 1986 (Caracas: 1987), p. 9.

21 Data taken from Ibid, pp. 48, 59 and 62, Memoria y Cuenta 1987, p. 63, and Memoria y Cuenta 1988, pp. 54, 56, 62, and 64.

22 El Universal (Caracas), Jan. 27, February 23, and 24, 1989; Frontera, Febr. 23, 1989.

23 El Universal, Oct. 9, 1989.

24 Ibid., Oct. 26, 1990; Jan. 25, and April 18, 1991; El Nacional (Caracas), April 3, 1991.

25 El Universal, Oct. 26, 1990.

26 There have also been similar accusations against bureaucrats of the central office of FONCAFE.

27 Sergio Aranda. La economía venezolana (Caracas: Editorial Pomaire, 1984), pp. 313 — 315, and 325 — 326.

28 El Universal, Oct. 13, 1990.

29 A similar process has been pointed out in Carl Stone. Democracy and Clientelism in Jamaica (New Brunswick: Transactions, 1983), p. 93.

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