



**Survey on transaction costs for coffee  
producers**

1. The Executive Director presents his compliments to Members and wishes to enclose, on behalf of Colombia, a survey to assess the situation regarding transaction costs faced by producing countries. The answers to these questions will help to identify, in general terms, how the domestic coffee trade functions in producing countries and will also provide more information on hidden costs.
2. Members are requested to complete and return the attached survey to the Executive Director by **30 May 2014** either by email to [icodocuments@ico.org](mailto:icodocuments@ico.org) or by fax to +44 (0) 20 7612 0630.

## **TRANSACTION COSTS FOR COFFEE PRODUCERS**

In the trading of an agricultural product, producers face additional costs to those involved in production. These are known as hidden costs or transaction costs. They can occur before, during and after the production process and can be of different types:

1. Research costs: refer to those incurred by the producer in researching information on current market prices or business opportunities.
2. Negotiating costs: correspond to the cost assumed by the producer for the settlement of the terms of trade, which determines how, when and in what form payment and product delivery will be made.
3. Implementation/reliability costs: refer to the resources used by the producer to ensure and enforce compliance with the terms of trade.
4. Transport costs to the place where the exchange takes place. The closer the proximity of the producer to the sales point the lower the cost incurred.

Thus, any decrease in any of the above costs translates into savings for the producer. Therefore, policies to reduce transaction costs, correct market shortcomings and imply an improvement in his/her income. Particularly for coffee producers, the aim is to identify which of these types of costs are more influential in determining their income.

### **Questions on transaction costs for ICO Member countries**

The following survey is designed to obtain an overview of the possible transaction costs faced by coffee producers in different producing countries. We are aware that some of the questions raised cannot be answered specifically, but the opinion or perspective that you or the institution that you represent have will certainly be a valuable indicator of the potential challenges that producing countries face on this issue. For that reason, we ask you to answer all questions in accordance with your experience, knowledge or the knowledge of other experts who can share on some particular topics.

The following questions seek to identify in general terms how the domestic coffee trade functions in your country and characterize it in more detail to provide a better perspective on the possible transaction costs that producers may incur:

**PRICE FORMATION**

1. Overall, do you believe that the average coffee producer in your country has access to a mechanism that informs him/her of the daily coffee price at which he/she can sell his/her product? [Yes\_\_\_/No\_\_\_]. If the answer is Yes, explain briefly how this mechanism works.

Reply: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

2. Is there a known or published minimum price at which producers can sell their coffee? [Yes\_\_\_/No\_\_\_]. If the answer is Yes, what are the variables considered for the formation of this minimum price? If the answer is No, go to question 3.

Reply: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

- 2.1 What is the mechanism for disseminating or announcing this daily minimum price?

Reply: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

- 2.2 Who publishes it?

Reply: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

- 2.3 Do you think that it is adequately disseminated?

Reply: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

2.4 On average what percentage of producers has access to the daily minimum price? (Mark only one option):

0 – 25%	26 – 50%	51 – 75%	76 – 100%

3. Is there a specific and well-known mechanism for determining the selling price of coffee in relation to its quality? [Yes \_\_\_/No \_\_\_]. If the answer is Yes, explain how it works:

Reply: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

**MARKET CONDITIONS**

4. What level of competition (number of buyers) does the average producer encounter when selling his product in local markets, near their plantations? (Mark only one option):

Options	Mark (X)
1. There are no buyers in the local market	
2. Very few buyers in the local market	
3. Sufficient buyers in the local market	
4. Excess of buyers in the local market	

5. How is the negotiation process to finalize a sale transaction of an average coffee producer? What are the main variables that the agreements are usually focused on?

Reply: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

6. To whom does the producer mainly sell his crop? (Write in percentage form):

Type of Buyer	%
1. Producer associations or cooperatives	
2. Intermediaries or local traders	
3. Large trading companies	
4. Exporters	
5. Hulling, roasters or processing centres	
6. Another type. Which one?	

7. How does the average producer seek a buyer for its coffee production? Do they always find one when they need one?

Reply: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

8. How regularly does the average producer sell his coffee to the same buyer? (Mark only one option):

Option	Mark (X)
1. Always	
2. Mostly	
3. Occasionally	
4. Never	

**BARGAINING POWER**

9. To what extent does the average coffee producer have bargaining power when dealing with a buyer? (Mark only one option):

Option	Mark (X)
1. None	
2. Reduced	
3. Adequate	
4. Satisfactory	

10. Which of these factors affect the bargaining power of the producer when dealing with a local buyer? (Order options according to their importance, with 1 being the most important. If a factor does not apply, please mark 0):

Option	Order
1. Lack of competition amongst buyers	
2. Poor information on minimum prices	
3. Unknown market price	
4. Lack of clear rules	
5. Grower's lack of information	
6. Grower's need for liquidity and cash payment	
7. Long distance between the farm and the point of purchase	

11. What are the main conditions that the average producer takes into account at the time of choosing a buyer to sell to? (Order options according to their importance, with 1 being the most important):

Option	Order
1. That he receives an adequate price	
2. That the buyer does not require excessive quality requirements	
3. That the buyer rewards quality coffee with a higher price	
4. That the buyer purchases any volume of coffee	
5. That the buyer pays in cash	
6. That the buyer offers incentives to the producers	
7. Other. Which one?	

12. What forms of payment does the average producer receive for his crop? (Order options according to their importance, with 1 being the most important):

Option	Order
1. Full cash payment	
2. In instalments	
3. Advance payment	
4. Payment in kind	
5. After sales payment	
6. Other. Which one?	

13. Where do coffee producers usually sell their coffee? (Order options according to their importance, with 1 being the most important):

Option	Order
1. At the farm	
2. Near the farm (less than 2 hours away)	
3. Nearest municipality (more than 3 hours away)	
4. Nearest city (more than 5 hours away)	
5. Other. Which one?	

14. What do you think is the main factor in hindering the access of the coffee growers to the point of sale of the coffee? (Order options according to their importance, with 1 being the most important):

Option	Order
1. Distance	
2. Transport costs	
3. Safety	
4. None	
5. Other. Which one?	

15. What is the average number of hours that it takes for the producer to sell his/her coffee?

Reply: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

16. How many times a year does an average coffee producer sell his/her product?

Reply: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

17. Overall, how difficult is it for the producers to sell their coffee in terms of the time it takes, transportation costs, difficulty of selling and knowing the market price and obtaining the full price? (Mark only one option):

Option	Mark (X)
1. It is easy because the markets are relatively close to the producer's farm	
2. Somewhat difficult for producers to sell their coffee at known market prices	
3. It is difficult for producers to obtain adequate remuneration for their crop as they do not have much bargaining power or enough information to negotiate with the buyer	
4. It is extremely difficult as producers are mostly in the hands of a single buyer who dictates conditions in the local market	

18. What do you think is the biggest obstacle faced by producers in selling their crop?

Reply: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Many thanks!