The Power and the Peril: Producers Associations Seeking Rents in the Philippines and Colombia in the Twentieth Century

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A thesis submitted to the Department of International Development of the London School of Economics for the degree of Doctor of Philosophy, London, September 2013
Declaration

I certify that the thesis I have presented for examination for the MPhil/PhD degree of the London School of Economics and Political Science is solely my own work other than where I have clearly indicated that it is the work of others (in which case the extent of any work carried out jointly by me and any other person is clearly identified in it).

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Abstract

This thesis investigates the collection of levies by the state from Colombian coffee and Philippine coconut producers and the delegation of authority, to mobilise and regulate the uses of the levies, to producers associations in these sectors. The thesis suggests that these activities constitute an “institutional framework” for state-engineered rents, whereby public authority is appropriated by private agents. It asks why similarly-designed institutions for allocating rents yielded different outcomes: Colombian coffee levies are associated with growth-enhancing and producer welfare-promoting investments in coffee production and marketing, while Philippine coconut levies are depicted as non-developmental rent capture by associates of a president.

The thesis explains the variation in outcomes by examining the basis in political economy of the power exercised by the leading sectoral organisations, FEDECAFE in Colombia and COCOFED in the Philippines, and how they articulated this power in the mobilisation of the levies. It finds that the conditions for collective action and the exercise of power were more robust for Colombian coffee than Philippine coconut producers. This meant that while FEDECAFE directly intermediated between coffee producers and the state in the mobilisation of rents associated with coffee levies, COCOFED shared the power of mobilising rents with other individual political brokers. This variation led to differences in rent mobilisation: a process that was production-enhancing in Colombia but not in the Philippines.

This work thus shows how variations in the political organisation of rent-seeking may be linked to variations in the developmental outcomes associated with the collection and deployment of such levies. Doing so, it seeks to contribute to the understanding of the political conditions under which state-engineered rents may be production-enhancing – an important question in late developing countries, where corruption may be endemic, but state-allocated rents nevertheless necessary for promoting development.
# Table of Contents

List of Tables ................................................................................................................. 6
List of Figures .................................................................................................................. 7
List of Acronyms ............................................................................................................. 8
Acknowledgements ......................................................................................................... 9

Chapter 1. Rents, producers associations and the politics of rent-seeking: a framework for analysis .......................................................................................................................... 11
  Why and how politics matters ..................................................................................... 13
  Objects of analysis ....................................................................................................... 15
  ‘Rents’ as an analytical framework ............................................................................ 22
  Methodology ................................................................................................................ 37
  Structure of the thesis ................................................................................................. 42

Chapter 2. Producers’ power and organisation in Colombia and the Philippines: comparative history and political economy ........................................................................................................ 43
  Political economy writ large: struggles in late development .................................... 44
  Micro- and historical foundations of collective action and political power ............ 49
  Political drivers of the rent settlement ...................................................................... 67
  Conclusion .................................................................................................................... 81

Chapter 3. The mobilisation of coconut levies in the Philippines: rents, wealth and their claimants .......................................................................................................................... 83
  Purposive rent allocation by a strongman president: an overview ......................... 84
  An accounting of the coconut levies ......................................................................... 89
  Rents from state-engineered concentration of market power ................................ 99
  Purposive allocations for the “coconut king” ............................................................... 114
  Coconut levies as extractions in aid of capital accumulation .................................... 124
  Conclusion .................................................................................................................... 131

Chapter 4. ‘From the producers, for the producers’: The Colombia coffee rent settlement as counterpoint ................................................................................................................. 133
  Purposive rent allocation for a federation: an overview .......................................... 134
  Resources for stabilising producers’ income ............................................................ 146
  Investing to benefit the contributors ......................................................................... 165
  Conclusion .................................................................................................................... 178
List of Tables

Table 2.1 Average growth of per capita GDP (in percent) 46
Table 2.2 Gross Domestic Savings as % of GDP 46
Table 2.3 Share of Philippine coconut and Colombian coffee export earnings in total (in per cent): selected years, 1900-2000 52
Table 2.4 Farms and coconut hectarage shares, by farm size, before the imposition of coconut levies (in percent): 1948, 1960, 1970 54
Table 2.5 Farms and coffee hectarage shares, by farm size, (in percent): 1955-56 and 1970 56
Table 2.6 Distribution of Philippine ‘coconut farms’ and Colombian ‘coffee estates’, by size: 1970 58
Table 2.7 Ten-year average Philippine exports and US share, by type of coconut product: 1900-2000 63
Table 2.8 Coffee production (in tons), by size of coffee farms and geographic zone, 1923-1932 64
Table 3.1 Four Coconut Levies Collected during the Marcos Years: Legal Basis and Key Elements of the Relevant Laws 85-86
Table 3.2 Total Coconut Levies Collected (excluding CIF Levy), as of 1997, by Type of Levy 86
Table 3.3 Audited Disbursements of the Coconut Levy Funds: 1970-1982 91
Table 3.4 CIIF Investments: 1977-1980 95
Table 4.1 Taxes collected from the coffee sector: period collected, rate of taxation and recipients 138
Table 4.2 Distribution of coffee taxes collected, by type (in per cent) 139
Table 4.3 Budget allocations made by the FEDECAFE: 1930-1940 143
Table 4.4 The FEDECAFE’s Appropriated Budget: 1975-1994 168
Table 5.1 Governing boards of COCOFED, PCA and UCPB, 1980 191
Table 5.2 PCA Board Composition: 1974-1984 194
Table 5.3 Uses of coconut levy collections, by administrator 196
Table 5.4 Original CIIF investments and net worth as of December 1996 201
List of Figures

Figure 2.1 Real GDP (in SUS bn, at costant 2000 prices) 45
Figure 2.2 Sectoral Shares in GDP: Colombia and the Philippines, 1960-2006 47
Figure 3.1 Coconut sector productivity (in tons/hectare), 1961-1990: Philippines and selected competitors 115
Figure 4.1 Coffee taxes as a percentage of income and total government revenues: 1950-1996 136
Figure 4.2 Distribution of taxes on coffee between the national government and the coffee sector, in per cent 1950-1996 140
Figure 4.3 FEDECAFE's Budget Allocations, by shares: 1930 147-148
Figure 4.4 External Coffee Prices (US$ per pound): 1930-1960 152
Figure 4.5 Share of the FEDECAFE in Procurement and Exports 154
Figure 4.6 Coffee Fund Budget Executed: Major Expenditures (shares in per cent): 1979-1996 156
Figure 4.7 Coffee Fund Budget Executed: Major Revenue Sources (shares in per cent), 1979-1996 157
Figure 4.8 External prices and effective rate of retention: 1958-1995 161
Figure 4.9 External prices and ratio of internal to external prices: 1950-1996 165
Figure 4.10 Average distribution of 'institutional costs' per pound exported (in per cent): 1991-2001 169
Figure 4.11 FEDECAFE Investments, by type (shares in per cent): 1975-1995 174
Figure 4.12 Real Value of Coffee Fund Investments and External Coffee Prices: 1975-1995 175
Figure 6.1 Simplified organisational hierarchy: The FEDECAFE 226
## List of Acronyms

<table>
<thead>
<tr>
<th>Acronym</th>
<th>Full Form</th>
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<tbody>
<tr>
<td>AII</td>
<td>Agricultural Investors, Inc.</td>
</tr>
<tr>
<td>ALMACAFE</td>
<td>Almacenes Generales de Deposito de Café</td>
</tr>
<tr>
<td>bn</td>
<td>billion</td>
</tr>
<tr>
<td>CCC</td>
<td>Coconut Coordinating Council</td>
</tr>
<tr>
<td>CCSF</td>
<td>Coconut Consumer Stabilisation Fund</td>
</tr>
<tr>
<td>Cenicafe</td>
<td>Centro Nacional de Investigaciones de Café</td>
</tr>
<tr>
<td>CEPO</td>
<td>Congressional Planning Office</td>
</tr>
<tr>
<td>CIC</td>
<td>Coconut Investment Company</td>
</tr>
<tr>
<td>CIDF</td>
<td>Coconut Industry Development Fund</td>
</tr>
<tr>
<td>CIF</td>
<td>Coconut Industry Fund</td>
</tr>
<tr>
<td>CIIF</td>
<td>Coconut Industry Investment Fund</td>
</tr>
<tr>
<td>CIRF</td>
<td>Coconut Industry Rationalisation Fund</td>
</tr>
<tr>
<td>CISF</td>
<td>Coconut Industry Stabilisation Fund</td>
</tr>
<tr>
<td>COA</td>
<td>Commission on Audit</td>
</tr>
<tr>
<td>COBONTER</td>
<td>Copra Bonded Terminal</td>
</tr>
<tr>
<td>COCOFED</td>
<td>Philippine Coconut Producers Federation</td>
</tr>
<tr>
<td>COCOLIFE</td>
<td>United Coconut Planters Life Assurance Corporation</td>
</tr>
<tr>
<td>COCOMARK</td>
<td>COCOFED Marketing Corporation</td>
</tr>
<tr>
<td>COIR</td>
<td>Coconut Industry Reform Movement</td>
</tr>
<tr>
<td>Col$</td>
<td>Colombian peso</td>
</tr>
<tr>
<td>CPSF</td>
<td>Coconut Price Stabilisation Fund</td>
</tr>
<tr>
<td>EO</td>
<td>Executive Order</td>
</tr>
<tr>
<td>FAO</td>
<td>Food and Agriculture Organisation</td>
</tr>
<tr>
<td>FEDECAFE</td>
<td>National Federation of Coffee Growers of Colombia</td>
</tr>
<tr>
<td>FUB</td>
<td>First United Bank</td>
</tr>
<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
</tr>
<tr>
<td>KBL</td>
<td>Kilusang Bagong Lipunan</td>
</tr>
<tr>
<td>LEGOIL</td>
<td>Legaspi Oil Company</td>
</tr>
<tr>
<td>LOI</td>
<td>Letter of Intent</td>
</tr>
<tr>
<td>mn</td>
<td>million</td>
</tr>
<tr>
<td>NIDC</td>
<td>National Investment and Development Corporation</td>
</tr>
<tr>
<td>PCA</td>
<td>Philippine Coconut Authority</td>
</tr>
<tr>
<td>PCGG</td>
<td>Philippine Commission on Good Government</td>
</tr>
<tr>
<td>PD</td>
<td>Presidential Decree</td>
</tr>
<tr>
<td>PHILCOA</td>
<td>Philippine Coconut Administration</td>
</tr>
<tr>
<td>PHILCORIN</td>
<td>Philippine Coconut Research Institute</td>
</tr>
<tr>
<td>PhP</td>
<td>Philippine peso</td>
</tr>
<tr>
<td>PICC</td>
<td>Philippine-Indonesian Coconut Commission</td>
</tr>
<tr>
<td>PKSMMN</td>
<td>Pambansang Koalisyon ng mga Samahang Magsasaka at Manggagawa sa Niyugan</td>
</tr>
<tr>
<td>SMC</td>
<td>San Miguel Corporation</td>
</tr>
<tr>
<td>SOLCOM</td>
<td>Southern Luzon Coconut Oil Mill, Inc.</td>
</tr>
<tr>
<td>SPMC</td>
<td>San Pablo Manufacturing Corporation</td>
</tr>
<tr>
<td>UCPB</td>
<td>United Coconut Planters Bank</td>
</tr>
<tr>
<td>UNICHEM</td>
<td>United Coconut Chemicals, Inc.</td>
</tr>
<tr>
<td>UNICOM</td>
<td>United Coconut Oil Mills</td>
</tr>
<tr>
<td>US</td>
<td>United States of America</td>
</tr>
<tr>
<td>US$</td>
<td>US dollar</td>
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Chapter 1. Rents, producers associations and the politics of rent-seeking: a framework for analysis

This is a tale of two producers associations, their entanglement with the politics of rent-seeking\(^1\), and the disparate outcomes that followed. Both associations were made part of an institutional framework\(^2\) that legally enabled them to control a portion of taxes the state levied on the producers. The portion of the taxes purposively allocated to the sector, or retained by the sector through the claims of the producers associations on them, are ‘levies’ or state-enforced non-voluntary contributions, which unlike most taxes did not revert to the national coffers for redistribution to the wider economy. The institutional framework that gave producers associations the right to mobilise these levies effectively gave private agents entitlements to extraordinary income streams, which they would not have had access to without the policy intervention. In this sense, it is a ‘rent-creating’ institutional framework.\(^3\) I will explain how one of the associations was successful at appropriating the rents and mobilising them to promote both the productive goals and the protection of the welfare of their members; the other, less so. By dissecting this tale – particularly asking why similarly designed institutions of rent creation were associated with different outcomes – I seek to show why politics matters in understanding the developmental consequences of state interventions creating rents.

The two producers associations are the National Federation of Coffee Growers of Colombia (FEDECAFE) and the Philippine Coconut Producers Federation (COCOFED). Their involvement in rent appropriation was made possible by an institutional arrangement established by the state in the name of

\(^1\) Following Khan & Jomo (2000, p. 5), I define ‘rent-seeking’ as pertaining to all activities that seek to “create, maintain and change the rights and institutions on which rents are based”.

\(^2\) I use ‘institutional framework’ and ‘institutions’ interchangeably and proceed from North’s (1995, p. 23) definition of institutions as “humanly devised constraints that structure human interaction” and “composed of formal rules…informal constraints…and the enforcement characteristics of both”. [emphasis mine] I append the term ‘framework’ to emphasize that my objects of analysis are not the incentives embedded in a system of taxation (i.e., producer/export taxation) but in the institutional arrangement designed to enforce the tax—particularly the deputisation of private actors in the appropriation of public functions.

\(^3\) This approach to rents follows from Khan (2000b), who argues against the homogenization of the term “rents” and for the need to categorize different types of state-created rents. In particular, I utilise his category of rents as those arising from transfers organised through the political mechanism, and effectively converting public property into private property (Khan, 2000b, pp. 35-36).
developing the coffee sector in Colombia and the coconut sector in the Philippines, and with two core features. First, it involved the collection of levies from the respective sectors to build up funds that were legally and/or nominally earmarked for purposes of protecting and heightening the competitiveness of the sector. Second, the state vested the producer associations with part of the authority to mobilise these funds. Thus, the state effectively ceded to private agents control of entitlements to a public property (i.e. the proceeds from levies, which were non-voluntary contributions collected through the use of the coercive power of the state). The mobilisation of the levies generated further streams of incomes and benefits – some of which came in the form of further rents, others arising from specific modes of mobilising the levies – that varied significantly in Colombia and the Philippines: both in terms of their recipients, and the associated outcomes.

In Colombia, the levies were mobilised in investments and institutions that heightened the competitiveness of the coffee sector in the world market. Moreover, they also contributed to enhancing the welfare of Colombia coffee producers, by stabilising their income in the face of commodity price volatility and providing public goods like roads, health and education facilities in coffee-growing areas. The resources to finance these emanated from the use of coffee levies to shore up market power in a parastatal ran by FEDECAFE. Beyond the sector, this framework also had wider developmental consequences. It also enhanced the capacity of the state to mobilise policies around the goals of coffee production. However, an enduring puzzle is why this model and its dynamic benefits never went beyond the coffee sector.

Meanwhile, in the Philippines, the way rents were mobilised advanced neither the productive goals of the coconut sector nor the welfare of coconut producers. Instead, the mobilisation of rents is associated with supporting the personalistic goals of a cabal of individuals and an authoritarian president. Here the framework yielded the worst aspects of primitive accumulation without dynamic benefits accruing to the economy.

If similarly-articulated institutional frameworks for rent appropriation yielded different modes of rent mobilisation – one more development-inducing than the other – then the explanation behind the differential outcomes associated with the levies collected from Colombian coffee producers and Philippine coconut
producers must be found beyond the realm of institutional design. This is why politics matter. This dissertation contributes a response to the broader question: *what political conditions allow for the emergence of production-promoting state-engineered rents?* This comparative case study of Colombia and the Philippines provides an occasion for interrogating and potentially constructing hypotheses on the ways in which the political underpinnings of rent-seeking may shape the developmental impact of rent-creating state interventions.

In this introductory chapter, I explain the theoretical framework I developed and the methodology I used to research the broad question I posed above. In the first section, I outline an argument for how specific political conditions – particularly, the political organisation of rent-seeking and the relative power exercised by producers associations – underpin the variations in rent mobilisation in the Colombian coffee and Philippine coconut sectors. In the second section, I will provide a detailed explanation of the institutional frameworks I am comparing and how institutional performance has been described and explained in literature. Following this, I present the theoretical framework I employed in this research. In the final section of this chapter, I describe the research methodology I utilised to deploy this theoretical framework.

**Why and how politics matters**

In this dissertation, I show the two senses in which politics matters in relation to the developmental potential of state-engineered rents: the first relates to the power exercised by producers associations – rooted in any given country’s political economy and history – in the articulation of productive goals; the second, to the political organisation of rent-seeking.

*First*, variations in the economic and historical foundations of political power of the producers groups explain differences in the organisational robustness of COCOFED and FEDECAFE. In the Philippines the foundations were such that what emerged was a relatively weak organisation of landlords and local politicians, unable to develop internal institutions of accountability. In Colombia, regional landlords and politicians also played a key role in building the association. However, the federation grew to be a stable organisation with fully articulated institutions of representation and accountability.
Second, variations in the political organisation of rent-seeking\textsuperscript{4} in Colombia and the Philippines may be used to explain differences in the assignment of rights to rents and their mobilisation. The organisation of rent-seeking in both Philippines and Colombia is characterised by fragmentation, whereby a large number of factional groups compete for access to state resources. Political intermediaries (brokers) lead these factions and link them to the state in the processes of bargaining for access to state-engineered rents. In both Colombia and the Philippines, this has limited the capacity of the state to pursue the encompassing goals of development or the generalised consolidation of development-inducing rent assignments. But there is an important difference within these systems of fragmented clientelism that explain why specific rent assignments may have performed differently in the Philippines and Colombia: the brokers of the settlement in the sectors under study were institutionalised and organised producer classes in Colombia but not in the Philippines.

In the Philippines, patron-client factions work through family-based networks or oligarchs outside of the state, with direct links to executive power. In the case of the coconut sector, the rent allocation framework was instituted and developed through the intermediation of individual power brokers who had little to do with the sector.

Meanwhile, in Colombia, these factions similarly worked through local or family-based networks but within the state through party structures or with an organised articulation as in producer associations. In the case of the coffee sector, the rent allocation framework was instituted through the intermediation of local politicians and within party structures but ultimately worked through a fully functioning producers association.

Taken all together, these meant that the rents associated with coffee levies in Colombia was one where rent entitlements were determined by agents endogenous to the sector, with an interest to enhance the value created by and to retain the rents extracted within the sector, and with political accountability to the sector they represented. In the Philippines, rent entitlements were exogenously determined, by agents with no enduring interest to enhance either

\textsuperscript{4} Following Khan (2000a, pp. 89-91), I define the ‘political organisation of rent-seeking’ as the organisational structure of patron-client networks linking state agents (politicians and bureaucrats) to private agents (capitalists and non-capitalists) and the resource flows therein.
value or welfare within the sector, and with weaker links of accountability between them and the coconut producers. While collective goals of the sector, as articulated by the FEDECAFE, motivated the uses of the rent in Colombia; there was a constant tension between particularistic goals (of the brokers and political leaders) and those of the sector in the Philippines. The weakness of the producers association in the Philippines meant that the goals of political entrepreneurs overrode those of the coconut producers in the mobilisation of the levies.

**Objects of analysis**

The main objects of analysis are the institutional framework employed by the state to develop the coffee sector in Colombia and the coconut sector in the Philippines. The analysis broadly covers the twentieth century, including the historical conditions that led to their establishment in Colombia and the Philippines. I provide a close view of rent mobilisation while the levies were being collected in the two countries. In the Philippines, the framework was in place only from 1970 to 1982, but rent streams were at play until the end of the century and so I cover the contest for those rent streams as well. In Colombia, levies are still being collected – but I end my analysis at 2000. As previously noted, at the centre of the institutional framework are ‘levies’, which in turn are essentially specific modes of taxation of the agro-export sector. Normally, agro-export taxation is a means by which the state extracts surplus from agriculture to finance the imperatives of industrialisation as well as to regulate export production; it thus represents the use of state power to coordinate production and control the agro-export sector. In Colombia and the Philippines, the state chose to leave the sector partially autonomous by giving representatives of the agro-export sector power to determine the uses of the tax proceeds. In turn, these organisations used the proceeds primarily to establish post-harvest rent-generating monopsonies: in marketing, in the case of coffee; and in milling, in the case of coconut.

The institutional framework that I analyse in Colombia and the Philippines share three characteristics.

*First*, it was a framework that built up public funds for use of a sector through the collection of taxes from the same sector. In the Philippines, the tax was levied on producers from the first sale of copra. The tax was collected for 10 years, with
the rate increasing from PhP5.50 per metric ton (MT) of copra in 1972, to PhP150 per MT in 1973, to a peak of PhP600 per MT in 1974. When world prices sharply declined in 1980, the tax was suspended and then reinstated for a short period in 1982 with a sliding rate that depended on international prices. The levy was revoked in 1982. The tax collected was then used to set up investment funds, held in trust by the government in the name of coconut producers. It was through the investment funds that coconut producers were nominally able to invest in shoring up the industrial capacity of the sector. Their ownership of these funds was evidenced by the receipts they held of their levy contributions, which represented their “shares” in these funds.

In Colombia, the tax was imposed on coffee exporters and evolved with changes in the primary functions of the tax. The first tax, collected from 1927-1972, was a volume-based general tax on coffee exports. Until 1940, the primary function of the tax related to providing the incentives for membership into the FEDECAFE and to shore up investments into the sector. With the onset of World War II and the spectre of a shrivelling international market in Europe, Latin American producers entered into the Inter-American Coffee Agreement whereby they divided up shares in the US market. For the quota system to be enforced, the Colombian government had to intervene in the domestic market to regulate supply and prices and did so through the FEDECAFE. The Fondo Nacional del Café (FNC, from here on the National Coffee Fund) was thus set up in the Treasury, and financed the operations of the FEDECAFE to buy, sell and store coffee (Palacios, 1980, p. 223). In 1958, the goals of the National Coffee Fund evolved to include not just stockpiling for the purposes of fulfilling Colombia’s commitment in the Inter-American Coffee Agreement, but also to effect domestic price stabilisation.

The National Coffee Fund, in turn, was funded through a number of additional taxes collected from the coffee sector, four of which were particularly important (Nash, 1985, pp. 209-211). First, a retention quota, through which private exporters were mandated to contribute parchment coffee\(^5\), delivered to a FEDECAFE warehouse. This mechanism has been used to transfer a portion of external price increases to the Fund – with rates increasing directly with

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\(^5\) Dried coffee beans
international prices. Second, the *pasilla* and *ripio* taxes (from here on, taxes on low-grade coffee), through which private exporters were mandated to sell a volume equivalent to 6 per cent of their consignment of green coffee, bought by FEDECAFE at a fixed rate. Third, an *ad valorem* tax, which began as a tax on coffee dollars (1935-1944), which was replaced by a ‘coffee differential’, whereby dollars earned from coffee exports are exchanged at a lower rate (1951-1957; 1962-1967). In 1967, this was replaced by an *ad valorem* tax on coffee exports. The rate was set at 26 per cent in 1967, but has waned since then. A portion of this tax went directly to the national treasury, but a greater portion went to the National Coffee Fund and departmental committees of the FEDECAFE. Finally, in 1991, all these taxes, except the retention tax, were folded into a single levy called the *contribucion cafetera*.

Second, these public funds were nominally established to finance price stabilisation schemes and productivity-enhancing investments for the taxed sector.

In the Philippines, the tax proceeds were used for four major purposes (Clarete & Roumasset, 1983; Hawes, 1987a; Tiglao, 1981): (a) to subsidise domestic consumers of coconut oil products; (b) to subside seed development and distribution; (c) to buy a bank that would service the credit needs of coconut farmers; and (d) to purchase oil mills and nationalise the oil milling industry. A portion of the funds also went directly to the coffers of the COCOFED, which the association used chiefly to finance a scholarship programme and for its organising requirements.

In Colombia, the tax proceeds were used for three major purposes (Bentley & Baker, 2000; Palacios, 1980): (a) to establish enough domestic market power to stabilise prices faced by producers; (b) to set up subsidiary organisations including an agronomic research institute, a merchant marine organisation, a bank and storage network of warehouses; and (c) to finance local public investments in coffee-growing departments.

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6 Centro Nacional de Investigaciones de Café (National Coffee Research Centre or CENICAFE) founded in 1938.
7 Flota Mercante Grancolombiana, owns three ships and hires 60 others, plying 60 international routes and involved in shipping imports and exports, including coffee.
8 Banco Cafetero
9 Almacenes Generales de Deposito del Cafe
Third, producer groups exercised control over the uses, appropriation and management of these funds. The funds were explicitly established to organise these producer groups—especially in Colombia.  

In the Philippines, control was exercised directly and indirectly by COCOFED. It exercised direct control through the portion of the fund, no more than 10 per cent of the levy collected, that went directly to the organisation and its programmes. It exercised indirect control through its membership in the governing board of the Philippine Coconut Authority (PCA), the government agency tasked with the collection and management of the fund. This governing board, in the course of ten years, was whittled down from a board of eleven members and mostly government officials, to seven and all of whom were COCOFED members or presidential associates (Hawes, 1987a). The investments made into the bank and oil mills were authorised through presidential decree, upon the recommendation of the PCA.

In Colombia, the National Coffee Fund was ‘owned’ by the government but managed by the FEDECAFE on the basis of a 10-year renewable and performance-based contract. The FEDECAFE has a fully-fleshed out organisational structure that, in consultation with the government, decides on issues related to the Fund (Bentley & Baker, 2000).

Associated outcomes
In Colombia, the outcomes associated with the mode of coffee taxation I described above may be gleaned from three strands of literature.

First, the performance of the FEDECAFE as a parastatal institution is hailed in current literature analysing institutions in Colombia’s coffee economy (Bentley & Baker, 2000; Giovannucci, 2002). It is credited for coordinating national coffee policy, improving cultivation practices through an internationally renowned research institute, instituting and maintaining rigorous quality control standards and building up the only internationally known national coffee brand, the “Juan Valdez” logo. The institutional framework in which a private organisation was granted regulatory powers is credited for the emergence of

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10 Bates (1997, pp. 61-62) insists that the appropriation of all coffee export tax proceeds to the FEDECAFE in 1927 provided the incentives for membership in FEDECAFE in Colombia—in other words, incentives for collective action in the coffee sector.
FEDECAFE as an “economic institution” that solved market failures within the coffee economy—particularly, monitoring and enforcing quality control—that was pivotal in building up the international competitiveness of Colombian coffee. (Bates, 1997, pp. 62-64)

It is also described as functioning like a “mini-government” providing schools, nursery schools, hospitals, roads and extending power lines in coffee-growing departments (Thomas, 1985, p. 133). Giovannucci (2002, p. 23) asserts that FEDECAFE investments in local public goods account for the superior social conditions in coffee-growing departments, where health services are better and have greater coverage, access to clean drinking water, utilities and basic services are wider, and levels of illiteracy are notably lower than the national average. Bentley & Baker (2000, p. 6) claim that nearly all public works in the Central Coffee Belt, where one-third of the Colombian population lives, are funded by the FEDECAFE.

Second, literature analysing the performance of FEDECAFE as an institution for collective action highlights how it allowed for the incorporation of smallholder interest in policymaking in Colombia. Bentley & Baker (2000) depict the FEDECAFE as a farmers’ organisation that finds no parallel anywhere in Latin America, where coffee producers organisations tend to be dominated by wealthy coffee growers. In Colombia, representation in the National Coffee Congress, the highest governing body of the FEDECAFE is weighted by an area’s volume of production. Since smallholder producers in the Central Coffee Belt account for a lion’s share of coffee produced, the organisational structure thus favours them (Bates, 1997, p. 60).

FEDECAFE is structured as a mass organisation, ensuring that the smallest producers could join (Bates, 1997, p. 60). The organisation has a democratic hierarchy constituted at the grassroots by democratically-elected municipal committees. These committees elect departmental committees, which in turn elect the National Coffee Congress. The Coffee Congress selects the members of the executive committee, who managed the finances and saw to the day-to-day operations of the organisation (Bentley & Baker, 2000, p. 4).

Third, accounts of the functioning of the institutional framework reveal that its role in economic development may have evolved. From 1927 to the 1940s, the framework provided incentives for export production. Bates (1997, pp. 64-
explains that throughout the period before the Second World War, the FEDECAFE was able to utilise its strategic political position to successfully lobby against the overvaluation of the currency, for control over export taxes and against the Colombian government position to collude with Brazil in regulating world supply of coffee. In the process, the sector established an economic institution that overcame free riding, provisioned the sector with public goods and maximized the value of exports by creating conditions for building the reputation of Colombian coffee for good quality. This resulted in the rapid growth of exports and Colombia’s vigorous entry into the world coffee market.

With the entry of Colombia into international agreements regulating the world supply of coffee after the Second World War, FEDECAFE became a tool for effecting the quota system and stabilising coffee prices. From 1960-1983, the framework was found to have effected the transfer of resources out of the sector (García & Llamas, 1989). Direct intervention in coffee prices had the effect of reducing producers’ incomes. Despite interventions in input prices and other government expenditures on the coffee sector, direct interventions in coffee prices along with the effect of an overvalued exchange rate had the net effect of transferring resources away from coffee into the national economy. Coffee export taxation also had the effect of increasing national government revenues by 7 per cent annually from 1960 to 1981. Thus, after the Second World War, the sector was clearly a source of development financing.

In the Philippines, there are three strands of literature from which the institutional performance of coconut taxation as described may be gleaned.

First, it is at the core of the literature depicting the extent of the corruption perpetrated under the administration of Ferdinand Marcos, the strongman who ruled the country during its period of authoritarianism (1963-1986) and was ousted through an unconstitutional uprising, a military coup backed by civilian demonstration in Manila in 1986. Included in this literature are descriptive accounts of the plunder by Marcos (Aquino, 1999; Manapat, 1991), which recount his use of statecraft to amass wealth for his family and his cronies. Aquino bases her analysis on the documents left behind in the Presidential Palace, when Marcos fled the Philippines in 1986 in the aftermath of an unconstitutional uprising, along with the official findings of the Philippine Commission on Good Government (PCGG), a government body organised in
1986 to investigate the extent of Marcos’ loot. Meanwhile, Manapat first published his work as a pamphlet in 1979, at the height of the authoritarian regime. Based on a careful examination of journalistic sources, he expands this pamphlet into a book that attempts to document in detail how Marcos state power was used to intervene in the economy and doing so created wealth and privilege for a few individuals. A new addition to this set of literature is an unauthorised biography of Eduardo Conjuangco (Parreño, 2003), which provides an account of how this businessman co-opted the institutional framework to his advantage.

These are predominantly descriptive narratives of how funds were used for personalistic ends by a cabal of individuals close to the president. In a nutshell, the fund ended up being used for three major undertakings: a coconut replanting and seeding programme; the acquisition of a bank; and the vertical integration of the coconut milling and exporting industry. These undertakings benefited specific individuals, foremost of whom was Conjuangco, who owned the coconut plantation from which the seedlings for the replanting programme were bought, and whose family owned the bank that was to become the farmers’ bank. A cabal of individuals gained control of the industry as they became part of the governing boards of the government authority that administered the fund, the bank and the milling company. Manapat (1991, pp. 235-239) asserts that the funds were also used to buy controlling shares into the largest food company in the Philippines (San Miguel Corporation) while Parreño (2003, pp. 153-166) reports on the elaborate corporate-legal means which made this possible.

Second, Hawes (1987a, pp. 55-82) validates much of the descriptive accounts above but pushes the analysis further by depicting the institutional framework as a means by which the president weakened his opponents—including provincial politicians tied to the coconut industry and old families engaged in the oil milling business—and strengthened his political machine. He asserts that at its inception, the fund was a victory for leaders of the COCOFED, who lobbied for state intervention. But by choosing to work with politicians and personalities with close association with the president, they took a calculated risk that in the end worked against them: the same personalities worked to solidify their own position within the coconut industry and appropriated the surplus generated there.
Third, economic impact assessments of the price interventions embodied by the institutional framework (Clarete & Roumasset, 1983; Intal & Power, 1990) uniformly depict the taxes on the coconut sector as depressing the incomes of coconut producers and, with an overvalued exchange rate, effecting a transfer of resources out of the sector. The sector was also an important source of government revenue; the coconut levy along with the export tax translated to an average tax of 26 per cent in the period 1974-1981.

In summary, the same institutional framework that helped the Colombian state shore up its developmental capacity—including aiding in processes of national economic integration, herding growth-enhancing investments, and improving social welfare of a significant part of its rural population—was, in the Philippines, co-opted by entrenched interests from outside of the sector to build up their personal wealth. In this dissertation, I thus explore the political configurations that account for these differences.

‘Rents’ as an analytical framework

The concept of ‘rent’ invoked here and throughout the dissertation is an extension of its conception in neo-classical economics as that part of the payment to a resource owner over and above the given resource’s opportunity cost, or what it could command in any alternative use under competitive market conditions. In this sense, rents can be inducements to production, fuelling the dynamic of long-term economic growth through processes of resource reallocation, which in turn are governed by calculations of resource owners seeking to find or exploit opportunities to earn economic rent (Buchanan, 2008, pp. 55-57).

In this dissertation, I focus on state-mediated rents or rents that rise out of state interventions. In the neo-classical economics schema, state interventions that regulate entry into a given economic activity—for example, licenses, quotas or monopoly rights—give rise to returns for producers in that activity in excess of what would be possible through market competition. These interventions give rise to these extraordinary returns by impeding potential entrants from participating in the activity and thus blocking competitive market forces from driving down producer prices, and with them economic rent.
I extend this conception of rents in neo-classical economics by utilising literature that is critical of the economistic and depoliticised view of rents.

*First*, I utilise Khan’s (2000b, 2010, 2013) extension of the very concept of rents. He defines ‘rents’ as incomes higher than the next best opportunity available that a person or organisation would have accepted. (Khan 2013, p. 239). He observes that rents are generated not just by state interventions that restrict trade but also politically-determined redistributive transfers—for example selective transfers of taxes, production subsidies or any legal or illegal transfer that converts public property into private entitlements. (Khan 2000b, pp 36-40) These transfers represent extraordinary incomes for their privileged recipients, incomes that would not have existed without the intervention of the state. Such state interventions thus lend to an incremental change in the distribution of incomes. In general, Khan (2013, p. 250) submits that any policy intervention will change income flows, and thus creates rents.11

*Second*, I proceed from the view that ‘rents’ perform not just economic (i.e., at best, potential inducement to production; at worst, incentive for non-productive rent-seeking) but also political functions (i.e., maintaining peace and enforcing security by inducing political opponents to cooperate with the governing coalition), as suggested Khan (2000b) and North et al (North, Wallis, Webb, & Weingast, 2007; North, Wallis, Webb, & Weingast, 2013; North, Wallis, & Weingast, 2009). Moreover, access to state-mediated rents is an observable indicator of relative power exercised by agents who are given the rights to these rents.

Proceeding from these propositions, the institutional framework for the collection of levies being investigated in this dissertation can be thought of as a rent-creating state intervention. This rent-creating state intervention has a peculiar characteristic: the source from which the rents were extracted and the targeted beneficiaries of rent mobilisation are – at least nominally – from the same sector. Thus, it could be suggested that what I am investigating is not a rent-allocation framework but a politically-administered forced saving scheme, not unlike, say, pension funds where contributors benefit out of earlier

11 The rents could be ‘positive’ or ‘negative’: the former, is received by those who as a result of a policy intervention receives a higher than the next best opportunity income; the latter, is an extraction from those who lose income (say, as a result of a tax imposition). (Khan, 2013, p. 249)
contributions made and where no ‘redistribution’ or ‘transfer’ actually occurs. But I will show in this dissertation that unlike in savings schemes, the benefits enjoyed by levy contributors were politically determined, and not necessarily in proportion to their contribution.

I utilise an approach to investigating this rent-creating policy intervention that hews closely to Khan’s (2013) ‘incremental rents framework’. I am interested in investigating the changes in rents and their distribution associated with the imposition of coffee and coconut levies. This framework does not proceed from the proposition that the very creation of rents by way of state interventions is socially/economically undesirable. Instead what needs to be investigated is whether the incremental changes in the distribution of rents are associated with the positive or negative incremental outcomes. I will show that that modes of mobilisation of the levies in the Philippines are chiefly characterised by redistributive transfers that were detrimental to the goals of production and the welfare of the levy contributors. In turn, I will explain how this difference with Colombia, where levies were mobilised to benefit the sector, can be explained by factors in political economy that resulted in FEDECAFE and COCOFED playing markedly different roles in rent mobilisation.

The dissertation ultimately contributes to the wider debate on the developmental consequences of the state involvement in the creation and allocation of rents. The next section engages with this debate fully, but a summary of the main propositions would be useful at this point.

On one side of this debate is the neo-classical economics literature on rent-seeking, which generally proposes that state interventions that have the effect of creating and allocating rents generate socially wasteful behaviour and are thus always detrimental to long-term development. This is part of the orthodoxy that has informed the ‘good governance model’, which seeks to promote zero-rent societies featured by the unfettered operation of free markets and governed only by liberal democratic states, whose functions are limited to providing law and order and fostering conditions for market competition.12

The main argument goes this way. Under a market structured order, when above-cost returns exist in a given economic activity, agents will be drawn into participating in that activity. Free entry to participate in the sector fosters competition, which in turn drives up output, drives down prices and with them, economic rents. Market competition generates Paretian social surplus and the free entry of profit-seekers leads to the dissipation of rents. When the state intervenes to regulate entry into a given economic activity – as with licenses, quotas or the granting of monopoly rights – it effectively assigns the rights to the economic rent to a privileged portion of potential market participants. This, in turn, fOMents socially wasteful behaviour by inducing economic agents to expend resources in ‘rent-seeking’, or to capture the income streams (Buchanan, 2008).

On the other side of this debate lie various strands of literature that are cOgnizant of the important role that state-mediated rents may play in the process of economic development and growth. This notion is explored in connection to the historical experience of successful late-developing countries in East Asia (Amsden, 1989, 2001; Amsden & Hikino, 1994; Wade, 1990), where specific types of rents were crucial in powering processes of industrial upgrading. Further back still in the timeline of world economic history, there is a distinct strand of literature that attributes the creation of wealth to the subsidisation and protection of increasing returns sectors of the economies in Western Europe; and that decries that the developing world is currently denied the set of policy tools that already successful industrialisers harnessed when they were at similar stages of development. (Chang, 2002; Reinert, 2007) These historical explorations of actual development experiences point to the central role that state allocation of rents played in the transformation of the productive capacities of the now industrialised countries of the world.

Khan (2000a, 2000b, 2005a) explores why the state plays an important role in capitalist development, especially in late developing countries. He suggests that redistributive rents may be crucial in the transition from pre-capitalist to capitalist societies in developing economies, where productive capitalist classes require financing. Khan does not deny that redistributive rents, when directed
towards unproductive purposes, could lead to the worst of developmental outcomes. But as suggested by the works of Amsden (1989, 2001; Amsden & Hikino, 1994) where these state-engineered privileges were disciplined by state-defined performance-based parameters, they could lead to the most ‘virtuous’ of developmental consequences.

Meanwhile, Khan (2000a, 2000b) also shares with North et al (2007, 2009, 2013) the notion that in the early stages of development, privileged and politically-ascribed access to rents may be crucial for establishing peace that, in the context of developing economies, is a necessary condition for the very possibility of production.\(^{13}\)

This dissertation weighs in on the debate by examining the mobilisation of rents associated with a similarly-designed institutional framework for allocating state-mediated rents in the Colombian coffee and Philippine coconut sectors. By imposing levies on producers in these sectors and using the proceeds in a very specific way – that is by deputising private agents with the authority to decide on the uses of the levies – the governments in Colombia and the Philippines generated and allocated rents for said private agents and with different developmental consequences not accounted for by the explanations of neoclassical economics. What explains the differences?

**The limits of rent-seeking analysis**

The different outcomes associated with similarly designed rent-creating institutional frameworks in Colombia and the Philippines exhibit the limits of the explanatory power of the early economic models of rent-seeking (Krueger, 1974; Posner, 1975).

These models purport to show how state intervention, like the distribution of import licences (Krueger, 1974) or the creation of a public monopoly (Posner, 1975), leads to net social welfare losses. The advocates of these models argue that the social cost of intervention relate not only to the deadweight losses associated with the creation of monopoly rents but, more importantly, the social cost of intervention, which pertains to the resources expended on capturing the

\(^{13}\)The core of their argument about how access to rents could act as an incentive for individuals or organisations to be peaceful and cooperate with a given political coalition could be found in North et al (2007). These arguments are fully fleshed out in North et al (2009), and applied to a series of case studies in North et al (2013).
rent, like lobbying and bribery. Resources expended on rent-seeking in turn are
taken away from productive activities; state interventions thus have the net effect
of diminishing the productive capacity of an economy.

Khan (2000b, pp. 36-40) shows how an analysis of rent can be applied to
transfers made through the political system. When a sector is taxed and the tax is
transferred to another sector, the transfer represents rent-like income for that
other sector. The welfare effect of the rent transfer may be positive, negative or
neutral depending on interpersonal comparisons of the utility of that transfer. The
net cost of the transfer would be: (i) the deadweight loss arising from the
diminution of effort and output in the taxed sector; and (ii) and the resources
spent by society on capturing the transfer.

There are two senses in which the neo-classical economics framework is
powerless to explain the puzzle this dissertation presents.

First, the rent-creating institutional framework in Colombian coffee and
Philippine coconuts may be postulated to minimise the postulated disincentive
effects of taxation to the extent that the sector contributing the levies retain some
control over the mobilisation of the collections and that not all of the levies are
transferred out of the sector. The economic literature evaluating the incentive
effects of said levies in Colombia and the Philippines reveal that the framework
led to the net transfer of resources out of coconut and coffee at specific points in
time. But the framework of private appropriation of public funds nevertheless led
to dynamic benefits in Colombia but not in the Philippines, namely enhancing
the capacity of the coffee sector to compete in the world market and helping
create the rural base for industrialisation in coffee-growing departments. That
rents can produce these value-enhancing outcomes are beyond the purview of
neo-classical rent-seeking models.

Second, rent was purposively allocated by the state to sections of the agro-
export sector in Colombia and the Philippines. The institutional framework is one
where rent-seekers were assured of their rights, thereby minimising the cost of
rent-seeking. It also means that differences in institutional performance in this
instance cannot be attributed to rent-seeking costs, which tends to be the focus of
the rent-seeking literature.

This exhibits the fundamental problem with early neo-classical models of
rent-seeking: the emphasis on rent-seeking costs and the failure to recognise that
there are government-allocated rents that could generate efficiencies in production.\(^\text{14}\) (Khan, 2000a, 2000b) A more holistic approach for measuring the over-all effect of rent-seeking would entail conceiving of rent-seeking as a process that yields two cost/benefit-components: (i) the net social benefits/costs associated with rents as outcomes of the rent-seeking process and (ii) the rent-seeking cost or the social cost of activities to create, allocate and maintain rents (Khan, 2000a). This approach implicitly recognises the possibility of value-enhancing, development-inducing rent_allocations.

Khan’s proposition that the key challenge in developing countries is not the elimination of rent-seeking or corruption but the creation and management of value-enhancing rent emanates from a broader literature that recognises processes of rent-seeking and rent-creation as necessary parts of early capitalist development.

Early progenitors of this idea include Gerschenkron (1962) who endorses, in the context of “backwardness”, state involvement (as financiers through its taxation policies) in assembling wealth in entrepreneurs that will invest in industrial ventures. The idea also resonates in Hirschman’s (1958) view that the problem in late developing economies is not the absence of capital but inducing investments in productive activities. He argues that the state must thus create disequilibrating incentives in these economies to induce private capitalists to invest and at the same time to alleviate bottlenecks that are causing disincentives to investments.

But it was North (1990) who first recognised, in explicit terms, that rent-seeking can produce socially beneficial structures of property rights, a key notion in new institutional economics. Here, institutional change is a result of bargaining among coalitions of economic and political actors observing changes in prices and deciding on whether it is possible to maximise their returns under existing institutional constellations or spend resources to bargain over a change in existing institutions. This bargaining process could be perceived as a rent-seeking process, whereby interest groups invest resources in influencing activities to be able to appropriate rents arising from specific property rights. A

\(^{14}\) Khan recognises that second generation versions of the neo-classical models account for the possibility of varied rent-seeking costs under different institutional structures. He also cites Bhagwati (1982) as considering a model where rent-seeking results in the destruction of value-reducing rents. (Khan, 2000b, p. 76)
major concern in the new institutional economics schematic is organising side-payments for losers in these bargains. Where political transaction costs for organising side-payments are low, then the ill-effects of rent-seeking may be mitigated.

Also forming an integral part of this body of literature, and as noted earlier in this chapter, are assessments of the East Asian miracle that see the role of performance-based state subsidies as central to the development processes (see Amsden, 1989; Amsden & Hikino, 1994; Wade, 1990). Here, politically engineered transfers and subsidies became an important means by which developing countries shepherded the emergence of new capitalist and middle classes.

One final related strand of literature, also noted earlier, relates to those that associate the achievement of political stability, the existence of which is a necessary condition for production to take place in developing countries, to the allocation of property rights and rents to politically powerful groups. Khan (2000a, pp. 38-39) submits that because the process of primitive accumulation is inherently unfair, transfers may have to be organised to benefit those with the greatest ability to cause political instability. This will be transfers to groups with the ability to organise but who are left out in the development process—including rich peasants, urban petty-bourgeoisie and an emerging middle class. Growth implications of the overall structure of transfers will depend on how much of the transfers go to groups who have the incentive to make the transition to productive capitalism. The configuration of political forces, which determines the structure of transfers to political intermediaries and their factions, can also have effects on incentives and opportunities.

North et al (2007) make a similar point when they postulate that in much of the developing world, the establishment of a stable political order requires the creation of incentives for groups to compete for resources through non-violent means. This entails the creation of what they call “limited access orders”, where the dominant political coalitions provide powerful agents with limited and privileged access to valuable resources. The rent arising from the exercise of the

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15 A ‘limited access order’ is a ‘social order’. Social orders are patterns of social organisation for limiting and controlling violence. (North et al, 2009, pp. 1-2) ‘Limited access orders’ are characterised by social organisations formed on the basis of ‘personal relationships’. They are the
politics of privilege provides the incentive for these powerful agents to cooperate with the dominant coalition.

This dissertation thus proceeds from an analytical framework that recognises two propositions from the above-summarised literature. *First*, state intervention creating and allocating rents have developmental possibilities. *Second*, the processes that create these rents are decidedly political processes of bargaining and thus political variables are likely to circumscribe these developmental possibilities. Proceeding from these propositions, the next logical question to ask is the question I raised in the beginning of this chapter: *what are the political conditions that enable the emergence of value-enhancing state-mediated rents?*

This research project ultimately speaks to this broad theoretical question. Given the variations in the role that producers associations played in the mobilisation of rents in Colombia and the Philippines, the observed differences in the outcomes associated with the levies provide an opportunity for interrogating and potentially generating new hypotheses about the political conditions that are conducive for the creation of value-enhancing rents.

*Competing approaches in researching the politics of rents*

There are four major theoretical approaches to the question of the political origins of development-inducing rents.

The *first* focuses on the agency of political leadership: when the state acts as a utility-maximiser facing a short-run time horizon, it will structure property rights in ways that are favourable to its reproduction but not necessarily in consonance with goals of economic development. This derives from earlier iterations of new institutional economics (see North 1981), where the state’s provision of rules is modelled as an exchange relation between rulers and constituents whereby the state trades protection and the enforcement of property rights for taxes. The state’s behaviour is shaped by the conflictual goals of achieving social efficiency (i.e. lowering transaction costs to maximise the absolute amount it can expropriate from society) and maximising short-run revenues for itself, which is opposite of ‘open access orders’, which are formed on the basis of ‘impersonal relations’. Limited access orders create limits on access to valuable political and economic functions as a way to generate rents in order to engender the peaceful cooperation of powerful individuals capable of mounting violent threat. In contrast, ‘open access orders’ rely on competition, open access to organisations and the rule of law to hold a society together. (North et al 2007, pp. 3-4)
jeopardised where efficient property rights antagonise powerful interest groups or entails high transaction costs in monitoring and tax collection. The state resolves this dilemma by acting as a discriminating monopolist, privileging these interest groups and using the constitution of the state to shore up their economic powers through the granting of licenses and monopolies, which also have the effect of decreasing tax monitoring and collection costs.

This problem is mitigated when the time horizon of political leaders is lengthened—as in Olson’s (1993) depiction of a ‘stationary bandit’, an autocrat or executive authority with an enduring hold on power, whose incentives may be aligned with encompassing goals of economic growth to the extent that they maximise the resources that the state can tax in the long run.

The explanatory power of this approach is weakened by casual observations about actually existing “stationary bandits”. While some authoritarian regimes (e.g., Taiwan’s Kuomintang in the 1950s) pursued encompassing interests, one-party states in Tanzania and Zambia implemented largely dysfunctional economic policies (Di John, 2008, p. 38). Directly employing these lenses to the case studies reveals the same weakness. Khan (1995, p. 79) correctly points out that Marcos “behaved until the very end as if he expected to last forever”. Thus it could be argued that there is no variance in regard to time horizons faced by executive authority behind the rent-allocating framework in Colombia and the Philippines.

The second focuses on the nature of state power and derives from developmental state narratives. Developmental state narratives do not rely primarily on the agency of self-interested rulers to describe the conditions that enable the state to act beyond the exigencies of short-run goals. Analysing the conditions that propelled industrial upgrading in Taiwan, South Korea and Japan, successful late developers emerge as those who have power at their disposal, which in turn they derived from the organisational characteristics of state institutions and the manner in which states craft their relation with producer classes. Kohli (2004, p. 22) submits that states that are able to define and pursue an agenda for industrial transformation are those with “a narrow commitment to economic growth, a close alliance with capital-owning groups, tight control over other interest groups from above, and well-developed, professional bureaucracies”. Actually existing democracies in developing countries, he
observes, tend to be fragmented multi-class states—while in cases of rapid industrialisation tended not to be democratic and based on narrow ruling coalitions, which enabled the state to maintain narrow economic priorities.

These narratives have been used to explain overall strategies for industrial upgrading, which make them less useful for the case studies in this dissertation, which zeroes in on one specific component of broad industrial policy. However, the case studies provide the opportunity to interrogate the intuition that state power and state autonomy are necessary conditions for development-inducing rent allocations, a view that leads to a rather strict conception of developmental states. The comparison of Northeast and Southeast Asian late developers undertaken by Doner et al (Doner, Ritchie, & Slater, 2005), for example, suggests a completely different narrative: that developmental states are not necessarily highly autonomous entities that are unconstrained by coalitional demands but actually emerge out of constrained political conditions, which they collectively describe as ‘systemic vulnerability’. They say that political elites pursue developmental institutional arrangements when simultaneously dealing with: the credible threat that a deterioration of living standards could trigger mass unrest by popular sectors; the increased need for foreign exchange in the face of threats to national security; and hard budget constraints that close off easy avenues for revenue generation. (Doner et al., 2005, p. 328) Meanwhile, even Evans (1992) recognises that there is a strong sense in which the East Asian developmental states are a conjunctural creation of history— their long tradition of bureaucratic capacity, the terms of their integration with the world market, weakened agrarian elites while also constrained by a geopolitical context of Cold War and external threats—that made possible the rise of an autonomous yet socially-embedded state.

Rent-allocations in the coffee sector yielded developmental outcomes in Colombia, where as will be shown in Chapter 2 the condition of state autonomy clearly does not hold. Moreover, the same institutional framework did not rise out of the state’s narrow commitment to economic growth; as Bates (1997) suggests, it had clearly political origins.

The third approach focuses on the incentives engendered by the structure of political organisations. Bates (1995, p. 46) argues that institutions are often not
negotiated through voluntary contract, rather “the choice of institutions takes place within a pre-existing set of institutions”.

In his study of markets and states in tropical Africa, Bates (1981) shows that patterns of political coalitions, whereby urban and industrial interests superseded the diffuse power of peasants, contributed to the rise of institutions that were inimical both to the interests of the farmer and long-term growth prospects of agriculture. Here, marketing boards, in conjunction with macroeconomic policies, were used to squeeze surplus out of the agricultural sector. In contrast to this, Bates (1997, pp. 51-89) explains that the coffee sector in Colombia was strategically placed so that politicians had the incentive of providing institutions protective of the interest of the sector. The political configurations in Colombia—particularly competitive elections in the context of a clearly delineated party system—meant that the electoral numbers of coffee producers were important.

The approach seems useful for analysing the origins of a given institution but ultimately does not explain its developmental impact. The case studies I explore show that developmental outcomes could be associated with the types of rent that arise, not just how rent streams were assigned. Why was the private appropriation of public power in the coffee sector in Colombia associated with different modes of rent mobilisation from those in the coconut sector in the Philippines? Why was the assignment of rents in the Philippines less stable and more susceptible to capture than that in Colombia? I will show that these questions are best answered by looking at the political underpinnings of rent-seeking and not just the structure of political competition.

One other strand of literature that may be broadly classified under this approach is the work of Vishny and Shleifer (1993) on the industrial organisation of corruption. Vishny and Shleifer explore a particular case of rents: bribes taken as payment by government officials for the sale of ‘government property’ for personal gain, where ‘government property’ relates to complementary government goods necessary, say, for conducting business. They suggest that the organisation of bribe-taking is an important determinant of levels of corruption: levels of bribes are highest when bribes for these complementary goods are taken by decentralised agents acting independently. Where bribe-taking is centrally coordinated – say, by an authoritarian state -- levels of bribe collected are lower
compared to those collected when bribe-taking is decentralised, though the total bribe-take is also maximised. It is important to note that Vishny and Shleifer’s default starting point is that all forms of state interventions promoting rents (e.g. through bribe-taking) are value-reducing; what they are seeking to explain is the political structure that will minimise levels of corruption – and by extension, the extent of value-reduction.

Khan (2000a, pp. 131-134) articulates an important critique of Vishny and Shleifer that is especially relevant to this dissertation. He proposes that even formally centralised institutional structures may behave in a fragmented way, where powerful but dispersed groups can prevent coordination by state agencies. This is certainly true in the case of rents arising from coconut levies in the Philippines, where the entitlements to rents and associated benefits were fragmented and highly-contested, despite the fact that Vishny and Shleifer (1993, p 604) specifically cite the Marcos regime that oversaw the rent-allocation as an example of a ‘monopolistic corruption structure’.

The final approach focuses on the political and institutional conditions that shape state capacities for fostering and managing rent types that lead to dynamic capitalist transformation.

It derives principally from Khan (2000a, 2004a, 2004b, 2004c, 2005c), who begins from the observation that political contests for rents in developing countries are organised through the mobilisation of patron-client factions, rather than through class or economic interest groups. This feature of developing societies is attributable to the limited scope of viable capitalist economies (Khan, 2005c, p. 705). In these societies, corruption and clientelism are endemic given the limited availability of resources, the limited tax base and the political contestation over valuable but scarce resources. A large part of the costs are spent within these patron-client networks either as legal expenditures (for example, contributions to party formations, election expenditures) or illegal outlays (for example, pay-offs to mafia bosses, illegal election expenditures). These expenditures maintain the organisational power of patrons or political leaders, which is critical in winning rent-seeking contests. Meanwhile, rents are created for members of these networks as an outcome of the rent-seeking inputs. Part of the rents is used to create further rents in future rounds and sustain the organisational power of patron-client factions (Khan, 2000a, pp. 89-91).
In this schema, there are two ways in which the creation and allocation of rents by the state may play developmental roles. First, it may help in the emergence of a productive capitalist class; here, rents are posited to provide incentives for production. Second, it may help establish the political stability required to make production possible at all; here, rents are posited to provide incentives for politically significant sections of the population to operate peacefully within the institutional parameters of the given ruling coalition. However, Khan emphasises that for redistributive rents to perform such developmental functions, they need to be allocated by a state that has the capacity to withdraw the transfers if the recipients do not exhibit indicators of productivity within a defined period of time. They also need to be directed towards classes with the capacity to transition to productive capitalism. An overarching challenge is that these two objectives are not always congruent: the political agents who are the most valuable for peace need not be the same agents most crucial for making the transition to productive capitalism (Putzel, 2009).

But the key insight from Khan most relevant to this dissertation is the following: that it is emergence of types of rent (not their total eradication) that is crucial for development and consequently that the shoring up of state capacities to manage and identify such rents is a key challenge. Rents after all are ubiquitous even in developed economies—the only difference is that rent-seeking in these economies occurs within the framework of legal institutions, where agents can be held accountable for rent allocation decisions and can contest these openly.

Khan (2004a, pp. 56-58) then proposes that four institutional and political conditions influence state capacity to create and manage development-inducing rent allocation frameworks. First, the prior degree of capitalist development and the organisational power of different factions of capitalists, which determine the types of rents that are created. Second, the distribution of organisational power within society, including the relative power of capitalists to other social groups, which determine the type of rents that different classes demand as well as the ability of the state to discipline rent distribution. Third, the institutional structure of the state, particularly the ability of central executive to coordinate the activities of different state agencies, which determines the ability of the state to create developmental rather than just redistributive rents that only benefit particular groups. Fourth, external conditions that Khan suggests may be of
particular importance to small states and states in conflict, where rent allocation may be controlled by external powers.\textsuperscript{16} Khan (2004b, p. 58) clarifies that each of these conditions may change over time, with the dynamics of economic growth also feeding into these conditions, for example by weakening or strengthening particular factions or classes or by allowing state capacity in particular areas to collapse or improve. Moreover, in the specific case of Palestine, Khan also shows that different types of rent—which may either be detrimental to development or proof of emergent developmental state capacities—may co-exist at the same point in time. But he suggests that what is crucial for long-term development is the preponderant type of rent and rent management capacities, which in turn determine the ‘type of state’ that endures (Khan, 2004b, p. 46).

Khan (2000a, pp. 93-98) uses this approach to show why the same set of state interventions—particularly industrial subsidies—yielded dissimilar results in South Korea and India. He argues that in India, the preponderant type of state was “fragmented clientelism”, where rents are secured and distributed through the workings of a large number of factions led by organised intermediate clients acting as brokers, meant that producer classes have had to indulge in two types of rent-seeking. First, they have had to undertake straightforward rent-seeking to secure redistributive transfer rents. Second, they have had to engage in political rent-seeking, which relates to purchasing political protection for their rents from organised powerbrokers. The organisational power of these brokers meant that they were strategically important both to political leaders and rent-seeking producer classes. Khan suggests that this has important implications for rent-outcomes. Subsidies granted to producers backed by powerful brokers cannot be withdrawn based on performance-criteria. He contrasts this situation with that in South Korea, where no such decentralised centres of organisational and political power intermediated the rent-seeking process.

It is proposed that Khan’s approach, as summarised above, overcomes weaknesses of the competing and previously-described approaches. It yields explanations that go beyond the agency of political leaders, and thus allows for

\textsuperscript{16} Khan proposed to use this as a methodology for assessing state performance in Palestine, where the actions of Israel are obviously an important external variable. In the context of this dissertation’s case studies, ‘external constraints’ can of course be expanded to mean global market conditions and institutions influencing the coffee and coconut sectors.
the interrogation of objective political and institutional conditions in Colombia and the Philippines. It relaxes assumptions about state autonomy and in fact begins from the assumption that rent-seeking occurs within the framework of patron-client relations. Finally, it allows for establishing connections between political conditions and performance/outcomes of rent allocation frameworks, not just institutional origins.

This dissertation utilises key aspects of Khan’s approach only as a starting point for its analysis. Khan’s framework of analysis—as with developmental state narratives in Kohli (2004; Kohli, Moon, & Sørensen, 2003)—more ideally applies to preponderant rent allocation frameworks embedded in policies designed to promote over-all economic growth and development. In contrast, this dissertation zeroes in on specific rent-allocating institutions governing particular sectors in the economy. The specific ways in which Khan’s approach is used in this dissertation should contribute to testing the empirical robustness and deepening understanding of Khan’s propositions about the political conditions for the emergence of value-enhancing rent allocation frameworks. But by zeroing in on rent mobilisation in specific sectors, I can also explain why value-enhancing rent allocation can happen in one sector but not another, within a polity dominated by patron-client networks, a much more common situation in the developing world. An understanding of the politics of sectoral rent mobilisation and their differential outcomes, in turn, lends to establishing the specific conditions that lead to favouring productive types of rent seeking and discouraging non-productive types.

**Methodology**

*Research framework: key ‘variables’*

In assessing why the private appropriation of public power in the Colombian coffee and the Philippine coconut sectors produced more developmental outcomes for Colombia but not the Philippines, this dissertation investigates how variations in ‘political organisation of rent-seeking’ affect the ‘rent settlement’ that obtains at the sectoral level.

The ‘political organisation of rent-seeking’, as extrapolated from Khan’s schema (2000a, 2000b), relates to the organisational structure of patron-client
networks linking state agents (politicians and bureaucrats) to private agents (capitalists and non-capitalists) and the resource flows therein. Using this definition of ‘political organisation’, this dissertation contrasts the direct participation of the Colombian coffee producers association in the regulation of the rent settlement and the oligarchy-mediated rent settlement in the Philippine coconut sector. Meanwhile ‘rent settlement’ is a term I devised to refer to the distribution of rents and associated ‘rent entitlements’ concomitant to rent-creating policy interventions by the state. 17 ‘Rent entitlements’ are streams of benefits emanating from the mobilisation of rents.

In this dissertation, I will show that the more direct link between the coffee-producing class and the state made possible the emergence of an associated rent settlement that lent to creating conditions that promoted the competitiveness of coffee exports and protected the welfare of coffee producers, as well as the coordination of macroeconomic policies around the goals of coffee exportation. In contrast, the oligarchy-mediated link between the coconut-producing class and the state meant that the same could not happen in the Philippines as the rent settlement was reduced to a division of spoils between the leading agents of the producer class and the oligarchy. In a nutshell, I thus analyse the effect of the political organisation of rent-seeking on the rent settlement that obtains by looking at the variations in the role played by producers associations in the

17 A ‘rent settlement’ is also underpinned by a distribution of power across claimants of the entitlements, and at the same time embedded in a wider distribution of power across society. My conception of ‘rent settlement’ proceeds from Putzel and di John’s (2009) conception of ‘political settlement’ as relating to the distribution of power underpinning a given state, but is principally rooted in Khan’s conception of the same, as a combination of ‘power and institutions that are mutually compatible and sustainable in terms of economic and political viability’. (Khan, 2010, p. 4) However while a ‘political settlement’ mirrors a distribution of income and political power across society, a ‘rent settlement’ relates to a distribution of rents and power specific to a given policy intervention. My conception of a ‘rent settlement’ can then be used as a means for unpacking Khan’s ‘political settlements’, and lend to an understanding of how they evolve to become reproducible and viable over time. Khan (2010, p. 4) says that a reproducible political settlement is one that has institutions which are consistent with the distribution of organisational power and that achieves minimal levels of political stability and economic performance to be viable. I propose that a given political settlement can be observed by looking at the matrix of rent settlements that a state forges in key wealth-creating sectors, or with key political actors. Rent settlements that embed a distribution of rents and associated benefits that are compatible with configurations of organisational power can evolve to become a central part of a reproducible political settlement. Those that do not are re-negotiated, unstable and unviable. Moreover, my view of a rent settlement allows for another means for observing the exercise of organisational power, in terms of the ability of organisations not just to lay claim on rents but also to deploy chosen strategies for mobilising them.
‘regulation of the rent settlement’, which in this dissertation refers to the means by which access to rent entitlements are determined, regulated and enforced.

Research strategy
I undertook a structured and focused comparison of two case studies, where variations in the rent settlement were traced to variations in the political organisation of rent seeking.

I employed a two-step research strategy, involving: first, the analysis of the comparative history and political economy underpinning producer collective action in the Colombian coffee and Philippine coconut sectors; and second, the analysis of the assignment and uses of the rents associated with the coffee and coconut levies and the means by which these were regulated. In the first step of research, I ask the following question: What can a historical view of the political economy teach us about the variation in the power exercised by Colombian coffee producers and Philippine coconut producers in the determination and regulation of rent streams? (henceforth, the ‘political economy question’) In the second step of research, I ask the following two interrelated questions: What are the key features of the rent settlement associated with coffee levies in Colombia and coconut levies in the Philippines, in terms of the mobilisation of the levies, the associated rent entitlements, and the claimants to these? (henceforth, the ‘rent settlement question’) And to what extent did the producers associations shape the rent settlement in these countries? (henceforth, the ‘regulatory question’)

The ‘political economy question’ relates to establishing the basis for the variations in the patterns of political organisation underpinning the institutional framework, particularly the power exercised by producers associations in contests for state-engineered rents. For this aspect of the analysis, the time period under review is a broad sweep of the twentieth century, the century in which the coconut and coffee sectors rose and fell as important wealth-generating sectors in the Philippines and Colombia, respectively. Analysing variations in political organisation through the lenses of comparative historical analysis allows a conception of political organisation not as a static occurrence taking place at a specific point in time but as a process that unfolds over time and in time and embedded in the evolving political economy of production (Mahoney &
A complete rendering of this broad historical tapestry allows me to construct hypotheses about why the institutional framework was adopted earlier in Colombia and much later in the Philippines; the political conditions under which incentives for production were established by the state in these two countries; and the over-all impact of sector-specific structural conditions on the patterns of political organisation.

The ‘rent settlement and regulatory questions’ are what I use to explore what the variations in the patterns of the political organisation of rent-seeking meant to the rent settlement that obtained. The ‘rent settlement question’ relates to the chief characteristics of the rent settlement: modes of rent mobilisation and the claimants of the rent streams; as well as the means by which the producers associations regulated the rent settlement. In the Philippines, the periods chiefly covered are: 1970-1982, the years in which said framework was in place; and the period from 1986-2007, when ownership of some assets associated with the rent settlement were contested. In Colombia, the period covered by the analysis is 1927-2000, focusing on how it evolved over two periods: from 1927-1940, when coffee levies were collected principally for the purposes of production and marketing support; and the period 1958-1991, when market interventions to regulate the supply of exports and to promote price stabilisation became the dominant functions.

Meanwhile, the ‘regulatory question’ relates to the extent to which COCOFED and FEDECAFE shaped the rent settlement through their complicity in the mechanisms that determined and enforced the assignment and uses of the rents associated with the levies. Exploring this question then allows me to explore the association between the ‘political organisation of rent seeking’ and the ‘rent settlement’ through an intervening variable, the ‘regulation of the rent settlement’.

By responding to these three questions, I aim to observe two types of interactions affecting the ‘rent settlement’ associated with the Colombian coffee levies and Philippine coconut levies. First, by responding to the ‘political economy question’, I examine how historical conditions in the organisation of political and economic activity in the Colombian coffee and Philippine coconut sectors explain the variations in the roles played by the respective producers association in the shaping the rent settlement. Second, by responding to the ‘rent
settlement and regulatory questions’, I examine the ways by which variations in the participation of producers association in the mobilisation of rents then affect the distribution of rents and rent entitlements. These two interactions are deeply linked and cannot be viewed independent of one another: the variations in characteristics of the rent settlement are connected to observed differences in political economy conditions through the ways these conditions shape the possibilities for the exercise of political power by the producers association.

The two steps were undertaken first through the systematic review of literature pertaining to the collection and use of coffee levies in Colombia and coconut levies in the Philippines. This was followed by field research in Colombia and the Philippines totalling 12 months, undertaken discontinuously over a period of two years from 2008 to 2010. In Colombia and the Philippines, I collated primary sources on the uses of the levies and who benefitted from them. In the Philippines, where the legality of the mobilisation of the coconut levies was subjected to court cases after Marcos had been removed from power in 1986, the sources of information were a series of the audit reports undertaken between 1986 and 1997 by a government agency, the Commission on Audit (COA). I closely examined presidential decrees promulgated to authorise the collection and uses of the coconut levies. I also explored material from the legal cases – including court decisions by and legal pleadings filed in the Supreme Court and the Sandiganbayan from 1986 to 2007. In Colombia, I collated information on the uses of the coffee levies from 1930 to 1940 from the published FEDECAFE conference proceedings in the Revista Cafetera, the association’s trade magazine that has been published since the inception of the Federation in 1927. For later years, I relied on the work of Junguito and Pizano (1997), to which I was referred by various academics and coffee industry players that I interviewed in Colombia as the most complete historical documentation of the coffee levies in Colombia at the time I was undertaking research. During the field research, I also conducted focused and structured interviews with academics, industry players, politicians and government officials (see Appendix

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18 I undertook a scoping exercise in Colombia from September to October, 2008. This was followed by a longer research trip, when the bulk of the data collation and interviews in Colombia were done, from October 2009 to March 2010. In the Philippines, I undertook field research from April to July 2009.

19 A special court in the Philippines established in 1987 and that has jurisdiction over civil and criminal cases involving graft and corruption.
1 for a complete list). In the interviews in Colombia, I sought primarily to validate propositions in literature, and to attain guidance on to the secondary resources that I needed to gather. In the Philippines, I did the same, but also used the interviews to generate information on negotiations on the uses of the levy after the Marcos period.

**Structure of the thesis**

This dissertation is written in five parts. In Chapter 2, I synthesize my key findings in regard to the historical and political economy foundations of producer organising in the Colombian coffee and Philippine coconut sectors. In Chapters 3 and 4, I explain the chief characteristics of the rent settlement associated with coconut levies in the Philippines and coffee levies in Colombia, respectively. Here, I discuss my findings on the modes of rent mobilisation and the chief beneficiaries of the same. In Chapters 5 and 6, I describe the means by which the rent settlement was regulated in the Philippines and Colombia, respectively. Here, I discuss my findings about the means by which the rent settlement was enforced and controlled, including the extent to which COCOFED and FEDECAFE took part in these. In Chapter 7, I synthesize the key findings, and present their significance, including their ramifications for future research.
Chapter 2. Producers’ power and organisation in Colombia and the Philippines: comparative history and political economy

In this chapter, I explore the historical and political economy foundations of the power of producers associations in the Colombia coffee and the Philippine coconut sectors. What can a historical view of both the broad and sector-specific political economy teach us about the variation in the power exercised by Colombian coffee and Philippine coconut producers associations in the determination and regulation of rent streams associated with the levies? I respond to this question in three parts, each corresponding to the sections of this chapter: the first explores the question from a national perspective; the second and third, from the perspective of the respective sectors.

In the first section, I lay out relevant aspects of the political economy of Colombian and Philippine economic development, writ large. One of the original impulses behind my work was to understand the important differences among late developers like Colombia and the Philippines, which have exhibited productive resilience and periods of growth, but otherwise have been broadly lumped together as having failed against the yardstick of the “East Asian miracle”. In particular, both: had average growth rates that until 2005 never reached the sustained high growth paths exhibited by the East Asian tigers; were unable to generate levels of savings necessary to finance these high-growth orbits; and had a laggard rate of industrial transformation. I am interested in generating a nuanced view of the political obstacles that inhibited countries like Colombia and the Philippines from getting into sustained high-growth orbits. This is the broader puzzle in the political economy of late development against which my exploration of sectoral rent settlements is set. Thus, I begin the analysis in this chapter with an analysis of Colombia and the Philippines’ struggles in late development and their political roots.

In the second and third sections, I then turn to the micro-foundations of collective action and political power of the Colombian coffee and Philippine coconut sectors. In the second section, I explore the sector-specific conditions that fostered the emergence of a politically significant producers association in Colombia but not the Philippines. In the third section, I examine the political
origins of the rent settlement – explaining the circumstances that led to the appropriation of public power by private agents in both these countries.

By laying down the political economy foundations from both a broad economy-wide perspective, and a narrow sector-specific view, I seek to explain the historical and political conditions that made the Philippine rent settlement in the coconut sector susceptible to capture and contestation; and the one in the Colombian coffee sector, stable, producer-centred and production-enhancing.

**Political economy writ large: struggles in late development**

The Philippines and Colombia are both middle-income countries facing broadly similar economic challenges in late development. In both these countries, the state tasked with coordinating the problems of late development has been labelled as neo-patrimonial and permeable to vested interests. Interestingly, both have also exhibited economic resilience, and indeed, the ability to grow and thrive amidst very difficult global economic conditions during the financial crisis that gripped industrialised economies towards the tail-end of the first decade of the new millennium. However, looking further back before this conjuncture, particularly their development trajectories heretofore and since the end of the Second World War, neither of these two countries was counted among successful late developers, by the yardstick of dramatic and sustained transformation of economic bases of growth. This failure in the Philippines and Colombia is exhibited by data on economic growth, savings mobilisation and industrial production.

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20 A neo-patrimonial state is underpinned by patron-client relations between the ruler and the ruled: one where rulers utilize state resources to secure the support of clients in the general population. It is characterized by the co-existence of patrimonial and legal-rational bureaucratic domination—that is, personalistic power relations between the ruler and the ruled occur within the framework of, and with the claim to, legal-rational bureaucracy. (Erdmann & Engel, 2006, p. 18) Under such a political order, the capacity of the state to pursue the encompassing goals of industrialisation is weakened in two related senses. First, the state is reduced to an arena for securing the personal interests of the ruling class. Here, personal greed, the need to build short-term political support or a combination of both motivates state intervention. (Kohli, 2004, p. 15) Second, the co-existence of patrimonial and legal-rational logic renders the behaviour and role of the state and its agents highly incalculable. Under neo-patrimonialism, state-led efforts to promote growth and industry are thus stymied by political instability, inconsistent policies and the use of public resources for particularistic interests. (Kohli, 2004, pp. 15-16)
As could be seen from Figure 2.1, Colombia and the Philippines are similarly sized middle-income economies roughly growing at the same pace, except in the 1980s, when the Philippines suffered from a severe economic crisis. Table 2.1 shows that neither of the economies exhibits the stellar rates of growth like those in East Asia – for example, Singapore and South Korea – considered more successful at late development.

*Second*, they both face difficulties in mobilising domestic savings. Table 2.2 shows that they have among the lowest average ratios of savings to GDP in their respective regions, especially from the 1980s onwards.
Table 2.1. Average growth of per capita GDP (in per cent)

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<td>(1.75)</td>
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<td>5.40</td>
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<td>7.20</td>
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<td>4.30</td>
<td>6.13</td>
<td>3.41</td>
<td>4.04</td>
</tr>
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Source: 2007 World Development Indicators (World Bank, 2007)

Table 2.2. Gross Domestic Savings as % of GDP

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<td>27.56</td>
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</table>

Source: 2007 World Development Indicators (World Bank, 2007)

Third, both have also been struggling with processes of industrial transformation. Figure 2.2 shows that these economies are no longer dominated by the agriculture sector, which now constitutes no more than 15 per cent of the total gross value added. But Figure 2.2 also suggests that the share of industry has stagnated between 30-40 per cent of total value added since the 1970s and it has mostly been the service sector taking up the slack in agricultural production.
In both the Philippines and Colombia, the permeability of a neo-patrimonial state to vested interests has featured prominently in explanations of the political roots of their struggles with late development. In the Philippines, Hutchcroft (1998) asserts that the nature of the relations between the state and dominant economic interests, specifically the relative weakness of the state vis-à-vis business interests, explains the country’s continued underdevelopment. The historical basis of state formation in the Philippines led to a weakly-structured state, with highly dysfunctional administrative structures and a pattern of
political competition based on localistic patronage-based networks (Hutchcroft, 2003; Hutchcroft & Rocamora, 2003; Sidel & Hedman, 2000). What took root was a polity where formal features of liberal democracy coincided with the preponderance of informal norms underpinned by the culture of patronage, which Putzel (1999) correctly observes as explaining both the shallowness and fragility of democratic tradition in the Philippines. The highly personalistic and localist political system is underpinned by a strong executive branch. Even as the central administrative structures are weak, the first post-independence Constitution (1935) bestowed the executive branch with strong powers. These powers persisted and evolved to become ironically superior to those of the American presidency after which the Philippine version is modelled. This system gave the president and his political party significant power to determine the political fortunes of local politicians. It explained why, soon after every presidential election, members of opposition parties gravitated to the party of the President (Rocamora, 1998, p. 4).

The Colombian state has also been described as “historically weak, poorly financed and supported by networks of people receiving patronage from the professional politicians who perform the job of politics…this gives them the right to make personal use of public resources, as was done by those who regarded the state as their private property” (Kalmanovitz, 2000, p. 252). This description of Colombian politics—particularly the preponderance of patron-client relations—is supported by Archer (1990), who explains that stability of the democratic regime in Colombia, in the face of high levels of social violence, can be partly traced to the primary mechanisms employed by traditional parties for mobilizing political support: a number of “relatively limited and poorly aggregated broker clientele networks which mobilize support through the downward distribution of state and party resources”. Meanwhile, Juárez (1995) submits that business interests greatly influence the shape of resource mobilization strategies employed by the state. He depicts the relations between business and the state as close and institutionalised, which leaves the state relatively fragmented and penetrable by a private sector possessing multiple points of access and means to pressure the state.

In summary, we find in Colombia and the Philippines two economies both burdened with difficulties in late development transitions—particularly in the
sphere of industrial transformation—in the context of neo-patrimonial polities. However, the next section shows that while there is certainly parallelism in regard to the preponderance of patronage politics in these two countries, a sectoral view of rent settlements reveals curious differences in how private agents penetrate the permeable state—particularly the more pronounced role that the coffee producers’ association played in the aggregation of interest in Colombia and the power they exercised in the mobilisation of the rents. The next section explores the historical and politico-economic foundations of these differences.

**Micro- and historical foundations of collective action and political power**

Variations in the relative importance of the Colombian coffee and Philippine coconut sectors within their respective national milieus, and the conditions of production and its expansion provide clues as to why the producers association in Colombia was better placed to shape the rent settlement than their counterpart in the Philippines. In this section, I call attention to the sector-specific differences that contextualised the prospects for collective action in the Colombian coffee and Philippine coconut sectors and for the exercise of political power by the producers association each representing these sectors. I unpack three features of the sectors: their significance in the national economy; their common characteristic as smallholding agricultural sectors; and the historical basis of productive expansion—and outline what each of these reveal about the possibilities for collective action and the exercise of power by the Colombian coffee and Philippine coconut producers.

*Relative importance in the national economy*

The significance of the Colombian coffee and Philippine coconut sectors in their respective national milieus stem from their role as traditional exporters: providing foreign exchange earnings to finance wider processes of industrialisation, and providing agriculture-based employment and thereby helping enliven the rural base for these processes.
In the Philippines, coconut products persist as the country’s most important traditional exports. In 2011, the sector brought in export earnings in the amount of US$ 1.8 bn, representing 79 per cent of the total value of the Philippines’ agricultural exports (BSP, 2013). However, its relative importance has also largely diminished as its export earnings in that year only accounted for only about 4 per cent of total export earnings. The country’s export sector is currently dominated by manufactures, taking up 84 per cent of the value of export shares. Exports of mineral products – with a share of about 6 per cent in 2011 – has overtaken the coconuts sector as the second most important export sector. Even then, the sector also still persists as a significant economic base generating the means of income for rural households. Based on the latest completed Census of Agriculture (2002) in the Philippines, 2.6 million farms, equivalent to 53.9 per cent of all farms in the country are currently devoted to coconut. Coconut trees are grown in 3.2 million hectares of land, which is about 70 per cent of the area planted to permanent crops, and about 33 per cent of the total agricultural land area (BAS, 2004). Production was historically centred in the Southern Tagalog, Bicol and Eastern Visayas regions. Beginning in the 1980s, Western Mindanao and Southern Mindanao became important centres of production, too. Coconut is now grown in 67 of the country’s 77 provinces. These mean that coconut is produced in all three major island groups in the Philippines. Coconut lands are concentrated in areas that are among the poorest and the central sites of conflict in the Philippines.

In Colombia, coffee is also an important but waning source of foreign exchange earnings. In 2011, the country’s export earnings from coffee amounted to US$ 2.7bn, representing about 5 per cent of total exports. In Colombia, it is not manufactured exports – accounting for 29 per cent of the value of total Colombian exports in 2011 – but petroleum and oil – accounting for 50 per cent of the value of total Colombian exports that has overtaken coffee as the country’s most important export sector. Relative to Philippine coconuts, Colombian coffee takes up a smaller share of the land planted to permanent crops, being grown in

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21 These include coconut oil, copra and dessicated coconut. Of the three, coconut oil accounts for the largest share of exports.

22 The Philippines is divided into 13 regions, which are composed of provinces (provinces are equivalent to departments in Colombia). The region is purely a geographical and statistical, and not a political unit—except for two regions (CAR and ARMM), which are autonomous regions granted with the right to organise a local government.
740,000 hectares of land, representing 27 per cent of area planted to permanent crops but only 1 per cent of Colombia’s vast agricultural hectarage. (DANE, 2004) Half a million families, constituting 18 per cent of rural households relied on the coffee sector for their livelihood in 2004. As with Philippine coconut, Colombian coffee is relatively dispersed across the country, as it is grown in 16 of 32 departments. Of these 16, six can be found in a contiguous region located in the Andes range, known as the Central Coffee Belt and best-suited for coffee but not much else. The Coffee Belt accounts for 61 per cent of area planted to coffee (Bentley & Baker, 2000, p. 1).

These snapshots do not give an adequate indication of the historical role these sectors played in the two economies. It is when the long view of the place of these sectors in their national economies is taken that the variances in the relative importance of the sectors become more apparent. In general, the Philippine coconut sector never really achieved the singular dominance that the coffee sector enjoyed over a long period of time in Colombia.

Table 2.3 features data comparing the share of the respective sectors in each of the country’s total export earnings during years for which comparable data is available from 1900 to 2000. It could be deduced from this table that coffee in Colombia generally accounted for a bigger share of total export earnings and for a longer period of time. Data in the table reveals, in particular, that for a period of 85 years, from 1915 to 1985, coffee exports accounted for more than 50 per cent of total export revenues in all years except in 1940 and 1975. In the first decade preceding the Second World War, coffee exports accounted for more than three quarters of Colombia’s export earnings. To be sure, we are only able to compare in this table Colombian and Philippine data from after the Second World War. We could conclude from the table that in the fifty year period from 1950 to 2000, Philippine coconut exports only achieved what Colombian coffee – in terms of accounting for at least half of export earnings – in 1950. But Nyberg (1968), who wrote a PhD thesis on the Philippine coconut sector covering 1900-1965, provides an indication of trends in export shares in the period before the 1950s that is useful to extend the analysis beyond the data presented in Table 2.3. He calculated that total export earnings of the Philippine

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23 A ‘department’ is a sub-national level of government, composed of a group of municipalities. Each department has a governor and legislative council elected at large.
coconut sector from 1900 to 1965 was US$ 4.6 bn, accounting for one-third of the country’s total export earnings of US$ 13.6 bn (Nyberg, 1968, p. 179). He also asserts that prior to the Second World War, exports of coconut products accounted for about 25 per cent of the country’s foreign exchange earnings. These figures indicate that even in the first 50 years of the twentieth century, it would be reasonable to conclude that Philippine coconut exports did not exhibit the same supremacy that Colombian coffee exports did in the national economy. While both sectors were historically significant contributors of export earnings, the fortunes of Colombia’s national economy was more strongly linked with that of the coffee sector.

Table 2.3 Share of Philippine coconut and Colombian coffee export earnings in total (in per cent): selected years, 1900-2000

<table>
<thead>
<tr>
<th>Year</th>
<th>Colombian coffee</th>
<th>Philippine coconuts</th>
</tr>
</thead>
<tbody>
<tr>
<td>1905</td>
<td>40.9</td>
<td></td>
</tr>
<tr>
<td>1910</td>
<td>31.0</td>
<td></td>
</tr>
<tr>
<td>1915</td>
<td>57.9</td>
<td></td>
</tr>
<tr>
<td>1920</td>
<td>51.2</td>
<td></td>
</tr>
<tr>
<td>1925</td>
<td>78.4</td>
<td></td>
</tr>
<tr>
<td>1930</td>
<td>54.4</td>
<td></td>
</tr>
<tr>
<td>1935</td>
<td>55.5</td>
<td></td>
</tr>
<tr>
<td>1940</td>
<td>44.1</td>
<td></td>
</tr>
<tr>
<td>1945</td>
<td>74.0</td>
<td></td>
</tr>
<tr>
<td>1950</td>
<td>77.8</td>
<td>52.1</td>
</tr>
<tr>
<td>1955</td>
<td>81.7</td>
<td>37.0</td>
</tr>
<tr>
<td>1960</td>
<td>69.3</td>
<td>33.1</td>
</tr>
<tr>
<td>1965</td>
<td>62.5</td>
<td>35.6</td>
</tr>
<tr>
<td>1970</td>
<td>62.9</td>
<td>20.2</td>
</tr>
<tr>
<td>1975</td>
<td>44.8</td>
<td>20.4</td>
</tr>
<tr>
<td>1980</td>
<td>55.9</td>
<td>14.6</td>
</tr>
<tr>
<td>1985</td>
<td>45.2</td>
<td>10.0</td>
</tr>
<tr>
<td>1990</td>
<td>19.9</td>
<td>6.1</td>
</tr>
<tr>
<td>1995</td>
<td>17.6</td>
<td>5.7</td>
</tr>
<tr>
<td>2000</td>
<td>4.6</td>
<td>1.5</td>
</tr>
</tbody>
</table>


\[ ^{24} \text{In contrast, between 1920 to 1940, sugar exports in the Philippines accounted for an average of 50 per cent of the country’s total export earnings (my computation based on data from the US House Committee on Insular Affairs (1946), in Hawes (1987, p. 175). In general, in the early years of the twentieth century before the Second World War, it was sugar that played a role in the Philippines that was more akin to coffee in Colombia as the main means by which the country integrated into the world economy.} \]
Questioning the ‘logic of collective action’ in smallholder agriculture

Based on Olson’s (1971) thesis concerning the logic of collective action – particularly the idea that the larger a given group, the less the incentive for individuals to engage in group-oriented action because benefits from cooperation are watered down by the size of the group – incentives were stacked against the establishment of an effective and working producers associations in both the Colombian coffee and Philippine coconut sectors, which are both constituted by a large number of smallholding producers. In this schema, the failure of collective action in the Philippine coconuts sector would be a confirmation of the theory; the Colombian coffee case, an aberration. It is thus important to verify and unpack the evidence on smallholding agricultural structures in these sectors at analytically crucial junctures: in the first instance, in the years before the establishment of the producers associations, to capture the ‘initial conditions’ under which these associations emerged; and also during the years the levies were imposed and mobilised by these associations, to verify the base of their power while associations endeavoured to influence the mobilisation of the levies.

In the Philippines, the extent to which the coconut sector was constituted by smallholding producers before the coconut levies were imposed can be analysed using data from the Philippine government’s Census of Agriculture. The Census data on farm size in the period from after the end of the Second World War up until 1970, when the first of the coconut levies were collected and mobilised, seem to support the proposition that the sector was predominantly smallholder-based. As can be seen in Table 2.4, more than 90 per cent of farms were less than 10 hectares in size, and accounted for more than 50 per cent of coconut hectarage. Between 1948 and 1960, there appears to have been a move towards a more equitable distribution of farm sizes, as the share of both farms less than 10-hectares in size increased, while that of farms 50-hectares or bigger in size diminished. There was a bit of a reversal in 1970, when the share of bigger farms in total hectarage and total number of farms increased; in the aftermath of forex decontrols, expansion of coconut hectarage seems to have occurred in farms that were already large to begin with (Boyce, 1993, p. 190). Still, based on the census data presented in the table, and unlike most tree crops in tropical
agriculture, coconut production in the Philippines was never dominated by large plantations – at least in the years before the imposition of the levies.

Table 2.4. Farms and coconut hectarage shares, by farm size, before the imposition of coconut levies (in per cent): 1948, 1960, 1970

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Under 5 has</td>
<td>75.7</td>
<td>31.9</td>
<td>72.1</td>
<td>34.3</td>
<td>72.7</td>
<td>35.0</td>
</tr>
<tr>
<td>5 and under 10 has</td>
<td>15.1</td>
<td>20.7</td>
<td>18.5</td>
<td>27.4</td>
<td>17.5</td>
<td>22.8</td>
</tr>
<tr>
<td>10 and under 50 has</td>
<td>8.7</td>
<td>31.8</td>
<td>9.2</td>
<td>30.1</td>
<td>9.4</td>
<td>31.9</td>
</tr>
<tr>
<td>50 has and over</td>
<td>0.5</td>
<td>15.6</td>
<td>0.2</td>
<td>8.2</td>
<td>0.4</td>
<td>10.2</td>
</tr>
</tbody>
</table>

Source: Census of Agriculture, 1948, 1960, 1970

Based on the census data on coconut farm sizes presented above, one could conclude that if average land sizes of farms were a measure of the ‘base of power’ of coconut producers, then they had a weak base, and incentives were indeed stacked against collective action. But, there are important caveats to be made when reflecting on the political implications of characterising coconut production in the Philippines as predominantly smallholder. For one, census data on farm sizes are based on operational land holdings, rather than land ownership. For example, several operational farms, in which land is cultivated by tenants, will each be counted in the census as separate farm holdings even if they are owned by just one landholder. That is to say, the data actually masks degrees of concentration in land ownership. (Boyce, 1993, p. 190; Putzel, 1992, pp. 27-29). Farm size data thus has to be cross-referenced with land tenure data. In 1970, 74 per cent of the coconut farms in Philippines were owner-operated (Census of Agriculture, 1970 in Tiglao, 1983, p. 256), which buttresses the claim that coconuts are a smallholders’ crop. However, it must be noted that the coconut sector in the Philippines had a significantly higher rate of tenancy than in the Colombian coffee sector in 1970: while 20 per cent of coconut farms in the Philippines were operated by a tenant (Census of Agriculture, 1970 in Tiglao, 1983, p. 256), in Colombia it was less than 1 per cent of the coffee farms that were under this tenurial arrangement in the same year (Censo Cafetero in Junguito and Pizano, 1991, p. 69). Putzel and Cunnington (1989, pp. 13, 15) observe that the landlords of these tenanted coconut farms in the Philippines were mostly absentee ones – including teachers, managers, military officers and
professionals based in urban centres. These trends imply that a significant segment of those who had the potential to form the base for collective action were not as strongly rooted in the sector in the Philippines as they were in Colombia.

Meanwhile, when the coconut levies were being collected and mobilised in the 1970s and 1980s, important structural changes were happening in the sector - changes that embody another caveat in the analysis of the base of power of the producers attempting to influence the uses of rents from the levies. This caveat has partly to do with regional disparities in farm sizes. In the Philippines, larger farms and estates were found in Mindanao, where farms also tended to be farmer-operated, in contrast to Southern Luzon, where tenancy was more widespread. (Boyce, 1993, p. 190) In the 1970s and 1980s, there was a marked expansion of land grown to coconuts in Mindanao, which was accounted for by the establishment of large commercial farms and plantations (Putzel, 1992, p. 31). Leaders of the producers association in the Philippines, particularly those who influenced the mobilisation of the coconut levies, were from this region. This means that those who would turn out to be decisive in the Philippine rent settlement were not smallholders with a limited land base but came from the regions where land ownership was relatively more concentrated.

In the case of the Colombian coffee sector, the relevant period for the analysis of initial conditions for collective action is the period before 1927. Unfortunately, agriculture census data in Colombia were not yet collected at this time. But coffee production in the early 20th century is typified in literature (Bates, 1997; Griffin, 1968) as being predominantly based on peasant smallholder economy. This is a trend that began in the late 19th century as cultivation expanded from the east of the Andes mountains, which was more estate-based and where production was centred in much of the 19th century, to the western and central portions of Colombia, mountainous areas where land was cheap and production was smallholder-based. Soon after the first of the coffee levies were collected, in 1932, Junguito and Pizano (1991, 58) cite data from FAO to suggest that at least 86 per cent of coffee production was concentrated in farms less than 5 hectares in size.
Table 2.5. Farms and coffee hectarage shares, by farm size, (in per cent): 1955-56 and 1970

<table>
<thead>
<tr>
<th>Farm size</th>
<th>1955-56</th>
<th></th>
<th>1970</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Farms</td>
<td>Hectarage</td>
<td>Farms</td>
<td>Hectarage</td>
</tr>
<tr>
<td>0-1 ha</td>
<td>36.3</td>
<td>7.1</td>
<td>33.5</td>
<td>4.7</td>
</tr>
<tr>
<td>1-10 ha</td>
<td>58.1</td>
<td>56.9</td>
<td>59.4</td>
<td>51.9</td>
</tr>
<tr>
<td>10-50 ha</td>
<td>5.4</td>
<td>28.1</td>
<td>6.6</td>
<td>33.9</td>
</tr>
</tbody>
</table>

Source: Junguito and Pizano (1991), p. 59

But as in the Philippine coconut sector, important changes were occurring in the production of Colombian coffee as the rent settlement associated with coffee levies evolved. For example, Table 2.5 gives an indication of some of these changes from 1956 to 1970. This is an important period in regard to the coffee rent settlement because, as will be shown in Chapter 5, this was a period when the resources over which the FEDECAFE increased due to new coffee types of levies collected and in which the uses of the levies were shifted to domestic price stabilisation. Data in the table shows that the area coffee farms of the size 10 hectares and more were accounting for a growing portion of the coffee hectarage between 1956 and 1970, as those of farms of the size 10 hectares and smaller were accounting for less. Junguito and Pizano (1991, p. 73) confirm that while the expansion of coffee hectarage was centred around farms under 10 hectares in size in the period between 1932 and 1956, between 1956 and 1970, the same was centred in larger farms.

However, as in the Philippines coconut sector, data used to illustrate the extent of smallholding in the Colombian coffee sector needs to be treated with care. In the Colombian case, the issue has to do with the importance of differentiating between the ‘coffee farm’ (cafetales) from the ‘coffee estate’ (finca). The ‘coffee farm’ relates to an operational landholding in which solely coffee is grown. The ‘coffee estate’ is an enterprise in which coffee production is an important but not necessarily sole source of income. Here other income sources, unlike in the absentee landlord farms in the Philippines, would be farm-based too (for example, the cultivation of other crops, or cattle stock). In Colombia, ‘coffee farms’ can actually be operating within large ‘coffee estates’, implying that Colombian coffee production is less of a monoculture than Philippine coconut production. Therefore in the Colombian case, it would be
important to verify not just the average size and distribution of the ‘coffee farm’, but also those of ‘coffee estate’.

Data surveyed by Junguito and Pizano (1991, pp. 50-56) differentiating these two categories reveal information that bear important comparative insights with the Philippines. They found that the average size of the ‘coffee estate’ has been decreasing: from 20.1 hectares in 1955-56\textsuperscript{25}, to 14.8 hectares in 1969-70\textsuperscript{26}, and 11.8 hectares in 1980-81.\textsuperscript{27} Meanwhile, the average size of the ‘coffee farm’ has been increasing: 3.3 hectares in 1955-56\textsuperscript{28}, to 3.5 hectares in 1969-70\textsuperscript{29}, and 4.6 hectares in 1980-81.\textsuperscript{30} Based on these figures, while the average coffee farm size in Colombia was indeed within the range of smallholder production at less than 5 hectares in the period 1955 to 1981, it is still entirely possible that said production was undertaken within larger coffee estates. It is notable that 56 per cent of the coffee estates in 1970 were less than 4 hectares in size; while 28 per cent were between 4 and 12. This means that, even in terms of ‘coffee estates’, data supports the proposition that coffee production was smallholder based.

But from a comparative perspective, it is this distribution (i.e., distribution of coffee estate sizes in Colombia) that we need to compare with the distribution of coconut farm sizes in the Philippines, to gauge the comparative strength of the ‘land bases’ of the respective producers association. When this exercise is undertaken, as I did in Table 2.6, it could be inferred that in 1970, while both the Colombian coffee and Philippine coconut sectors could indeed be largely typified as smallholder-based, coffee producers in Colombia had comparatively larger landholdings than coconut producers.

From a comparative perspective – particularly in terms of indicators of access to land as the base of political strength – the ‘puzzle’ of the power exercised by the ‘numerous’ Colombian coffee producers through successful collective action and the relative weakness of the Philippine coconut producers becomes less of a conundrum. From the discussion above, coffee producers in Colombia had a

\textsuperscript{25} From Estudio CEPAL-FAO, 1956 in Junguito and Pizano 1991, p. 51
\textsuperscript{26} From Censo Cafetero, 1970 in Junguito and Pizano, 1991, p. 51
\textsuperscript{27} From Censo Cafetero, 1980 in Junguito and Pizano, 1991, p. 51
\textsuperscript{28} From Estudio CEPAL-FAO, 1956 in Junguito and Pizano 1991, p. 51
\textsuperscript{29} From Censo Cafetero, 1970 in Junguito and Pizano, 1991, p. 51
\textsuperscript{30} From Censo Cafetero, 1980 in Junguito and Pizano, 1991, p. 51
comparatively stronger ‘land base’ – in terms of relatively larger landholdings of the coffee estates and significantly lower rates of tenancy.

Table 2.6 Distribution of Philippine ‘coconut farms’ and Colombian ‘coffee estates’, by size: 1970

<table>
<thead>
<tr>
<th>Size</th>
<th>% of coconut farms</th>
<th>Size</th>
<th>% of coffee estates</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 to 5 hectares</td>
<td>72.7</td>
<td>0 to under 4 hectares</td>
<td>46.0</td>
</tr>
<tr>
<td>5 to under 10</td>
<td>17.5</td>
<td>4 to under 12</td>
<td>27.8</td>
</tr>
<tr>
<td>10 to under 50</td>
<td>9.4</td>
<td>12 to under 50</td>
<td>20.5</td>
</tr>
<tr>
<td>50 and over</td>
<td>0.4</td>
<td>50 and over</td>
<td>5.7</td>
</tr>
</tbody>
</table>

Source: Philippine data from Census of Agriculture (1970); Colombian data from Censo Cafetero (1970)

Historical roots of productive expansion

Historical differences in the basis of productive expansion of these two sectors also provide clues about why a stronger producers association took root in Colombia and not the Philippines. In the Philippines, the American colonial legacy left two important imprints in the coconut sector: incentives for productive expansion based on a prolonged protected access to the US market, and the absence of a tradition fostering planters associations like those found in European colonies in Southeast Asia. In contrast, the expansion of coffee in Colombia in the twentieth century was mostly an indigenous process powered by the cultivation of frontier lands in the western part of the coffee zone, and financed by an emergent commercial class. While coconut producers were coddled by a protected US market and had neither the incentive nor tradition to come together to solve problems of production for much of the twentieth century, Colombian coffee openly competed in the international market for coffee from early in the century until 1940, when Colombia signed the Inter-American Coffee Agreement (more on this in Chapter 4). As will be shown in Chapter 4, the earliest uses of the coffee levies in Colombia related to solving production and marketing bottlenecks in this competitive environment.

In general, the coconut industry in the Philippines – its place in the political economy and dominance in the world market – was mostly shaped by American colonial and neo-colonial policies. In particular, the Philippines’ protected access to the US markets for coconut oil and desiccated coconut, effected through policies circumscribing an ‘economy of special relations’ between the
Philippines and the US, provided the incentives for Philippine agro-export production for close to three-quarters of the twentieth century.

From 1909 to 1934, the Philippines and the US entered into a regime of free trade in all products traded, except Philippine tobacco and sugar, which were initially subjected to import quotas in the US. This regime was first enacted through the US Tariff Act of 1909 and the Philippine Tariff Act of the same year, which designated a regime of reciprocal free trade, with some limitations.\textsuperscript{31} The US Tariff Act of 1913 removed the restrictions on duty-free sugar and tobacco (Jenkins, 1954, p. 33) and governed commercial relations between the US and the Philippines until 1934 (Hawes, 1987b, p. 25). It should be underlined that under this trade regime, of the three major exported coconut products – copra, coconut oil and desiccated coconut – it was only the latter two that enjoyed special advantage in the US markets. This is because copra from all other countries could enter the US market duty-free. In contrast, beginning in 1922, Philippine coconut oil producers were not subjected to a two cent per pound tariff duty that was levied on all other coconut oil imports into the US (Rice, 1935, p. 157). Meanwhile, duty on desiccated coconut increased from two to three and one-half cents per pound in the same year—a trade tax from which the Philippines was also exempted (Hawes, 1987b, p. 61).

Pressures from competing agricultural interests in the US – including dairy and cottonseed farmers, and vegetable oil producers, who all formed part of the core of US pressure groups espousing Philippine Independence – pushed to lessen the privileges afforded to the Philippine coconut sector. In fact, two laws were passed during the Commonwealth period\textsuperscript{32} of 1935-1946 that were meant to wean the sector away from these privileges.

\textsuperscript{31} The limitations were in the following form: (1) restricted but generous quotas on duty free Philippine sugar and tobacco products entering the US; (2) a cap of 20 percent on non-Philippine or non-US content in the total value of Philippine manufactures entering the US duty free; and (3) the exemption of rice from duty-free status. (Jenkins, 1954, pp. 32-33)

\textsuperscript{32} The Commonwealth government administered the Philippines in 1935-1946, in what was intended as a 10-year transition period from it being a US colony to its attainment of full independence. Largely patterned after the US model, the commonwealth government was comprised of locally elected officials led by a President and a bicameral legislature, along with a supreme court. The Commonwealth government went into exile when Japanese forces occupied the Philippines in 1942-1945 during the Second World War. The Commonwealth government ended when the Philippines became a republic following independence from US rule in 1946.

When it was formed in 1935, the Commonwealth government replaced the Insular Government of the Philippine Islands, the US colonial government led by an American governor-general created more than three decades earlier in 1901, which was the year before the official end of
First, the Philippine Independence Act, a law passed in the US Congress in 1934, subjected coconut oil exports to a quota and directed the Philippine government to collect export taxes on the same at rates that progressively increased as the country approached Independence in 1946. However, the quota was set at 200,000 MT, which was way below the average amount of coconut oil exported at that time. What was more problematic for the coconut sector was the imposition of the export taxes, clearly a concession to coconut oil and competing vegetable oil producers in the US. The export tax to be levied during the tenth year of the Commonwealth equivalent to 25 per cent of the US import duty would still leave Philippine coconut oil exporters with a one-and-a-half cent per pound advantage against the other world coconut oil exporters, but left them in a less competitive position than US-based producers of competing vegetable oils.

Second, the US Internal Revenue Act was also enacted in 1934, which levied an excise tax of US$ 0.03 per pound on coconut oil imports from the Philippines. On one hand, this represents a two cent differential with the rest of the coconut oil producing world facing a levy of five cents per pound. On the other hand, much like the export tax collected on coconut oil, this processing duty lowered the competitiveness of Philippine coconut oil relative to its substitutes. In the first two years it was imposed, the tax had the effect of doubling the price of Philippine coconut oil in the US as the prevailing market price ex-tax was 2.42 cents per pound. (Rice, 1935, p. 157)

Despite these developments, the regime of ‘special relations’ was extended in 1946 as a result of the devastation wrought by the Second World War, which destroyed vital infrastructure in the country, including many of the coconut mills. The regime was to last until soon after the imposition of the coconut levies in 1974. Through the Tydings Rehabilitation Act of 1946, the United States committed US$ 620 million for post-war reconstruction in the Philippines, subject to the condition the two countries had entered an agreement governing hostilities in the Philippine-American War of 1899-1902. That war broke out when the US acquired the Philippines, then a colony of Spain, in the aftermath of the Spanish-American War of 1898 and refused to recognise the declaration of independence by Philippine revolutionary forces that had risen up against the Spanish colonial government.

Section 6E of the Act directs the Philippine government to collect an export tax on all exported Philippine products—even those on duty-free quotas—an amount equivalent to 5 percent of the US import duty in the sixth year of the Commonwealth government; 10 percent, on the seventh year; increasingly uniformly to 25 percent of the duty in the tenth year of the Commonwealth (Rice, 1935, p. 157)
trade relations. The trade accord, in turn, was embodied in the US Bell Trade Act of 1946 and the Philippine Trade Act of the same year. This agreement extended the duty-free trade regime until July 1954 – later further extended by 15 months to December 1955 – after which most exports from Philippine goods were to be subjected to progressively increasing percentage of US duties until 1974, when preferential treatment for all Philippine exports in the US would be terminated. But Philippine coconut oil, along with seven other commodities, was given the privilege of duty-free quotas, subjected to a decreasing schedule until 1974, when they were completely eradicated. The initial quota for coconut oil was 200,000 long tons, decreasing by 5 per cent every year from 1955 until the quota was totally eliminated in 1974.

Thus, for almost three-quarters of the twentieth century from 1909 to 1974, American colonial and neo-colonial policies provided pivotal incentives for the development of the industry and fostered the dominance of the Philippines in the world market for coconut exports in much of the twentieth century. The effects of the policies outlined above are illustrated Table 2.7, which provides a long-run view of coconut exports from the Philippines. The table shows the dramatic increase in exports of copra and coconut oil occurring from the start of American occupation until the eve of the Second World War. At the beginning of American occupation, the Philippines was exporting an average of 71,444 MT of copra and 723 MT of coconut oil in the period 1901-1910. The average quantity of copra exported rose to 272,814 MT in the period 1931-1940, representing a four-fold increase from the average at the start of the American

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34 This was not a ‘benign accord’ and necessitated the re-drafting of the Philippine constitution. Aside from the agreement on tariffs and quotas governing trade relations, the Bell Trade Act also granted the following: (1) parity rights to US citizens in the exploitation and development of natural resources in the public domain; (2) the tying of the Philippines to the US dollar at the rate of PhP1 : US$2, with no restrictions on capital transfers from the Philippines to the US, except with the agreement of the US President; (3) power to the US president to withdraw economic concessions if US interests called for the same; and (4) prohibition on the Philippines to impose export taxes on all goods exported to the US until 1956. (Hawes, 1987b, pp. 28-29)

35 This was enacted in July 1954 by virtue of RA No 1137 in the Philippines and Public Law 474 in the US.

36 They were: sugar, cordage, rice, tobacco, cigars, coconut oil and buttons of pearl or shell. (Jenkins, 1954, p. 65)

37 The Philippines and the US could not enter into a trade agreement 10 years from the signing of Treaty of Paris in 1898 because the treaty provides that Spanish ships and goods would be admitted to Philippine ports on the same terms as ships and goods from the US (thus a trade agreement with the US would have forced that Spanish goods be treated the same way) (Jenkins, 1954, p. 30)
occupation. The increase in coconut oil export production was even more dramatic: an average quantity of 158,402 MT exported in the period 1931 to 1940 or a 219-fold increase relative to the average in the first 10 years of the occupation.

The degree of dependence of Philippine coconut exports on the US markets is also indicative of the extent to which American colonial policies influenced production in the industry. Before 1909, the little that was exported of coconuts – mostly in copra form – went to Europe, where the oil was extracted and re-exported to the United States (American Council Institute of Pacific Relations, 1934, p. 1). But by the 1930s, almost all of the coconut oil and more than two-thirds of the copra exported from the Philippines went to the United States. And at this point, the Philippines accounted for one-third of world exports of copra and its derivative oil (Rice, 1935, p. 157). To extend the analysis, Table 2.7 depicts the share of Philippine coconut exports going to the US after the Second World War. It shows that by the 1950s, more than three-quarters of Philippine coconut oil exports and almost all of its desiccated coconut exports were going to the US. However, by then, less than half of copra exports were going to the US. In the 1960s, the shares of coconut oil and desiccated coconut exports going to the US still exceeded three-quarters of the total, but by then shares had begun to decline. By the time the free trade arrangement of the Philippines with the US had ended in the 1970s, the shares of coconut exports destined for the US market had gone down further.

Meanwhile, Corpuz (1997) noted another important implication of having the US as coloniser shaping the operations of Philippine export agriculture and a feature that resonates sharply in the coconut sector. He observed that Americans did not leave a tradition typically found in European colonies in the region, where planters’ associations were organised and maintained research and experimental stations for their respective crops, working closely with government stations. These associations supported study teams working on the feasibility of diversification and on the export potential of various crops. For example, activities of planters associations in Siam, Java and French Indochina led to advances in production technology in rice. As a result of these associations' early establishment and activities in these countries and the absence of the same in the Philippines, science and technology support for agriculture in
the Philippines was thirty to forty years behind the system in Java. In the period 1914-1929, rice yields in these regions averaged at 2,200 kilos per hectare while productivity in the Philippines was 1,225 kilos per hectare. (Corpuz, 1997, p. 253)

Table 2.7. Ten-year average Philippine exports and US share, by type of coconut product: 1900-2000

<table>
<thead>
<tr>
<th>Period</th>
<th>Copra (in thousand kilos)</th>
<th>Coconut oil (in thousand kilos)</th>
<th>Desiccated coconut (in thousand kilos)</th>
<th>US share in exports (in per cent)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Copra</td>
<td>Coconut oil</td>
<td>Desiccated coconut</td>
<td>Copra</td>
</tr>
<tr>
<td>1900-1910</td>
<td>71,444</td>
<td>723</td>
<td></td>
<td>41.66 86.47 97.14</td>
</tr>
<tr>
<td>1911-1920</td>
<td>87,339</td>
<td>47,164</td>
<td></td>
<td>36.51 82.12 81.70</td>
</tr>
<tr>
<td>1921-1930</td>
<td>178,962</td>
<td>124,466</td>
<td></td>
<td>3.30 61.96 48.69</td>
</tr>
<tr>
<td>1931-1940</td>
<td>272,814</td>
<td>158,402</td>
<td></td>
<td>- 42.79 47.36</td>
</tr>
<tr>
<td>1941-1950</td>
<td>no data</td>
<td>no data</td>
<td>no data</td>
<td>- 44.44 46.15</td>
</tr>
<tr>
<td>1951-1960</td>
<td>782,765</td>
<td>77,812</td>
<td>49,321</td>
<td>14.66 86.47 97.14</td>
</tr>
<tr>
<td>1961-1970</td>
<td>738,183</td>
<td>241,337</td>
<td>64,084</td>
<td>36.51 82.12 81.70</td>
</tr>
<tr>
<td>1971-1980</td>
<td>548,664</td>
<td>669,055</td>
<td>81,118</td>
<td>3.30 61.96 48.69</td>
</tr>
<tr>
<td>1981-1990</td>
<td>101,799</td>
<td>925,907</td>
<td>79,737</td>
<td>- 42.79 47.36</td>
</tr>
<tr>
<td>1991-2000</td>
<td>23,778</td>
<td>964,855</td>
<td>78,295</td>
<td>- 44.44 46.15</td>
</tr>
</tbody>
</table>

In a nutshell, the absence of a colonial tradition of planters organising in the agriculture export sector in the Philippines coupled with the coconut sector’s assured and protected access to the US market— with the latter, probably lessening the incentives for producers to come together to collectively respond to the challenge of enhancing productivity –shaped a shallow history of organising in the sector.

Meanwhile, in Colombia, growth in coffee production in the twentieth century was driven by much more internal processes of expansion. The terms with which the sector integrated with the international coffee market became an object of debate in national politics early in the twentieth century. The preferred strategy of Colombian coffee producers in this debate — conducted before the Grand Depression in 1930 led to a spiralling down of international coffee prices — was to openly compete with Brazil, the world leader in coffee production, rather than to collude with it to suppress international supply. This position was shaped by the conditions of production in the geographic centres of productive expansion.
Elucidating on this requires explaining the historical features of coffee expansion in Colombia.

Junguito and Pizano (1991, pp. 7-15) explain that there were two episodes of productive growth spurts in the coffee sector with their own distinct drivers. The first growth spurrt happened late in the 19th century, in the period 1880 to 1898, when national production increased five-fold from about 100,000 60-kilo sacks of coffee to about 500,000 sacks. Productive expansion during this period was centred in the eastern parts of the coffee zone – primarily in the department of Norte Santander, but also minimally in Santander and Cundinamarca – which were largely characterised by large coffee estates. Junguito and Pizano explain that the concentration of coffee production in this region during the late 19th century is explained by its proximity to Venezuela, a key hub of trade at that time, and its well-connected transportation facilities. Civic conflict erupted from 1899 to 1902 that disrupted this period of growth. In the peaceful interlude that followed, a second period of growth happened from 1902 to 1930. In this period, the expansion of production became even more dramatic – with production almost doubling every ten years.

### Table 2.8 Coffee production (in tons), by size of coffee farms and geographic zone, 1923-1932

<table>
<thead>
<tr>
<th>Size of coffee farm (in hectares)</th>
<th>Western zone</th>
<th>Eastern zone</th>
<th>% change</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1923</td>
<td>1932</td>
<td>% change</td>
<td>1923</td>
</tr>
<tr>
<td>Less than 3</td>
<td>20,540</td>
<td>37,434</td>
<td>82.2</td>
<td>6,333</td>
</tr>
<tr>
<td>3 – 12</td>
<td>26,572</td>
<td>44,074</td>
<td>65.9</td>
<td>8,865</td>
</tr>
<tr>
<td>12 – 15</td>
<td>14,649</td>
<td>30,640</td>
<td>109.2</td>
<td>7,586</td>
</tr>
<tr>
<td>Greater than 35</td>
<td>9,815</td>
<td>14,384</td>
<td>46.6</td>
<td>15,789</td>
</tr>
<tr>
<td>Total</td>
<td>71,576</td>
<td>126,532</td>
<td>76.8</td>
<td>38,393</td>
</tr>
</tbody>
</table>


It is this second period of growth that had important implications for the conditions for collective action and the accretion of political power by coffee producers. In contrast to the growth spurrt in the late 19th century, productive expansion in the coffee sector in the early 20th century happened not in large coffee estates east of the Andes mountains, but in the western and central parts of

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38 A civil armed conflict between the radical factions of the Conservative and Liberal, partly precipitated by falling coffee prices in the international market.
the coffee zone, during the peak of a process of settler colonization of frontier lands in the departments of Antioquia, Caldas and Tolima. Production structures in this area were very different from the big coffee estates in the east: they were small-holder based and mobilising family labour much more. The agronomic conditions in this region were ideal for smallholder production with no economies of scale, and for combining coffee production with other subsistence crops. Here, coffee was grown in steep slopes, where land had few alternative uses and was thus cheap (Bates, 1997, p. 55). Data in Table 2.8 exhibits how smallholder coffee farms were accounting for productive expansion in the early part of the 20th century – with much more of the growth in production occurring in the eastern part of the coffee region, particularly the smaller farms there.

Against these two episodes of productive expansion, coffee exports were also accounting for a growing share of Colombia’s exports. In the first growth period, the share of coffee in Colombia’s total exports rose from 20 per cent in 1880-84 to 55 per cent in 1890-94, and 49 per cent in 1895-99 (José Antonio Ocampo, 1984, pp. 100-101). In the second growth period, after the downturn in the face of the conflict at the end of the 19th century, coffee exports growth recovered from 1910 and grew steadily, if not as dramatically as the first period. The sector’s share in national exports stood at 39 per cent in 1905-09 rising steadily in the following periods: to 48 per cent in 1910-14, 51 per cent in 1915-19, and 69 per cent in 1920-24 (Beyer, 1947, pp. 359-363). Moreover, Colombia increased its share of the world market from less than 300,000 60 kilo-bags in the early 1890s to over 3 million bags in the early 1930s (Bates, 1997, p. 51).

As a testament to the growing importance of the coffee sector in the Colombian political economy, the debate on the country’s strategy for integration in the world market was a matter of high politics. Junguito and Pizano (1991, p. 6) depict the principal characters of this debate in the 1930s to be the Liberal president Alfonso Lopez Pumarejo with familial links to the country’s principal coffee exporters, and Mariano Ospina Perez, then the president of the recently formed FEDECAFE and also coming from a family with economic interests in coffee growing. Lopez-Pumarejo was a staunch supporter of quantitative restrictions to delimit the supply of coffee and championed entering into an agreement with then world-leading producer, Brazil. Ospina Perez, speaking on
behalf of the coffee producers through the FEDECAFE, believed that the long-run interests of the coffee sector were best served by fomenting production and increasing its share in the world market. How this debate played out gives a good insight about the political origins of the rent settlement associated with coffee levies, which I will explore in the final section of this chapter. But what I want to flag now is the idea that the preferred position of the coffee producers of trading freely and competing openly in the world market at that crucial time of productive expansion in the early 20th century has to do with the small-holding eastern coffee zone being the hub of coffee growth. Bates (1997, pp. 60-61, 69-74) suggests that the FEDECAFE was, in its early years, a proponent of competitive marketing policies, choosing to be a 'vigorous entrant' in the world market. While the government wanted to collude with the other leading coffee exporter, Brazil, to delimit world supplies of coffee, the FEDECAFE initially preferred to free-ride on Brazil's international marketing strategy. He says that FEDECAFE believed that Colombian coffee producers could thrive in open competition "owing to the small size of the coffee farms in Colombia, the diverse crops grown on each farm" -- that is to say that they could withstand the competitive onslaught by consuming food products in their farms while tending to their coffee (Bates, 1997, p 73).

But competing in the world market meant that the sector had to continuously innovate and deal with production bottlenecks to survive. And part of how Colombian coffee producers achieved this was coming together in the FEDECAFE, allowing themselves to be taxed, and then mobilising the collections to deal with these bottlenecks. In Chapter 6, I explain how the coffee levies were mobilised in pursuit of these ends in the early years of the federation. In contrast to the Philippine coconut producers, whose terms of engagement with the international market were defined by the US and did not provide incentives for collective action, the Colombian coffee producers chose a competitive strategy – borne out of the dominant structure of production – that forced them to come together.
Political drivers of the rent settlement

In this final section, I compare and contrast the origins of the rent settlement in the Colombian coffee and Philippine coconut sectors. In particular, I examine the political conditions that led to the establishment by the state of an institutional framework allowing private agents – particularly producers associations – to mobilise the levies.

Coconut levies as a ‘strongman’s’ political project

The governance of the Philippine coconut sector before the imposition of the coconut levies in 1970 was marked by a history of largely ineffective state policies, and of failed attempts by the COCOFED to influence the same. Nyberg (1968, pp. 45-49) provides an insightful account of the failed attempts by the newly independent Philippine state to intervene in the coconut sector during the post-American colonial period, after the Second World War up to the 1960s. I can categorise these attempts into three. First, there were earlier attempts to establish government organisations funded out of collections from the coconut producers and tasked with overseeing the development of the sector. These organisations were besieged with charges of corruption and received less than stellar reviews, in terms of performance. Second, the state attempted to infuse capital into the sector by issuing government bonds to be used for financing the development of manufactured coconut products and providing credit for coconut cooperatives and producers. Again Nyberg (1966) depicts these as having failed due to low absorption rates of the funds that were made available for credit and mobilisation. Third, state attempts to regulate the

39 The National Coconut Corporation was the very first public corporation established by the state in 1940 to maintain and operate post-harvest facilities, and to improve the marketability of Philippine copra. Interestingly, this corporation was funded out of the excise taxes collected by the US government from the Philippine coconut oil exporters in the Commonwealth period. The corporation went bankrupt. (Eleazar, Ignacio, Nael, & Agustin, 1980, p. 14; Nyberg, 1968, p. 45). The organisation was renamed the Philippine Coconut Authority in 1954 and similarly funded through levies collected from producers of desiccated coconut, coconut oil and copra. The levy was in the amount of Ph10 centavos per 10 kilos and paid into a special fund known as the ‘Coconut Development Fund’. Eleazar et al (1980, p. 15) estimates that collections averaged PhP2 million annually. Unlike the coconut levy funds, this was never declared private, nor did it reach the scale collected during the Marcos-years.

40 In 1955, RA No. 1639 was signed into law appropriating PhP30 million from the sales of bonds to be used for financing the development of manufactured coconut products. Nyberg (1966, p 47) says that as of 1966 or eleven years into the implementation of the scheme, less than PhP2 million had been loaned out under the provisions of this act. Four years later in 1959, the
quality of copra by requiring copra buyers to use moisture metres suffered from low enforcement rates. In general, attempts by the state to directly foster production in the coconut sector thus far described had largely been deemed ineffective at meeting their objectives. Economic studies evaluating state policies embodying incentives for coconut production also found interventions from the 1950s insignificant.

Meanwhile, the COCOFED also has a history of failed attempts at influencing state policy. But before turning to this, a brief account of the federation’s history can help contextualise these failures. To begin with, this organisational history was, unlike that of Colombia’s FEDECAFE, very difficult to trace — and I take this to be an indication of the less than robust foundations of the producers association in the Philippines. In comparison to Colombia’s FEDECAFE, the COCOFED was a young organisation. It was founded in 1947 and originally called the “Philippine Coconut Planters Association”. The organisation changed its name to COCOFED in 1956. David (1977, p. 101) suggests that the original name was more reflective of the nature of the Federation as essentially an organisation of landowners. He supported this claim by analysing the list of the organisation’s original incorporators, as well as the composition of leaders in 1956 and 1977. He found that the original incorporators were planters and politicians mostly from Southern Tagalog, which at that time was the region

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Development Bank of the Philippines (DBP) was directed, under RA No. 2282, to administer PhP30 million in funds to be made available to coconut cooperatives and coconut producers. Again, the programme suffered from low rates of borrowing – with only PhP5 million lent as of 1966.

41 In 1955, RA NO. 1365 was enacted for this end. Nyberg (1966, p 46) estimates that less than 5 percent of the copra traded was subjected to this method of establishing moisture content.

42 See for example, Clarete and Roumasset (1983) and Intal and Power (1990).

43 At the time of the research, legal cases in relation to the coconut levies and the role played by COCOFED in their disposition, were still under litigation in courts (to be discussed further in Chapter 4) and none of the officers were willing to be interviewed for this study. For historical accounts on COCOFED, I relied heavily on three principle sources. First, an ‘insiders’ view of COCOFED and its efforts in lobbying policies for the sector by Eleazar et al (1980), written and published when Marcos was still in power and COCOFED was heavily involved in the disposition of the coconut levy funds. Unsurprisingly, the book provides a very positive account of COCOFED as a representative of copra producers, the levies and the organisation’s role in the establishment of these levies. The second and third sources are both by David (1977, 1992), who as a military colonel was assigned as the military adviser to the coconut sector when Martial Law was declared and as a military general became administrator of the PCA under the Ramos government. He wrote an MBA thesis (David, 1977) that attempted to ground an analysis of the history and nature of COCOFED on empirical data to which he had unique access due to his position in the Marcos government. He published a shortened version of the thesis (David, 1992) when he was already PCA administrator. His account is more critical of the levies and COCOFED.
that accounted for a major share of copra production in the Philippines. David (1977, p. 103) wrote that half of the founders actually resided in the capital city of Manila, while the rest were based in the coconut-producing provinces of Laguna and Quezon in Southern Tagalog. The leadership of the organisation had traditionally been dominated by planters and politicians from Luzon. However, by the early 1960s leadership of the organisation shifted to planters in Mindanao (David 1977, p. 102) – probably a reflection of the increasing share of the island in total national copra production.

The COCOFED was coming from a string of policy defeats during the term of Diosdado Macapagal, who was the president immediately before Marcos and was in power from 1961 to 1965, and even under the first years of the Marcos administration. Eleazar, et al. (1980, pp. 16-38) reported the major policy battles copra producers lost before they finally ‘won’ with the passage of the RA NO. 6260.

First, in 1962, the COCOFED lobbied for ‘Project COBONTER’, which stands for ‘copra bonded terminals’. To help address inefficiencies in the marketing system, the federation proposed the establishment of joint ventures between government and farmers’ cooperatives for running terminal facilities in ports to provide warehousing and stevedoring facilities. This could be seen as the earliest attempt for centralisation of copra trading operations, with the direct involvement of the farmers. Eleazar et al (1977, pp. 18-19) reported that technocrats of the administration supported the project, but it never really got off the ground beyond being incorporated into a plan for a PhP70 million-integrated coco-chemical complex, to be funded by the National Investment Development Corporation and to be established in Iligan City, a coconut-trading and port city in Mindanao– a plan trumpeted during the presidential elections of 1965. Marcos won that election and the complex was moved to Lucena City, in the province of Quezon but with the plan for COBONTER ultimately set aside.

Second, the COCOFED also failed to stop the Philippine government from entering into an agreement with Indonesia fostering a trading partnership in copra between the two countries. The agreement committed both countries to coordinated action in promoting coconut production and processing and effectively bestowed upon Indonesia access to Philippine copra export markets by allowing the transhipment of Indonesian copra from Philippine ports.
Eleazar, et al. (1977, p. 21) wrote that COCOFED tried to influence negotiations in 1963 by taking part in the Philippine-Indonesian Coconut Commission (PICC) and succeeded there in delaying the signing of the treaty by convincing the Commission to undertake a survey of coconut situations in both countries before entering into any agreement. However, before the treaty was even signed, Indonesia successfully used the Philippines as a transhipment point for 3000 tons worth of copra, which the federation tried unsuccessfully to stop. The federation’s representative resigned from the PICC and dialogue between the Macapagal administration and the federation effectively ended. Officers of the federation were more hopeful about Marcos and even reactivated the organisation’s participation in the PICC. Even then, the COCOFED’s relations with the new government soured when the latter allowed the entry of cheap Indonesian copra to help resuscitate the operations of the Batjak Oil Mills, which was owned by the government through its stake in the Philippine National Bank and the NIDC. Relations soured even further when, in 1969, the Philippine government under Marcos went ahead to sign the Philippine-Indonesia Copra Agreement (Eleazar, et al., 1977, pp. 22-26).

When, under the Marcos government, RA NO. 6260 was passed by the Philippine Congress in 1971, authorising the collection of the Coconut Investment Fund levy, Eleazar, et al. (1980, p. 78) argued that coconut industry “won its major battle for a development mechanism that is both industry-financed and industry-directed.” RA NO. 6260 stipulated the collection of a levy to be used by the government to underwrite the Coconut Investment Company (CIC). The CIC was set up to allow coconut farmers to invest in shoring up the commercial and industrial capacity of the sector and for them to directly participate in related activities. It is also important to note that very much like the coffee levies in Colombia, part of the levy collections – a small one, at PhP30 centavos per MT of copra – was earmarked for the use of the producers’ association, at this point unnamed.

The COCOFED had been lobbying for the concept of the levy since 1968 and it was mostly their version of the bill that was ultimately introduced by Senator Dominador Aytona in the Senate and Congressman Moises Escueta in the House of Representatives – both from the coconut-producing province of Quezon – and then legislated into law in 1971. The bill faced opposition from the
Congressional Planning Office (CEPO), which questioned – among others – the legality of establishing a private corporation like CIC, in turn authorised to mobilise and collect levies. CEPO technocrats also found the accreditation of the federation’s National Coconut Congress by law as highly irregular (Eleazar, et al., 1980, p. 80). In the end, the House of Representatives deleted allusions to COCOFED as the ‘recognised national association of coconut producers’ in the draft bill. Even with this significant amendment, the bill was effectively the copra producers’ first policy victory.

However, this levy was merely used as a template for a series of other levies collected from the sector. From 1971 to 1982, President Ferdinand Marcos utilised the expansive executive authority accorded to him under Martial Law to promulgate a spate of presidential decrees that led to the dramatic increase in the amounts levied, the expansion of the levies’ authorised uses, and the centralisation of control of levy collections by a delimited set of individuals, including representatives of the COCOFED. The authorised uses, in turn, of the levies included the following: (1) raising capital investments to shore up industrial capacity in the coconut sector, make farmers direct participants in industrialisation, and rationalise the milling sector; stabilising coconut oil consumer prices; (2) subsidising premium duties paid by exporters; financing a coconut replanting programme; (3) financing the organisational operations and welfare projects of COCOFED; (4) financing research and administrative expenses of PCA; and (5) purchasing shares in a commercial bank to address the credit needs of coconut producers.

In Chapter 3, a detailed explanation of how these levies came to be legitimised is provided. What is important to note at this stage of the analysis is that within a span of ten years, Marcos penned ten decrees that legalised the collection of levies, which were remitted to funds that represented a substantial infusion of capital into the coconut sector, and that nominally allowed the coconut producers – through the COCOFED – to mobilise the funds. The collection and modes of mobilising coconut levies during the Marcos years represent a scale of direct state interventions that the industry had not seen for

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44 Marcos declared Martial Law in the Philippines from 1972-1983, using exaggerated threats posed by Communist and Muslim insurgencies as justification. He ruled by decree, abolishing Congress, closing down media establishments and arresting key opposition figures.
much of the twentieth century and did not see again after Marcos’ fall from power. Thus, the collection and mobilisation of these levies may be seen as representing a true shift in the governance of the Philippine coconut sector in two senses. First, the levies constituted a scale of public resources that was never before made available for the sole use of the sector. Second, the policy deployed to mobilise these resource involved, on paper, the direct participation of the coconut producers. The next question to ask, then, is what accounted for this shift in nature and scale of state intervention in the sector?

One explanation relates to the elite fissures wrought by the evolution of industrial policy after independence in the Philippines. As shown in an earlier section, American colonial policies nurtured wealth accumulation in the export of agricultural commodities—including sugar, coconut, abaca, indigo and tobacco products. This also had had the effect of making these sectors central to the evolving political economy as the economic base of the land-holding elite that dominated much of Philippine politics in its history as an independent republic. The political importance of these sectors emanated not only from the tremendous wealth that they generated for the agrarian elite, but also because of the sizeable electoral base they constituted, with these sectors employing a major share of the population up until the 1970s. Unlike Taiwan and South Korea, where land reform weakened the power of the land-holding class, in the Philippines this dominance was never completely broken.

However, the social and economic bases of the elite diversified as the country began to experiment in import-substitution in the 1950s. The devastation wrought by the Second World War brought the national treasury to the brink of bankruptcy and signalled the origins of import substitution in the Philippines—beginning with the imposition of import and export controls.

Hawes (1987b, p. 20) noted that the rise in production of manufactures behind the walls of protection afforded by ISI brought along with it the rise of political conflict about who would bear the burden of financing industrialisation, the acceptable levels of foreign control and the degree of protection for domestic entrepreneurs. He suggested that this conflict underpinned a stalemate between pro-agriculture and export-led growth versus nationalist and populist import-substituting interests and explained why the Philippines transitioned to export-oriented industrialisation much later than its neighbours in the region.
In a nutshell, the rent settlement in the coconut sector was devised at the point where import-substituting elite interests were challenging the hegemony of outward-looking agrarian interests. Hawes (1987) suggested that Marcos – by employing the policies he did in the agro-export sector, including through the imposition and mobilisation of coconut levies – effectively broke down elite cohesion in favour of the exporting sectors.

I propose a different take on why Marcos, utilising state power, elected to favour certain handpicked sections of the elite. Coconut levies could be understood as a rent-allocating tool used by Marcos to consolidate his political base under Martial Law – doling out what North et al (2007) and Khan (2004a) would call ‘rents for political stability’. Against a political landscape dominated by a relatively small number of wealthy families, Marcos was a political ‘outsider’, who was not part of the traditional elite – although coming from a wealthy family in the Ilocos region of Northern Luzon. His declaration of Martial Law could thus be seen as a political project for undermining the political structure of traditional families and cutting their networks of influence (Dohner & Intal, 1989, pp. 387-388) and centralising political power in the executive. Marcos achieved this by disbanding Congress, the hub of locally-rooted traditional families and suspending all local elections. Government also seized and closed all newspapers, radio and television stations to deprive opposition their voice. Private armies were disbanded and control of local police placed under the Philippine Army.

The same logic of undermining traditional elites and establishing and consolidating a base of his own underpinned Marcos’ strategy in allocating rents in the agro-export sector. Here, he used state power to secure control of the coconut sector in the hands of ‘presidential cronies’ (Boyce, 1993, p. 190). Coconut levies were the resources used to establish monopoly control of the processing and exporting of copra by agents among those chosen by Marcos to underpin his political base, along with other opportunities for wealth accumulation for agents benefitting from the rent settlement.

In summary, the settlement in the coconut sector was governed by political calculations of an authoritarian leader. In Chapters 3 and 5, I show that the COCOFED did not have the organisational power to influence those calculations in a major way. Because of this, the rent settlement redistributed income to
presidential associates and just some leaders of the COCOFED, acting within this settlement as individuals rather than as representatives of producers. The COCOFED, with its shallow historical base, did not evolve organisational processes that would have held these leaders accountable to the ‘mass members’ of the federation, who bore the burden of the levies.

Coffee levies and the private appropriation of public power

If the rent settlement associated with coconut levies in the Philippines was governed by a logic external to the productive goals of the sector, having been primarily borne out of a strongman’s project to build his political base and consolidate his authoritarian rule, in Colombia the rent settlement associated with the coffee levies was driven, at the very onset, by the logic of enabling a key wealth-generating economic sector to survive the vagaries of an unstable international market. It mattered a lot that this sector also happened to be the economy’s singularly dominant source of foreign exchange.

In Colombia, two crisis points brought coffee producers together, in two separate attempts to form a federation – the first was a failure; the second, led to the birth of the highly successful FEDECAFE.

The first attempt happened in 1920, when the New York price of Colombian coffee fell from 31 to 18 cents per pound. At this time, coffee producers looked to a broader organisation, the Sociedad de Agricultores de Colombia (SAC, but from here on the Colombian Agricultural Society) to represent their interests – and it was the Board of Directors of this organisation that convened the First Coffee Congress to address the troubled market conditions. Based on the account by Koffman (1969, pp. 73-78), this first national congress was attended by 41 delegates, with the largest contingent from Cundinamarca. As has been previously explained, coffee production in this department was chiefly undertaken in large coffee estates; it is also where the national capital, Bogota is situated. The first congress can then be construed to have been driven by coffee growers with large estates in the eastern part of the coffee zone and commercial interests from the national capital. The chief concern raised in the congress was the ‘valorisation’ of coffee – which meant raising its price in the international market – and related to this, dealing with the primary productive bottlenecks of the sector: transportation facilities connecting the production centres to the
market, and access to credit. The government was represented by a functionary from the Ministry of Agriculture, who is said to have articulated the need for coffee producers to finance an international campaign to promote Colombian coffee. This congress formed a ‘delegatory board’ (*Junta Delegatoria*), a smaller committee composed of six chosen congressional delegates, to continue the work of the First Coffee Congress to deal with the issues identified above. However, nothing came out of this first attempt – Koffman says the body just “disappeared without a trace” (Koffman, 1969, p. 77).

It was seven years later in 1927, after another episode of falling international prices – the New York price of Colombian coffee had recovered to 31 cents per pound sometime in 1926, but crashed to 22 cent in 1927 – that a second congress was called. Again based on Koffman (1969, pp. 77-83), this time the initiative for this conference came not from the large planters represented by the Agricultural Society based in the eastern departments, but from producers and exporters of Medellin and Manizales, the capitals of Antioquia and Caldas, respectively. As noted in the previous section, these departments in the western side of the coffee zone were part of the region where the smallholder-driven productive expansion of the early 20th century happened. However, the role of the Colombian Agricultural Society in this second attempt cannot be denied. It was the Antioquian Agricultural Society president, Rafael Ospina Perez – brother of the first FEDECAFE president that featured in the debate about Colombian strategy for world market integration and future Colombian president Mariano – who issued the formal call for this national congress. Moreover, the departmental government of Antioquia was also involved – acting as joint sponsors with the Agricultural Society and financially supporting the departmental delegates. In the call for the Second National Coffee Congress, governors of the coffee departments in Colombia were asked to choose two delegates from a list of three to be submitted by the departmental Agricultural Society.

The FEDECAFE that is known today was created by this Second National Congress. Koffman (1969, p. 79) says that this congress was constituted by 29 delegates, including representatives from 15 coffee-growing departments in the country, the Ministry of Industry, and the departmental Agricultural Societies of Antioquia, Caldas and Magdalena. The federation’s goals, which were specified
in the ‘accord’ (*Acuerdo Numero 2*) that created the association, were the
defence and protection of the interest of the coffee industry through the
establishment of warehouses granting credit on deposits, setting of standardized
grades of coffee, the coordination of international promotion, the generation of
market statistics and seeing to the reduction of transportation costs. The
provision of agricultural extension support and distribution of inputs were also
specified as potential activities. In Chapter 4, the discussion of the federation’s
budget in the 1930s will reveal that the FEDECAFE saw to this mandate.

What made the fulfilment of the founding mandate of the FEDECAFE
possible – and indeed, its continued existence until the present – is the very
object of study in this dissertation: that the federation was authorised to mobilise
coffee levies collected on their behalf by the state. Unlike the COCOFED in the
Philippines, the FEDECAFE did not actively lobby for the levies. According to
Koffman (1969, p. 82), it was a functionary from the Ministry of Industries, who
was representing the government in the National Committee – the working
committee authorised by the national coffee congress to develop and implement
the programme to meet the goals of the FEDECAFE specified above – who
actively developed and pushed the idea to collect export taxes from the sector for
its own exclusive use. It was an idea that was initially resisted, but a debate that
was ultimately won by the government.

In the year the FEDECAFE was founded, Law 72 of 1927 was also enacted,
which had provisions for the collection of a 10 centavo tax per every 60
kilogram-sack of coffee exported, and for the entrustment of the collections to
the FEDECAFE, to be used in the activities related to the association’s goals
specified above. The law also provided that these services that the FEDECAFE
were to render, were to be enshrined in a contract signed between the
government and the federation. As will be shown in Chapter 4 – and as in the
case of the Philippines – the coffee levies collected would expand, rate of taxation
would increase, and the authorised uses would expand to include price
stabilisation and allow for the investment of the levies. But unlike the
Philippines, the producers association in Colombia remained the central and only
conduit in the mobilisation of these levies. The institutional framework first
established in 1927 in which the FEDECAFE was contracted for services
promoting production and the commercialisation of Colombian coffee in exchange for which it received the levies was to endure.

From the foregoing discussion, it can be seen that it was state action that created a strong coffee producers association in Colombia. For one, local politicians played a key role choosing the departmental delegates and financing their participation in the national congress. But more importantly, the central government enacted a law that provided the FEDECAFE with the means to control and mobilise substantial financial resources, arguably the most important factor why it was the second attempt at forming the federation that ultimately succeeded. It was because of this access to the coffee levies in 1927 that the FEDECAFE was “born strong” (Schneider, 2004, p. 133).

What political conditions underpinned state action that shored up the power of the FEDECAFE in Colombia? If in the Philippines, a strongman trying to build his own political coalition was behind the rent settlement in the coconut sector, in Colombia, it was a coalition that established the rent settlement in the coffee sector. The nature of this coalition in Colombia is thus key to understanding the political conditions that underpinned state action in the coffee sector.

The founding of the FEDECAFE was brought about by a coalition that involved coffee growers and businessmen in the smallholder-dominated department in Antioquia, members of the Colombian Agricultural Society and a socially conservative but economically liberal wing of the party in power when the FEDECAFE was founded, the Conservative Party. This could be deduced from the work of Saether (1999), who closely examined the published lists of the FEDECAFE’s founding members. He identified – contrary to Koffman’s account that there were 29 founding members – 33 names in the published list of the federation’s founding members. He examined the biographical data of 25 of these names and concluded that while all coffee departments were represented in the founding congress, this did not mean that the founding congress represented

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45 Saether examined founding members lists contained in the following: Revista Cafetera 1928, Revista Cafetera 1968, a photo of the founding members found also found in Revista Cafetera 1968, but including three names that are not in the list, and a Conference registry published in the Revista Cafetera and included in a Coffee Federation Report (Los Propositos de la Industria Cafetera Colombiana, 1987), listing participants of the final session of the founding congress. In summary, he found that majority of the names appeared in at least one list; 20 names, all four lists; and 4, in just one list. From an examination of these lists, he found there were 33 identified founding members of the Federation. (Saether, 1999, pp. 146-147)
‘national interests’. He provided empirical evidence for Koffman’s description of the founding congress being driven by coffee growers from the eastern part of the coffee zone: of the 25 founding delegates, 16 had strong links with the coffee industry in Antioquia, as owners of land in the said department or with business interests in the coffee industry as exporters or processors in Medellin, the capital of the department. For example, among the 16 were three, who were listed as representatives of the Colombian Agricultural Society, but also involved in the coffee industry, not as coffee growers, but as coffee processors based in Medellin; and five other departmental representatives had similar business interests in the capital city of Antioquia. He also found very strong connections of the founding delegates with a wing of the Conservative Party called the ‘historicos’, a faction of the party that favoured cooperation with moderate liberals to promote peace and economic development. This included Carlos Restrepo, who was a president of Colombia from 1910 to 1914, and Pedro Nel Ospina (also uncle of Mariano and Rafael), who were both part of the said faction. Mariano Ospina Perez, who I mentioned earlier as having championed the strategy of competition in international coffee trade and became president of the FEDECAFE, was also a founding member and Conservative senator supportive of the ideas of ‘historicos’. His family owned coffee haciendas and businesses in Medellin that exported coffee and produced textiles. Other founding members with links to this family included Mariano’s brother Rafael, and the lawyer of Pedro Ospina, Santiago Razo. In a nutshell, based on Saether’s (1999, pp. 147-153) examination of the lists, one could conclude that the majority of the founding members of the FEDECAFE had Antioquian links either as coffee growers or businessmen, and that many had links with the Ospina family, and through them, a specific wing of the conservative party. That such a coalition underpins the founding of the FEDECAFE has a number of significant implications about the political origins of state support for the private appropriation of public power by the federation in Colombia.

The nature of the coalition underpinning the FEDECAFE in the crucial first years of the federation’s establishment, in turn, explains the power it consequently exercised (and relatedly, that which was not achieved by the COCOFED in the Philippines), and also enables me to forward an interpretation
of the rent settlement in the Colombian coffee sector that could be directly compared with that in the Philippine coconut sector.

Bates (1997) offers a compelling explanation of why the FEDECAFE gathered power in Colombia that could be extended to include the implications of the nature of the coalition behind the federation’s founding. His explanation is focused on the structure of political competition in Colombia, and the place of the coffee sector therein. Bates (1997, p. 81) begins from the assertion that the structure of power in Colombia is highly centralised (not federalist). In this context, the coffee sector had inherent potential to exercise tremendous electoral muscle, as production – including not just the numerous coffee growers but also the banks and trading houses dependent on the coffee economy – was geographically dispersed. But what amplified the sector’s potential electoral power was the coffee sector’s strategic location in a two-party political system where “partisan cleavages tended to fall along a single, well-defined dimension, one captured in the names of the parties”. This strategic location, in turn, was due to the important place held in the sector by Antioquia-based economic and political agents, who stood as a pivot in a two-party political system and had the ability to broker coalitions between moderate factions within the Conservative and Liberal parties. Bates argues that the coffee sector could thereby make or unmake national governments, and concluded that its strategic place in political competition rendered it to be in the interests of politicians to serve the economic interests of coffee producers – particularly the smallholders of the eastern coffee zone, where Antioquia is to be found (Bates, 1997, pp. 81-86). But another way of casting his conclusion is this: that it was the political coalition behind the FEDECAFE that propelled it to its position as a fulcrum in national political competition.

Another function of a moderate coalition backing the FEDECAFE could be deduced from a view forwarded by Schneider (2004) about the Colombian state’s motivations for shoring up the power of the federation. His analysis proceeds not from the political significance of the coffee sector, but from its economic place. He observes that at the founding of FEDECAFE, international prices were falling at a time when the economy was becoming increasingly dependent on coffee. On one hand, and because state capacity was weak, the costs for exclusive state action in collecting information, setting standards, and promoting Colombian
coffee were high. The more relevant point he raises relates to his perception that the executive branch in Colombia was concerned about subjecting coffee policy (including taxation) to intense partisan conflict of the major parties. By extension, empowering the FEDECAFE backed by the coalition I described enabled the Colombian state to insulate policy-making in such an important economic sector against partisan conflict.

But there is another implication of the Antioquia conservative base of the FEDECAFE that allows me to forward an interpretation of the rent settlement in Colombia as one in which the state had a view to establish political stability, as was Marcos’ objective in the Philippines. The coalition that secured the rent streams represented by the coffee levies in Colombia was essentially a coalition that championed production through smallholders in order to address the social problems that coffee-estate-based production systems wrought: including those arising from land concentration and the living conditions of landless hired labourers, upon which large coffee haciendas were based. Saether posits that among Antioqueno politicians and intellectuals, there was a belief that the large coffee estate-based system was the root cause of the unrest, and that it was essential to create independent smallholders. He proposes that the creation of an agrarian structure based on smallholding producers was of utmost important for the conservative government of the 1920s. He said that, for example, the minister of industry in the late 1920s believed that it was better for the landowners in central coffee zones to sell off their land to settlers and tenants and concentrate on the business of commercialising coffee (Saether, 1999, pp. 143-144).

Examining the historical origins of the institutional framework for the collection of levies from the Colombian coffee and Philippine coconut sectors reveals an important variation in the political economy underpinning the respective rent settlements: the extent of the alignment between the political motivations of the original purveyors of the rent-creating institutional framework and the productive uses of the rents arising. In the Philippines, the motivations of an authoritarian leader wishing to consolidate his political base and stabilise his regime was the political basis for the rent settlement in the coconut sector. While I have argued that the motivation for establishing political stability could not be discounted in Colombia, the stability that the rent settlement fostered in Colombia emanated from the productive uses of the coffee levies in the smallholding coffee sector. In
the Philippines, Marcos did not need for the rents to be mobilised productively to achieve his political ends, he only needed his chosen political agents to have exclusive access to the rents. But perhaps even more importantly, the analysis in this section hints at variations in broader structures of power that explain why producers associations can set the agenda for productive rent allocation in Colombia, but not in the Philippines. In Colombia, the coffee producers were central to the political coalition establishing the rent-creating institutional framework: because of their position as a fulcrum in national political contests, the politicians in the coalition needed to accommodate them and incorporate their interests in rent allocation strategies. In the Philippines, coconut producers were not as significant to Marcos’ political project. 46 In other words, it is evident from examining the origins of the rent settlement that Colombian coffee producers possessed political autonomy and bargaining power that Philippine coconut producers did not.

**Conclusion**

I have explored in this chapter the political economy foundations of the power exercised by Philippine coconut and Colombia coffee producers. I explained the historical origins of the power exercised by COCOFED in the Philippines and FEDECAFE in Colombia – from the perspective of the national political economy, and from the sectoral perspective. Based on a political economy perspective writ large, I explained how the political power of these producers associations was articulated within national economies where states faced similar struggles with economic transformation typified by late developers.

I have provided evidence for four important sector-specific variations in the Colombian coffee and Philippine coconut sectors that help explain differences in the power and organisational robustness of the producers associations in these sectors. First, while both were important sources of foreign exchange earnings, Colombian coffee earnings accounted for a larger share of national export earnings for a longer time. Thus, the political power consequently exercised by

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46 In Chapter 5, it will be revealed that the lack of political muscle exercised by coconut producers is not specific to the period under Marcos. In the period during which the rent settlement was contested, coconut producers continued to rely on political intermediaries to exercise influence on the regulation of continuing rent streams. This hints at a broader political puzzle that will need to be explored: what it is about the structure of power in the Philippines that leaves small coconut producers reliant on political intermediaries from outside the sector.
the FEDECAFE could be partly explained by the sector’s intimate links with Colombia’s broader national economic interests, including macroeconomic stability. Second, while production in these sectors both can be largely typified as smallholder-based, Colombian coffee producers had relatively larger landholdings and lower rates of tenancy. This meant that the land size and ownership, as indicators of the base of political power were more significant in Colombia. Third, the historical basis of productive expansion in the two sectors provided different conditions for collective action. The imprints of the American colonial legacy in the Philippine coconut sector were such that collective action was not necessary for the sector to compete internationally. In the Colombian coffee sector, the terms of engagement with the international market in the early 20th century were vigorous and competitive, and formed an important background in the formation of the FEDECAFE, and as such in securing collective action among coffee producers. Finally, I have also shown how variations in the political origins of the rent settlement in the two sectors meant that the one that obtained in the Philippines was governed mainly by the political calculations of a strongman president, while in Colombia there was a political coalition that wanted to see the coffee sector prosper through the organisation of production around smallholders.
Chapter 3. The mobilisation of coconut levies in the Philippines: rents, wealth and their claimants

How were the levies mobilised, what rent entitlements were generated as a result and who laid claims to them? In this chapter and the next, I explain the chief features of the ‘rent settlement’ associated with levies, including: the sources of rent streams, the types of rents created and the beneficiaries of these rent streams. This chapter presents Philippine case; the next, the Colombian case.

In the Philippines, coconut levy funds were invested in enterprises within and beyond the coconut sector; and used in programmes that transferred income from coconut producers to various economic sectors as well as individuals – all in the name of promoting the development of the coconut sector and the welfare of coconut farmers. In this chapter, I recount the story of how the original goals were subverted to cause redistributive transfers. In a nutshell, I thus characterise in this chapter the objects and subjects of the rent settlement: the types of rents generated as a result of the modes of mobilising the coconut levies in the Philippines and claimants to the rent streams.

In the first two sections of this chapter, I provide an overview of how coconut levies came to be collected and mobilised. In the first section, I explain how in a span of ten years, mostly through presidential decrees, Ferdinand Marcos engineered the collection of the levies. In the second section, I provide an overview of how they were mobilised from 1970 to 1982, based on official reports of the Philippine government, which were released after Marcos had been ousted from power in 1986. Then, in the following sections, I describe major groups of rent streams that could be associated with key modes of fund mobilisation, and the claimants to these. The first of these are rents arising from the use of coconut levies in a state-led bid to concentrate power in coconut oil milling and trade. The second set relates to transfers purposively allocated to an associate of Marcos, who was not originally from the coconut sector but benefitted immensely from the Marcos period rent settlement. The third relates to capital accumulated as a result of the investment decisions of firms established through the mobilisation of coconut levies.
Aside from being associated with among the most important uses of the levies, in terms of their shares in disbursements, I propose that three groups of rent streams I highlight in this chapter are most illustrative of the nature of the rent settlement that obtained. In particular, they illustrate how rents associated with coconut levies in the Philippines mostly led to a process of wealth creation that was linked to conditions for neither expanding production nor the real income of coconut producers. Being so they underpin a process of agricultural surplus extraction of the worst kind, where the wealth created out of the forced contributions of coconut producers was the kind that did not expand the productive capacity of the sector – in sharp contrast to what happened with the modes of coffee levy mobilisation in Colombia.

**Purposive rent allocation by a strongman president: an overview**

President Ferdinand Marcos utilised the expansive executive authority accorded to him under Martial Law to engineer the collection and mobilisation of the coconut levies. Through a raft of presidential decrees, he effected the collection of levies from 1970-1982 in the amount of PhP9.7bn (£138mn) (Commission on Audit, 1997). To be sure, the story of coconut levies begins more than a year before Martial Law was declared in September 1972. But the series of presidential decrees and executive orders penned by Marcos between 1973 and 1982 made three things possible: the dramatic increase in the amounts levied, the expansion of the levies’ authorised uses, and the centralisation of control of levy collections by a delimited set of individuals.

The levies collectively called ‘coconut levies’ in this dissertation pertain to the levies that constituted the following special funds; the Coconut Industry Fund (CIF), the Coconut Consumer Stabilisation Fund (CCSF), the Coconut Industry Development Fund (CIDF), and the Coconut Industry Stabilisation Fund (CISF). These levies all came in the form of taxes that were borne by coconut producers. They are distinct but inter-related, and their key features are summarised in Table 3.1, all elements of which I explain fully in this section. The breakdown of the collections throughout the period they were being collected is presented in Table 3.2. It shows that the CCSF levy accounts for about 70 per cent of the collection, while the CIDF levy accounts for about 25 per cent.
<table>
<thead>
<tr>
<th>Levy</th>
<th>Legal Basis</th>
<th>Date Enacted</th>
<th>Amount of Levy and Contributor</th>
<th>Purposes of the Levy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coconut Investment Fund (CIF) levy</td>
<td>RA No. 6260: An Act Instituting a Coconut Investment Fund and Creating a Coconut Investment for the Administration Thereof</td>
<td>June 1971</td>
<td>PhP 55 centavos for every 100 kilos of copra or its equivalent in coconut products levied on farmers</td>
<td>Establish a private company owned by farmers to invest in coconut-based agricultural and industrial enterprises, shoulder the administrative costs of fund collection, and support the organisational activities of the duly recognised national coconut farmers' federation</td>
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<tr>
<td>Coconut Consumer Stabilisation Fund (CCSF) levy</td>
<td>PD No. 276: Establishing a Coconut Consumers Stabilization Fund</td>
<td>August 1973</td>
<td>PhP 15 for every 100 kilos of copra or its equivalent in coconut products levied on farmers</td>
<td>Subsidize the sale of coconut-based products</td>
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<tr>
<td>PD No. 414: Amending PD 232 or the Act Creating a Philippine Coconut Authority</td>
<td>April 1974</td>
<td>In addition to item above:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>PD No. 755: Approving the Credit Policy for the Coconut Industry as Recommended by the Philippine Coconut Authority and Providing Funds Therefor</td>
<td>July 1975</td>
<td>In addition to items above:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>PD No. 961: An Act to Codify the Laws Dealing with the Development of the Coconut and Other Palm Oil Industry and for Other Purposes</td>
<td>July 1976</td>
<td>Levied on copra exporters, oil millers, desiccators and other end-users of copra</td>
<td>Finance the development and operating expenses of the COCOFED, establishment and operation of industries and commercial enterprises in the coconut and other palm oil industry, and establishment of the Coconut Industry Development Fund (CIDF) and thereafter allocate a portion of CCSF collection to CIDF</td>
<td></td>
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<tr>
<td>PD No. 1468: Revising PD 961</td>
<td>June 1978</td>
<td>Same as those specified in PD 961, except that entitlement to consumer subsidies now limited to oil mills and/or refineries owned and controlled by coconut farmers thru the commercial bank acquired under PD 755.</td>
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<tr>
<td>Coconut Industry Development Fund (CIDF) levy</td>
<td>PD No. 582: November 1974</td>
<td>PhP 20 per 100 kilos of copra or its equivalent in products, levied on farmers</td>
<td>Finance the establishment, operation and maintenance of a hybrid coconut seed nut farm, including purchasing all the seed nuts produced by this farm, and defray the cost of implementing the nationwide replanting programme</td>
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<tr>
<td>PD No. 961</td>
<td>July 1976</td>
<td>Levied on copra exporters, oil millers, desiccators and other end-users of copra in the event that CCSF levy is lifted</td>
<td>Utilise any balance after seed nut farm and replanting programme costs to invest for the benefit of coconut farmers</td>
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<tr>
<td>PD No. 1468</td>
<td>June 1978</td>
<td>Specifically authorises bank to undertake investment for any balance left after financing farm and replanting programme costs.</td>
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</tbody>
</table>

(continued in the next page)
Table 3.1 Four Coconut Levies Collected during the Marcos Years: Legal Basis and Key Elements of the Relevant Laws (cont’d)

<table>
<thead>
<tr>
<th>Levy</th>
<th>Legal basis</th>
<th>Date enacted</th>
<th>Amount of levy and contributor</th>
<th>Purposes of the levy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coconut Industry</td>
<td>PD No. 1841. Describing a System of Financing the Socio-Economic and</td>
<td>October 1981</td>
<td>PhP 50 per 100 kilos of</td>
<td>o Finance cost of coconut replanting programme</td>
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<tr>
<td>Stabilisation Fund (CISF)</td>
<td>Developmental Program for the Benefit of the Coconut Farmers and Accordingly</td>
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<td>copra or its equivalent, levied</td>
<td>o Defray the cost of the scholarship programme of COCOFED</td>
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<td>Amending the Laws Thereon</td>
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<td>on copra exporters, oil</td>
<td>o Defray the operating expenses of COCOFED</td>
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<td></td>
<td></td>
<td>millers, refiners, desiccators</td>
<td>o Defray the operating expenses of PCA</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td>and other end-users for the</td>
<td>o Defray the costs of the coconut industry rationalisation programme for five years</td>
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<td></td>
<td></td>
<td>first five years, PhP 41.50</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>thereafter (see item (f) in the</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>next column for reason)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>PD No. 1842. Amending Certain Provisions of PD 1841 and Creating a Coconut</td>
<td>A percentage of the prevailing</td>
<td>o Support socio-economic and</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Reserve Fund</td>
<td>copra equivalent of the world market price of</td>
<td>developmental programmes for the benefit of coconut farmers and the coconut industry</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>coconut oil, levied on copra</td>
<td>o Support the Coconut Reserve Fund, used to support socio-economic and</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>exporters, oil millers,</td>
<td>developmental programmes at times of depressed world prices for coconut</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>refiners, desiccators and</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>other end-users</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Presidential Decrees specified

Table 3.2 Total Coconut Levies Collected (excluding CIF Levy), as of 1997, by Type of Levy

<table>
<thead>
<tr>
<th>Type of levy</th>
<th>Collection (in PhP bn)</th>
<th>Share in total (in %)</th>
</tr>
</thead>
<tbody>
<tr>
<td>CCSF</td>
<td>6.67</td>
<td>68.90</td>
</tr>
<tr>
<td>CIDF</td>
<td>2.37</td>
<td>24.48</td>
</tr>
<tr>
<td>CISF</td>
<td>0.62</td>
<td>6.40</td>
</tr>
<tr>
<td>Others</td>
<td>0.02</td>
<td>2.00</td>
</tr>
<tr>
<td>Total</td>
<td>9.68</td>
<td></td>
</tr>
</tbody>
</table>

Source: Commission on Audit (1997)

The CIF levy: setting the pattern

The story begins in June 1971, when Philippine Congress passed Republic Act (RA) No. 6260, promulgating the collection of the Coconut Investment Fund levy, a levy of PhP 5.5 per metric ton (MT) of copra charged on the first domestic sale of copra. This is the only statute related to the collection of coconut levies that was enacted by Philippine Congress; the rest were presidential decrees and executive orders.

RA No. 6260 stipulated that CIF levy collections were to be used by the government to underwrite the Coconut Investment Company (CIC), a company to be capitalised in the amount of PhP 100 mn through the levy collections, and also established under RA No. 6260 to administer the CIF. The goal of collecting PhP 100 mn was achieved in 1982 and the CIC was thus formally constituted. As can be seen from Table 3.1, the purpose of the fund in setting up the CIC was to
allow coconut farmers to invest in shoring up the commercial and industrial capacity of the sector and for them to directly participate in related activities. Only a part of the levy collections –PhP30 centavos per MT of copra – was earmarked for the direct use of the producers’ association, at this point unnamed.

The defunct Philippine Coconut Administration (PHILCOA) was identified in RA No. 6260 as the agency responsible for administering the collection. The system of collection devised by PHILCOA is one whereby coconut farmers were charged the levy during the first domestic sale of copra but it was the last domestic buyers in the trading chain (i.e., desiccators, millers, oil processors and exporters) that remitted the levy to the PCA (Manapat, 1991, p 174; David, 1992, pp. 16-18). The coconut farmer was thus paid a farm gate price with the levy deducted, and buyers passed the levy down through the marketing chain until they reached the farmer.

The CIF levy represented a miniscule portion of total coconut levies collected during the Marcos years – the PhP100mn CIF levy collected from 1972 to 1982 accounted for only one per cent of the total coconut levies collected. But it was important as it set the template for the design of the more substantial levies that followed: its mode of collection, its designation as coconut farmer-owned funds held in trust by the government, and the legal access to the fund bestowed upon a private producers’ association, which in later laws would be explicitly identified as COCOFED.

**Increasing the rate of taxation, expanding the uses**

The first of the coconut levies-related presidential decrees enacted during the Martial Law period was Presidential Decree (PD) No. 276, which was signed into law in July 1973. PD No. 276 promulgated what would turn out to be the more substantial coconut levy and the source of the contested rent streams in the post-Marcos years: the Coconut Consumer Stabilisation Fund (CCSF) levy, collected from August 1973 to May 1981.

Unlike the CIF levy, which was primarily collected for investment purposes, the CCSF levy was initially collected to subsidise consumer prices of coconut-based products like cooking oil at a time when world prices for oils and fats were very high. But a more important distinction between the two was the amount of the levy: PhP 150 per MT of copra, or a tax rate that is more than 900 times
larger than the original levy, and specified as an ‘initial rate’ subject to changes. Throughout the period of implementation, the CCSF levy increased from this initial rate to a peak of PhP 1000 per copra MT in 1974; its annual weighted average rate vacillating between PhP 300-800 (Clarete & Roumasset, 1983, p. 15).

The CCSF levy was supposed to be temporary and used only to subsidise consumers of coconut products like cooking oils and detergents. As could be seen in Table 3.1, a series of presidential decrees issued by Marcos between 1974 until 1978 had the effect of making it a permanent levy and expanding its uses beyond subsidising consumers of coconut products. In particular, not even one year into the implementation of the levy, PD No. 414 was signed into law in April 1974 authorising the use of the CCSF levy for refunding premium duties paid by exporters and investing in processing plants, research and development and extension services. Then, just a little over a year later, in May 1975, its use for the acquisition of a commercial bank ‘for the benefit of coconut farmers’ was authorised through PD No. 755. This bank was what came to be the United Coconut Planters Bank (UCPB), whose board became the most important conduit for controlling the rent settlement. And when coconut levies-related decrees were consolidated in July 1975 into PD No. 961, also known as the Coconut Industry Code, COCOFED was explicitly named for the first time as the producers’ organisation that had an authorised share in the levy collections. PD No. 961 also streamlined the bureaucracy governing the coconut sector, by creating a public corporation named the Philippine Coconut Authority (PCA), whose administration was put directly under the Office of the President, and abolishing three other agencies.

Meanwhile, the collection of a third levy, the Coconut Industry Development Fund levy, was authorised in November 1974 through PD No. 582. As can be seen in Table 3.1, its original mandate was to finance a re-planting programme

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47 The three agencies were the Coconut Coordinating Council, the Philippine Coconut Administration, and the Philippines Coconut Research Institute.
48 This decree essentially carved the CIDF out of CCSF levy collections, directing PCA to take PhP100mn out of the CCSF to provide the initial funds for the CIDF and then thereafter remit to the fund at least PhP20 per copra MT of the CCSF levy collected. It could be seen as a distinct levy because the decree also directed the continued and permanent collection of the CIDF levy if and when the CCSF levy ceased to be collected.
and the establishment and operations of a coconut seed nut farm established for the same programme. But, as also shown in the table, some of the decrees that expanded the uses of the CCSF levy did the same for CIDF levy. In particular, PD No. 961 allowed the use of fund balances in excess of what was necessary for the re-planting programme for investment in coconut-based economic enterprises. Meanwhile, PD No. 1468 specifically authorised UCPB to undertake these very investments. It was this mandate that the UCPB then fulfilled when it established the Coconut Industry Investment Fund (CIIF), which in turn was used to purchase shares of stocks in companies whose ownership would be the object of legal contestation after 1986.

In May 1981, Marcos enacted PD No. 1699, which suspended the collection of CIDF and CCSF levies. To continue financing the activities funded by the levies, the decree directed the PCA to collect equivalent contributions from coconut exporters. However, just about five months after he enacted this decree, Marcos signed into law PD No. 1841, which re-imposed the levies under a new name, the Coconut Industry Stabilisation Fund (CISF) levy. The decree further increased the minimum rate of the levy to PhP500 per MT of copra. Again, as shown in Table 3.1, the funds’ specified uses encompassed coconut farmer welfare, organisational and investment objectives and the continued contribution to the CIDF.

In summary, in a span of ten years from 1971 to 1982, Marcos penned ten decrees that legalised the collection of levies, which were remitted to funds with specified purposes that included: consumer subsidisation, financing the development and organisational activities of the COCOFED and PCA, as well as investments in commercial, industrial and financial activities that effected the monopolisation of exporting and processing ends of production.

An accounting of the coconut levies

Collections of the coconut levies described above, as shown in Table 3.3 amounting to almost PhP 10 bn—having also been inscribed in Marcos’ presidential decrees as ‘privately owned’—were never subjected to public audit during the twelve years that they were collected from 1970 to 1982. It was only after Marcos had already been deposed from power when the uses of these funds were officially scrutinised. In 1986, the Commission on Audit (COA) reviewed
the disbursements of the funds administered by the UCPB and the United Coconut Oil Mills (UNICOM).\textsuperscript{49} In 1993, both the COA\textsuperscript{50} and a specially formed committee\textsuperscript{51} under then president Fidel Ramos also did an official accounting of the total collections as they were disbursed by the UCPB, PCA and COCOFED. Finally, in 1997\textsuperscript{52}, COA released audit reports on the operations of the Coconut Industry Investment Fund. Of the government reports on the uses of coconut levy funds published since 1986, only those released in 1993 provided a full picture of exactly how total collections were mobilised.\textsuperscript{53} In this section, I utilise the unique insights that this report contains to provide an overview of the key modes of fund mobilisation of the coconut levies.

The audited disbursement figures published by COA in 1993 are featured in Table 3.3. I grouped together these disbursements into four categories: investments, support for coconut production and producers welfare, support for price stabilisation, and extra-sectoral transfers. In what follows, I will explain how each of these category of uses were rationalised.

\textit{Investments}

Investments in the establishment and/or operation of a slew of enterprises in and beyond the coconut sector accounted for the biggest share of the disbursements: PhP 4.1 billion or almost 42 per cent of total allocations, as shown in Table 3.3. These disbursements could be further classified into two, namely funds to: purchase a commercial bank; and establish and operate enterprises in the name of rationalising the coconut milling sector.

\textsuperscript{49} The findings were published as a five-volume government document, ‘Reports on the Audit of the Coconut Levy Allocations administered by the United Coconut Planters Bank (UCPB) and the United Coconut Mills, Inc (UNICOM)’ (Commission on Audit, 1986d).

\textsuperscript{50} SAO Report 93-02.

\textsuperscript{51} Herein after the ‘Pelaez Report’, an audit report done by the Presidential Ad-Hoc Coconut Levy Funds Audit Committee, headed by former Vice-President Emmanuel Pelaez. Pelaez faced attempted assassination incident under Marcos, at a time when he was questioning uses of coconut levy funds.

\textsuperscript{52} This government document is entitled ‘SAO Report 97-10 on the Audit of the Coconut Industry Investment Fund (CIF) in Oil Mills’. (Commission on Audit, 1997)

\textsuperscript{53} Arturo Liquete, a PCA official whom I interviewed in the Philippines on May 3, 2009, raised an important caveat about the reliability of the data in these reports: the figures relate to the monies disbursed, but not necessarily all that was collected. Note also that the reports do not include the CIF levy.
The technical rationale for the purchase of a bank was articulated in PD No. 755, a presidential decree promulgated by Marcos in 1975: the bank was to be a means for providing the “permanent solution to their [coconut farmers’] perennial credit problems” (in the preamble of "Approving the Credit Policy for the Coconut Industry as Recommended by the Philippine Coconut Authority and Providing Funds Therefor," 1975, p. 164; de la Rosa, 2000). In support of this

### Table 3.3 Audited Disbursements of the Coconut Levy Funds: 1970-1982

<table>
<thead>
<tr>
<th>Disbursements*</th>
<th>Amount</th>
<th>% of total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investments</td>
<td>4,061,291,669.17</td>
<td>41.88</td>
</tr>
<tr>
<td>Coconut Industry Investment Fund (CIIF)*</td>
<td>2,572,143,884.69</td>
<td>26.53</td>
</tr>
<tr>
<td>UNICOM operations &amp;</td>
<td>1,189,735,210.94</td>
<td>12.27</td>
</tr>
<tr>
<td>Copra Price Stabilization Fund (CPSF)*</td>
<td>144,922,064.14</td>
<td>1.49</td>
</tr>
<tr>
<td>Acquisition of controlling interest at UCPB*</td>
<td>115,520,000.00</td>
<td>1.19</td>
</tr>
<tr>
<td>Debt service for 16 mothballed oil mills*</td>
<td>38,970,509.40</td>
<td>0.40</td>
</tr>
<tr>
<td>Production and farmers' welfare*</td>
<td>3,223,798,245.34</td>
<td>33.25</td>
</tr>
<tr>
<td>Replanting†</td>
<td>1,147,176,054.75</td>
<td>11.83</td>
</tr>
<tr>
<td>Insurance Fund‡</td>
<td>994,941,396.29</td>
<td>10.26</td>
</tr>
<tr>
<td>Development and Socioeconomic Projects for Coco Farmers§</td>
<td>759,911,891.34</td>
<td>7.84</td>
</tr>
<tr>
<td>PCA Research and Development [R and D and operating expenses] ‡</td>
<td>242,892,132.30</td>
<td>2.51</td>
</tr>
<tr>
<td>Fertiliser Distribution Program‡</td>
<td>52,521,977.03</td>
<td>0.54</td>
</tr>
<tr>
<td>Census Committee‡</td>
<td>23,000,000.00</td>
<td>0.24</td>
</tr>
<tr>
<td>Hagenmaier Aqueous Coconut Processing Project‖</td>
<td>2,659,959.82</td>
<td>0.03</td>
</tr>
<tr>
<td>Distribution of Stock Certificate of UCPB to Coco Farmers‖</td>
<td>694,833.81</td>
<td>0.01</td>
</tr>
<tr>
<td>Price stabilisation</td>
<td>2,320,349,835.16</td>
<td>23.94</td>
</tr>
<tr>
<td>Subsidy†</td>
<td>2,147,207,603.38</td>
<td>22.15</td>
</tr>
<tr>
<td>Premium Duty†</td>
<td>173,142,231.78</td>
<td>1.79</td>
</tr>
<tr>
<td>Extra-sectoral transfers</td>
<td>90,000,000.00</td>
<td>0.93</td>
</tr>
<tr>
<td>Donation to Lungsod ng Kabataan [Children’s Hospital]†</td>
<td>50,000,000.00</td>
<td>0.52</td>
</tr>
<tr>
<td>Donation to Ang Tahanan Maharlika [Coconut Palace]†</td>
<td>40,000,000.00</td>
<td>0.41</td>
</tr>
<tr>
<td>Total</td>
<td>9,695,439,749.67</td>
<td>100.00</td>
</tr>
</tbody>
</table>

*Main categories of disbursements are mine, but specific items are as they appear in the COA 1997 report.
†Investment fund established to procure shares of stocks in corporations involved in post-production activities in the coconut sector. But also ultimately used for investments not strictly related to vertical integration, including: establishment of an insurance company, a management firm, and a cocoa plantation.
‡Used to establish the Coconut Industry Rationalisation Fund (CIIF), a fund mobilised for the use of the United Coconut Oil Mills Inc (UNICOM). Includes expenditures on price subsidies for copra procurement by CIIF-owned oil mills.
§Used to service the debts of mothballed private coconut mills bought by UNICOM as part of the vertical integration programme.
‖Includes administrative costs, see footnotes †, ‡, ‡ of this table.
‖Used to finance a nationwide replanting programme.
§Used to pay out insurance premiums and death claims of coconut farmers.
‖Used by COCOFED for scholarship programmes to children of coconut farmers and as capital for income-generating projects.
‖Used to fund PCA’s operating expenses, including research and development programmes.
‖Used by PCA for a fertiliser distribution programme.
‖Funded nationwide survey to determine qualified coconut farmers entitled to shares of stock of UCPB and CIIF-funded companies; also used to finance conventions of COCOFED chapters and the distribution of stock dividends of UCPB and insurance certificates.
‖Technical research project on the viability of extracting water while extracting oil and protein materials from fresh coconut, administered by PCA.
‖Funds for COCOFED to print and distribute stock certificates to coconut farmers.
‖Paid out to oil millers and manufacturers of coconut-based consumer products to enable them to sell the same at government controlled prices.
‖Paid out to exporters to reimburse them for premium duties levied on them.
‖Disbursed to COCOFED to set up copra buying stations, to help stabilise copra prices in 1973.
‖Cost of acquiring controlling interest in the First United Bank (FUB), later re-named United Coconut Planters Bank (UCPB) and additional infusion to meet the capitalisation requirement of the Central Bank for turning UCPB into a universal bank.
‖Paid out as donation for building a hospital, one of the pet projects of Imelda Marcos, wife of the president.
‖Paid out as donation for building Coconut Palace, another pet project of Imelda Marcos.
aim, the presidential decree specified that all collections of coconut levies unused by PCA for their operations and for the purposes of price stabilisation were to be deposited interest-free in the bank. That coconut levies collected from farmers were deposited interest-free meant that the bank had access to significant and virtually free capital that it could then deploy as loanable funds. The official purpose was to mobilise these as production loans for coconut producers at preferential rates of interest. While this investment accounted for only about one per cent of total levy collections, the purchase of this bank was important for two reasons, which I want to flag now but will be explaining at length both in the forthcoming sections of this chapter and in Chapter 5. First, the bank became an important controlling conduit of the rent settlement as its board was assigned the important task of administratively controlling investments of the coconut levies. Second, it solidified the place in controlling the rent settlement of a presidential associate, Eduardo Cojuangco, who also negotiated the deal to purchase the bank.

The UCPB was in fact at the helm of administering the bulk of investments of coconut levies that were made in the name of vertical integration and the rationalisation of the coconut milling sector, the group of disbursements that accounted for a lion’s share of the uses of the coconut levy funds. Raising capital to develop the capacity for higher value-added coconut production had been one of the objectives of imposing the first coconut levy collected in 1970. But by the mid-1970s, the problem besetting the sector was one of over-capacity in the coconut oil milling sector. This resulted in cut-throat competition for copra, and marketing inefficiencies, which in turn severely weakened the country’s competitive position in the world market for coconut products. In this

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54 The bank’s authority to undertake such investments was first specified in 1976 in the Coconut Industry Code (PD 961, and as revised in PD 1468), particularly Article 3, Section 9, which states:

“…the bank acquired for the benefit of the coconut farmers under PD 755 is hereby given full power and authority to make investments in the form of shares of stock in corporations organized for the purpose of engaging in the establishment and the operation of industries and commercial activities and other allied business undertakings relating to the coconut and other palm oils industry.”

55 In the 1960s, the lifting of exchange rate controls in the Philippines and external factors like advances in transportation in the 1960s enhanced incentives for coconut export production. The 1960s and 1970s was thus a period of rapid expansion of coconut production. In the 1970s, the Board of Investments (BOI) offered incentives for new investment in coconut mills. Hawes (1987, p. 67) suggests that BOI severely overestimated projected copra production, leading to the rate of increase in the country’s milling capacity far outstripping the rate of coconut production. For example, between 1974 and 1978, the average rate of increase in copra production was only 3 percent per annum while milling capacity rose by 19 percent.
context, investments in post-production processing and trading enterprises took on a new logic: ‘vertical integration’ to rationalise the milling sector and effectively centralise market power in these sections of the value chain. The Marcos government posited that the crisis of over-capacity in the milling sector required the establishment of UNICOM, which would pool and coordinate the resources of coconut farmers and oil millers in buying, milling and marketing coconut and its by-products ("Letter of Intent Regarding the Rationalisation of the Coconut Oil Milling Industry," 1979). The idea of ‘vertical integration’ was operationalized through the mobilisation of coconut levies in investments that effectively nationalised the milling and trading of coconut by-products.

To undertake said investments, the bank established the Coconut Industry Investment Fund, for which, as shown in Table 3.3, UCPB mobilised PhP 2.57 billion. Table 3.4 shows a breakdown of the investments made through the investment fund. It shows that almost 90 per cent or PhP 2.31 billion of the fund was used to procure shares of stocks to buy out owners of or establish corporations involved in: the processing of coconut oil (‘oil mills and subsidiaries’), the manufacture of coconut oil-based chemical products (‘United Coconut Chemical Incorporated’), the trading of unprocessed coconut (‘copra trading companies’), and the transportation and marketing of coconut-based exports (‘United Coconut Planters International’ and ‘Iligan Bay Express Corporation’). Interestingly, the rest was invested in corporations not directly related to the goal of vertical integration, including: a cocoa plantation (‘United Cocoa Plantation’), a management firm (‘United Coconut Planters Management’) and an insurance firm (‘United Coconut Planters Life Assurance Corporation’).

UNICOM was established in 1977, with PhP 544.2 million from the CIIF (as shown in Table 3.4) infused as equity; and an additional PhP 1.9 billion from the coconut levy collections (as shown in Table 3.3), to finance its copra buying operations. This additional PhP 1.9 bn went to a fund called the Coconut Industry Rationalisation Fund (CIRF), set up in 1980 to support the goals of vertical integration. The official remit of the CIRF were the following: (1) to purchase copra, coconuts and husked nuts; (2) to acquire or lease property and equipment necessary for purchasing copra; (3) to reimburse UNICOM for the difference between the price at which it bought copra and the price at which the equivalent
coconut oil was sold in the open market from 1979 to 1980; and (4) to reimburse CIIF-owned trading companies for the difference between the price at which they purchased copra and the price at which copra was sold to the mills from 1976 to 1980 (Commission on Audit, 1986c, pp. 2-4). Strictly speaking then, a portion of the CIRF was utilised as price subsidies to cushion UNICOM and CIIF-owned trading companies against price fluctuations in the markets for coconut oil and copra, respectively. The COA audit of CIRF indicates that a maximum of PhP 85 mn for UNICOM reimbursements and PhP 35 million for CIIF-owned trading companies were to be set aside.\(^{56}\) (Commission on Audit, 1986c, p. 4)

The audit report also shows that it was the CIRF that was used by UNICOM to acquire 16 privately owned mills in the amount of PhP 184.94 mn, and for the sole purpose of mothballing them. The vertical integration-related disbursement in the amount of PhP 39 mn for ‘debt service’ shown in Table 3.3 was used to pay off the debts of these mothballed mills.

Meanwhile, PhP 144 mn of coconut levy funds were also utilised to set up the Copra Price Stabilization Fund (CPSF), as shown in Table 3.3. This is the only allocation under the heading of investments that was not controlled by UCPB and UNICOM. The name of the fund is a bit of a misnomer as one would surmise that this allocation was better categorised under ‘price subsidies’. However, the fund was used not to subsidise copra prices but to establish the COCOFED Marketing Corporation (COCOMARK), which in turn capitalised 40 copra marketing centres. The technical justification for these copra buying points was to delimit the role of traders and middlemen in the marketing chain and for coconut farmers to be engaged in the direct buying of copra.

\(^{56}\) Unfortunately, the COA report did not provide a breakdown of actual disbursements made for these functions.
Table 3.4 CIIF Investments: 1977-1980

<table>
<thead>
<tr>
<th>Companies</th>
<th>Amount invested (in PhP)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oil mills and subsidiaries</td>
<td>1,176,915,801.55</td>
</tr>
<tr>
<td>United Coconut Oil Mills Inc. (UNICOM)</td>
<td>544,200,000.00</td>
</tr>
<tr>
<td>Granexport Manufacturing Corporation (GRANEX)</td>
<td>246,710,383.60</td>
</tr>
<tr>
<td>Legaspi Oil Company and Subsidiaries (LEGOIL)</td>
<td>210,199,472.50</td>
</tr>
<tr>
<td>San Pablo Manufacturing Corporation (SPMC)</td>
<td>132,607,461.00</td>
</tr>
<tr>
<td>Southern Luzon Coconut Oil Mill, Inc. (SOLCOM)</td>
<td>43,198,484.45</td>
</tr>
<tr>
<td>United Coconut Chemicals Incorporated (UNICHEM)</td>
<td>864,250,000.00</td>
</tr>
<tr>
<td>Copra Trading Companies</td>
<td>258,000,000.00</td>
</tr>
<tr>
<td>Philippine Coconut Planters Trading Group</td>
<td>158,000,000.00</td>
</tr>
<tr>
<td>Ten Trading Companies</td>
<td>100,000,000.00</td>
</tr>
<tr>
<td>United Coconut Planters International</td>
<td>147,610,000.00</td>
</tr>
<tr>
<td>United Cocoa Plantation Incorporated</td>
<td>90,000,000.00</td>
</tr>
<tr>
<td>United Coconut Planters Life Assurance Corporation</td>
<td>16,250,100.00</td>
</tr>
<tr>
<td>United Coconut Planters Management</td>
<td>10,000,000.00</td>
</tr>
<tr>
<td>Iligan Bay Express Corporation</td>
<td>9,000,000.00</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>2,572,025,901.55</strong></td>
</tr>
</tbody>
</table>

Source: COA, 1986

In summary, a total of PhP 4.1 bn of coconut levy collections were mobilised for investments. Of that amount, PhP 115 mn was used to establish a bank, which in turn was – on paper at least – tasked to leverage coconut levy deposits to serve the credit needs of the sector and was authorised to administer the portion of the coconut levies that were invested further. PhP 3.89 bn was mobilised in support of shoring up monopoly power in the trading and processing of coconut products. PhP 2.31 bn of this amount was administered by the UCPB, PhP 145 mn by COCOFED and PhP 1.23 bn by UNICOM. A little over PhP 100 mn was invested outside the coconut sector – in contravention of the levies avowed aims – in a cocoa plantation.

**Production and farmers’ welfare-related disbursements**

Production-related and/or coconut farmer welfare-related one-off projects constituted about one-third of the disbursements, or PhP 3.22 bn as shown in Table 3.3. Of this total amount, the biggest disbursement – PhP 1.15 bn – was used for a replanting programme administered by the Philippine Coconut Authority.

From 1974 to 1982, coconut levies were also used to finance the administrative and operational costs (including research and development and the
provision of extension services) of PCA in the amount of PhP 759 mn. As shown in Table 3.3 PCA also used PhP 52.52 million of the coconut levy funds for a fertiliser distribution programme and PhP 2.7 million for technical research project on coconut processing.

The remaining balance of these welfare-oriented disbursements were administered by either the UCPB or COCOFED, and related to two major types of expenditures: an insurance scheme for coconut farmers and socio-economic projects, primarily scholarship programmes for children of coconut farmers. As shown in Table 3.4, UCPB used CIIF to invest PhP 16.25 mn in an insurance firm, the United Coconut Planters Life Assurance Corporation (COCOLIFE). The disbursement of PhP 994 mn for ‘insurance fund’ shown in Table 3.3 was then used by the UCPB to pay out insurance premiums of coconut farmers. Meanwhile, the item ‘development and socioeconomic projects for coconut farmers’ in Table 3.3 relate to the aforementioned scholarship programme overseen by COCOFED.

I also categorised disbursements related to the distribution of UCPB stock certificates and COCOLIFE insurance certificates, shown in Table 3.3 as totalling the amount of PhP 2.67 million, in this category of investments. These expenditures were overseen by COCOFED and relate to the processes conducted (e.g. survey and conventions) to determine coconut farmers entitled to shares of stocks, and the associated administrative costs of distributing said stock certificates and insurance certificates. Because these expenditures related to the ability of coconut farmers to lay claim on the investments they made through the coconut levies, I classed them as ‘welfare’-related disbursements.

Subsidies
Price subsidies accounted for PhP 2.47 bn of the coconut levy fund uses, representing 25 per cent of the total disbursements. Table 3.3 shows that 87 per cent of these disbursements or PhP 2.15 bn, which is also the second biggest single use of the funds next to the CIIF investments. There were two versions of this subsidy scheme funded through the use of CCSF levies. What was supposed to be a temporary measure to address extraordinary fluctuations in the world price of coconut oil was extended and later on implemented for a different
purpose – the shoring up of market power in the ‘farmer-owned’ coconut oil mills and refineries.

The first was a direct subsidy to manufacturers of coconut oil-based products. Between 1973 and 1974, the price of coconut oil in the world market increased by 651 per cent. This trend was mirrored in the domestic price of coconut oil in the Philippines, where the price of coconut oil increased by 576 per cent (Oniki, 1992, p. 80). As coconut oil is an input to consumer goods like cooking oil and laundry soap, this led to an equivalent increase in the price of these essential coconut oil-based household goods. The Marcos government responded to this situation by imposing price controls on their retail prices, and compensating manufacturers of said goods for the losses they incurred from selling at government-controlled prices. This subsidisation programme was implemented from 1973 to 1979.

The second was a subsidy given to only coconut-farmer owned mills and refineries, established under the mantle of vertical integration and implemented from 1979-1982. Whereas before, manufacturers of coconut-based products could buy their copra and coconut oil requirements from the open market and be reimbursed the difference between the open market and PCA-determined base price, they became constrained to buy the same from UNICOM and its affiliates, as well as from COCOMARK, which offered the raw materials at the base price and were the only entities that received the direct subsidy payments from collections of the coconut levies (Tiglao, 1981, p. 89).57

Meanwhile, the government also reimbursed copra and coconut oil exporters for payments made for a premium duty levied on them from 1974 to 1980. Marcos issued EO No. 425, imposing a tax rate of 30 per cent for copra exporters and 20 per cent for processed coconut products. This duty was imposed to enable the government to capture windfall gains made by exporters from any favourable

57 Article III, Section 2a of the Revised Coconut Industry Code (PD No. 1468) specifies the following:

“When the national interest so requires, to provide a subsidy for coconut-based products the amount of which subsidy shall be determined on the basis of the base price of copra or its equivalent as fixed by the authority and the prices of coconut-based products as fixed by the Price Control Council; provided however, that when the coconut farmers, who in effect shoulder the burden of the levies herein imposed, shall have owned or controlled … oil mills and/or refineries which manufacture coconut-based consumer products, only such oil mills and/or refineries shall be entitled to the subsidy herein authorized” (underscoring mine)
market situation (Clarete & Roumasset, 1983, p. 17). Table 3.3 shows that PhP 173 million was mobilised for the purpose of reimbursing exporters what they paid for the premium duties imposed on them, which in turn signified that coconut farmers paying the levies ended up bearing the burden of the premium duty.

*Extra-sectoral transfers*

Finally, PhP 90 mn of the coconut levy funds was mobilised to finance ‘vanity projects’ of Imelda Marcos, wife of the president – projects that had nothing to do with enhancing productivity in the coconut sector or the welfare of coconut farmers. As shown in Table 3.3, about PhP 50 mn of the funds was donated for building the ‘Coconut Palace’, described as a building made of coconut materials and used by the First Lady to entertain friends (Manapat, 1991, p. 184). Note from Table 3.3 that while this specific donation represented a miniscule share of coconut levy collections, in absolute terms this is only PhP 2 mn-shy of the disbursement for PCA’s fertiliser distribution programme. I propose that this is emblematic of the profligacy in the use of coconut levy funds – the extent to which it was treated as a ‘kitty fund’ for pet projects of those in power.

In conclusion, I explained in this section how the mobilisation of coconut levy funds were during the time of Marcos was officially accounted for, and described the technocratic terms in which most of them were rationalised. I showed that investments to effect vertical integration accounted for a lion’s share of the disbursement. While expenditures for farmers’ welfare and productivity would appear to come second, I will show in the penultimate section of this chapter that at least one-third of that actually went to a presidential associate as a direct transfer. This implies that price subsidies actually accounted for the second most important node of fund mobilisation. Initially meant as a temporary measure to address an extraordinary fluctuation of world price of coconut oil, it instead became an important complement of the vertical integration programme. If the discussion ended with these *de jure* uses of the coconut levies, it would appear like much of the coconut levies was mobilised around the productive goals of the sector, and indeed the welfare of coconut producers. But in the section that follows, I document how these *de jure* uses were subverted to generate rents, and for whom.
Rents from state-engineered concentration of market power

From 1979 to 1985, as a result of some of the investments of coconut levies described in the previous section, a group of coconut levy-financed enterprises dominated coconut oil milling and trade, and exercised concentrated market power in this top-end section of the value chain. As explained in the previous section, coconut levies were mobilised to either directly establish these enterprises or acquire majority shares of their stocks. The significance of these investments is best understood in light of the oligopolistic structure of the coconut processing and exporting markets in the Philippines.

Even before the establishment of the coconut levy-funded quasi-state monopoly in coconut processing and trading, these ends of the value chain always had only a few agents – mostly foreign-owned firms – engaged in milling and manufacturing coconut oil and other by-products, and exporting coconut products. For example, Nyberg (1968, pp. 109-110) found that in 1965 there were 26 copra exporting firms. Of these, only 6 were Filipino-owned, which in turn accounted for only 19 per cent of the export volume. Hawes (1987b, pp. 62-64) also showed how more than 95 per cent of the oil-milling capacity in 1965 was accounted for by 9 firms, all of which were foreign-owned. In this context, the investments of coconut levy funds in five major coconut oil mills in the Philippines, seven oil mills based abroad, and 17 copra trading firms represented not only a major attempt to concentrate market power at the top-end of the value chain even further but also to nationalise ownership of – in the analysis of Intal and Power (1990, p. 184), even ‘dis-alienate’ [sic] or diminish foreign presence in – the industrial ends of the sector.

Below, I explain details of exactly how coconut levy funds were mobilised to establish state-engineered monopoly power in the industrial end of the coconut sector and present evidence about how rents obtained were transferred and mobilised.

Centralisation of market power

From 1977 to 1980, a series of steps were undertaken by the state to centralise market power at the industrial end of the coconut sector, power that on paper was to be vested in a conglomerate of ‘farmer-owned’ enterprises. At the very core of all these was the use of coconut levy collections to buy among the biggest
coconut oil mills and refineries in the country and to subsidise their operations – underwriting the rise of monopsonist power in the domestic trading of copra and monopoly power in the international trading of coconut oil. To complement this strategy, state sponsored-policies embodying incentives that encouraged owners of private coconut oil mills to divest ownership and that barred further entry to the coconut oil manufacturing and exporting sectors were enforced. Hawes (1987b, pp. 55, 68-76) describes all these as constituting the “takeover” of the coconut industry, whereby Marcos effectively “transformed the coconut industry from one with little government regulation to one dominated by a quasi-state monopoly over both the milling of the raw material and the export of oil and other coconut products”. Below I summarise the steps that were undertaken to effect this transformation.

First, coconut levy funds were used to buy major coconut oil mills in the country. The first acquisition was made in 1977: the Orcar Development Corporation Oil Mill, located in Mulanay, Quezon58 (Eleazar et al., 1980, p. 122; Manapat, 1991, p. 189) and later re-named the Southern Luzon Coconut Oil Mills. As shown in Table 3.4, PhP 43.2 mn of the CIIF was used to invest in this corporation (Commission on Audit, 1986a, p. 4; 1997, p. 15), of which PhP 13 mn was used to pay the owner of the mill, the Teodoro Regala Group and PhP 30 mn was infused as capital stock (Commission on Audit, 1986a, pp. Appendix C-5). The deal to buy this corporation was modest compared to three other buy-outs funded by the coconut levies in 1979-1980. These acquisitions would be most illustrative of how profoundly coconut levy investments restructured the industry.

The first of the three major acquisitions was that of the Legaspi Oil Company (LEGOIL) in February 1979. Tiglao (1981, p. 88) describes this as “one of the largest corporate takeovers in Philippine history”. LEGOIL was bought in February 1979 from Japanese firm Mitsubishi Corporation, Philippine business conglomerate Ayala Corporation, and an individual named Dominador Lim (Commission on Audit, 1986a, pp. Appendix C-3) The sale involved all the assets of LEGOIL, including five subsidiaries engaged in coconut oil milling (including the Cagayan de Oro Oil Company), logging, barging operations and

58 Mulanay, Quezon is a major centre of coconut production in northern Philippines.
international trading (Tiglao, 1981, p. 88). LEGOIL alone milled a quarter of the total volume exported by the Philippines in 1965 (Boyce, 1993, p. 206; Hawes, 1987b, p. 64). Both Hawes (1987, p. 74) and Tiglao (1981, p. 88) claim that UCPB paid the owners PhP 158 mn in cash. One can deduce that a further PhP 52 mn was infused in equity as the official audit report of the CIIF investment, as shown in Table 3.4, indicates a total investment of PhP 210 million.

The second of the three acquisitions utilising coconut levies was that of Granexport Corporation and its subsidiaries, including coconut oil mills, refineries and a shipping firm, the Iligan Bay Express Corporation – all of which were sold to UNICOM in November 1979. Granexport was owned by the US-based multinational Cargill Corporation. Like the LEGOIL mills, Granexport oil mills had a daily rated milling capacity of 1,000 MT, the only two corporations at that time with such a capacity and the biggest in the country (Hawes, 1987, pp. 168-169). A total of PhP 305 million of coconut levy funds were mobilised for this investment.59

The third acquisition was that of the San Pablo Manufacturing Corporation (SPMC), a refinery that unlike LEGOIL mills could produce refined, edible coconut oil. SPMC was a subsidiary of the US-based Pacific Vegetable Oil Company and at the point of acquisition the largest processor and marketer of edible cooking oil in the Philippines (Eleazar et al., 1980, p. 129). SPMC was purchased in 1980 and, as shown in Table 3.4, PhP 132.61 million of the coconut levy funds were invested in the corporation.

LEGOIL and Granexport, along with a third private mill that, I will show below, was also going to be under the control of UNICOM, were considered “the big three” in the coconut oil milling industry in the Philippines and accounted for at least 60 per cent of milling capacity in 1980. With the further acquisition and corporate takeover that UNICOM oversaw, estimates of control of coconut oil volume exported exercised by coconut levy-funded enterprises ranged from 80 per cent to 93 per cent (Tiglao, 1981, p. 88). In summary, coconut levies, by way of funding the acquisition of the biggest oil mills in the country, were used to concentrate market power in the coconut oil milling sector.

59 In Table 3.4, the amount invested of CIIF into Granexport is calculated at PhP 247.61 million. PhP 49.2 million of the investment is credited to UNICOM. PhP 9 million is credited to Iligan Bay Express Company, infused as equity consequently used by IBEC to invest in another subsidiary.
Second, UNICOM was established as a conglomerate of mills and trading companies, effectively acting as a ‘cartel’ that controlled both the milling and international trade of coconut oil (Manapat, 1991, p. 189). UNICOM was originally incorporated in 1977 by lawyers from an established law firm in the Philippines called ACCRA\(^6\), which figured prominently not only in the ‘legal engineering’ of the ‘industry takeover’ but also in a take-over of a major blue-chip corporation in the Philippines, in which coconut levy funded enterprises were mobilised and which will be explained in the last section of this chapter.

In 1979, after LOI No. 925 was decreed by Marcos, coconut levy funds in the amount of PhP 495 mn were infused as equity capital into UNICOM, which at point of sale only had PhP 5 mn in paid-up capital. As has been pointed out, its avowed role was to address the underutilisation of installed oil milling capacities in the Philippines and to coordinate the marketing of coconut oil in the international market (Eleazar et al., 1980, p. 125). Its investments into coconut oil mills and refineries in the Philippines and abroad, and its copra buying operations were the main instruments of the concentration of market power in the industry.

UNICOM took charge of further acquisitions of coconut oil mills and refineries made after September 1979, in the Philippines and abroad. It was UNICOM that took charge of the deal with Granexport described above. In general, UNICOM targeted for acquisition and take-over in the Philippines foreign-owned mills, and newer and modern Filipino-owned mills.\(^{61}\) (Hawes, 1987b, p. 76) To soak up excess milling capacity in the country, UNICOM even bought non-operating oil mills for the sole purpose of mothballing them. The 1986 COA report on the CIRF suggests that 16 of such mills were bought by UNICOM utilising PhP184.35 mn of the CIRF (Commission on Audit, 1986c, p. 7). A further PhP 35 mn of the coconut levy collections were used to pay for the debts of seven of these mills, shown in Table 3.3 as the item ‘debt service’.

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\(^6\) ACCRA is the acronym for the company’s name taken from its founding law partners: Angara Abello Concepcion Regala & Cruz Law Offices (currently known as ACCRALAW). From a company founded in 1972 only a few months before President Ferdinand Marcos declared Martial Law, ACCRA rapidly grew in around a decade to become recognized by the 1980s as one of the country’s leading law firms. The law firm has also produced leading Philippine politicians that included founder Edgardo Angara who became Senate President and a number of others who went to hold Cabinet positions in various administrations.

\(^{61}\) These mills were the recipients of BOI incentives in the 1960s and 1970s.
Aside from the Philippine-based mills, UNICOM also saw to the acquisition of at least seven foreign-based mills and refineries (Manapat, 1991, pp. 194-195). Two of these were acquired as subsidiaries of LEGOIL (i.e., Pan Pacific Commodities in the US and Legaspi Oil International in Hong Kong), one as a subsidiary of Granexport (i.e., Granexport Corporation USA), two were based in France (Nouvelles Huileries et Reffineries and Societe Anonyme de Produit Excel) and the rest were based in the US (i.e., Crown Oil Corporation and Coastal American Traders).  

Meanwhile, UNICOM also set up a system for ‘affiliating’ privately owned mills based in the Philippines -- collectively called ‘participating mills’ (LOI No. 926, Section 2b) Affiliation entailed a form of ‘corporate takeover’, whereby their operations were controlled by UNICOM, in exchange for access to state subsidies and privileges otherwise only available to ‘coconut farmer-owned’ enterprises. An example of a participating mill is the Lu Du and Lu Ym Mill, which along with LEGOIL and Granexport constituted among the three biggest mills in the country. It remained independently owned but nevertheless directly managed by UNICOM. According to its owner, Douglas Lu Ym, he placed the company under the direct control of UNICOM in “obedience to the orders of the Philippine government” (Manapat, 1991, p. 190).

The impulse guiding the spate of acquisitions and corporate take-overs described above was the centralisation of copra-buying operations in the country, and thus the control of copra prices. UNICOM control of such a huge share of the coconut oil milling capacity in the country meant that it had the advantage of economies of scale that smaller unaffiliated mills could not compete with. As I have pointed out earlier, UNICOM had access to a little over PhP 1 bn, in the form of the CIRF, to purchase copra.

But aside from controlling copra prices as the country’s monopsonist buyer, UNICOM also attempted to control the supply of coconut oil in the world market. According to Manapat (1991, p. 195), details of this only came to light

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62 According to the Pelaez audit report, the CIIF allocation in the amount of PhP 147.6 million for the United Coconut Planters International, as shown in Table 4.2, was used to capitalise said company, which was located in France. This company, in turn, invested stocks in a number of France-based trading firms, including the French mills and refineries specified here. (Pelaez, 1993, p. 3) Manapat suggests that the rationale given for these investments in Europe-based mills was to escape the 7 per cent and 2.5 per cent tax imposed in Western Europe on edible and technical grade coconut oil imports, respectively. (Manapat, 1991, p. 194)
when an anti-trust case was filed against UNICOM and its allied corporations in 1981 in the US, where, at that point, the Philippines supplied 95 per cent of coconut oil consumed. In the COA report on the CIRF (Commission on Audit, 1986c, pp. 11-13), it is explained that a case was filed against UNICOM, UCPB, Lu Do Ym Corporation, Granex Corporation USA, Crown Oil Corporation and Pan Pacific Commodities by a California-based company named PVO International Incorporated. PVO was a buyer, refiner and seller of coconut oil in the US and alleged that UNICOM and the rest of the aforementioned firms refused to sell crude coconut oil and other coconut products to the world market at a price lower than that fixed by the Philippine government. PVO thus claimed damages in the amount of US$ 75 mn for, among others, lost revenues incurred as a result of this attempt at price-fixing by UNICOM and its allied corporations. UNICOM successfully negotiated an out-of-court settlement with PVO in the amount of US$10 million. The UCPB board then passed a resolution authorising UNICOM to utilise PhP 90 mn of the CIRF to finance the settlement. This means that coconut farmers bore the burden of UNICOM’s ill-fated attempt to control the export price in the US market.

Third, copra trading corporations and buying stations were also established to further tighten the control on copra trade. As early as 1978 – that is a few years before major investments into coconut mills and refineries were made – coconut levy funds were already used to invest in a group of copra trading corporations. This was an investment of PhP 158 mn into the ‘Philippine Coconut Planters Trading Group’, as shown in Table 3.4. This is a group of seven companies with the same set of officers and in which CIIF investment bought a 51 per cent stake. However, when COA audited the companies in 1986, they found that these

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63 Manapat (1991, pp. 194-198) has a slightly different account of this. He suggests that the attempt to drive up the price of coconut oil in the US market was undertaken by the hoarding of 43,000 tons of coconut oil by UNICOM and its allied corporations -- and it was this act of hoarding supplies that prompted the US government (not the PVO) to file the civil anti-trust suit against the said companies. He claims that the attempt at ‘cartelisation’ was ultimately unsuccessful because coconut oil had many substitutes. In the end, UNICOM could not find buyers for the coconut oil they hoarded and sold the inventory at a loss of an estimated US$10 million.

64 In 1982, US$10 million was equivalent to about PhP 80 million, based on the official exchange rate of PhP 7.9 to US$ 1. (World Development Indicators, 2012)

65 The seven companies were: Davao Coconut Planters Trading, Zamboanga Coconut Planters Trading, Leyte Coconut Planters Trading, Northern Mindanao Planters Trading, Visayas Coconut Planters Trading, Bicol Coconut Planters Trading and Tagalog Coconut Planters Trading. (Commission on Audit, 1986a, pp. 12-13)
companies were no longer in full operation by 1981 (Commission on Audit, 1986a, p. 13).

COCOFED was also given a piece of the monopoly operations when the Copra Stabilisation Fund budget in the amount of PhP 144.92 million, as shown in Table 3.3, was allocated to COCOFED to set up copra buying stations. COCOFED founded the COCOMARK Corporation to establish these stations across the country. Reports of how many of these stations were set up vary. The Pelaez report submits that 40 stations were set up throughout the country. But, an undated report of the PCA, prepared during the time of Marcos, indicate that 255 collection centres in 38 provinces, two cities and 213 municipalities – covering 10 to 15 per cent of the country’s copra traded – were established with the CPSF (Philippine Coconut Authority CISF Assessment and Collection Department, undated). With the group of seven trading companies no longer fully operational in 1981, one can deduce that COCOMARK buying stations became the favoured source of copra for UNICOM and its allied mills.

Fourth, in an attempt to extend the vertical integration of the industry to the production of higher value-added coconut-based chemicals (i.e., glycerine, fatty acids and fatty alcohol products) that are used for the manufacture of cosmetics, pharmaceutical products and explosives, PhP 864.25 mn of the CIIF was invested to establish the United Coconut Chemicals (UNICHEM) in 1981. UNICHEM was a joint venture between UCPB and a German partner, the Lurgi Umwelt und Chemotechnik. It took the corporation more than four years to build and operate a modern plan to manufacture the chemicals (Commission on Audit, 1986a, p. 13). CIIF investment in this end of the value chain is especially significant because prior to the establishment of the UNICHEM plant, most coco-chemical plants in the Philippines were owned by foreign multinational

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66 In 1985, after UNICOM had been dissolved, a further PhP100 mn of the CIIF was used to establish ten other copra trading corporations, into each of which PhP 10 mn was infused as equity. The 1986 COA report on the CIIF says that they were established to ensure the copra supply of still operating CIIF oil mills (Commission on Audit, 1986a, p. 16). However, Pelaez (1993, p. 3) suggests that given the “marginal profit” the companies earned during its first year of operations, there may be reason to believe they were organised only as conduits for investments into the San Miguel Corporation, which I shall explain further in the last section of this chapter. For this reason, and because the companies were established after UNICOM had already dissolved, I did not deem these investments as part of the systematic efforts to concentrate market power in the industry.
companies like Colgate-Palmolive, Proctor and Gamble and Pilipinas Kao (Oniki, 1992, p. 89).

Finally, all these four steps were complemented by state action that enhanced the incentives for private millers to give up ownership of their businesses and/or provided privileges that only coconut levy-funded enterprises enjoyed.

The former relates to ‘sell or perish’ state interventions imposed upon private oil mills. For example, in October 1978 – a few months before the procurement of LEGOIL in February 1979 – PCA issued a memorandum that effectively withdrew the subsidy enjoyed by exporters on premium duties. Tiglao (1981, p. 89) suggests that this was one of the major reasons why Mitsubishi and Ayala Corporation let go of their interest in the LEGOIL. Based on his calculations of LEGOIL’s monthly average importation volume of 10,688 MT, the withdrawal of the subsidy meant an increase of premium duties bill from US $19,014 to US $ 380,000 – an almost 2,000 per cent increase that severely cut into the profit margins of the company. Soon after UCPB and/or UNICOM had taken over the private coconut oil mills, export duties were reduced. Moreover, Tiglao (1981, p. 88) proposes that LEGOIL was not allowed to import machinery necessary for the firm to maximise its plant scale. These prodded Mitsubishi and Ayala Corporation to divest their interest in LEGOIL – despite its extensive international coconut trading network in the US and a local copra trading network that it built after 23 years of operations. (Tiglao, 1981, pp. 88-90)

The latter relates to changes to the subsidy scheme and barriers to entry that privileged ‘coconut-farmer owned’ enterprises. As stated in the previous section, coinciding with the establishment of UNICOM, changes to the coconut oil consumers price subsidy scheme were put into effect in 1979 that delimited access to subsidies to only UNICOM-affiliated coconut oil mills and refineries. Meanwhile, the expansion of existing coconut oil mills and the establishment of new ones were prohibited by the same presidential promulgation that authorised the use of coconut levies to establish UNICOM. This decree also stated that even when the coconut supply situation warranted additional national milling

\[67\] In particular, Section 3 of LOI 926 (1979) states that:

“No government agency or instrumentality shall hereafter authorize, approve or grant any permit or license to establish, import and/or operate any coconut oil mill in addition to those in operation in the country.”
capacities, only UNICOM and its affiliated mills had the authority to expand facilities.\textsuperscript{68, 69}

UNICHEM was also granted similar special privileges by the state to gain market power. It was declared as one of the Marcos’ government’s 11 major industrial projects (de la Rosa, 2000, p. 100) and given the status of ‘preferred pioneer’, which in turn meant that it enjoyed a range of tax exemptions.\textsuperscript{70} A series of presidential edicts were passed in 1983 especially for UNICHEM. It was given a broad range of tax-exemptions, going beyond those given to firms with ‘pioneer status’.\textsuperscript{71} To promote the utilisation of coco-based chemicals it manufactured, Marcos granted all companies utilising said products ‘pioneer status’ as well.\textsuperscript{72} Perhaps most important of all, an import ban was imposed on all petrochemical products, which competed with UNICHEM manufactures – unless there was a shortage of locally-produced coco-chemicals, in which case only UNICHEM was allowed to import the same.\textsuperscript{73}

A quote from Marcos (Tiglao, 1981, p 92) evokes how all the moves to concentrate market power in coconut-levy funded enterprises summarised above were publicly justified:

“For half a century, the coconut farmers were the forgotten men of the country. Now you are no longer just coconut planters, you are bankers, owners of a coco mill complex”

But what does evidence say about who benefitted from these investments, specifically the rents emanating from concentrated market power?

\textsuperscript{68} In particular, Section 3 of LOI 926 (1979) states that:

“In the event that there is a use to establish a new coconut oil mill, or to expand the capacity of an existing mill, or to relocate an existing mill… the private corporation authorized to be organized shall have the priority to establish and operate such new mill…”

\textsuperscript{69} Section 3 of PD no 1644 also limited the right to export coconut products to socialist countries to UNICOM and its affiliates.

\textsuperscript{70} Articles 43-44 in PD 1789 Philippines (“Omnibus Investment Code,” 1981) specifies the incentives accorded, including: protection of patents and other proprietary rights, capital gains tax exemption, tax allowance for investments; and tax exemption on sale of stock dividends.

\textsuperscript{71} Marcos ordered through Section 3 of EO No. 880 (“Declaring the Establishment of a Coconut Chemical Industry as a Means to Rationalize the Coconut Industry of the Philippines and Granting Additional Incentives Therefor,” 1983) that all purchases from abroad – including technology, machinery, equipment and services – necessary to establish UNICHEM plant facilities be considered tax-exempt. Moreover, UNICHEM was granted tax exemptions, for a period of ten years, for fees paid to foreign personnel supply technology, services; for interest payable on foreign currency loans, and all real property tax (PD 1863, Section 4).

\textsuperscript{72} This was enforced through Section 2 of PD No. 1826 (“An Act to Promote and Expand the Utilization of Chemicals Derived from Coconut Oil and for Other Purposes,” 1983) .

\textsuperscript{73} This as enforced through Sections 5-6 of PD No. 1826.
Power and privilege: who benefitted?

Evidence derived from evaluations of the economic effects of policies and regulations described above suggests that coconut levy-funded enterprises had access to super-normal profits as a result of the constricted entry to coconut post-harvest trading, processing and marketing in the Philippines.

Through econometric modelling, Buschena and Perloff (1991) estimated the degree of market power exercised in the world market by the Philippines before and after these market regulations were put in place. Based on price and market data from 1957-1987, they concluded that the interventions allowed the Philippine coconut oil export industry to begin exercising monopoly power in the world market for coconut. In particular, as a result of these interventions, they found that the Philippine coconut oil export industry’s mark-up over marginal costs more than doubled after 1973 (Buschena & Perloff, 1991, p. 1008).  

However, they also found three factors affecting world demand for coconut oil that were delimiting the full exercise of this power. First, technological advances had increasingly led to the substitution of coconut oil for other vegetable oils. Second, health concerns in the US – until the late 1980s the most important export market for Philippine coconut oil – about the consumption of saturated fats was expected to lead to a drop in demand for coconut oil. Third, decreasing demand for Philippine coconut oil in the US was expected as the lagged effect of preferential trade treatment in that market wore off completely. (Buschena & Perloff, 1991, pp. 1001-1002) The international structure of production and demand thus seriously curtailed the Philippines’ exercise of monopoly power in the world market for coconut oil.

However, there is evidence to support the proposition that what was never fully achieved in the world market was attained in the domestic market for copra. Clarete and Roumasset (1983) compared marketing profits before and after the first two years of UNICOM operations. They suggested that the price differential between (post-levies and post-export tax) predicted border price of copra in Manila based on the New York price of coconut oil, and the actual price of

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74 Under perfectly competitive markets marginal costs are equal to price. Deviations from the marginal costs are thus a reflection of monopoly power.

75 They assume that copra price in Manila should closely follow the price of crude coconut oil in New York, given that 50 per cent of coconut production is exported as coconut oil and coconut oil exporters base their buying price of copra on the said New York price.
copra in Manila reflected potential marketing profits. They found that from 1970 to 1979 – that is, the period before milling capacities were concentrated in the quasi-monopoly and thus assumed to be under relatively competitive conditions – the deviation averaged at PhP 10 per 100 kilos. In 1980 and 1981, the first two years of UNICOM operations, this differential rose to PhP 45 and PhP 23, respectively. They concluded that copra producer prices were thus depressed below competitive levels due to UNICOM operations. (Clarete & Roumasset, 1983, pp. 32-35) Assuming that UNICOM absorbed 80 per cent of local production during these years, then that would have been equivalent to monopsony rents of PhP 12.8 million in 1980 and PhP 4.48 million in 1981, from UNICOM’s copra procurement operations alone. Interestingly, this evidence of extraordinary marketing profits in the domestic market is supported by what Boyce (1993) unearthed from US government cables, which he obtained under the US Freedom of Information Act. He said that a 1984 US Embassy cable reported that UNICOM established profit margins of PhP 2-3 per kilo in 1983. (Boyce, 1993, p. 207) At PhP 200-300 per 100 kilos, this estimate is much higher than Clarete and Roumasset’s estimates in 1981-1982. Based on copra produced in the Philippines in 198377 and the assumption that UNICOM absorbed 80 per cent of this, monopsony rents would have amounted to PhP 55 million in one year alone.

There is no evidence that any of these monopoly profits were ploughed back to the coconut industry in any major or systematic way. Instead, the picture that emerges from official government audits that reported on the operations of coconut levy-funded enterprises and on the uses of funds that they controlled is one indicative of the profligate use of resources and of a pronounced redistribution of benefits away from the coconut sector, especially coconut producers. Moreover, the evidence indicates that rent opportunities arose not just from the operations of the quasi-monopoly but as a result of the corruption of the means employed to install monopoly power.

76 This is based on official local copra production figures from the Philippine National Statistical Coordination Board (NSCB). Copra produced in the Philippines was 4,570.2 metric tons in 1980 and 4,312.1 metric tons in 1981. I arrived at the rent estimates by multiplying the production figures with 80 per cent and Clarete and Roumasset’s (1983) computed differential between expected and actual copra price in Manila.
77 NSCB (1984) reports this figure to be 3,494 metric tons.
For example, the 1986 COA audit report on the CIRF point to irregularities in the acquisition by UNICOM of sixteen floundering and privately owned oil mills. It found that some of these oil mills were owned by individuals with close links to Marcos. (Commission on Audit, 1986c, pp. 7-9) The Pelaez audit also questioned the establishment of the Debt Service Fund to pay all the outstanding debts and obligations that seven of these mills incurred in their private capacity. (Pelaez, 1993, p. 5) This suggests that the use of coconut levy funds to effectively bail out these unprofitable mills can be seen as a politically engineered transfer from coconut farmers to some cronies of the president. To be sure, one could argue that a ‘public purpose’ could have been served: preserving the viability of the sector by mopping up excess capacity. However, as the COA report suggests, these mills – left on their own – would have closed down anyway. (Commission on Audit, 1986c, p. 8)

This theme of the usurpation of public purpose for private gains reverberates in the findings of COA about the operations of the seven copra trading companies under the Philippine Coconut Planters Traders Group. As has been pointed out, these companies were established before the vertical integration policy was in place. They were nevertheless given a right to claim subsidies from the CIRF, for the copra they bought in 1976-1980, a period when subsidies were supposed to have been given directly to manufacturers of coconut oil-based consumer goods. COA found two further aberrations in the subsidy claims made by these firms from CIRF. First, they overstated the price at which they purchased their copra by adding overhead costs to the reported purchase price. Second, included in these reported overhead costs were salaries and expenses of three officials of the companies, who performed the same functions across the seven companies but drew from each of these companies for said expenses nevertheless.

The Pelaez (1993) audit report also provides interesting insights about how marketing profits of COCOFED’s COCOMARK may have been mobilised. As in the case of the seven copra trading companies, he reported a story of profligacy and corruption. For example, cash advances in the amount of PhP 64 mn made by company directors, officers and employees between 1982 and 1985,

78 These included ‘contracted services’, ‘transportation and travel’ and ‘salaries, wages and allowances’.
a substantial amount of which was unliquidated. (Pelaez, 1993, p. 7) But even
more significantly, it is claimed in this report that COCOMARK invested PhP
95 mn of its resources in two private real estate companies between 1980 and
1983. (Pelaez, 1993, p. 7) This is significant for two reasons. First, it shows that
surplus extracted from coconut farmers were channelled to activities with no
productive value for the coconut sector. Second, given that COCOMARK was
operated by COCOFED, it is evocative of the producers organisation’s disturbing
lack of interest to invest in its own sector’s productive capacity— in stark contrast
to FEDECAFE in Colombia. As for the claims of the coconut producers on these
profits based on their ownership of the corporation, Pelaez found that only one
per cent of the shares of stocks were issued to coconut farmers, even if all
authorised shares of stocks were paid out of the coconut levy funds. (Pelaez,
1993, p. 7)

In summary, these official audit reports offer snapshots of how rent transfers
were made as a result of observed irregularities in the implementation of policies
establishing monopoly power in the coconut sector and in the operations of
coconut levy-funded enterprises, including the mobilisation of their resources
and profits. In the case of COCOMARK, the Pelaez report gives a glimpse of re-
investment of profits away in speculative economic activities and away from the
coconut sector. These patterns were neither isolated nor unrelated; I propose that
the extraction of surplus from coconut producers for the enrichment of private
individuals was systematic and coordinated. This proposition is supported not
only by the analysis of coconut levies in Hawes (1987b), Boyce (1993), Manapat
(1991) and David (1977, 1992), but by the very acts of the Philippine
government, soon after Marcos was booted out of power in 1986.

In 1986, soon after Marcos was unseated from power, the Philippine
government ordered the sequestration of all coconut-levy funded corporations –
including UCPB, COCOMARK and all companies established in the name of
vertical integration – on grounds that they were part of ill-gotten wealth amassed
by the president and his cronies and relatives. In July 1987, the government of
Corazon Aquino consequently filed a case in the Sandiganbayan, a court of law
for cases related to violations of the Philippines’ anti-graft and corruption code,
against sixty individuals -- including Eduardo Cojuangco, Juan Ponce Enrile,
national leaders of COCOFED, lawyers of ACCRA, Ferdinand Marcos and
Imelda Marcos. These individuals were accused of conniving and abusing power and authority to convert government owned corporations into assets for their own benefit, and of having been awarded contracts with government with conditions that were disadvantageous to the government. I will show in Chapter 5 evidence of how said individuals ‘acted in concert’ to control and manage the rent through the interlocking directorates of PCA, UCPB, and COCOFED. But what is salient to the analysis at this point is that this court case implicated individuals – particularly close Marcos associates like Eduardo Cojuangco and Juan Ponce Enrile, as well as leaders of COCOFED –as having coordinated access to rent streams obtaining from policies to concentrate market power in the coconut sector, in particular, and from all other modes of coconut levy mobilisation, in general.

Of the personalities implicated in the case, the names of Cojuangco and Enrile stand out. Enrile was the Defence Minister during the time of Marcos and was credited to have ‘drafted the blueprint for the coconut monopoly’. (Parreño, 2003, p. 125) Cojuangco was the rumoured investment manager of Marcos, the regional chairman of Marcos’ political party – the Kilusang Bagong Lipunan (KBL) – in Central Luzon, a vote-rich region in northern Philippines. As the rent settlement evolved, Cojuangco’s role grew to be more pronounced than Enrile’s and indeed than the COCOFED’s, as will be shown in Chapter 5. Enrile was said to have told colleagues in a political party that he could not understand why Cojuangco was left to control the coconut levy funds when he was the one who originally formulated it. (Parreño, 2003, p. 128)

In the court case filed in 1987, Cojuangco was specifically charged with responsibility for the use of coconut levies – with the collaboration of Marcos, Enrile and named national leaders of COCOFED – for the establishment of UNICOM, which he is said to have “beneficially controlled”. (GR No 96073, p 16). He was accused of coordinating the anomalous procurement of 16 mothballed oil mills described above – including the questionable assumption of debts of seven of them – with the express consent of Marcos and to control the coconut levy case was docketed as Case No 0033 and was one of twenty cases filed against Marcos and his cronies by the Philippine government, in an attempt to recover ‘ill-gotten wealth’ amassed during the Martial Regime in the Philippines. The case was later further subdivided into 8 distinct cases.

80 From the court document: ("Republic of the Philippines versus Sandiganbayan, etc. (Re: Sequestration Orders Revoked by Sandiganbayan),” 1995, p. 16)
prices of copra and other coconut products, and establish a monopoly “for their own benefit”.

This charge of private gains from the operations of UNICOM by Cojuangco is echoed in another US Embassy Cable, entitled ‘The Philippine Coconut Monopoly’ acquired under the US Freedom of Information and cited by Boyce (1993, p. 207). In the Cable, the US Embassy in the Philippines alleged that Cojuangco found many indirect methods of profiting from the monopoly. For example, equipment and materials purchased made by the firm were said to have been routed to a company operated by Cojuangco’s son, “who takes 10 per cent commission on all purchases”. The embassy estimated that income personally accumulated by Cojuangco through the monopoly – but also through other purposively allocated rent streams as well as capital accumulated through investments associated with coconut levy enterprises, both of which as explained in the next sections of this Chapter – ranged from “several hundred million dollars to over a billion”. (Boyce, 1993, p. 207)

From the audit reports, research accounts and court case documents surveyed in this section, I conclude that the mobilisation of coconut levies to establish a quasi-monopoly in the post-harvest end of the sector generated two types of rents. First, monopsony rents were generated in the domestic trade of copra through the operations of UNICOM and its allied enterprises, as well as COCOMARK. In this sense, coconut levies were a burden on coconut farmers not just as a form of taxation but also by providing the means of establishing post-production firms that extracted maximal surplus from them. Related to this, monopoly rents in the international trade of coconut oil were also generated, but delimited by the structure of world production and demand for vegetable oils. Second, redistributive transfers were also made as a result of the implementation of policies to establish monopoly power, as well as through the corrupt use of resources associated with the operations of the coconut levy-funded enterprises. These rents were appropriated by a cabal of individuals, linked with Marcos and COCOFED, and there is no evidence to suggest that any of these were ploughed back to the coconut industry in ways that would enhance production in the sector. What I have presented so far is an account of the re-investment of what could be interpreted as returns from copra-buying operations of COCOMARK into real estate projects. There is no evidence that any of the marketing profits at the time
of concentrated market power were invested into enhancing the productive capacity of the coconut sector.

In an interview\(^{81}\), Joey Faustino, executive director of a non-government organisation involved in the movement for the recovery of coconut levy funds, evocatively summarises the situation that obtained for the coconut producers paying these levies: “*Ginisa ang magsasaka sa sariling mantika.*” [The coconut farmers were ‘sauteed’ in their ‘own fat’.]

**Purposive allocations for the “coconut king”**

Aside from access to the rent streams generated as a result of the state-led bid to vertically integrate the coconut industry, Cojuangco also enjoyed purposively allocated redistributive transfers resulting from the use of coconut levies to finance a re-planting programme and to buy UCPB. The first signalled his ‘entry’ into the rent settlement; the second solidified his position within it.

**Contract marking ‘entry’ to the rent settlement**

As shown in Table 3.3, the lion’s share of the production and welfare-related disbursements of the levies was allocated for a coconut re-planting programme. This programme, which was administered by the PCA, accounted for almost 12 per cent of the disbursements, a share that is almost at par with what was allocated for UNICOM operations.

Production statistics from FAO\(^{82}\) for the period leading and up to 1974, when Marcos promulgated the decree to implement this programme, suggest that this programme was urgent for the purposes of enhancing the competitiveness of the Philippine coconut sector. At the time the programme was implemented, for example, coconut trees in Southern Luzon – a major hub of coconut production – were fifty years old and nearing their non-productive age. (MacDougald in Parreño, 2003, p. 132) And even as the Philippines was the world’s leading coconut oil exporter in this period, Figure 3.1 shows that productivity in the sector did not compare favourably with competitors like Indonesia, Malaysia and Sri Lanka: on average, the Philippines had the lowest level of productivity among these coconut-producing countries. While the average productivity of the

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\(^{81}\) Interviewed on April 22, 2009 in Manila, Philippines.

\(^{82}\) Data on coconut production and hectarage from faostat.fao.org, accessed on 6 November 2012.
Philippine coconut sector from 1961 to 1975 was 3.93 tons per hectare, productivity in Indonesia, Malaysia and Sri Lanka was 4.99, 4.03 and 4.19, respectively. Clarete and Roumasset (1983, p. 9) say that the growth in production in this period was largely accounted for by growth in hectarage rather than increases in productivity.

Figure 3.1 Coconut sector productivity (in tons/hectare), 1961-1990: Philippines and selected competitors

Against this backdrop, Marcos promulgated PD No. 582, which as discussed in the first section led to the establishment of the Coconut Industry Development Fund (CIDF), for the purpose of financing a coconut replanting programme. CIDF was to be used for the establishment, operation and maintenance of a hybrid coconut seed nut farm, the produce of which was to be distributed for free to coconut farmers. The seed nut farm was owned by Cojuangco. Interestingly, it was not COCOFED that pitched the mode of implementation of a project so vital to the coconut sector. Parreño (2003, p. 132), based on an interview with an unnamed ‘close political ally’ of Cojuangco, suggests that it was Cojuangco.
himself who approached Marcos with the idea of implementing this programme. The contract that Cojuangco secured in relation to this programme was his way into the rent settlement – not only as the first successful ‘deal’ he negotiated in relation with the use of coconut levies, but also because his place in the governing board of the PCA was justified in terms of his ownership of the seed farm.

To implement the replanting programme, the government – through the National Investment and Development Corporation (NIDC), a subsidiary of the Philippine National Bank, which in turn was the depository of CIDF and CCSF collections at the onset of the replanting programme – contracted the services of a corporation wholly owned by Cojuangco, the Agricultural Investors Incorporated (AII), which was given the exclusive license to distribute a hybrid variety of coconuts chosen for the replanting programme. When UCPB was established in 1975 and became the depository of the coconut levy collections, it took over from NIDC in administering the contract.

Under the terms of the contract, AII was obligated to develop a parcel of land in Bugsuk Island, Palawan and to “exert best efforts” to put a seed garden in productive operation within five years and attain an annual production of 19,173,000 seed nuts. AII was obliged to sell its entire production to the PCA, and to pay NIDC 25 per cent of its net operating income before taxes for forty years, the entire duration of the contract, for the cash advances to be made by government in the amount of PhP 426.26 mn, which in turn was to be used to develop the property. Said ‘developmental costs’ included the cost of establishing and maintaining the seed garden – for which PhP 259.26 mn was disbursed – but also expenditures in the amount of PhP 167 million that enhanced the value of the property, including the establishment road networks,

83 The account of the terms of the contract described in this section is from the 1986 COA audit of the CIDF (Commission on Audit, 1986, pp. 22-29).
84 Manapat (1991, pp. 229-235) offers an interesting account of the circumstances that led to the acquisition of the island in Palawan, used to establish the farm producing the coconut seeds for the re-planting programme. Cojuangco is said to have acquired this island through an arrangement with the Marcos government that allowed him to swap some of his lands in Central Luzon – then under the threat of land reform – for land in the public domain at a ratio of 1:10. Under this arrangement, Cojuangco acquired landholdings in Romblon, along with four islands in Palawan. Citing Henares (1986), Manapat suggests that Bugsuk Island was acquired for reasons beyond its use for the re-planting programme. The island is very near areas where Marcos-connected firms had been involved in oil exploration. Moreover, Henares claims the island was used by Cojuangco to establish a lucrative pearl farm business, under a company that still trades at the time of writing.
housing units, a public market, school houses and recreation facilities to service the island. The government – through NIDC, and later UCPB – was in turn obliged to advance the development costs, to buy the entire production of the farm at the price of PhP10 per nut.

Upon examination of the contract in 1986, COA found a number of onerous provisions that were detrimental to the interests of government, and by extension coconut producers, who were financing this contract through the levies they were paying. *First*, government bore all the risk of failure to meet contractual obligations from causes “beyond reasonable control” – like force majeure and/or by virtue of consequent government statues, regulations or policies. All was given the exclusive right to terminate the contract under said conditions, without any obligation to pay damages. In contrast, if government was unable to perform its obligations under the contract due to the same causes, it would forfeit its rights to the developmental costs it advanced and was obliged to pay AII damages in the amount of PhP 958.65 mn, equivalent to the expected value of the seed garden’s production for five years. *Second*, it did not specify performance obligations on the part of AII. The targeted production was to be achieved, as I underlined above, “under best efforts” of AII. Meanwhile, the terms of the contract were such that AII was only required to make payments for the advances made by government on developmental costs on years it made a net profit. Clearly, all these provisions meant that government bore most of the risk of default.

As it turned out, there came a point when government could no longer honour its obligations under the contract: this was when Marcos suspended the collection of coconut levies in 1982. At this time UCPB had taken over from NIDC in administering the contract. When UCPB terminated the contract with AII in November 1982, on grounds that it could no longer finance the replanting programme, AII disputed the move. It demanded the forfeiture of the PhP 426.26 mn worth of developmental costs shouldered by the government, and payment of damages as stipulated by the contract. What came after this was a highly irregular arbitration process, in which parties to the case were one and the same. To illustrate this point, one need only look at the name of some of the officers of UCPB and AII at the time of arbitration. COA (1986, p. 30) found that in 1982,
Enrile was chairman of the board of both UCPB and AII while Cojuangco was president of both organisations.

In December 1982, AII was awarded damages in the amount of PhP 958.65 million, as stipulated in the contract. Of this amount, PhP 840.86 was fully paid by government. All waived its right to forfeiting the developmental costs, and instead merely subtracted the amount of PhP 426.26 mn from what the government owed them. To cover part of the balance, government used PhP 414.60 mn of CIDF collections. 85

This means that of the PhP 1.15 bn shown in Table 3.3 as having been spent for the benefit of coconut farmers in the form of a replanting programme, PhP 840.86 mn or 73 per cent of that amount went to Cojuangco’s corporation as payment for damages for a terminated contract or for coconut seed nuts that were not even delivered to the farmers.

The rent streams here then relate not only to the monopoly rents enjoyed by AII as the exclusive supplier of seed nuts that government was obliged to buy, but transfers due to an arbitration process that awarded AII with access to a significant portion of coconut levy funds – PhP 840 mn or the equivalent of about 8 per cent of the total levies collected. Coconut levies were effectively transferred to Cojuangco, who as a result of this deal became the absolute owner of a seed farm, with facilities worth PhP 426 mn, and whose company received more than PhP 500 mn in damages.

What did coconut farmers get out of this deal? To be sure, what was not transferred to Cojuangco’s company – or the remaining 26 per cent of the PhP 1.15 billion specified in Table 3.3 – was actually mobilised to implement the replanting programme from 1977-1982 in three phases: piloting, surveying and actual seed distribution. COA (1986, pp. 10-13) reported that in 1977, three years after the establishment of the seed garden, PCA piloted the re-planting programme in 133 farms (equivalent to 327 hectares) established throughout the country – an initiative for which PhP 13.97 mn of CIDF was mobilised. In that same year, PCA recorded a further allocation of PhP 23.617 mn to survey 3.6 million hectares of coconut land in the Philippines and determine their suitability for the programme. Finally, between 1980 and 1982, PCA saw to the actual

85 COA (1986, p. 35) found that it could not pay the remaining amount of PhP 117.79 million to AII because as of March 1986, the total assets of CIDF only amounted to about PhP30 million.
implementation of the programme, for which it mobilised PhP 309.80 mn of CIDF to buy seed nuts from AII, as well as to provide free inputs and cash grants to 7,456 farms covering more than 52,000 hectares of coconut land in the country.

The evidence gathered by COA – particularly as it related to the implementation phase of the programme – raise questions about the extent to which the programme actually benefitted coconut producers. For example, of the 17,410,452 coconut seeds purchased from AII between 1979 and 1982, COA (1986, p 40) found that only 73 per cent was suitable for distribution. The contract with AII specified that it was only responsible for delivering the seed nuts to an AII-designated warehouse in Bugsuk Island and for which government ostensibly had to pay warehousing charges. However, government shouldered all risks of loss – from the deterioration of stocks due to the conditions of storage, as well as damages and losses incurred in transporting the from Palawan to the beneficiary farms all over the Philippines. The 26 per cent rate of loss from all these cost the government PhP 44.89 million. The burden of this onerous feature of the contract with AII was of course borne by the producers, through their levy contributions to the CIDF. COA (1986, p 47) also discovered spurious patterns in the choice beneficiaries of the re-planting programme. In particular, 31 per cent of the benefits (i.e., free inputs and cash grants) under the programme were distributed to only 33 out of the more than 7,000 beneficiaries.

Meanwhile, a further processing of productivity data from FAO shown in Figure 3.2 indicates that average productivity actually worsened, twenty years after the implementation of the programme. Instead of improving, the ten year average productivity went down from 4 tons per hectare in the 1970s, to 3.58 in the 1980s and further down to 2.86 in the 1990s. These trends in productivity could be seen as supporting the proposition that the variety of introduced by the programme and imported from Africa was probably not suitable to local conditions. (Parreño, 2003, p. 133) But one could also argue that the programme was not undertaken extensively enough – covering only 52,000 hectares of the possible 3.8 million hectare-coconut area. Still in all, the coconut re-planting

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86 Equivalent to the 4,489,013 seednuts lost multiplied by the cost, PhP 10 per seednut.
programme effected substantial transfers accruing to Cojuangco, without palpable benefits to the coconut sector.  

**Brokering the deal to buy UCPB**

If the exclusive rights to growing and distributing the seeds for the national coconut replanting programme was Cojuangco’s way into the coconut levy-associated rent settlement, the deal he brokered to acquire a bank was his means to solidify his place in it. Based on the 1993 COA report and as shown in Table 3.3, PhP 115 mn was disbursed from the coconut levy funds to see to the fruition of this deal to buy controlling shares in the First Union Bank (FUB), which was to become the United Coconut Planters Bank (UCPB). Of this total amount, PhP 109.74 mn was used to acquire and establish controlling shares of the bank; and PhP 5.776 million, made as a subscription deposit. (Commission on Audit, 1997, p. 7).

Manapat (1991, pp. 221-229) and Parreño (2003, pp. 134-141) narrate broadly similar accounts of the acquisition of the FUB and its transformation into UCPB. The story goes that one of FUB’s incorporators was Cojuangco’s uncle, Jose Cojuangco Sr. The uncle offered the nephew 72 per cent of the capital stock of FUB in 1974, at a time when the bank was a floundering enterprise for two reasons. First, Parreño (2003, p. 135) proposes that the bank was losing important clients for being identified as an ‘anti-Marcos’ establishment. Cojuangco Sr was the father-in-law of key opposition figure Benigno Aquino, Jr. Second, FUB could not meet a new regulation imposed by the Central Bank requiring commercial banks a minimum capitalisation of PhP 100 mn – a move to force the consolidation of the country’s banks. To effect the sale, Cojuangco entered into an agreement with his uncle to buy said shares in the amount of PhP 27.51 mn. Cojuangco, in turn, entered into an agreement with PCA to sell the same shares to PCA. Maria Clara Lobregat, the president of COCOFED and who

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87 In the case filed by the Aquino government against Cojuangco et al, as described in the section on UNICOM, he was also charged with misappropriating, misusing and dissipating PhP840 million of the CIDF in connection with the development of the Bugsuk Island seedgarden.

88 Aquino’s assassination in 1983 triggered the popular uprising that ultimately brought Marcos out of power in 1986. Aquino was the husband of Corazon Aquino, who in turn was the daughter of Jose Sr, and became the president of the Philippines after Marcos. It was Aquino’s government who oversaw the sequestration orders on the coconut levy assets and filed charges against Cojuangco and COCOFED.
was also a board member at the PCA, signed this agreement on behalf of PCA. The contract price was paid in full by PCA, mobilising the funds from the CCSF collection; Cojuangco did not utilise any of his own private funds and thus merely brokered the deal. (Parreño, 2003, pp. 136-137) Moreover, the contract price was equivalent to twice the market value of bank shares bought. (Manapat, 1991, p. 221; Parreño, 2003, p. 136) In return for brokering the deal, Cojuangco was given 7.2 per cent of the shares bought by PCA ‘in behalf of coconut farmers’. He was also awarded a management contract, renewable every five years and that made him president and chief executive officer of the bank. Finally, he was given the power to designate three of the 11 directors in the board of directors of the bank. (Parreño, 2003, p. 137)

This deal generated a number of rent streams. For Jose Cojuangco Jr, the rents came in the form of above-market purchase price of his shares in what was a floundering bank, sold at double its market price. As for the nephew Cojuangco, he was bestowed shares of ownership in a bank, without mobilising a centavo of his own personal funds and simply by acting as the ‘go-between’ the government and his uncle. In the case filed by the Aquino government against Cojuangco et al in 1986 – the same case filed in the anti-graft court and alluded to in the previous section – he was specifically accused of causing Marcos to issue two presidential decrees related to this deal: PD No. 755, which directly incorporated and thus legalised the private commercial agreement he brokered; and PD No. 1468, which directed PCA to deposit all coconut levy funds collected in UCPB, interest-free.

The significance for Cojuangco of the purchase and operation of the UCPB goes beyond the rent streams described above. For one, whoever controlled the bank controlled access to significant interest-free capital, in the form of coconut levies. These deposits were so vital that in less than eight years after its organisation, it became the third largest bank in the country. (Parreño, 2003, p. 138) Moreover, the bank became the central controlling conduit of the rent settlement as the designated administrator of coconut levy funds from 1975. The power of controlling the settlement thus transferred from the board of PCA to the board of the bank. From 1975 onwards, those at the helm of the bank controlled the uses of the fund and thus determined the rent streams generated. In Chapter 5, I will explain how this signalled the further weakening of COCOFED in the
determination of the rent settlement and the equivalent increase in the power of agents from outside the coconut sector, particularly Cojuangco.

Meanwhile, what did the levy contributors get out of this deal? It could be recalled that the technical rationale for the procurement of the bank was to address the credit problems faced by coconut producers. This was the justification for the bank’s interest-free access to deposits of coconut levies collected from farmers. The idea was to mobilise these deposits as production loans to the levy contributors at preferential rates of interest. But the government audit of UCPB in 1986 (Commission on Audit, 1986b) found that UCPB only provided interest-free loans until 1982. All loans granted to coconut farmers after that were subjected to the prevailing interest rates.89

What about the direct claims of coconut farmers on the rent settlement as ‘residual owners’ of the bank? A fraction of coconut farmers – 1.2 million of the estimated 6 million coconut farmers in 1975 – received shares of stocks in the bank.90 However, under the rules of stock distribution devised by PCA, recipients of UCPB shares of stocks were required to execute proxy power to the bank manager, who was Cojuangco, to vote their shares.91 This meant that the claims of ownership of coconut farmers on the bank had no operational meaning: they delegated all their power to govern their bank to an individual, not even the COCOFED. Moreover, in the case filed by the government, the validity of the process for identifying farmers qualified to own shares of stocks in the bank was questioned. It was pointed out that the defendants in the case – including Cojuangco, Enrile and Lobregat – were at the helm of PCA when it undertook the ‘national survey’ to generate the list of coconut farmers who qualified for the stock distribution programme. The government proposed that it was thus, “no

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89 One of the coconut levy-related court cases filed against Cojuangco pertained to loans given by UCPB to companies associated with or owned by him. See Civil Case No. 33-F, Re: Behest Loans and Contract.

90 In the related case filed by the government in the anti-graft court, it questioned the validity of the process for identifying these farmers. They pointed out that the defendants in the case – including Cojuangco, Enrile and Lobregat – were at the helm of PCA when it undertook the ‘national survey’ to ascertain owners of UCPB. The government proposed that it was thus, “no wonder…that out of a possible 6 million coconut farmer population, COCOFED et al claim the subject of UCPB shares for a measly 1.4 million…” (Sandiganbayan Partial Summary Judgment, 2003, p 29)

wonder…that out of a possible 6 million coconut farmer population, COCOFED et al claim the subject of UCPB shares for a measly 1.4 million…”  

In 1975, PCA distributed 85,773,600 shares of the ‘mother UCPB stocks’ with a par value of PhP 1. PCA did this in two waves. In the first wave, PCA distributed a total of 34,572,794; the remaining stocks were distributed in a second wave. In the case filed by the government in the anti-graft court in 1986, the court noted two further irregularities in the distribution of these shares.  

First, while the first wave of distribution was based on the coconut farmers’ holdings of coconut levy receipt payments, no such rule applied when the second round of stock distribution was undertaken. Instead, those who received stocks in the first round just received additional stocks in proportion to what they were previously given. All undistributed shares thereafter were transferred to COCOFED for distribution to those who they deemed ‘bonafide coconut farmers’. The government described this as a ‘bonanza’ received by a fraction of the coconut farmers, who were given additional stocks without regard to actual coconut levies they paid.  

Second, the stocks were distributed on the basis of holdings of payments of CIF levies not CCSF levies. This was problematic – not to mention a contravention of the law – because the bank was purchased out of coconut farmers’ payments of CCSF levies, and not CIF levies. These were the receipts used because coconut farmers were not given receipts of CCSF payments.  

The anti-graft court questioned whether such a distribution of stocks, undertaken under such dubious conditions, truly advanced the coconut sector’s development, which in turn was how the acquisition of the bank was justified in law. Partly on this basis, the government’s sequestration of said shares -- along with Cojuangco’s shares in the bank -- was upheld by the court.

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In his defence pleadings in the anti-graft court, Cojuangco asserted that it was ‘enterprise’ that had brought about the deal to acquire UCPB95. But from the evidence presented in this section, one could conclude that the ‘enterprise’ Cojuangco exercised – in both brokering the UCPB deal and attaining the contract on Bugsuk Island seed garden – was accompanied by neither productive innovation nor risk-taking attendant to Schumpeterian norms of entrepreneurship, but merely the skill to gain privileged access to resources raised by the state. It thus represented primitive accumulation of the worst kind: with the state expropriating surplus from coconut producers and purposively allocating the resultant rents, without creating the incentives for valuable production.

**Coconut levies as extractions in aid of capital accumulation**

I have presented some of the modes of mobilising coconut levies in the Philippines that generated one-off rent streams, which have been either already distributed or fully dissipated during the time of Marcos. These include, for example, monopsony rents, which ceased when UNICOM was dismantled in 1988. Rents from one-off deals – like rent transfers from the purchase of unprofitable mills – provide another example. However, some uses of coconut levies fomented capital accumulation – and with that continuing wealth streams that extended beyond the life of the levy, and indeed the time of Marcos in power. The investments of coconut levies and the continuing wealth streams they fomented became the object of contestation after Marcos was ousted from power – and discussed at length in Chapter 5. The subjects of contestation have to do with those presented in Table 3.3 as ‘investments’. Some of these enterprises are still operational and have over the years grown their net worth. But much of the continuing value was generated through investments made, using the coconut levy-funded coconut oil mills as investment vehicles, in a blue-chip company in the Philippines: the San Miguel Corporation (SMC). SMC is a business conglomerate whose core business includes food processing, packaging and

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95 In court, Cojuangco’s lawyer says in his defense:

distribution, but has since expanded its interest in real estate development, banking, power, fuel and telecommunications.  

I focus the final part of this chapter on explaining how coconut levy enterprises were mobilised to acquire shares in San Miguel Corporation, in a deal again brokered by Cojuangco. I propose that the use of access to coconut levies as leverage for brokering a corporate deal that had nothing to do with the productive goals of the coconut sector, and that now accounts for a large part of the coconut levies-associated ‘value’ or ‘wealth’ created, is representative of just how enterprises funded by the levies were used as vehicles for private wealth creation and transfer, but not for the benefit of the levy contributors.

*The deal to acquire San Miguel shares*

The bargain brokered by Cojuangco in 1983 to purchase shares of stock in San Miguel was essentially a deal for the control of what has been described as the “crown jewel” of Philippine business: a blue-chip corporation that at that time was the largest food, beverage and packaging firm in the country. (Parreño, 2003, p. 153) Cojuangco utilised his position in UCPB and control he exercised over the coconut levy funds to engineer a deal that vested in him personal control of the corporation.

The deal involved the acquisition of about 47 per cent of the outstanding shares of stock in SMC in 1983. Of this, 31 per cent was acquired through CIIF companies (from hereon, the COCOFED shares) – and thus of which, ‘coconut farmers’ were residual claimants – and 16 per cent (from hereon, the Cojuangco shares), by Cojuangco himself.

Cojuangco acquired his shares from Enrique Zobel in April 1983: about 17 million shares at the market price of PhP 22 per share or a total of PhP 374 million. Parreño (2003, p. 153) suggests that Cojuangco and Marcos wanted more shares in order to obtain control of the corporation. Cojuangco thus

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97 Enrique Zobel was a prominent Filipino businessman (1927-2004) who belonged to the Zobel de Ayala family, recognised as one of the Philippines’ richest and most influential families. He was until 1983, CEO of Ayala Corporation, a conglomerate with businesses in real estate, retail, banking and several other sectors.
negotiated with another group\textsuperscript{98} – that of Andres Soriano, Jr – to purchase a further 33 million of the group’s 43 million shares in SMC. Later that same year, the Soriano group agreed to sell to these shares to UCPB, at PhP 50 per share or more than twice the market price that Cojuangco paid for his own shares. In exchange for agreeing to sell these shares at the total price of PhP 1.65 billion, Soriano retained management control of the corporation for a period of five years after the acquisition. This was effected through a voting trust agreement in which Soriano was vested proxy voting power for both the Cojuangco and COCOFED shares. ("Republic of the Philippines versus Eduardo M. Cojuangco Jr, et al, Re: Acquisition of San Miguel Corporation Shares of Stock," 2007, p. 5) But Soriano also agreed to invest about US$ 45 mn in non-voting preferred shares in UCPB – at that time equivalent to about PhP 500 mn, in exchange for which he was given the vice-chairman seat in the UCPB board. Parreño (2003, p. 159) suggests that Soriano also made a time deposit in UPCB in the amount of PhP 1.15 bn and that he was guaranteed a 15 per cent rate of return on these investments. These capital infusions of Soriano into UCPB thus look to have financed the COCOFED shares acquisition. Meanwhile, Cojuangco was named Vice-Chairman of SMC and given the option to appoint nominees to the SMC board.

In effect, Cojuangco engineered a deal that made it feasible to have a significant portion of SMC shares under the ambit of his influence. To do so, he made it possible for Soriano to gain extraordinary profits or rents from the above-market valuation of his SMC shares. And even as it may be proposed that Soriano funded the purchase of his own shares, he did so with a guaranteed return on his investments in UCPB. Moreover, he secured a deal that allowed him to retain control of the corporation for at least five more years after the finalisation of the sale of his group’s shares. Moreover, with Cojuangco’s entry in SMC, the company began to get favours from the Marcos government in the form of lowered excises taxes on beer, one of SMC’s main products. ("Republic of the Philippines versus Eduardo M. Cojuangco Jr, et al, Re: Acquisition of San Miguel Corporation Shares of Stock," 2007, p. 8)

Meanwhile, Cojuangco secured his access to the SMC business. And with Soriano passing away in February 1984, he gained control of the corporation as

\textsuperscript{98} Group includes Andres Soriano Sr, Francisco Eizmendi Jr, Benigno Toda Jr, Eduardo Soriano, Antonio Roxas and Antonio Prieto (Parreño, 2003, p. 158).
chief executive and president of the board sooner than the five year-grace period for the Soriano group specified in the voting trust agreement.

The ACCRA lawyers, who I have shown earlier were also behind the legal engineering of UNICOM, were also given the task of setting up the legal infrastructure for the transfer and acquisition of the COCOFED shares. In a nutshell, the lawyers set up the corporate infrastructure to allow for the acquisition of the shares through a PhP 1.656 bn-loan made by ‘farmer-owned companies’ from UCPB. In particular, ACCRA set up 14 holding companies solely for acquiring and holding said shares. UCPB then loaned the six CIIF oil mills the amount of PhP 976 million. The mills, in turn, invested PhP 247 million as equity in the 14 holding companies. They re-lent the remaining PhP 729 mn to these companies. Meanwhile, UCPB directly loaned out PhP 680 mn to the 14 holding companies.99 The system of financing was made deliberately complex and obscure, Parreño (Parreño, 2003, p. 160) suggests, to hide the identity of the shares’ ‘buyer’.

Meanwhile, the Cojuangco shares were placed in the name of three corporations.100 Interestingly, the articles of incorporation had the name of Jose Concepcion, a lawyer from ACCRA as owner of 99.6 per cent of these corporations’ shares. Concepcion later declared in court that he was just a ‘nominee stockholder’; and the corporations were ultimately identified as Cojuangco corporations. (“Republic of the Philippines versus Eduardo M. Cojuangco Jr, et al, Re: Acquisition of San Miguel Corporation Shares of Stock,” 2007, p. 6) Concepcion also averred that he signed a voting trust agreement that gave Cojuangco the right to vote the shares bought in the name of said corporations.

In a pre-trial brief of Cojuangco, he appears to have admitted funding the procurement through the UCPB loans and CIIF oil mill advances. The brief was used in the case filed against him on the matter of the SMC shares. There he

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99 Parreño says that UCPB tried to remove direct exposure to the companies by later on lending the PhP680 million to 10 copra trading companies owned by CTCs, who then re-lent the money to the holding companies. This enabled the companies to re-pay their debt to UCPB and transfer the same to the CTCs (Parreño, 2003, pp. 152-166).
100 Meadow Lark Plantations, Silver Leaf Plantations and Primavera Farms.
proposed to present witnesses and records to show that he financed the purchase of the shares through UCPB loans and CIIF oil mills advances.\textsuperscript{101}

\textit{The burden of the deal: the COCOFED shares}

What is germane to my analysis is the question of who ultimately bore the burden of the investments in the SMC stocks; and whether said investments led to palpable returns to the sector. The Philippine government averred, in the case it filed in the anti-graft court in 1986, that the deal engineered by Cojuangco in the acquisition of both his shares and the COCOFED shares represented a misuse of coconut levy funds – implying that coconut levy funds were directly used for the purchase of these shares.\textsuperscript{102} This extrapolation is difficult to substantiate given that nowhere in the COA reports I have closely examined in this chapter does it show that coconut levy funds were directly disbursed for financing this deal. However, I will explain below how there is enough evidence to suggest that coconut farmers ultimately bore most of the burden of this deal.

This point is easier to substantiate with reference to the COCOFED shares. It is important to underline that the cost of investment here was not just the price of acquiring the stocks, but also the carrying cost of the loan used to finance the acquisition. For example, in 1997, COA found that the total annual interest payments from 1983 to 1996, on the above-described loans made by oil mills to finance the deal, amounted to PhP 5.2 bn. PhP 4.07 bn of this was paid using cash dividends from the stocks (PhP 2.11 bn), the sale of some shares of stocks (PhP 500 mn), and income from oil milling operations (PhP 1.46 mn).

(Commission on Audit, 1997, p. 28) This means that for the first thirteen years since the deal was brokered by Cojuangco, the dividends from the investment were not enjoyed by the residual claimants of the stocks – the coconut farmer-owned oil mills – but simply used to finance the loan made to purchase the stocks. Worse, oil milling income was also re-invested into the sector but used to

\textsuperscript{101} Based on information from the following court documents: "Republic of the Philippines vs. Sandiganbayan (First Division), Eduardo Cojuangco Jr., et al. Re: Acquisition of San Miguel Corporation Shares of Stocks - Dissenting Opinion of Justice Brion," 2011, pp. 21-26; "Republic of the Philippines vs. Sandiganbayan (First Division), Eduardo Cojuangco Jr., et al. Re: Acquisition of San Miguel Corporation Shares of Stocks - Dissenting Opinion of Justice Carpio Morales," 2011, pp. 32-42

\textsuperscript{102} Based on information from the following court documents: "Republic of the Philippines versus Eduardo M. Cojuangco Jr, et al, Re: Acquisition of San Miguel Corporation Shares of Stock," 2007, p. 5
service the debt. A high ranking CIIF official that I interviewed in 2009\textsuperscript{103} asserted that it was only in 2004 that the debt was completely paid by the mills and dividends could be ploughed back to the sector. At this point, the shares of stock had already been sequestered and deemed government-owned, and thus coconut farmer groups had to negotiate the uses of the dividends with the executive agencies – the subject of Chapter 5.

In summary, the risk and cost of financing the COCOFED shares were ultimately borne by coconut farmers through their ownership of the enterprises that procured the shares. While their investments may have led to the accretion of value (i.e. in the form of the increasing market value of the SMC shares), I propose they were detrimental to coconut levy contributors for two reasons. \textit{First}, the investment in COCOFED shares did not lead to palpable benefits to the coconut sector, in terms of re-investments of profit into productivity. Instead, returns from the investment in the form of dividends, and even income from coconut oil mills were used to service the cost of the investment in the form of interest payments. \textit{Second}, even if the investment led to the creation of wealth–i.e., the current market value of the COCOFED shares – the rent settlement that obtained was one where coconut producers had tenuous claims on the value created. In the end, COCOFED lost its claim on the stocks in a court decision in 2004, which will be explored in detail in Chapter 5.

\textit{Cojuangco shares: ill-gotten wealth?}

In regard to the Cojuangco shares, the bone of contention is whether personal loans he made from UCPB to finance the acquisition of his shares were constitutive of illegally obtained wealth acquired through abuse of authority in the use of coconut levies. In 2011, the Supreme Court decided that Cojuangco’s pre-trial briefing statement in which he proposed to present witnesses and records to prove that he borrowed money from UCPB and got advances from coconut oil mills, did not constitute as admission that he actually incurred the loans and obtained the advances, only a proposal to provide evidence.\textsuperscript{104} Two justices provided dissenting opinions. Justice Brion, said

\textsuperscript{103} Interviewed on May 15, 2009 in the Philippines.

\textsuperscript{104} Based on information from the court document: "Republic of the Philippines vs. Sandiganbayan (First Division), Eduardo Cojuangco Jr., et al. Re: Acquisition of San Miguel Corporation Shares of Stocks ", 2011, p. 61
“It is ridiculous for a party to stipulate documents and witnesses he would present as evidence if these were not intended to support his position … At the very least Atty. Mendoza’s statement [Cojuangco’s lawyer] was an admission that UCPB loans were used as funding to purchase a portion of the subject SMC shares.”  

Justice Carpio Morales concurred with Brion, saying the statements were a clear admission that the Cojuangco shares were paid, either in whole or part, out of loans and credit advances from the UCPB and CIIF Oil Mills. Moreover, he opines that this was a violation of his fiduciary obligations as administrator of UCPB. According to him:

“…his acquisition of the SMC shares amounted to his depriving the coconut farmers of a business opportunity which rightfully belonged to them, i.e., access to the coco levy funds, and his gain profits therefrom to the detriment of the intended beneficiaries. By no stretch of one’s imagination can it be assumed that the purchase of SMC shares directly or even indirectly redounded to the benefit of coconut farmers.”

Moreover, Carpio Morales argues that Cojuangco violated the General Banking Law, which prohibited officers of a banking institution to directly or indirectly borrow any deposits of funds except with the written approval of all directors of the bank. He said Cojuangco did not use the trial to show he obtained such authority from UCPB directors when he admitted to have obtained loans from the bank.

Meanwhile, Parreño (2003, pp. 163-164) cites a document that does not only substantiate the claim that Cojuangco borrowed money from UCPB to finance the purchase of his SMC shares but that he actually mobilised UCPB, UNICOM and CIIF mills income to pay for carrying costs of his personal loan in 1983 and 1984. The document is an affidavit of a human rights lawyer, Potenciano Roque, who gained access to presidential vaults in Malacanang, the Philippines presidential residence and office, soon after Marcos fled it in February 1986.

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105 Based on information from the court document: "Republic of the Philippines vs. Sandiganbayan (First Division), Eduardo Cojuangco Jr., et al. Re: Acquisition of San Miguel Corporation Shares of Stocks - Dissenting Opinion of Justice Brion," 2011, pp. 23-24

106 Based on information from the court document: "Republic of the Philippines vs. Sandiganbayan (First Division), Eduardo Cojuangco Jr., et al. Re: Acquisition of San Miguel Corporation Shares of Stocks - Dissenting Opinion of Justice Carpio Morales," 2011, p. 34

107 Based on information from the court document: "Republic of the Philippines vs. Sandiganbayan (First Division), Eduardo Cojuangco Jr., et al. Re: Acquisition of San Miguel Corporation Shares of Stocks - Dissenting Opinion of Justice Carpio Morales," 2011, p. 66

108 Based on information from the court document: "Republic of the Philippines vs. Sandiganbayan (First Division), Eduardo Cojuangco Jr., et al. Re: Acquisition of San Miguel Corporation Shares of Stocks - Dissenting Opinion of Justice Carpio Morales," 2011, p. 66
Parreño claims that documents\textsuperscript{109} Roque found in Marcos’ room revealed that the loans used to acquire both the Cojuangco and COCOFED shares were being amortised as a single loan. The document indicated that annual interest costs were estimated at PhP 300 mn, based on a loan with the base figure of P2.02 bn, which in turn is the sum of price of the COCOFED shares and the Cojuangco shares. These costs were to be funded out of estimated annual incomes of UCPB (PhP 130 mn), UNICOM (PhP 50 mn) and CIIF mills (PhP 20 mn), as well as the dividends from the acquired SMC shares.

Based on the expert opinion of two Supreme Court judges and the Roque affidavit, I therefore propose that there is plausible basis to claim that Cojuangco, at the very least, obtained resources from coconut levy funded enterprises to finance the purchase of his SMC shares and having done so, utilised his position in the organisations controlling the rent settlement to raise the resources for funding his personal shares. At worst, levy contributors bore part of the burden of financing this investment, to the extent that incomes of levy funded enterprises were used to settle the personal obligations of Cojuangco in relation to the UCPB loan he used to acquire personal shares.

In closing, what I have shown in this section is that the deal brokered by Cojuangco to secure controlling shares in SMC is iconic of the use of coconut levies in the process of surplus extraction for capital accumulation. This process was not only completely delinked from building up productive capacity in the coconut sector, but served to benefit an associate of president Marcos.

**Conclusion**

I have explained in this chapter the main features of the rent settlement associated with coconut levies in the Philippines. I explained the main ways by which coconut levy funds were mobilised. Of the PhP 9.7 bn collected, PhP 7 bn was fully expended as investments that failed, price subsidy programmes or one-off projects and/or deals that did not generate further income streams or profits. Meanwhile, PhP 2.7 bn was invested in assets that generated value and/or income streams even after the levies had ceased to be collected.

\textsuperscript{109}These include “several sheets of accounting computations of the amount of the coconut levy and its disbursements, including a sheet showing the funding scheme for the acquisition of 50 million San Miguel shares” (Parreño, 2003).
I show how the captured rent settlement profited a presidential associate the most. He did not only obtain purposively allocated rent transfers but was able to accumulate capital by leveraging his authority to control the levies. Meanwhile, there is no compelling evidence to suggest that COCOFED acted in the best interests of its members or that the same motivated its leaders. There was no effort to systematically plough back rents to the sector. The welfare and productivity programmes represented a miniscule portion of levies disbursed. The bank that was set-up to provide credit to farmers became the node for administering a monopoly that extracted surplus from them. And the greatest value created associated with the coconut levies had to do with a financial/corporate deal that had nothing to do with production in the coconut sector.
Chapter 4. ‘From the producers, for the producers’: The Colombia coffee rent settlement as counterpoint

In this chapter, I present the rent settlement associated with coffee levies in Colombia as a counterpoint to that of the coconut levies in the Philippines. Explaining the rent settlement in Colombia is a relatively straightforward task because the history and uses of the coffee levies are better documented than those of coconut levies. There exists in Colombia a rich historiography\textsuperscript{110} of coffee: its production, trade, and governance. The FEDECAFE generated their own historical archives – including the Revista Cafetera, a trade magazine that began being published soon after the federation was founded in 1927 and regularly featured organisational agreements, including annual budgets and congress proceedings. In this chapter, I explore these historical and archival resources to analyse how coffee levies were mobilised and thereby present a synthesis of the rent settlement that I can compare with that of the Philippines.

In this chapter, I highlight two features of the rent settlement in Colombia that are in sharp contrast to the Philippine case: the breadth of resources made available for the use of coffee producers through the FEDECAFE; and the key modes of rent mobilisation showing how coffee producers were the chief beneficiaries of the rent settlement. These features show that the pronounced justification for the extraction of coffee levies in Colombia was not the mere formality that it was in the case of coconut levies in the Philippines. As I have shown in Chapter 3, the subversion of the avowed goals of coconut levies in the Philippines meant that piecing together the story of the rent settlement associated with the coconut levies entailed comparing their \textit{de jure} and \textit{de facto} uses, explaining the means by which they were subverted and analysing who benefitted from the manipulation of the legal goals of the levies. In contrast, the defence and protection of the coffee sector in Colombia were the enduring logic that governed the actual mobilisation of the coffee levies, from the time the first

coffee levy – the general tax on export – was collected in 1927 until 2000. Following this logic, the levies were deployed for the purposes of stabilising domestic coffee prices, maximising coffee producers’ income and protecting their welfare. These objectives were achieved by mobilising the coffee levies to enable market interventions that regulated prices and thus stabilised producer income, to finance investments promoting production and international competitiveness, and to establish a range of Federation-owned enterprises within and beyond the sector. While these bear familiar echoes to the Philippine story that I have already told, in the case of Colombia, the coffee producers, through the FEDECAFE, had a clear and enduring claim on the emergent rent streams, which coconut producers in the Philippines never had.

In this chapter, I relate the story of the Colombian rent settlement in three sections. In the first section, I provide an overview of the resources extracted through the use of the state’s coercive power to tax but made available for the use of the FEDECAFE. I showcase the breadth of resources that the federation could mobilise. To give an indication of how the levies were actually mobilised, I first review the uses of the levies in the early years of the federation, from 1927 to 1940, when the levies directly entered the federation’s budget as an income stream. Two main uses of the funds after 1940 are then explained in the second and third sections of this chapter. In 1940, the National Coffee Fund (Fondo Nacional del Café, from here on the Coffee Fund) was established and became the main mechanism for mobilising coffee levies. Though the coffee levies were no longer directly transferred to the federation's budget as an income stream, the federation still exercised control over the uses of the levies as the Coffee Fund's administrator. In the second section, I explain the way levies were used as a resource for effecting market interventions that at first were targeted at regulating the export market, but later on effected to stabilise producer income. In the third section, I describe how the levies and the revenues arising from their mobilisation in the Federation’s marketing board operations were invested in support of the goals of stabilisation and enhancing producer income and welfare.

**Purposive rent allocation for a federation: an overview**

Explaining the modes of mobilisation of coffee levies in Colombia necessarily begins with making sense of the complex set of taxes collected from the sector.
In the case of the coconut levies in the Philippines, these were constituted by a limited set of specific taxes borne by producers, nominally allocated for use by the coconut sector, collected over a relatively limited period of time and whose uses evolved quickly over the same time period. In contrast, coffee levies in Colombia were constituted by a complex range of taxes, some of which are still being collected; their uses, evolving with the needs of the sector and – if not always perfectly synchronised\textsuperscript{111} – with international market conditions. In the Philippines, I estimated the levy collections by utilising the audit data on how they were used. In Colombia, I did not need to take this circuitous route: the relevant tax collections were publicly reported annually and estimating the levies from this was thus straightforward. I therefore begin the story of the coffee rent settlement in Colombia, with the taxes that constituted the levies: how much did the federation really control and how did the levies evolve over time to finance the operations of the FEDECAFE?

\textit{Levies as purposive surplus extraction}

From 1927 to 2000 coffee producers were levied a range of taxes\textsuperscript{112}, collected in the first instance from exporters but borne by producers, to whom the burden of the taxes was ultimately passed on as a cost deducted by exporters from their offer price. Data for the period 1950 to 1996, collected by Junguito and Pizano (1997, pp. 309, 315), suggest that coffee taxes represented an average of about 24 per cent of the coffee producers’ income during this period. As can be seen in Figure 4.1, the tax burden was all the time increasing from 1950 to the 1970s, and peaked in 1979. Also based on Junguito and Pizano’s data, these taxes accounted for an average of about 7 per cent of total government tax revenues in the period from 1950 to 1996. The sector’s average share in government’s taxes was about 10 per cent in the 1950s, 1960s and 1970s, but has thereafter significantly decreased.

\textsuperscript{111}This point was made by La Comision de Ajuste de la Institucionalidad Cafetera, in an influential report (Ramirez, Silva, Valenzuela, Villegas, & Villegas, 2002) examining the future of Colombian coffee policies in the face of changing world market conditions, rooted in the collapse of the International Coffee Agreement in 1989, and the chronic overproduction that now afflicts the sector, with the expansion of production that followed in countries like Vietnam and Brazil.

\textsuperscript{112}The characteristics, nature and history of these taxes are discussed comprehensively by Junguito and Pizano (1997, pp. 249-320), who are the main sources for the descriptive material on the taxes presented in this sub-section.
The full range of taxes collected from Colombian coffee producers are presented in Table 4.1. In this section, I will first provide a macro and long-run perspective of the 'coffee levies', the types and portions of the coffee taxes collected from 1927 to 2000 that were retained for use by the sector.

The coffee levies in Colombia were mostly constituted by export taxes of various forms – paid in cash based on volume or value, and in kind as retention quotas. They were ‘taxes’ in name only as they were purposively collected to finance the activities of the FEDECAFE and never fully channelled to the treasury for redistribution to the wider economy. Table 4.1 reveals how the coffee sector fully retained all but three of the export taxes imposed on the sector: the tax on international payments levied from 1957 to 1962, various exchange rate differential regimes in the 1960s and 1970s, and the *ad valorem* tax levied from 1967 to 1991. Of the sector-retained taxes, those paid in monetary form – the specific and various types of *ad valorem* taxes – were either...
directly transferred to the organisational budget of the FEDECAFE\textsuperscript{113} or channelled as a financial resource for the Coffee Fund once it was established. From 1940 onwards, the Coffee Fund, in turn, transferred resources for the direct use of the FEDECAFE, but was primarily mobilised to regulate internal coffee market conditions as well as Colombia’s participation in the external coffee market.

Meanwhile, the retention quotas applied to export-grade and low-grade coffee – effectively taxes paid in kind – were stocks accumulated by the FEDECAFE, enabling them to engage in marketing operations in the domestic and international coffee markets, and thereby regulate prices and producers’ income. In a nutshell, the general tax on coffee exports collected from 1927 to 1972, two taxes on international receipts collected from 1940 to 1946, the tax on low grade coffee collected from 1940 to 1991, the retention duty collected from 1958 to the present and the coffee contribution collected from 1991 to present were all ‘forced contributions’ from producers, collected expressly to finance the activities of the FEDECAFE in protecting and defending the coffee sector.

Aside from these export taxes, coffee levies also included types of taxes, which quite tellingly were also collected from the coconut sector in the Philippines but fully remitted to the national coffers (and thus not part of coconut levies). In Colombia, the coffee sector retained a part of even these types of taxes. Table 4.1 shows the taxes imposed, for which the coffee sector shared proceeds with the Colombian government – mostly taxes collected in line with macroeconomic objectives and channelled to form part of the national foreign exchange reserves. These included the \textit{ad valorem} tax collected from 1957 to 1991, and implicit taxes embodied in a number of exchange rate differential regimes at various periods between 1935 and 1980.\textsuperscript{114} Indicative of the power possessed by the FEDECAFE, the nominal rates of these 'shared taxes' either progressively declined or the Federation successfully negotiated an increased

\begin{flushright}
\textsuperscript{113} As will be shown in forthcoming sections, these were transferred by the Coffee Federation to be channelled to Municipal Committees, whose shares in the levies were determined by levels of production.
\end{flushright}

\begin{flushright}
\textsuperscript{114} Proceeds from the tax on international trade collected from 1957 to 1962 were fully remitted to the national government. During this period, the government wanted to capture part of the windfall from a significant devaluation of the Colombian peso, which fell from Co$\ 2.50 to 6.70 to the US dollar (Junguito & Pizano, 1997, p. 289). In the first three years of this period, I calculate based on data from Junguito and Pizano (1997, p. 315) that government enjoyed from S6 to S4 per cent of the total coffee taxes collected.
\end{flushright}
### Table 4.1 Taxes collected from the coffee sector: period collected, rate of taxation and recipients

<table>
<thead>
<tr>
<th>Taxes collected</th>
<th>Period collected</th>
<th>Description</th>
<th>Recipient</th>
</tr>
</thead>
<tbody>
<tr>
<td>General tax on coffee exports (impuesto general de exportación de café)</td>
<td>1927 to 1972</td>
<td>A specific export tax of Col$0.10 per 60 kilo-sack exported (1927-1937), increased to Col$0.25 per 70 kilo-sack exported (1937-1972)</td>
<td>FEDECAFE</td>
</tr>
<tr>
<td></td>
<td>1935 to 1939</td>
<td>Impuesto de giros, an ad valorem export tax applied to 12% of the value of exports, exchange at a lower exchange rate</td>
<td>FEDECAFE, Government</td>
</tr>
<tr>
<td></td>
<td>1940 to 1946</td>
<td>Impuesto de giros, an ad valorem export tax of Col$0.05 per US$ of export sales</td>
<td>National Coffee Fund</td>
</tr>
<tr>
<td>Tax on international receipts</td>
<td>1940 to 1944</td>
<td>Impuesto de valorización, an ad valorem export tax that functioned as an exchange rate differential; effected through forced sale of export receipts in excess of government-determined base price to Central Bank at a discounted exchange rate, equivalent to 43% rate of taxation</td>
<td>National Coffee Fund</td>
</tr>
<tr>
<td></td>
<td>1957 to 1962</td>
<td>Impuesto de giros, an ad valorem export tax of 9 to 15% of the value of coffee exports</td>
<td>Government</td>
</tr>
<tr>
<td>Tax on low-grade coffee (impuesto de pasillo y ripio)</td>
<td>1940 to 1991</td>
<td>A specific export tax of Col$ 5 per 70 kilos of sub-premium coffee exported (1940), amended as a retention quota on low-grade coffee equivalent to 6% of export volume sold at a fixed price (or its corresponding value paid to) to the federation (1941-1991)</td>
<td>FEDECAFE, National Coffee Fund</td>
</tr>
<tr>
<td>Retention duty (retencion cafetera)</td>
<td>1958 to present</td>
<td>A retention quota on export-grade coffee, ranging from 4 to 85% of export volume</td>
<td>National Coffee Fund</td>
</tr>
<tr>
<td>Ad valorem tax (impuesto de ad valorem)</td>
<td>1967 to 1991</td>
<td>An ad valorem export tax, ranging from 6.5 to 26% of the coffee export surrender price</td>
<td>Government, FEDECAFE, National Coffee Fund</td>
</tr>
<tr>
<td>Coffee contribution (contribucion cafetera)</td>
<td>1991 to present</td>
<td>An ad valorem export tax, 5% of representative per pound price of café suave de colombiana plus a specific tax of US$0.02 per pound of exported coffee (when the price of coffee is more than US$0.60 per pound until 2005, and more than US$0.95 from 2006)</td>
<td>National Coffee Fund</td>
</tr>
<tr>
<td></td>
<td>1951 to 1955</td>
<td>A lower exchange rate of Col$1.95 per US$ imposed on 75% of coffee export revenues, with the rest exchanged at the official exchange rate of Col$2.50; the share of revenues exchanged at the lower rate was to decrease progressively until it reached 0%</td>
<td>National Coffee Fund</td>
</tr>
<tr>
<td>Exchange rate differentials</td>
<td>1958 to 1967</td>
<td>An obligation for coffee exporters to exchange forex earnings at a pre-determined exchange rate, changed periodically</td>
<td>National Coffee Fund, Government</td>
</tr>
<tr>
<td></td>
<td>1977 to 1980</td>
<td>A system for discounting forex from coffee exports</td>
<td>Government</td>
</tr>
</tbody>
</table>

Source of basic data: Junguito and Pizano (1997, pp. 36, 142, 280-293)
share in the proceeds. In the case of the *ad valorem* tax, the rate of taxation declined from a high of 26.5 per cent in 1967 to 6.5 per cent in 1984\textsuperscript{115}, even as the share of the FEDECAFE, 4 per cent of this rate, remained unchanged throughout. In summary, ‘coffee levies’ in Colombia were thus constituted by a range of explicit taxes purposively allocated for the exclusive use of the coffee sector in addition to proceeds from other taxes which the sector shared with the national government.

### Table 4.2 Distribution of coffee taxes collected, by type (in per cent)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>General tax on export</td>
<td>25.0</td>
<td>4.2</td>
<td>50.0</td>
<td>2.3</td>
<td>0.1</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Taxes on international receipts</td>
<td>62.5</td>
<td>92.6</td>
<td>0.0</td>
<td>21.1</td>
<td>10.3</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Tax on low-grade coffee</td>
<td>12.5</td>
<td>3.2</td>
<td>50.0</td>
<td>31.0</td>
<td>4.2</td>
<td>1.9</td>
<td>1.8</td>
<td>2.1</td>
</tr>
<tr>
<td>Exchange rate differential</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>39.5</td>
<td>33.2</td>
<td>3.0</td>
<td>0.8</td>
<td>0.0</td>
</tr>
<tr>
<td>Retention duty</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>6.1</td>
<td>37.2</td>
<td>53.7</td>
<td>74.0</td>
<td>30.6</td>
</tr>
<tr>
<td><em>Ad valorem</em> tax</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>15.0</td>
<td>41.3</td>
<td>23.4</td>
<td>13.2</td>
</tr>
<tr>
<td>Coffee contribution</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>54.1</td>
</tr>
</tbody>
</table>

Source of basic data: Junguito and Pizano, 1997, pp. 309-310

Not only did the coffee sector in Colombia have a wide base of tax sources constituting the levies, it also retained a significant proportion of the surplus extracted through the taxes. This could be seen by analysing the distribution of coffee taxes collected from 1927 to 1996, as shown in Table 4.2. The table reveals that there were only three decades when the types of taxes collected that dominated the collections (i.e. exchange rate differentials, tax on international payments and *ad valorem* tax) were those for which the coffee sector shared proceeds with the government: the 1930s, 1950s and 1960s. In particular, it could

\textsuperscript{115} Meanwhile, The *ad valorem* tax collected from 1967 was initially set at a rate of 26 per cent of the coffee surrender price, reduced by .25 per cent per month from 1967 to 1968. Various decrees were passed after that to further lower the rate to: 20 per cent (1969-1974); 19 per cent, decreasing by 1 per cent annually until 1979; 15.2 per cent (1980); 11.3 per cent (1972); 8.3 per cent (1983), and 6.5 per cent (1984-1991) (Junguito & Pizano, 1997, pp. 289-290).
be seen that in the early years of the Federation, between 1927 and 1940, taxes on international receipts accounted for the lion's share of the coffee taxes. In the 1950s, exchange rate differentials and taxes on international payments together accounted for more than half of the coffee taxes collected. Finally, in the 1960s, exchange rate differentials and the *ad valorem* tax, together accounted for almost half the collections. In all the other decades, much of what was collected was retained by the sector.

**Figure 4.2 Distribution of taxes on coffee between the national government and the coffee sector, in per cent 1950-1996**

That the coffee sector retained a significant portion of the funds extracted from it is also exhibited by Figure 4.2, a graphical representation of the 'coffee levies', which shows the division of coffee taxes collected between the national government and the coffee sector in the period 1950-1996. The figure shows that, during this period, the sector retained for its own use more than half of the taxes on coffee producers, except for a number of years in the 1950s and 1960s (i.e. the periods 1951-1954, 1957-1960, 1964-1966) – notably during periods when, as explained above, exchange rate differentials were in place and/or the proceeds from the *impuesto de giros* were fully remitted to the government. Put another way, in 35 of the 46 years between 1950 and 1996, more than half of the taxes
imposed on the sector were actually coffee levies retained by the sector. In particular, based on the data from Junguito and Pizano (1997, p. 315), I calculate that the sector retained an increasing share of the collections, with ten-year average shares of 53 per cent in the 1950s, 64 per cent in the 1960s, 86 per cent in the 1980s, and 93.8 in the 1990s. Given that before the period covered by the data presented in Figure 4.2, all but one tax – the impuesto de giros collected from 1935 to 1937, which was shared between the government and the sector – were remitted fully to the coffee sector, one can conclude that throughout the period under study in this dissertation, the coffee producers retained a major and increasing portion of the taxes collected from them.

_The early days of rent mobilisation: setting what would endure_

The period before the establishment of the Coffee Fund covers the early years of the FEDECAFE from 1927 to 1940, during which the coffee levies – as could be seen in Tables 4.1 and 4.2 – were constituted by the general export tax, a temporary tax on international payments, and an early version of the tax on low-grade coffee. These levies were remitted to the FEDECAFE and entered its budget as an income stream, to which it gained rights in exchange for a range of deliverables – including the promotion of Colombia's coffee in world markets, and the provision of specified services to growers – that the federation rendered to "protect and defend the coffee industry". This arrangement was enshrined as a set of obligations in legally binding and renewable contracts covering a period of ten years signed by both the government and the FEDECAFE. The first of these contracts was signed in 1928, and every ten years since. This contractual arrangement will be analysed at length in Chapter 6 as a key institution for regulating the rent settlement in Colombia, but at this stage I would like to flag how this defining feature was clearly in place in the earliest days that the FEDECAFE mobilised the coffee levies.

Table 4.3 features the budget allocations made by the federation from 1930 to 1940 and approved by its National Congress. It provides a window to see how the FEDECAFE mobilised the state-engineered income streams it was given

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116 I collated the figures in this table from the data featured in the acuerdos or agreements that the federation reached in their annual National Congress, convened annually and the highest policy-making body of the FEDECAFE.
legal claim to during the early years of the federation. In Colombia, the federation did not only have claims on the levies, but also all the income generated through the mobilisation of the same. The budget allocations featured in the table are thus based on both expected collections of levies and relevant incomes generated – for example, income from the operation of the federation’s warehouses and experimental farms, all of which were established through the levies. The data presented here reveal two sets of important insights: the first, revelatory of how the FEDECAFE responded to the conditions specific to the period; the other, of the enduring features of rent mobilisation that were to be found beyond this period.

The key challenge faced by the FEDECAFE in its early days and one of the precipitating factors for producers to agree to what Junguito (1996, pp. 3-4) calls "self-imposed taxes" was the slump in international prices that the sector faced: first, in the aftermath of the First World War, and then the diminution of prices during the Great Depression in the United States. After an unprecedented expansion of the sector from 1875 to 1925, by which time coffee exports accounted for 75 per cent of Colombia's total exports, the early part of the 1920s saw a tumbling of international coffee prices. While prices partially recovered from then until the mid-1920s, these suffered from a decline in 1928 to 1929 due to a bumper harvest in Brazil (Palacios, 1980, p. 214), and a sustained decline during the Great Depression in the 1930s (Junguito, 1996, pp. 3-4), a period when sources of credit and financing also dried up.

Coffee producers thus began to recognise their vulnerability to external market conditions – a vulnerability sharpened by two additional problems: (1) the coffee sector (much like the Philippine coconut sector) did not have warehousing facilities, technical support or access to credit facilities; and (2) foreign-owned trading firms dominated the post-harvest market and captured as much as 50 per cent of the external price of coffee. (Junguito & Pizano, 1997, p. 3) The data in Table 4.3 suggests the means by which the FEDECAFE sought to deal with some of these problems, among which I would like to highlight four key trends.

First, it could be seen from the table that the federation was utilising departmental committees as a key node for the mobilisation of levies. Data in
Table 4.3 indicates that allocations for the committees were increasing except in 1936-1938, which was a period of declining international prices. The role these committees played in mobilising levies for investments will be discussed at length later in Chapter 6, but here it is worth noting how – in contrast to the Philippine case study – local chapters of the federation were active participants in the mobilisation of levies from the earliest days of the FEDECAFE.

Table 4.3 Budget allocations made by the FEDECAFE: 1930-1940

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>FEDECAFE Departmental Committees</td>
<td>213,379</td>
<td>259,406</td>
<td>252,140</td>
<td>190,000</td>
<td>210,000</td>
<td>560,000</td>
</tr>
<tr>
<td>Research development and extension</td>
<td>31,000</td>
<td>90,000</td>
<td>85,000</td>
<td>37,000</td>
<td>144,920</td>
<td>423,600</td>
</tr>
<tr>
<td>Establishment and maintenance of departmental farms</td>
<td>31,000</td>
<td>70,000</td>
<td>60,000</td>
<td>25,000</td>
<td>79,600</td>
<td>135,600</td>
</tr>
<tr>
<td>Estacion Central de Investigacion</td>
<td>-</td>
<td>20,000</td>
<td>25,000</td>
<td>12,000</td>
<td>65,320</td>
<td>250,000</td>
</tr>
<tr>
<td>Allocation for FEDECAFE agronomists</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>38,000</td>
</tr>
<tr>
<td>Public health campaign</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>180,000</td>
<td>500,000</td>
<td></td>
</tr>
<tr>
<td>Warehousing facilities</td>
<td>30,000</td>
<td>90,000</td>
<td>302,712</td>
<td>461,800</td>
<td>300,000</td>
<td>1,060,000</td>
</tr>
<tr>
<td>Promotional activities</td>
<td>160,000</td>
<td>195,000</td>
<td>192,000</td>
<td>165,000</td>
<td>140,000</td>
<td>1,160,000</td>
</tr>
<tr>
<td>Office and advertisement costs, international</td>
<td>150,000</td>
<td>170,000</td>
<td>170,000</td>
<td>150,000</td>
<td>120,000</td>
<td>1,120,000</td>
</tr>
<tr>
<td>Revista Cafetera, bulletins and other internal propaganda</td>
<td>10,000</td>
<td>25,000</td>
<td>22,000</td>
<td>15,000</td>
<td>20,000</td>
<td>40,000</td>
</tr>
<tr>
<td>Production-related expenditures</td>
<td>80,000</td>
<td>35,000</td>
<td>95,000</td>
<td>25,000</td>
<td>149,000</td>
<td>130,000</td>
</tr>
<tr>
<td>To develop production in departments with smallholders</td>
<td>30,000</td>
<td>35,000</td>
<td>35,000</td>
<td>25,000</td>
<td>30,000</td>
<td>60,000</td>
</tr>
<tr>
<td>Credit Agrario and credit cooperatives</td>
<td>50,000</td>
<td>-</td>
<td>60,000</td>
<td>-</td>
<td>100,000</td>
<td></td>
</tr>
<tr>
<td>Anti-pest campaign</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>9,000</td>
<td>20,000</td>
</tr>
<tr>
<td>Establishment of thresher in selected localities</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>10,000</td>
<td>50,000</td>
</tr>
<tr>
<td>Information system</td>
<td>-</td>
<td>1,000</td>
<td>2,000</td>
<td>3,000</td>
<td>4,000</td>
<td>34,000</td>
</tr>
<tr>
<td>Subscription to international data, magazines</td>
<td>-</td>
<td>1,000</td>
<td>2,000</td>
<td>3,000</td>
<td>4,000</td>
<td>10,000</td>
</tr>
<tr>
<td>Library services (encuadernaciones, archivo, libros)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>4,000</td>
</tr>
<tr>
<td>Censo Cafetero</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>20,000</td>
</tr>
<tr>
<td>FEDECAFE National Congress costs</td>
<td>-</td>
<td>-</td>
<td>12,000</td>
<td>-</td>
<td>12,000</td>
<td>30,000</td>
</tr>
<tr>
<td>Office and administrative costs</td>
<td>113,320</td>
<td>149,400</td>
<td>156,400</td>
<td>155,700</td>
<td>158,000</td>
<td>353,000</td>
</tr>
<tr>
<td>Office costs (incl. rent, office supplies, furniture, etc)</td>
<td>34,320</td>
<td>34,500</td>
<td>22,200</td>
<td>24,500</td>
<td>19,000</td>
<td>46,000</td>
</tr>
<tr>
<td>Personnel salary, incl. transport and per diem</td>
<td>69,000</td>
<td>99,900</td>
<td>121,200</td>
<td>119,200</td>
<td>119,000</td>
<td>262,000</td>
</tr>
<tr>
<td>Communications</td>
<td>10,000</td>
<td>15,000</td>
<td>13,000</td>
<td>12,000</td>
<td>20,000</td>
<td>45,000</td>
</tr>
<tr>
<td>Others</td>
<td>130,570</td>
<td>141,971</td>
<td>253,298</td>
<td>81,300</td>
<td>204,120</td>
<td>842,392</td>
</tr>
<tr>
<td>Rotating funds and reserves</td>
<td>100,000</td>
<td>50,000</td>
<td>50,000</td>
<td>-</td>
<td>100,000</td>
<td></td>
</tr>
<tr>
<td>Unbudgeted costs, including those carried over</td>
<td>30,570</td>
<td>91,971</td>
<td>203,298</td>
<td>81,300</td>
<td>104,120</td>
<td>42,392</td>
</tr>
<tr>
<td>Capital infusion</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>800,000</td>
</tr>
<tr>
<td>Total</td>
<td>758,269</td>
<td>961,777</td>
<td>1,350,550</td>
<td>1,118,800</td>
<td>1,502,040</td>
<td>5,092,992</td>
</tr>
</tbody>
</table>

Second, the budget allocations also reveal that the FEDECAFE was actively responding to perceived production bottlenecks of the period. Budget allocations for research and development – including the establishment of a research centre\textsuperscript{117} and experimental farms\textsuperscript{118}, and a budget to hire agronomists – were increasing throughout the period. Production-related investments were being made, including access to credit facilities\textsuperscript{119} and – in support of Thorp’s (2000, p. 5) observation that the federation supported smallholders from the very beginning – targeted allocations for departments with smallholder producers.

Third, from its earliest days, the FEDECAFE began to build up storage capacity with the establishment of a network of warehousing facilities\textsuperscript{120} – in the table, seen as budget allocations for ‘warehousing facilities’ – in coffee-growing departments of the country. This budget allocation was important for a number of reasons. For one, it could be seen as an early attempt at intervening in coffee trading in Colombia. Coffee producers could obtain bonos de prenda (pledge bonds) against the produce they opted to store here, against which they could obtain an advance of 75 per cent of the value. (Junguito & Pizano, 1997, pp. 51-52) They could thus wait out releasing the stock to the market during times of especially low prices. Related to this, during its early days, the FEDECAFE began using the levies to establish a system for providing timely market information, reflected in Table 4.3 as budget allocations for setting up an ‘information system’. In other words, the allocations for warehousing facilities as well as for setting up information facilities were early attempts at contending with the power of traders in the post-production market. But aside from representing an early foray into commercial operations, the network of warehouses enabled the federation to classify coffee produced in Colombia, and thereby set-up a system for a registry of marks of origins. As noted by Bates (1997, p. 63), the FEDECAFE was able to secure regulatory powers during this period that enabled them to assign brand names to coffee produced in particular regions, and impose a price premium on superior coffee from regions reputed to

\textsuperscript{117} This is what was to become the CENICAFE, explained in Chapter 1.
\textsuperscript{118} These were called ‘granjas’.
\textsuperscript{119} Caja Agraria.
\textsuperscript{120} This is what was to become the Almacenes Generales, described in Chapter 1, and discussed further in this chapter.
produce higher quality coffee. This was a cornerstone for enhancing the reputation for the quality of Colombian coffee, in an international market where information on origins is priced and given a premium.\textsuperscript{121}

Fourth, the Federation also allocated a significant portion of its budget to promote Colombian coffee internationally. As can be seen in Table 4.3, the budget for promotional activities from 1930 to 1936, accounted for the second biggest allocation next to transfers to the departmental committees. From 1938 it had overtaken these transfers, and by 1940 was allocated the biggest share of the budget. Bates (1997, pp. 60-61, 69-74) suggests that the Federation was, in its early years, a proponent of competitive marketing policies, choosing to be a 'vigorous entrant' in the world market. While the government wanted to collude with the other leading coffee exporter, Brazil, to delimit world supplies of coffee, the Federation initially preferred to free-ride on Brazil's international marketing strategy. He says that the Federation believed that Colombian coffee producers could thrive in open competition "owing to the small size of the coffee farms in Colombia, the diverse crops grown on each farm" -- that is to say that they could withstand the competitive onslaught by consuming food products in their farms while tending to their coffee. (Bates, 1997, p 73) The budget allocations for international promotions could be seen as reflecting this commitment to compete openly and vigorously. The relative importance of these budget items can be seen in Figure 4.3, which depicts the data in terms of shares in total allocations for specific periods. As has been noted, transfers to the departmental committees and promotional activities constituted the biggest share of allocations in the first half of the period, from 1930 to 1934. Research and development allocations also received a significant portion of the budget, certainly more than the 2.5 per cent share in the case of Philippine coconut levies. The figure also reveals that allocations for warehousing facilities were increasingly cornering a bigger

\textsuperscript{121} Bates (1997, pp 62-63) explains why this is so. In a nutshell, it allows for Colombia to capitalise on a unique feature of coffee production in the country: the wide diversity of coffee, with variations in taste depending on the conditions (i.e., soil type, length of growing season, temperature under which it ripens) of the localities. Purchasers value this diversity as it allows them to cater to markets segmented by taste, and also allows them to mix distinctive blends. In turn, accurate marks of origins are the most economical way to determine the 'taste' of specific varieties, as taste cannot be deduced from the physical attributes of the coffee beans. "A given amount of coffee, sorted by origin, is therefore worth more than the same amount in which the types have been mixed together in unknown proportions. It was therefore to the industry's collective advantage to segregate its coffee by origin before market[ing] it abroad." (Bates, 1997, p. 62)
portion of the budget – presaging the increasing use of the levies to intervene in the domestic market. As I have earlier noted, these budget allocations provide insights into how the federation attempted to shore up the competitiveness of the sector in an era of declining international prices – that is, they give a sense of how it responded to conjunctural challenges of the period. But beyond this, I will show in the following sections of this chapter that they also lay out features of rent mobilisation that will endure. For one, we see the beginnings of how levies were to be used for the creation of conditions enhancing the international competitiveness of the sector – for example, through investments in what would become a vast network of warehousing facilities servicing the logistical needs of the sector and of infrastructure for research and extension services, and a well-regarded international promotional drive establishing a premium on the brand of Colombian coffee. We also see, with its early investments in research and information services, the federation establishing what Thorp (2000) describes as the technical authority that will draw it into the heart of coffee policy making at the national level. Finally, we note the of use departmental committees as conduits of fund mobilisation, and budget outlays targeted at smallholder production.

**Resources for stabilising producers' income**

The FEDECAFE's budget allocations presented in the previous section give an indication of the various uses of the coffee levies during the federation’s early years, but do not depict what was probably the most important use of the collections in the years that followed: domestic and international market interventions meant to regulate coffee price volatility and thereby maximise producer income.
Figure 4.3 FEDECAFE's Budget Allocations, by shares: 1930-1940
(continued in the next page)
Figure 4.3 FEDECAFE’s Budget Allocations, by shares: 1930-1940
(continued from the previous page)

In particular, coffee levies were mobilised for two related purposes. First, they were used as a means to procure, retain and store surplus coffee production with the end goal of regulating export volumes and thereby helping stabilise external prices. This was done in conjunction with a number of international treaties that Colombia signed into, agreements that regulated world coffee exports from 1940 to 1989. Second, they were also used to procure domestic production at a guaranteed minimum – first imposed in 1955 and at a rate jointly determined by the government and the FEDECAFE – thereby regulating domestic farmgate prices. By guaranteeing the procurement of domestic production, the FEDECAFE thus functioned as the buyer of last resort. Moreover, they were authorised to sell, export and/or store the stocks they procured, depending on market conditions. Thus, the FEDECAFE effectively mobilised the coffee levies as a marketing board, managing the distribution of income through the usual peaks and troughs of the coffee commodity cycle.

With this shift to price stabilisation as a key mobilising objective of the coffee levies, the Coffee Fund was established in 1940 initially for the purposes of handling surplus production in compliance with the international treaties regulating exports. From 1940 onwards, the Coffee Fund became the main conduit of the coffee levies. Moreover, the resources of the Fund came to include not only coffee levy collections but also all earnings from the marketing of stocks. As the Coffee Fund grew – along with the economic importance of the coffee sector and the power of the FEDECAFE – its mandate broadened to allow for its mobilisation to stabilise domestic prices. In this section, I will explain how the primary objectives of the Coffee Fund – and through it the mobilisation of coffee levies – evolved to include the financing of the FEDECAFE’s functioning as a marketing board. I will give an indication of the breadth of resources made available for this function, explain the policy levers deployed to effect stabilisation, and outline the consequences of these interventions. In a nutshell, this section will show that coffee levies were effectively mobilised to shore up the market power of the FEDECAFE,

122 The general export tax still went directly to the Federation’s budget as payment for services it rendered, but as shown in the previous section, collections of this tax represented a miniscule portion of total collections. By 1972 collections of these taxes stopped.
123 As explained by Junguito and Pizano (1997, p. 81) the contract between the government and the Coffee Federation already allowed the latter to ‘liquidate’ coffee stocks – within the bounds of international agreements – and retain earnings from the same.
functioning as a marketing board. This could be understood as a means by which the Federation was given access to monopoly rents, as was the case in the Philippines. In sharp contrast to the Philippine experience, however, the extraordinary returns on marketing operations were ploughed back to the sector primarily to further build the capability of the Federation in order to maximise producer income.

The stabilisation function: Evolution and resources

For the first twenty years or so of the Coffee Fund from the 1940 to the 1950s, it functioned primarily to provide the resources for the procurement of domestic coffee inventories that allowed Colombia to retain surplus stocks and comply with its commitments to international treaties regulating the supply of coffee exports. That is to say that coffee levies were initially mobilised to help stabilise international coffee prices, rather than domestic producer prices. There were two types of international agreements: (1) mostly short-term agreements addressing conjunctural world market conditions and entered into by Colombia along with other Latin American producers from 1940 to the end of the 1950s; and, (2) multilateral agreements involving both coffee-consuming and producing nations, first established in 1962 under the auspices of the newly formed International Coffee Organisation, and renewed intermittently thereafter. In contrast to the earlier treaties, the latter set were meant to address fundamental market disequilibria underpinning price volatility, and involved producers beyond Latin America.

The immediate conditions that led the FEDECAFE to actively seek the establishment of multilateral treaties to regulate the world supply of coffee are best summarised by depicting the trends in the New York price of Colombian coffee in the period 1930-1960, as shown in Figure 4.4. The figure shows two sub-periods of prices declining: (1) the period between 1930 and 1940, when price fell by a little more than 50 per cent from US$17 cents per pound in 1930 to US$8 cents in 1940; and (2) the period between 1954 and 1960, when after a

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124 All the international treaties entered into by Colombia from 1940 to 1993 are extensively described and analysed by Junguito and Pizano (1993) – particularly Chapters 7 to 9.
125 These included the Inter-American Coffee Agreement (1940-1945); Pacto de Caballeros (October 1954); Plan de Emergencia (1957); Washington Conventions (1958); Pact of 1959.
126 ICO agreements were signed in 1962, 1968, 1976, 1994, 2001, 2007, and 2011. However, from 1989 onwards, the agreements no longer included provisions for regulating export supplies.
period of rapid recovery in the 1950s, prices fell by the same magnitude from US$80 cents per pound in 1954 to US$40 cents in 1960.

The first period of decline – particularly the latter part of the 1930s, when the Second World War erupted – provides the backdrop to the first multilateral treaty entered into by Colombia: the Inter-American Coffee Agreement, also the first international treaty of its kind regulating the supply of coffee exports. This treaty was meant to deal with the specific wartime problem of shrivelling European markets. As explained by Bates (1997, p. 88), at the point when the Second World War erupted, 9 million of the 25 million bags of coffee exported from the Latin America were being consumed in Europe. Prices would have collapsed further if Latin American coffee exports had had to be diverted and allowed to saturate the US market, in the face of difficult trading conditions in Europe. To deal with this problem, Latin American producers agreed to an orderly rationing of the US market, establishing a quota system from 1941 to 1948. In this treaty, the US also agreed to limit imports from non-member countries (Bilder, 1963, p. 336). Figure 4.4 shows that prices quickly recovered in 1941—from US$8 per pound in 1940, the lowest in the thirty year period featured in Figure 4.4, to US$15 per pound in 1941. It can also be seen that prices remained relatively stable during the war years until 1945, and were even rising towards the end of the period of the treaty’s effectivity. This supports the assessment of Bilder (1963, p. 336) that the Inter-American Agreement was largely successful at stemming the fall of prices amidst difficult wartime conditions.

127 Prior to this international agreement, Brazil shouldered the onus of supply regulation (See Bilder, 1963, pp. 335-336). As noted earlier and discussed in Bates (1997), FEDECAFE opposed colluding with Brazil before 1940.
The second period of price decline – the one commencing from 1954 and ending in 1960 in Figure 4.4 – coincided with a series of treaties\textsuperscript{128} Colombia entered into, again with fellow Latin American producers. Immediately preceding this period was a period of rapidly increasing external prices for Colombian coffee in the early 1950s, again as can be seen in Figure 4.4. This was buttressed, on one hand, by the differential exchange rate regime levied on coffee exports discussed in the previous section, which could be interpreted as having a dampening effect on Colombian exports; and on the other, by severe weather conditions in Brazil in 1953, which in turn constricted world supply at that point. Ironically, the resulting price increase during that period in turn encouraged the expansion of world production and the price decline in the second half of the 1950s. That prices declined persistently during this period, despite the interventions of Latin American producers, support Bilder’s (1963, pp 336-337) observation that the transitory treaties were not as successful as the first treaty described above as curbing exports effectively.

\textsuperscript{128} Refer to Footnote 129.
During this second period of price decline, talks were already underway for managing over a longer time horizon the volatility of coffee prices and expanding treaties to include producers from beyond Latin America. In 1958, the US led in the formation of the Coffee Study Group, comprised of over 20 producing and consuming countries to address not just the immediate problem of rapidly eroding prices characteristic of the period, but the long-run disequilibrium in supply and demand afflicting the coffee market – and to explore solutions to deal with these two separate but interrelated problems. By 1959, the group had been proposing the establishment of a broader if still short-term agreement on export quotas that included other coffee producing countries outside Latin America. This came to fruition in 1960, with a new short-term agreement that included other coffee producing nations outside of Latin America – with France and Portugal signing on behalf of their African and overseas territories – 28 in all and representing 90 per cent of world production. (Bilder, 1963, pp. 337-338) And by 1962, under the auspices of the then newly formed International Coffee Organisation, which was an offshoot of the Coffee Study Group, the first of a series of agreements establishing an export quota system for five year periods was put in place. From its inception and within the time frame of my study, the International Coffee Agreement was renewed in 1968, 1976, 1983, and 1994. However, by 1989, provisions on export quotas were already being questioned by some signatories. The 1994 Agreement no longer contained these provisions and 1989 marks a watershed in the global regulation of coffee exports as the era of regulated coffee export supplies ended.129

The FEDECAFE was at the forefront of the international negotiations to establish these treaties– from the more regionally localised agreements in the period 1940-1960, to the geographically broader treaties from 1960s onwards – with the Federation’s representatives authorised to negotiate on behalf of the Colombian government. If, as pointed out in an earlier section, the perceived vulnerability to external market conditions encouraged coffee producers to form a federation and led them to agree to 'self-imposed' levies in the 1920s, the

129 An overview of the contents of these agreements is available in the International Coffee Organisation web site (International Coffee Organisation, 2013). Junguito and Pizano (Junguito & Pizano, 1993) provide a comprehensive view of the content of these agreements. Bates (1997) explores the political economy of the rise and fall of such a treaty regulating world coffee export supplies.
subsequent market conditions beginning from the outbreak of the Second World War to the post-war period also led them to shift their preferences in marketing strategies from competition to cooperation with world coffee producers. This, in turn, signalled a shift in the uses of the levies, which became a key resource for delivering on Colombia’s commitment to regulate supply of exports and thereby stabilise external prices.

**Figure 4.5 Share of the FEDECAFE in Procurement and Exports**

![Graph showing trends in procurement and exports](source)

Trends in the volume of local production procured by the FEDECAFE and the federation's share in total exports, as shown in Figure 4.5, provide an indicative idea of the historical evolution of the extent to which coffee levies were used in buying and selling operations of coffee. It could be seen here that in the 1940s, the federation's share in procurement peaked, as might be expected, soon after Colombia signed the International Inter-American Agreement in 1941, when they bought 51 per cent of domestic production. However, throughout the decade of the 1940s, the federation accounted for only an average of 22 per cent of domestic production procured, and only 4 per cent of exports. In the 1950s, its average share in procurement went down to 15 per cent, although its share in exports went up to 11 per cent. The rise in export shares may indicate that the
federation was liquidating its stocks at a time of rising prices. But the federation's shares in exports and procurement only really began taking off from the 1960s: in the period covering 1960-1996, the federation's average share in domestic production procured was 47 per cent; their share in exports, 45 per cent.

The pronounced increase of the federation's share in procurement and exports from the 1960s onwards signals that it was mobilising the levies, no longer just to comply with international commitments to withhold supplies, but also to more actively regulate the internal market for coffee and thereby stabilise domestic prices. The federation's early procurement operations in support of international treaties enabled the organisation to build up stocks, as well as make the necessary investments for warehousing and transporting these stocks, placing them in a good position to perform the functions of marketing board.

The use of coffee levies in support of the goal of domestic price stabilisation was already emerging in legal norms governing the federation's procurement operations as soon as the Coffee Fund was established. But it was not until 1967, when *Ley 444 de 1967* was passed, when the regulation of internal coffee markets was legislated in no uncertain terms: authorising again the use of retention duties for this objective, as well as authorising the use of the Coffee Fund to finance commercial operations in support of the same objective. By 1978, the goal of domestic price stabilisation was also spelled out in the contract between the government and the Federation.

An analysis of historical data on coffee levy collections and actual expenditures of the Coffee Fund reveals that domestic price stabilisation came to constitute the most important use of the levy from the 1960s onwards. Going back to data in Table 4.2, it could be seen that the retention duty – a percentage of coffee exported surrendered by the exporter either in cash or kind to the Federations’ warehouses network of warehouses and principally used to regulate supply – represented an increasing and major share of the levies collected: from 37 per cent in the 1960s, to 54 per cent in the 1970s, and a high of 74 per cent in the 1980s. By the 1990s, its share went down to 31 per cent, but this was when the tax was folded into the coffee contribution, which in turn represented 54 per cent of total coffee levy collections in the 1990s. These trends imply that a major portion of what was extracted from the producers was destined for meeting the function of market regulation.
Meanwhile, the same conclusion could be drawn from analysing the trends in the Coffee Fund budget execution, as shown in Figure 4.6. This figure reveals that from the time that the regulation of the internal market came to be formally recognised in 1978 as a function of the Coffee Fund – and by extension the FEDECAFE – expenditures to procure coffee and commercially market the coffee constituted a major portion of the Coffee Fund’s executed budget. As could be seen from Figure 4.6, between 1979 and 1996, there were only three years when said expenditures were less than 50 per cent of total expenditures: 1985, 1986 and 1994. On average, said expenditures accounted for 63 per cent of the total, with the rest taken up by expenditures on production support and other investments.

The goal of domestic price stabilisation engendered not just a new mode of coffee levy mobilisation, but also led to commercial trading activities generating additional resources for the Coffee Fund. Just as the procurement of coffee for purposes of stabilisation constituted a major share of Coffee Fund expenditures, the sale of these very stocks was also a source of revenues for the Fund. Figure
4.7 depicts the revenue side of the Fund's budget executed from 1979 to 1996, and clearly shows that sales of coffee constituted a lion's share of the Fund's revenue streams, averaging at 73 per cent of total revenues in this period. The data presented here underestimates the value of the coffee levies the Fund had access to because budget execution accounted for neither the levies that the Federation was liable to pay for its own exports of coffee nor retention duties in kind until 1991, which explains the apparent jump in the share of coffee taxes in total revenues in the 1990s. However, this does not diminish the bigger argument I make: that the use of coffee levies in market regulating activities fomented further revenue streams, all of which were channelled back to grow the Fund.

Figure 4.7 Coffee Fund Budget Executed: Major Revenue Sources (shares in per cent), 1979-1996

That is to say, budget execution data only accounts for the movement of ‘liquid resources’. The levies that the Federation is liable for represent a ‘fiscal transaction’ (not a cash transaction) for which the Fund is both the payer and the receiver.
Levers for domestic price stabilisation

In a nutshell, there were two important ways by which coffee levies figured in the promotion of domestic price stabilisation: as mobilisable resource, and as a directly deployable policy instrument.

First, the resources of the Coffee Fund, as we saw in the previous discussion, were used to finance the procurement of significant volumes of domestic production. Utilising the Coffee Fund, the Federation purchased farm-dried coffee (of a specified Federation-type quality) at a minimum guaranteed price – a price the Federation also played a central role in determining.\textsuperscript{131} The significant volumes of domestic production purchased by the Federation at a guaranteed price meant that a major part of the income in the internal market was captured by producers by establishing a reference price that limited the margins of other commercial buyers. (Ramirez et al., 2002, p. 65) This enabled the Federation to extract the oligopolistic rents that would have gone to private commercial traders in an internal market that, as I have explained in Chapter 2, is quite concentrated.

Moreover, the Federation utilised coffee levies and revenues from commercial operations to establish the requisite logistical infrastructure for coffee trading: including investments in transportation, financial intermediation and warehousing. That is to say, the Federation systematically built its capacity to function as buyer of last resort and Colombia's largest single exporter of coffee. These investments of Coffee Fund resources will be more comprehensively

\textsuperscript{131} The system of guaranteed floor prices in which the Coffee Federation figured prominently was first decreed in 1955 (Decreto 332 de febrero 15 de 1955), a law that directed all buying agents to purchase coffee at a fixed set of prices for five different quality-based 'types' of coffee: café trillado, tipo maragogipe, pergamino limpio Federacion, pergamino corriente, pergamino inferior al corriente. The law further stipulated that the Coffee Federation was to guarantee a set of prices applied to these same types of coffee at higher – by no more than 10 per cent – rates than the fixed minimum set applied to the purchases of private individual buying agents, and that the Federation's purchase at these rates were to be backed by Treasury. Junguito and Pizano (1997, p. 334) explain that the government believed that potential losses from the Federation's buying operations that it was effectively guaranteeing could be recuperated from the export taxes collected. The Federation was empowered to fully determine any changes to these minimum prices. In 1967, the system was simplified and the floor price was fixed only for one type of coffee, called the 'federation type', a mark of good quality. Under the Estatuto Cambiario de marzo de 1967, this minimum price was to be guaranteed by the Coffee Fund, and at a rate determined by a committee composed of the ministers of Finance and Agriculture, as well as the general manager of the Coffee Federation (Junguito and Pizano, 1997, pp 334-336). While the establishment of this committee suggests that the floor prices were from then on jointly determined by the government and the Federation, Junguito and Pizano (1997, p. 336) suggest that in reality it was the Federation's National Committee that still determined the prices, and the rates were just referred to the committee for approval.
analysed in the following section, but it is important to flag at this point that
economic returns emanating from the Federation's position as the single biggest
buyer and exporter of coffee in Colombia were ploughed back to strengthen their
position to regulate coffee price volatility and thereby benefit the levy
contributors – a stark contrast to the Philippine case study, where the
mobilisation of economic returns from concentrated market power was not
governed by such a logic.

The FEDECAFE's warehousing capacity and network of buying agents
provide a good illustration of the kinds of investments it made in support of its
procurement operations. As has already been shown in the first section of this
chapter, from the very early years, the Federation used the levies to establish
warehousing facilities. But this mode of levy mobilisation took on a new vitality
when the Federation was authorised to perform market regulating functions. In
1965, the Federation centralised control of these facilities under the
ALMACAFE (Almacenes Generales de Deposito de Café), which it established
as an autonomous business. By 1994, ALMACAFE had the capacity to store
16.6 million 60-kilo sacks of coffee – representing about 70 per cent of average
domestic production – distributed in 90 warehouses. Their operations were
supported by more than 59 producers' cooperatives and more than 600 buying
stations. These producer cooperatives were also first piloted and funded by the
(2002, pp. 64-65) emphasize that this network of cooperatives and warehousing
facilities forms the backbone of the system of guaranteed purchase: they are
typically located where private exporters have no incentives to locate, and
guarantee that all producers have easy access to points of sale.

Second, coffee levies were directly deployed as instruments to support the
goal of domestic price stabilisation. Coffee levies were a cost that private
exporters needed to factor into the determination of their offer price. (Nash,
1985, p. 211) A rise in, say ad valorem tax or retention duty rates, constituted a
rise in exporters' cost and thus had a dampening effect on their offer prices. In
periods of rising external prices, coffee levies were consequently policy levers
that could be activated to: (1) push down private offer prices relative to that of
the Federation, to induce producers to sell to the Federation; and (2) also allow
the Federation to lower the minimum support price. Put another way, coffee
levies were an instrument for transferring the windfall from rising external prices to the Coffee Fund, so that in consequent periods of falling external prices it would have the wherewithal to maintain real coffee income.

Of the various types of coffee levies, it was the retention duty that was manipulated most in conjunction with domestic price stabilisation objectives. Interestingly, as with the guaranteed support price, the Federation played a key role in the determination of rates of retention duty. Decreto Legislativo 102 de abril de 1958, the law that put the duty in place stipulated that the Federation's National Committee had the power to modify the rate, with the approval of the Ministry of Finance. (Junguito and Pizano, 1996, p. 250) As with the Federation's procurement operations, the retention duty was initially conceived in conjunction with external price stabilisation in mind – that is, as a mechanism to facilitate the storage of coffee, in line with the quota agreements that Colombia signed into. However, the retention duty also evolved to become an instrument for domestic price stabilisation along with the emergence of the domestic market regulating functions of the Coffee Fund in the late 1960s.

The price stabilisation function of retention duties are best shown in Figure 4.8, which charts the movement of external prices along with effective retention rates. Before discussing this, it is worth looking at the trends in retention rates. The data shows relatively low rates of retention were in place between 1958 to 1965 – ranging from 5 to 15 per cent. Rates of retention begin to take stride from 1966, and from that year until 1988, rates ranged from a low of 18 per cent to a high of 124 per cent. Since then and until 1995, rates of retention petered out, ranging from 0 to 10 per cent.

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132 Here, retention duties perform the function of building up stockpiles and withholding supplies in periods of low prices.
133 Junguito and Pizano (1997, p 262) explain that retention duties during this period merely helped finance the accumulation of physical stock in line with the international quota agreements previously described.
These periods also reflect the changing conditions behind the collection of levies. The first period corresponds with the years that the Coffee Fund was principally being mobilised to support commitments to the international quota agreements; the second period, the years when coffee levies were the main resource for the activities of the FEDECAFE as a marketing board; and the third period, with the demise of the international treaties and the liberalisation of international coffee markets. What the data presented shows is that during the period that the Federation was heavily involved in domestic price stabilisation, retention duty rates also increased significantly, signalling the important role the coffee levy played as a policy instrument.

Even more germane to my analysis are the movements of the retention rates in conjunction with external prices. Figure 4.8 shows that rates of taxation tended to increase with external prices – in line with the theory that this coffee levy was used as an instrument for transferring part of the increase in external prices to the Coffee Fund. In particular, the years registering highest effective rates of
Associated outcomes

The mobilisation of the resources of the Coffee Fund for procurement and marketing activities is generally associated with two related outcomes.

First, it is seen to have been successful at helping bring about relative stability in domestic prices, which means, in turn, that it also helped stabilise producer incomes. A study by the World Bank – not a natural ally of interventionist stabilisation policies – recognises in 2002 that the operations of the Coffee Fund had been "reasonably effective at stabilisation, with internal domestic price volatility only half of the world price volatility in the past 26 years".

(Giovannucci, 2002, p. 56) Junguito and Pizano (1997, 358-359) generate a similar finding. They computed and compared indices of stability\(^\text{135}\) of both real internal and external prices\(^\text{136}\) of Colombian coffee and found that in the period covering January 1957 to December 1996, the index of instability of internal prices was 22, which was a little less than half of 45, which applied to external prices. Meanwhile, in an earlier study, Cardenas (1994) carried out an analysis of coffee price stability and the distribution of coffee revenues in the context of the operations of marketing boards in Colombia, Costa Rica, Cote d'Ivoire and Kenya. He found that Colombia had among the smoothest domestic prices\(^\text{137}\) and paid its coffee growers a relatively constant amount in nominal dollar terms in the period 1961-1989. (Cardenas, 1994, pp 364-365) Another way of measuring the relative stability of prices is suggested by Jaramillo, et al (1999, p. 7): considering the relationship between prices paid to producers and external prices as an implicit exchange rate applicable to coffee and then comparing this with the real exchange rate. Ocampo (1989 in Jaramillo, et al., 1999) found this

\(^{134}\) Note that the data on effective retention rates refer to the 'coffee year'. This means that data for, say, 1975, refers to the period July 1975 to June 1976. The apparent lag shown in Figure 5.7 between retention rates and external prices is misleading. Going back to the example of data for 1975, the retention rate for the year 1975, actually applies to part of 1976, until June.

\(^{135}\) They took the ratio of standard deviation to average prices.

\(^{136}\) The internal price refers to the guaranteed purchase price in US$ per pound; the external price, the price of 'suaves colombianos'-type of coffee in New York in US$ centavos per pound. They deflated in terms of consumer prices in Colombia and the US, respectively, to obtain the real internal and external prices.

\(^{137}\) Measured in terms of the variance of the log of prices.
implicit exchange rate to have been more stable than the effective real exchange rate during the period 1950-1988.

Second, it successfully embodied a counter-cyclical instrument for managing external price fluctuations: allowing producers to save and invest during times of price bonanzas by transferring part of the price to the Coffee Fund; and to be then subsidised by the Fund, in times of price downturns. Figure 4.9 shows the comportment of external and internal prices from 1950 to 1996. Keeping in mind that domestic price stabilisation only became an explicit policy in the late 1960s, though was emergent as a policy thrust from the late 1950s, it can be clearly seen from the figure that the ratios were historically lowest when external prices where highest, and vice versa. This shows that a lower share of the external prices was transferred to producers when these prices were high. For example, during the period 1977-1980 when average price was one and a half times higher than that of 1976, internal prices were on average only 43 per cent of external prices. Similarly, in the period 1984-1986, when the average external price was one and a quarter times higher than that of 1983, the internal price reflected only 40 per cent of the external price. In contrast to these periods of high prices, during 1958-1967, a period of stable but low prices, an average of 67 per cent of external prices was transferred to producers. As explained by Junguito and Pizano (1997, p. 365), the domestic prices paid to the producer had a fundamental impact on coffee income distribution. The course followed by domestic prices has been such that the Colombian coffee farmer captured an average of 60 per cent of the external price during the period 1950-1996, a share that, as could be seen in Figure 4.9, has tended to be higher in times of low external prices than in those times of price bonanzas.
The picture that emerges at the end of my period of analysis – 1990-2000 – has not been as stellar. The end of international treaties that included provisions for a quota system in 1989 saw a decline in world coffee prices in the years that followed – evidence of which is partially shown in the trends in external prices shown in Figure 4.8. As I have already pointed out, export sales of coffee had become the most important source of revenues for the Coffee Fund; and the value of coffee stocks, a significant portion of its assets. The decline in world coffee prices during this period severely affected the financial conditions of the fund, a situation worsened by the fact that institutional costs – including production support programmes, which will be described in the forthcoming section – had outpaced coffee levies, which at this point came in the form of the coffee contribution. Thorp (2000, p. 15) succinctly describes the dilemma faced by the Federation in this period marked by the collapse of international agreements and low coffee prices: it was only able to play its role at the expense of the Fund. In a related vein, Ramirez et al. (2002) published an influential
report that laid bare the challenges the Fund faced at a time of changed world market conditions. They raised questions about the sustainability and efficiency of integrating the functions of stabilisation and production support in terms of execution and financing. But what is apparent from their criticism is that while it questions the means by which stabilisation is pursued given the context of liberalised international trade, they never really questioned the role it played historically.

In summary, in this section I have explained how the Coffee Fund – including coffee levy collections and the resources arising from their mobilisation – came to be used for stabilising domestic coffee prices. From a comparative perspective and as a final point for this section, I call attention to the important welfare and productive implications of a largely successful use of the coffee levies to promote domestic coffee price stabilisation for a good part of the twentieth century in Colombia. In terms of welfare implications, Thorp (2000, p. 17) reminds us that stable incomes were particularly vital for the poorest coffee producers. For these producers, guaranteed floor prices were a lifeline during periods of low world prices. Meanwhile, in productive terms, Junguito and Pizano (1997, p. 365) emphasize that the expectation of stable prices had been an important tool for directly stimulating production. They say this played an important role in the 1970s, when investments in technological innovation had to be incentivised in the face of coffee farms reaching the productive frontiers of traditional technologies. These are examples of virtuous ends associated with the most important mode of coffee levy mobilisation that find no resonance in the case of coconut levies in the Philippines, and reflect vital welfare- and production-enhancing functions of levies in Colombia that were never realised in the Philippines. This broad conclusion can also be drawn from another mode of levy mobilisation: their investment. In the section that follows, I analyse the patterns of investment of coffee levies and the logic that governed them.

**Investing to benefit the contributors**

Levies were mobilised to enable coffee producers to invest surplus in ways that enhanced their productive and income-earning capacity, and supported the goals of income stabilisation. These goals were not always complementary.
Investments inducing production, for example, may have a detrimental effect on stabilising incomes to the extent that increasing supply may dampen prices. But the FEDECAFE, and by extension the levy contributors, had a decisive say in the balancing of these objectives – a point that should be made clearer when I discuss the means by which they took part in regulating the rent settlement. In this section, I first explore the two categories of investments associated with the coffee levies.

The first category relates to investments made directly by the FEDECAFE out of the levies. These include the statutory shares of the departmental committees in the coffee levies collected which, in turn, were mostly mobilised for social and local public goods in the coffee departments. It also includes the FEDECAFE’s investments in research and development, extension services, the international promotion of coffee and, production and marketing support.

The second category relates to investments made through the Coffee Fund – including what could be construed as re-investments of oligopolistic rents from the FEDECAFE’s commercial operations as a marketing board. These comprise a range of investments – including financial instruments, and other permanent investments – not necessarily limited to the coffee sector. These were made with the goal of strengthening the asset base of the Fund beyond the coffee inventories it held, and with that, its ability to intervene in the market as well as invest further in support of coffee production and the welfare of coffee producers.

In contrast to the Philippine case, the impulse behind investment decisions could be more systematically linked to the interests of the Federation and its members. Through these investments, the coffee producers were able to retain a significant share of the rents mobilised. Moreover, investment activities were tied to the exigencies of domestic price stabilisation in two senses: as a counter-cyclical measure for saving in times of good external prices and as a means to grow the Coffee Fund, and thereby grow the resources for the FEDECAFE to undertake marketing operations. Finally, investments in the coffee growing areas and in goods and services promoting production and welfare were crucial in developing what Thorp (2000) would call a ‘culture of loyalty’ among the federation’s members. This loyalty, in turn, promoted ‘buy-in’ for the sacrifice – through the price policy and/or adjustments in coffee levies (particularly the retention quota) – asked of them during boom periods. They also acted as
incentives for them to sell stocks to the FEDECAFE and thereby allow the federation’s income from commercial operations to grow.

In general, the mobilisation of coffee levies in investments stands in stark contrast to that of coconut levies, where the fruits of capital accumulation were largely delinked from the coconut producers and the productive goals of the sector.

**Investing in coffee producers and coffee areas**

With the establishment of the Coffee Fund in 1940 and the enlargement of the stabilisation function over the years – and with these, the FEDECAFE's involvement in marketing and commercialisation activities – the resources that the Federation was authorised to mobilise also expanded. Aside from the coffee levies\(^{138}\) that directly entered its budget as a revenue stream from 1927 onwards, the Federation also mobilised resources\(^{139}\) that, from 1940 onwards, first entered the account of the Coffee Fund before being transferred to the Federation for the following purposes: (1) as a fee for administering the Fund; and (2) to deliver goods and services to coffee producers through the Federation's Departmental Committees and other 'coffee enterprises' established by the Federation.

Moreover, the Federation engaged in income-generating activities from which it derived additional revenues, among the most important of which were its role as the main source of all semi-processed coffee marketed for internal consumption.\(^{140}\) The Federation also generated income from investing in financial instruments, and was involved in selling agricultural inputs for the use of coffee

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\(^{138}\) Just to review, the following coffee levies directly entered the budget of the Coffee Federation historically: the export tax collected from 1927 to 1972; the tax on international payments imposed between 1935 and 1939; and the statutory shares of the Coffee Federation – particularly the Departmental Committees – in the tax on low-grade coffee from 1940 to 1991 (Junguito & Pizano, 1997, p. 36).

\(^{139}\) This in turn was constituted by the other coffee levies that first entered the Coffee Fund before being devolved to the Federation's budget, chief of which were a portion of the *ad valorem* tax from 1967 to 1991, and the coffee contribution, from 1991 to the present. But it should also be obvious by now that these transfers were not solely constituted by the levies – in particular, revenues from commercial operations and the mobilisation of stocks collected in the form of retention duties; and later on, with the decline in this source of revenues from the 1990s, returns from the liquidation of investments also formed part of these transfers.

\(^{140}\) As explained by Junguito and Pizano (1997, p. 37), the Federation was given access by the Coffee Fund to coffee grains at prices below market rates. After semi-processing these grains, the Federation sold them for further processing to domestic firms that then sold the finished product to the domestic market. Before the internal market was liberalised in 1991, the Federation thus acted as a monopolist in the domestic consumer market.
farms. (Junguito and Pizano, 1997, p 37) Table 4.4 gives a picture of the relative shares of these resources in the budget appropriated by the Federation from 1975 to 1994, expressed in real terms and indexed to 1996 prices. The data indicates that the 'fee' the Federation received in exchange for administering the Coffee Fund constituted from 50 to 58 per cent of its income during this period. Until the period 1990-1994, its income from commercial operations – in particular, from its participation in the marketing of coffee consumed domestically – was the second most important income source. But with the liberalisation of the coffee market, the statutory shares of the producers in their own contributions took over this position, and accounted for close to a third of the revenue streams.

Table 4.4 The FEDECAFE's Appropriated Budget: 1975-1994

<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>Income</td>
<td>101,350</td>
<td>147,721</td>
<td>214,508</td>
<td>171,014</td>
<td></td>
</tr>
<tr>
<td>Taxes and transfers earmarked for the Departmental Committees</td>
<td>16,795</td>
<td>16,668</td>
<td>22,245</td>
<td>51,286</td>
<td></td>
</tr>
<tr>
<td>Administration of the Coffee Fund</td>
<td>(16.5)</td>
<td>(11.8)</td>
<td>(10.3)</td>
<td>(31.2)</td>
<td></td>
</tr>
<tr>
<td>Commercial operations</td>
<td>50,920</td>
<td>79,154</td>
<td>124,385</td>
<td>100,130</td>
<td></td>
</tr>
<tr>
<td>Other income</td>
<td>(49.9)</td>
<td>(54.0)</td>
<td>(58.1)</td>
<td>(58.4)</td>
<td></td>
</tr>
<tr>
<td>Expenditures</td>
<td>101,350</td>
<td>147,721</td>
<td>214,508</td>
<td>171,014</td>
<td></td>
</tr>
<tr>
<td>Transfers to the Departmental Committees</td>
<td>54,168</td>
<td>70,439</td>
<td>109,824</td>
<td>96,647</td>
<td></td>
</tr>
<tr>
<td>Production programmes</td>
<td>(53.6)</td>
<td>(48.8)</td>
<td>(51.3)</td>
<td>(56.6)</td>
<td></td>
</tr>
<tr>
<td>Commercial operations</td>
<td>12,793</td>
<td>16,489</td>
<td>20,723</td>
<td>18,800</td>
<td></td>
</tr>
<tr>
<td>Administration, reserves and investments</td>
<td>(12.5)</td>
<td>(11.4)</td>
<td>(9.7)</td>
<td>(11.0)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(11.8)</td>
<td>(19.6)</td>
<td>(20.1)</td>
<td>(13.9)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>31,451</td>
<td>43,375</td>
<td>23,989</td>
<td>40,586</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(22.1)</td>
<td>(19.6)</td>
<td>(20.1)</td>
<td>(18.9)</td>
<td></td>
</tr>
</tbody>
</table>

Source of basic data: Junguito and Pizano, 1997, pp. 40-41

The expenditure-side data in Table 4.4 reveals insights even more germane to my analysis, as it relates to how the FEDECAFE allocated the resources it controlled. As can be seen from the table, in the period 1975-1994, transfers to departmental committees accounted for more than half of the Federation’s appropriated expenditures. During this period, the Federation was allocating to these committees more than their statutory shares in the coffee levies: on average, only 20 per cent of income were taxes and transfers earmarked for the committees, but 53 per cent of the expenditures were budgeted for them. Moreover, even if the budget in real terms declined by 20 per cent between the periods 1985-1989 and 1990-1994, the share of the committees in the budget...
appropriations increased from 51 to 57 per cent. That the Federation's departmental committees cornered a significant portion of the Federation's budget is symbolic of the extent to which the rent settlement associated with coffee levies was geared to support coffee production and the welfare of coffee producers. This is because departmental committees primarily used the resources to provide local public goods and services in coffee departments. Based on Junguito and Pizano's (1997, p. 47-50) comprehensive account of how these committees mobilised the resources made available to them in the period 1979-1996, 55 per cent of their budget executed was spent on community works and services. Of the spending on community works, 74 per cent was spent on projects related to education, health, the environment, rural electrification and infrastructure. Meanwhile, in terms of community services rendered, about 50 per cent was spent on agricultural extension services.

Figure 4.10 Average distribution of 'institutional costs' per pound exported (in per cent): 1991-2001

![Figure 4.10](chart.png)

Source of basic data: Ramirez et al, 2002, p. 74
The conclusion that coffee levies are associated with investments supportive of coffee production and the welfare of producers can also be drawn from a different data set explored by Ramirez, et al (2002), who presented the various types of ‘institutional costs’ financed by the producers through the Coffee Fund. The data they presented is interesting because the period they review pertains to the time when, as previously suggested, the Coffee Fund was no longer as robust due to significant changes in world market conditions. Even at this time, investments in public goods and transfers to departmental committees still constituted an average of 68 per cent of costs per pound exported. The public goods, as shown in Figure 4.10, include investments in extension services, research and development, production support and the international promotion of Colombian coffee.

The quantitative data on historical budget and costs I have thus far presented are borne out by accounts of ‘coffee enterprises’ and programmes that are historically associated with the FEDECAFE. These enterprises and programmes can be grouped into three – and below I provide a synoptic account of what constitutes them, based on a comprehensive description of the enterprises and programmes provided by Junguito and Pizano (1997, pp 50-67).

The first group relates to enterprises and programmes that promote the commercialisation and marketing of coffee – including investments in warehousing facilities, buying agents, a shipping fleet, and a much praised program for national and international promotion of Colombian coffee. Supporting the Federation’s buying and selling operations, as already mentioned, is the ALMACAFE, which in turn owns a network of warehouses that enables the Federation or its agents to buy coffee directly from producers. This is an independent business enterprise of the Federation established in 1985, but which finds its roots in the early investments of the Federation in the Almacenes Generales de Deposito, which was mentioned in the first section of this chapter. The Federation also helped establish and finance the operations of a network of producers’ cooperatives, principally acting as agents of ALMACAFE in the buying of pergaminio coffee. In 1985, these cooperatives came together to form EXPOCAFE, and became themselves exporters of coffee. In 1969, US$135 m of the Coffee Fund resources were invested in a factory producing freeze-dried coffee, with an initial capacity of producing 1,800 tons of soluble coffee per year.
Over the years, more investments were pumped into the plant, which by 1994 had a capacity of from 4,500 to 7,800 tons. Meanwhile, the Federation also expended resources to promote Colombian coffee through a campaign that developed the ‘brand’ of Colombian coffee – represented by the logo of ‘Juan Valdez’ from 1989 – as a high-quality and premium product.

The second group relates to initiatives that promote coffee production. The most iconic of production-promoting investments of the Federation is the research centre, Centro Nacional de Investigaciones de Café (CENICAFE). The Centre finds its roots in the investments made by the Federation as early as 1938. It is credited for successful campaigns to conserve soil and natural resources in the coffee zone, promote new technologies for production and preventing pests and disease. It was the first to develop a variety of Colombian coffee that was resistant to roya, a disease that afflicted coffee farms in the 1980s and that the Centre helped farmers successfully overcome. The work of CENICAFE is complemented by investments made by the Federation into providing agricultural extension services. As of 2002, the Federation had a network of 1,300 extension workers, who were involved in organising communities in the coffee region and became the main agents for communication of the Federation. The Federation also established a foundation, the Fundacion Manuel Mejia, to train young leaders in rural areas, particularly in the management of coffee farms as well as coffee-growing technologies. This has helped train the Federation's network of extension workers.

The third and final group relate to services and infrastructure largely implemented through and determined by the Federation’s Departmental Committees. To provide an indication of the extent of their involvement in delivering infrastructure typically delivered by the government in non-coffee areas, as of 1994, Departmental Committees were credited for providing electrification for 204,359 households and water for 1.7 million beneficiaries; building 16,923 classrooms; and constructing 12,882 kilometres of roads and improving 50,672 kilometres of the same – all in the coffee growing regions. (Junguito and Pizano, 1997, p. 49) Another example of welfare-related interventions of the Federation is the use of US$ 33 m in 1977, and an additional US$ 12 m of the coffee ad valorem tax in 1987, for health programmes in the coffee regions. (Junguito and Pizano, 1997, p. 64)
Unlike the production and welfare-promoting programmes in the Philippines associated with the coconut levies, those of the coffee levies are recognised for excellence and effectiveness. The continuing work of the ‘coffee enterprises’ involved in commercial operations, in stark contrast to their counterpart in the Philippines is a testament to this. The outcomes of some of the initiatives described here are also widely recognised. The work of CENICAFE, for example, developing disease-resistant varieties, has achieved for its scientists the Colombian Premio Nacional de Ciencias medal in 1986. In 2003, the Juan Valdez brand was deemed the third most recognised brand in Latin America. Meanwhile, the involvement of the Federation in delivering services in coffee regions is credited for not only relatively better quality of life indicators in the region, but also keeping the coffee zones relatively peaceful. (Rettberg, 2010)

**Investing to grow the Coffee Fund**

The revenue streams emanating from the Federation’s involvement in marketing board operations were channelled to the Coffee Fund and, as explained above, part of these along with the coffee levies were transferred back to the Federation – and through them, the levy contributors – in the form of producer welfare-enhancing and coffee income-maximising investments. But periods of rising prices – for example in the first half of the 1950s and the second half of the 1980s – brought extra-ordinary streams of resources to the Fund that were transferred to the producers neither immediately nor in their entirety. The windfall during the bonanza periods emanated from two sources. First, as explained in the section on stabilisation, extraordinary profits were generated in the Federation’s exporting operations – as the policy lever of minimum support price could be used to push down the Federation’s buying price, while they could sell at the prevailing high external price. Second, coffee levy collections increased the rising coffee export values, and because retention rates could be deliberately increased. In a nutshell, excess liquidity during periods of high external prices generated resources available for investment – a counter-cyclical mechanism for saving surplus in preparation for market downturns.

Even during the 1940s and 1950s, when the primary function of the Coffee Fund related not to stabilisation but to stockpiling operations necessitated by international agreements, the Federation was already authorised to dispose of
stocks procured and retained coffee, and to earn from these operations. Recall that during a good part of these decades international prices were rising, in no small part due to the agreement among Latin American producers to regulate world exports. Even during this period, the Federation already channelled the excess liquidity generated by the sale of some of the stocks they held to investments in both financial instruments and capital shares in business enterprises. Junguito and Pizano (1997, p. 164) explain that these investments in the first two decades of the Coffee Fund set the normative template for the mobilisation of revenues from coffee stock operations for purposes of investment in the years that followed.

Since its inception in 1940, the Coffee Fund was thus mobilised to acquire assets and thereby capitalise and enhance the value of the Fund. Junguito and Pizano (1997, pp. 163-189) provide an in-depth historical account of these investments: from the time assets were first acquired in the 1940s, when domestic stabilisation function was not a principal preoccupation, to the difficult years after 1989, when some of the investments have had to be liquidated to enable the Fund to fulfil its mandate, up until 1996. I utilise their analysis of key trends in investments of Coffee Fund resources to reflect on the role investment activities played in the Colombian rent settlement that did not obtain in the Philippines.

In a nutshell, Junguito and Pizano (1997) explain that the investments of the Coffee Fund came in three forms: (1) capital investments in a range of companies with and without links to the coffee sector; (2) special funds held in trust by commercial banks mostly for the credit needs of the coffee sector; and (3) investments in financial instruments. Capital investments were historically distributed in 43 companies involved in a range of activities that included financial intermediation, transport, insurance, coffee marketing and distribution, and the promotion of regional development. As of 1996 the historical cost of capital investments was estimated at Col$122 billion (about US$122 million in terms of 1996 Col$ to US$ exchange rate). 98 per cent of the capital investments was concentrated in 13 of these companies – and the three most important, accounting for 73 per cent of the historical cost of investments by the following three: the bank Banco Cafetero, merchant fleet Flota Mercante, and the credit institution Caja Agraria. (Junguito and Pizano, 1997, p. 180)
Meanwhile, special funds were directed to various lines of credit made available to support coffee production, diversification in coffee zones, agro-industrial development, smallholder producers in the coffee sector. (Junguito and Pizano 1997, p. 170). Finally, investments in financial instruments mostly came in the form of bonds and securities issued by the Central Bank. These were mostly low-yielding, low-risk government bonds, issued as a means by which the coffee sector supported projects of national interest. (Junguito and Pizano, 1997, pp. 168, 170)

**Figure 4.11 FEDECAFE Investments, by type (shares in per cent): 1975-1995**

![Figure 4.11 FEDECAFE Investments, by type (shares in per cent): 1975-1995](image)

Source of basic data: Junguito and Pizano, 1997, p. 169

Figure 4.11 shows the breakdown of Coffee Fund investments from 1975 to 1995. In the period covered by the data in the figure, capital investments accounted for an average of 43 per cent of the total; special funds, 31 per cent; and financial investments, 25 per cent. Moreover, the figure reveals three sub-periods in which the relative importance of each of these three shifted. In the period 1975-1984, capital investments were most ascendant and accounted for an average of 57 per cent of total investments. Then investments shifted to financial instruments, at average of 61 per cent of investments in the period 1985-1990.
Finally, in the period 1991-1996, special funds dominated shares of investments, accounting for an average of 51 per cent of the total; but capital investments staged a comeback at 45 per cent of the total. These shifts are revelatory of how resources generated during the different bonanza periods between 1975 and 1995 were invested. The windfall from bonanza of the 1970s appears to have been channelled to long-term capital investments, while that of the 1980s, to lower risk financial investments that, as noted above, also helped finance wider development goals.

**Figure 4.12 Real Value of Coffee Fund Investments and External Coffee Prices: 1975-1995**

When the comportment of investments made out of the Coffee Fund resources is tracked against external price movements, as I have done in Figure 4.12, it becomes clear that fund investments played a counter-cyclical function between 1975 and 1989. For example, between 1975 and 1977, when external prices almost quadrupled, investments of Coffee Fund resources consequently doubled. Between 1984 and 1986, external prices rose by 34 per cent; investments, dramatically by 984 per cent. Interestingly, these trends seem to imply that
producers saved more during the price bonanza in 1986 than in 1977. This supports the proposition of Jaramillo et al that more of the price rise of the 1970s was transferred back to coffee producers than in that of the 1980s. Meanwhile, as could be expected, we see this association between investment behaviour and external prices ceasing after 1990, with the deregulation of world exports and a period marked by long-run decline in world prices. For example, in the bonanza of 1994, when prices doubled compared to 1992, investments did not increase but dropped by 22 per cent – perhaps indicative of the difficulties encountered by the Coffee Fund.

Notwithstanding the changes after 1990, what this figure provides evidence for is that, before the breakdown of the International Coffee Agreement in 1989, investments of the Fund tended to rise with external prices. And while the magnitude of the coffee producers’ ‘sacrifice’—in the form of the windfall not being transferred to them but being invested—may have varied across different bonanza periods, the Fund, in general, was used as a mechanism for coffee producers to invest during good times, and doing so raise potential resources that allowed the Fund to help them during periods of falling prices. Junguito and Pizano (1997) suggest that this was exactly what happened when prices fell in the 1990s: the financial investments made by the Coffee Fund during the boom of the 1980s were liquidated, as were some of the capital investments, so that the investments supportive of coffee production, welfare and commercialisation could continue.

Impulse and consequences

To close this section, I wish to highlight how the investments of coffee levies and of the resources arising out of their mobilisation in marketing operations by the FEDECAFE may be interpreted to have supported the interests of the coffee sector in ways that do not find resonance in the Philippine case.

First, a significant portion of the state-engineered rents were mobilised and retained within sector, in the form of: community works and services administered and implemented by the Federation’s departmental committees in coffee-growing areas; the network of ‘coffee enterprises’ involved in research and development and the provision of agricultural extension services, marketing
and international promotions; and lines of credit made available for the various needs of the coffee producers.

Second, investments – particularly those made through the Coffee Fund – were clearly tied to the exigencies of domestic price stabilisation. This is the most important insight that could be gained from Junguito and Pizano’s survey of historical data on investments, salient highlights of which I captured above. In particular, investments were undertaken to strengthen the wherewithal of the FEDECAFE to readily and continually finance, even when external market conditions were not good, both the procurement of stocks at the guaranteed minimum support price and the programmes providing goods and services to coffee producers.

Even the Federation’s investments in community works and services in coffee areas can be plausibly linked to the wider goals of stabilisation. I echo this insight from Thorp (2000), who articulates a potent interpretation of the link between the Federation’s macroeconomic role in price stabilisation and its efforts to build robust micro foundations of the coffee sector, including investing in welfare- and production-enhancing initiatives and giving departmental committees a central role in these: it needed to develop loyalty among its members, committed to selling to the federation, without using the obvious route of increasing the price margin going to producers, which would have undermined the international quota system as that would have induced increasing production. She reminds us that private exporters had the ability to purchase at a better price when prices were high, something that would have undermined the Federation’s role as a marketing board because the fiscal situation of the Coffee Fund depended on the management of the minimum support price that both stabilised prices but also allowed a margin of useful income for the Fund. That this threat did not come to pass and that the Federation historically accounted for a significant share of procurement indicated that it was successful at developing a “culture of loyalty” among coffee producers. (Thorp, 2000, pp. 12, 14)

Moreover, through the departmental committees, the Federation “developed a local presence, as ‘our’ organisation, spending ‘our’ money for ‘our good’”. (Thorp, 2000, p 13). This interplay between the Federation’s market-regulating function and investments in support of production and welfare are best summarised thus:
"The principal relationship was the sale of coffee, a monetary transaction in which a below-free-market price is accepted in good times because of the perceived benefits arising from the wide range of other relationships with the federation, namely price support in bad times, access to technical help and credit, and the value perceived by the more aware members in the federation's macro claims functions, both nationally and internationally." (Thorpe, 2000, p. 14)

Conclusion

I have presented the rent settlement associated with coffee levies in Colombia as a counterpoint to the Philippine case study. Based on the breadth of resources made available for the use of FEDECAFE in the form of different types of coffee levies collected from 1927 to 2000, I showed that from a comparative perspective, Colombian coffee producers had access to more resources extracted on their behalf by the state – both in terms of the proportion of levies directly mobilised by their association, the FEDECAFE, and also in terms of the share of the levies retained for the sole use of the sector – and for a longer period of time than the Philippine coconut producers.

I have also shown the three main modes by which the levies and all resources generated through their mobilisation were used. First, they have been historically used to respond to specific production bottlenecks in the sector, to enhance export competitiveness, and to provide goods enhancing the welfare of coffee producers. Second, they have been used to stabilise producer income through interventions in the domestic and international markets. This mode of levy mobilisation produced further income streams for FEDECAFE, part of which can be construed as rents from functioning as a marketing board with concentrated market power in both the domestic procurement of coffee, and its exportation. Third, both the levies and the resources from their operations as marketing board have been invested in enterprises directly supporting coffee production, and capital accumulation to further strengthen the Coffee Fund.

Therefore, rent mobilisation in Colombia was geared towards the productive goals of the coffee sector. Again from a comparative perspective, rents from the concentration of market power – through the operations of FEDECAFE as a marketing board – benefitted coffee producers in ways that did not obtain in the Philippines. In Colombia, they were ploughed back as investments to strengthen
the ability of FEDECAFE to intervene in the market and stabilise the producer prices. The market interventions that generated these rents also led to the stabilisation of producer income. Meanwhile, investment decisions were governed by production-related goals. The capital accumulated benefited the sector by growing the value of the National Coffee Fund.

In conclusion, I have shown two important ways in which the rent settlement that obtained in Colombia is different from the one in the Philippines. First, even as the principal uses of the levies evolved through the years, the changes never went beyond the parameters of promoting the development of the coffee economy. Second, all benefits emanating from the mobilisation of the levies, including further income streams generated as a result of how levies were mobilised, were retained by the coffee producers through the activities of FEDECAFE. As such and in the language of the previous chapter, they were the ‘subjects’ or the key claimants of the rent settlement.
Chapter 5. Regulating the rent settlement in the Philippine coconut sector: capture and contest

To what extent did the producers’ associations shape the rent settlement? In this chapter and the next, I respond to this question by analysing the means by which access to rent streams associated with the levies was regulated and enforced – first dealing with the Philippine case here, then the Colombian case in the next. By ‘means of regulating and enforcing the rent settlement’, I refer to the rules and processes used to assign rents, and control their mobilisation.

The regulation of the rent settlement associated with coconut levies in the Philippines is marked by two periods: one in which rent streams were captured in the manner described in Chapter 3; the other, in which the rights to the continuing rent streams were contested. The first relates to the period 1970-1982, when coconut levies were imposed and actually collected – as previously flagged, also a period of authoritarian rule in the Philippines. The second relates to the period 1986-2011, when authoritarian rule had ended in the Philippines and when the rights to continuing rent streams arising from the mobilisation of the coconut levies were contested principally through the Philippine courts, but also informally negotiated through backdoor channels to a succession of Philippine presidents. In this chapter, I show that in both these periods, coconut producers had a neither a consolidated nor accountable organisation representing them in the avenues available for them to regulate the rent settlement. Moreover, during the years the rent settlement was captured, COCOFED increasingly lost grip of the power to shape rent mobilisation. And in the years the rent settlement was contested, COCOFED ultimately lost its rights to the rent streams. In these years, coconut producers were highly factionalised and did not have a unified voice in the negotiations that ensued.

In the first two sections of this chapter, I explain the chief means by which the rent settlement was regulated, and thereby captured, in the period 1970-1982. In a nutshell, Marcos used the extraordinary scope of executive authority under Martial Law to facilitate access to these rent streams, which in turn were assigned purely on the basis of executive prerogative. In the first section, I will show that the presidential decrees promulgated by Marcos as the legal basis for the collection and mobilisation of the coconut levies also codified who had rights
to the rent streams associated with the coconut levies. Moreover, the decrees also prescribed the funds that were constituted by these levies as owned by ‘coconut farmers’. However, I will show that this ‘private ownership’ of the funds had no operational meaning. Meanwhile, in the second section, I will explain how Marcos also used these decrees to centralise and delimit administrative control of the funds. The organisational articulation of administrative control over the funds was such that national leaders of the COCOFED shared power with presidential associates, who increasingly turned out to be more decisive in the controlling the funds.

In the third section of this chapter, I will describe the struggle over the assignment of rights to continuing rent streams, from the time Marcos was ousted from power in 1986 up to the end of the presidential term of Gloria Macapagal Arroyo in 2010. Though coconut levies were no longer being collected during this period, agents of the original Marcos-years rent settlement, and factions of coconut producers and allied interests excluded from this settlement sought to secure rights to rent streams from economic assets acquired through the levies. These assets – as I explained in Chapter 3, these included the bank UCPB, coconut oil milling facilities under UNICOM, and investments in a blue-chip food processing-based conglomerate San Miguel Corporation – yielded income and profit streams even after the levies had ceased to be collected. The contest for assignation of rent streams associated with these investments took the form of a two-track process, whereby courts, on the one hand, tried to resolve the question of property rights over the value embodied by the assets and the wealth created, while on the other hand, a succession of presidents who followed Marcos undertook parallel negotiations with key agents in the rent settlement to foster a compromise deal.

By analysing how the rent settlement was regulated under periods of ‘capture’ and ‘contestation’ in this chapter, I draw attention to some of the consequences of the organisational weakness of COCOFED, particularly the inability of the coconut producers to decisively shape the rent settlement associated with the levy funds they were paying into.
Rent settlement codified by executive fiat in the name of coconut farmers

Marcos used the extraordinarily concentrated executive power accorded him under Martial Law to inscribe the rent settlement in law. The presidential decrees promulgated by Marcos as the legal basis for the collection and mobilisation of coconut levies also inscribed a rent settlement. For one they embodied an assignment of rents: either explicitly or by enabling the uses of coconut levies that generated rent streams for specific agents. They invoked ‘coconut farmers’ as owners of the funds, but also did not give this principle operational meaning.

Presidential decrees assigning rights to rents

I present below three sets of instances in which relevant presidential decrees may be interpreted as assigning rent streams to specific agents.

First, the decrees penned by Marcos to enforce price subsidies also legitimised what were effectively income transfers from coconut farmers to consumers and exporters of coconut-based products, respectively. PD No. 276 of August 1973 ("Establishing a Coconut Consumers Stabilization Fund," 1973), which authorised the collection of the CCSF levy to finance a price stabilisation scheme for consumers of coconut-based goods at a period of abnormally high market prices for coconut oil, effectively assigned rights to redistributive transfers from coconut producers paying the levies to consumers of these goods, who in turn were shielded from the world market fluctuations in coconut oil prices. PD No. 414 of April 1974 ("Further Amending Presidential Decree No. 232 as Amended," 1974), which authorised the use of CCSF for refunding exporters of coconut-based products of premium duties they paid, also effectively assigned rights to redistributive transfers from the levy contributors to the exporters, who were effectively freed of obligations to pay said duties to the government. These presidential decrees can thus be interpreted as embodying a formal assignation of rights to a specific type of rent streams: in this first case, income transfers to cushion their recipients from the effects of extraordinary price movements in the world market for coconut oil.

Second, specific coconut levy-related presidential decrees were also used to facilitate the generation of rent streams for a specific individual, Eduardo Cojuangco.
The first of the two, PD No. 582 ("Further Amending Presidential Decree No. 232, as Amended," 1974b), made possible the use of coconut levy funds that generated redistributive transfers and monopoly rents for Cojuangco, as I explained in Chapter 3. In particular, this mode of levy mobilisation yielded two types of rent streams for Cojuangco. First, he was effectively awarded rights to monopoly rents as the sole provider of coconut seed nut to be distributed to coconut farmers under the nationwide replanting programme. Second, later on in 1982 when collection of levies were suspended and thus government could not purchase seedlings from Cojuangco’s farm, he was awarded redistributive transfers in the form of payments for seedlings he did not deliver but, under the guarantees of the contract, government was obligated to pay for. The presidential decree, by providing the basis for this specific government contract to be drawn, can thus be interpreted as having facilitated an assignment of rent streams – in this case, monopoly rents and redistributive transfers granted to Cojuangco.

The second decree that directly benefitted Cojuangco was PD No. 755, which authorised the use of coconut levy collections to purchase what came to be the United Coconut Planters Bank. Marcos signed into law in July 1975, which specifically directed the Philippine Coconut Authority to execute an “agreement for the acquisition of a commercial bank for the benefit of coconut farmers” and to use collections under the CCSF levy to “pay for the financial commitments of the coconut farmers under the said agreement” (Sections 1-2, "Approving the Credit Policy for the Coconut Industry as Recommended by the Philippine Coconut Authority and Providing Funds Therefor," 1975). However, negotiations had already taken place about the sale of the First United Bank, a floundering commercial bank owned by Cojuangco’s uncle, Jose Cojuangco at least a year before PD No. 755 was signed into law.¹⁴¹ As discussed in Chapter 3, Cojuangco brokered a deal that allowed PCA to buy, ‘on behalf of coconut farmers’, a majority stake in FUB, which was re-organised to become the UCPB. For brokering the deal, Cojuangco was awarded a 10 per cent stake in the bank and a management contract that effectively gave him control of bank operations.

¹⁴¹ Using a pamphlet circulated by Cojuangco as his source, Parreño (2003, p. 135) suggest that Jose ‘Don Pepe’ Cojuangco requested a meeting with his nephew in December 1974 to offer his stake in FUB.
In this light, the use of coconut levy funds to consummate this deal could thus be interpreted as giving rise to rents for capital accumulation for Cojuangco.

What is germane to my analysis in this chapter is the timing of the passage of these two decrees: both were promulgated after the deal between Cojuangco and Marcos were already in place. Quoting a close associate of Cojuangco as his source, Parreño (2003, p. 132) suggests that Cojuangco met with Marcos six months before PD No. 582 was signed into law and directly presented the president with the idea for a nationwide re-planting programme that he could carry out. Meanwhile, Marcos promulgated PD No. 755 after the agreement for purchasing a bank ‘for and in behalf of coconut farmers’ had already been negotiated. Both suggest that the decrees were passed expressly for the execution of the specific deals that Cojuangco had already brokered.

Third, the claim of COCOFED on the rent streams were also established through PD No. 961 ("An Act to Codify the Laws Dealing with the Development of the Coconut and Other Palm Oil Industry and for Other Purposes," 1976), hereinafter the Coconut Industry Code and which codified all laws pertaining to the coconut levies under one decree. The financing of the operating expenses of COCOFED, including projects such as scholarship grants to deserving children of coconut farmers, was specified as expressed purpose of the CCSF levy in this decree.142 These rights to the coconut levies where reiterated in PD No. 1841 ("Prescribing a System of Financing the Socio-Economic and Developmental Program for the Benefit of the Coconut Farmers and Accordingly Amending the Laws Thereon," 1981), the decree that re-instated the collection of the coconut levies after it was suspended in 1980 and that renamed the CCSF levy as CISF levy. These decrees thus inscribed COCOFED’s rights to direct transfers. In Chapter 3, I explained that this was a mode of mobilising coconut levies could, on one hand, be interpreted as not having generated ‘pure rents’, in as far as COCOFED projects could be interpreted as being merely ways of spending coconut farmers’ own contributions. However, I also showed that the direct access given to COCOFED to the coconut levy collections generated rents in the form of redistributive transfers from the corrupt implementation of legally mandated uses of the funds by COCOFED.

142 Already specified in RA NO. 6260, where yet unnamed COCOFED was even more central than in subsequent PDs. However, these CIC collections were miniscule…
What I have established so far is that the rent assignments associated with the coconut levies were largely meted out by Marcos through the power of presidential promulgations under Martial Law Philippines. The presidential decrees ordained the formal grammar of the rent settlement: facilitating the access to rent streams of consumers and exporters of coconut products, a presidential associate and COCOFED leaders. From this inventory of rent settlement beneficiaries invoked in the Marcos period presidential decrees, it should be immediately obvious that the levy contributors were not necessarily assigned as the main beneficiaries of the rent settlement.

Public authority, private control: ‘for the benefit of coconut farmers’

Even if I have shown that coconut producers were formally assigned as neither the sole nor main beneficiaries of the embedded streams of rents, they were universally invoked in the relevant presidential decrees as the ultimate ‘reason for being’ of these levies: both as the target beneficiaries for their uses and as the owners of the funds.\(^{143}\) ‘Coconut farmers’ were broadly cast as beneficiaries of

\(^{143}\) For example, the preamble of PD No. 414 ("Further Amending Presidential Decree No. 232 as Amended," 1974\(^{a}\)), the decree promulgated by Marcos for the collection of the CCSF levy for the purpose of price stabilisation, explicitly recognised coconut farmers as ultimate beneficiaries of investments made into industrial enterprises in the sector:

> "Whereas, there is a need to maintain domestic prices of coconut-based consumer products at reasonable levels without eliminating the benefits of high export earnings and unduly reducing farmers’ incomes; and to redirect inflationary excess profits into developmental investments by directly capitalizing industrial enterprises for and in behalf of the mass producers" (author’s underscoring)

The preamble of PD No. 582 ("Further Amending Presidential Decree No. 232, as Amended," 1974\(^{b}\)), the decree promulgated by Marcos to authorise the collection of the CIDF levy and carving out part of the CCSF collections for the purpose of establishing a hybrid coconut seednut farm, justified such a use of the levies in the following terms:

> "Whereas, to attain the objective the Government should channel part of what the coconut farmers are presently paying as coconut consumers stabilization levy to their ultimate direct benefit" (author’s underscoring)

The preamble of PD No. 755 ("Approving the Credit Policy for the Coconut Industry as Recommended by the Philippine Coconut Authority and Providing Funds Therefor," 1975\(^{c}\)), the decree promulgated by Marcos to legalise the use of coconut levy funds for the procurement a commercial bank, similarly invoked the proposed benefits of establishing a bank for coconut farmers:

> "Whereas, an operating commercial bank owned by the coconut farmers will accelerate the growth and development of the coconut industry and achieve a vertical integration thereof so that coconut farmers will become participants in, and beneficiaries of, such growth and development" (author’s underscoring)

Finally, a section of the preamble PD No. 961 ("An Act to Codify the Laws Dealing with the Development of the Coconut and Other Palm Oil Industry and for Other Purposes," 1976\(^{d}\)), the presidential promulgation that unified all decrees pertaining to the coconut levies under one act and hereinafter referred to as the Coconut Industry Code, also indicated the state’s intention to allow coconut farmers to own investments arising from the mobilisation of the coconut levies. It says:

> "Whereas, to make more meaningful the participation of the coconut farmers in the resulting benefits from the growth and development of the industry and to re-affirm the intention of the Government in restricting its role therein to the performance of purely governmental functions and in allowing the coconut farmers to own coconut commercial and industrial enterprises there is an imperative necessity
the funds’ uses in the ‘statements of state policy’ embodied by preambles of said presidential decrees. In particular, levies were mostly pitched in these preambles as a means of raising long-term financing for the coconut sector and were to be mobilised in ways that ultimately benefitted coconut farmers. This could be seen as signalling a contradiction about the rent settlement inscribed in law. On one hand, these provisions could be interpreted as underpinning the claims of the levy contributors on the rent settlement and prescribing their rights to returns on investments made in their behalf. On the other hand, this broad claim is negated by the fine print of rent assignments embedded in the same presidential decrees. Moreover, the evidence I have presented in Chapter 3—showing that coconut farmers were not the ultimate beneficiaries of the monopsony rents, redistributive transfers and rents from capital accumulation arising from the ways in which coconut levies were mobilised during the Marcos years—suggest that the coconut farmers’ legally inscribed rights to the rent settlement were never truly realised. Why then were they invoked at all?

While in Colombia state power was deployed to collect levies from coffee producers to strengthen the FEDECAFE, the privatisation of coconut levy collections, in the Philippines merely provided the smokescreen for the capture of rent settlement during the Marcos years. Marcos also rendered the coconut levy funds largely beyond the ambit of public audit and other formal institutions enforcing accountability through a presidential decree. And although when he revised the Coconut Industry Code in 1978 he specified his authority to call for a public audit, he never used this authority during the time he was in power.

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144 Section 5, Article III of the Coconut Industry Code (PD NO. 961) declared that coconut levy funds were not any form of government funds and that ‘coconut farmers’ owned them in their private capacity, to wit:

“...The Coconut Consumers Stabilization Fund and the Coconut Industry Development Fund as well as all disbursements of said Funds for the benefit of the coconut farmers shall not be construed or interpreted as special and/or fiduciary funds, or as part of the general funds of national government... nor as subsidy, donation, levy government funded investment [sic] or government share... the intention being that said Fund and the disbursements thereof as herein authorized for the benefit of the coconut farmers shall be owned by them in their private capacities...” (author’s underscoring)

This section of PD No. 961 also rendered coconut levy funds “beyond the contemplation” of other presidential decrees expounding on the scope of the national government’s auditing functions. In particular, the funds were specifically exempted from the effects of the presidential decrees that reverted all ‘special’ and ‘fiduciary’ funds to the ‘general funds’ of the government, and that defined the scope of powers of the Commission on Audit, the national agency tasked with auditing all government funds. Meanwhile, Section 5, Article III of the Revised Coconut Industry Code (PD No. 1468) reiterated this provision, with the proviso that the president may authorise its audit, to wit:
This resulted to hardly ever any reports being published under the Marcos regime about how coconut levy funds were expended\textsuperscript{145}, as I have noted in Chapter 3.

Even more significantly, the coconut farmers’ avowed ‘ownership’ of the funds and the investments thereof was ultimately given no operational meaning because it was made systematically difficult for individual farmers to lay claim on these. For one, the farmers’ claim on the funds was dependent on receipts issued to them as proof of payment. As I have explained in Chapter 3, no receipts were ever issued for payments of the CCSF and CIDF levies. It did not help that, as David (1992, p. 17) asserted, a vast majority of the farmers did not really know they were paying levies because the payments were automatically deducted by traders from the farm gate price. The claim that receipts tended not to be issued in connection with these levies seems to be borne out by the fact that, when UCPB stocks of shares were ‘distributed’ to farmers, CIF levy receipts were used as a means to validate claims on ownership shares rather than CCSF levy receipts. This was despite the fact that the funds used to purchase UCBP were actually not from CIF but CCSF/CIDF collections.

Meanwhile, even for CIF levy payments for which receipts were issued, transactions costs involved in the attainment of said receipts were a disincentive for farmers to actually secure them. In Chapter 3, I explained that CIF levy receipts were issued by PCA to coconut end-users, who then issued them to their dealers, thence to buyers and traders. Coconut farmers received their receipts from their first sale buyers. The farmers were then required to register their receipts with COCOFED town chapters (David, 1992, p 16) – a requirement that invoked costs in terms of time and transportation fare. David suggested that farmers thus found it impractical to have their receipts validated and registered

\textsuperscript{145}David (1977) had estimates of collections from 1973-1977, having collected and -- more crucially -- access to relevant data as the assigned military advisor in the sector under Martial Law. Clarete and Roumasset (1983) also cited a newspaper report (Business Day, 1980), which showed estimates of collection as of 1980. But there were no official consolidated reports on the coconut levy funds – neither their collection nor their disbursements – until after 1986, when Marcos was booted of power and levies were no longer being collected.
with COCOFED and that plenty of receipts stayed in the warehouses of traders and big end-users. Validating this claim, David undertook a nationwide survey of coconut farmers, and estimated that in 1973, 1974 and 1975, only 17 per cent, 27 per cent and 32 per cent, respectively, of the farmers registered their CIF receipts. (David, 1992) David’s estimates are supported by the government’s own Ministry of Agriculture, which undertook a similar survey in 1975 that found an even lower estimate of CIF receipt registration rate. They found that 59 per cent of their sample coconut farmers received their levy receipts, of which only 49 per cent went to have their receipts registered. This translates to a registration rate of 28 per cent in 1975. (Valiente et al in Clarete & Roumasset, 1983, p. 35)

In Chapter 3, I have already noted the irregularities the Sandiganbayan found in the distribution of receipts, upon which UCPB stock shares were distributed. Aside from this, Joey Faustino, executive director of the Coconut Industry Reform Movement (COIR) and a key figure in the struggle to recover coco levy funds for coconut farmers in the post-Marcos period, suggests additional anecdotal evidence of irregularities. He said that some farmers did register their CIF levy receipts and thus obtained UCPB stock certificates of ownership. However, these were later on sold to COCOFED officers. Faustino says that in Bicol146, where he undertook research, farmers called their stock certificates, ‘tseke’ (cheques). He says they were asked to queue up by COCOFED, who then encashed the certificates, as if they were cheques, at par value. 147

To further obfuscate matters, changes in Marcos’ coconut decrees made it appear that what was at first levied on farmers at first sale of copra was later on charged to exporters.148 This happened when coconut decrees were consolidated into the Coconut Industry Code in 1976.149 This decree already clearly indicated that the CCSF levy was to be charged to coconut end-users. This probably explains why coconut farmers were not issued receipts for their payments of CCSF and of CISF levy collections.

146 Bicol was one of the key coconut-producing provinces in the Philippines.
147 Interview undertaken by author in April 22, 2009, in Manila, Philippines.
148 The relevant provisions in PD No. 276 were cited in a pamphlet, widely attributed to Cojuangco and reproduced in David (undated), as a basis for claiming that the CCSF levy was a voluntary expense borne by millers and exporters for the benefit of farmers (p 48)
149 Section 1, Article III of the PD No. 981 specifies that copra exporters, oil millers, and other end uses are to pay the levy.
Having said this, the Revised Industry Code, which was enacted in 1978, also recognised that coconut farmers ultimately carried the burden of the levy. In particular, a section of this decree justifies that only oil mills ‘owned by the farmers’ shall be compensated for consumer subsidies by stating that “coconut farmers in effect shoulder the burden of the levies imposed”. (PD No 1468, Article III, Section 2a)

But more importantly, economic analysis bears out the conclusion that coconut farmers bore the burden of the levies. Clarete and Roumasset (1983, pp. 38-32) examined the extent to which Philippine government interventions in the coconut sector drove a wedge between the border price of copra and the producer price. They find that the imposition of the CCSF, along with the export tax and marketing regulations imposed in the 1970s, combined to lower the price received by coconut producers. Because the coconut decrees also legitimised the purchase of coconut mills and trading companies ‘in the name of the farmers’, the levies helped set up monopoly power in the marketing sector of the coconut industry. The monopoly power of copra end users meant that the levies could be easily passed on to farmers. The coconut levies were ultimately a tax on producers.

In summary, what transpired was that an authoritarian president designated the coconut levy funds as privately-owned funds. Such a designation meant that funds could be collected and spent without being audited and subjected to public scrutiny. And while ‘coconut farmers’ were invoked as the beneficiaries and owners of the funds, their claims of ownership were made difficult because of how the levies were collected and accounted for, and also by changes in the decrees that implied they did not bear the burden of the levy.

**Delimiting administrative control**

It was not only the designation of coconut levy collections as funds privately owned by coconut farmers that facilitated capture of the rent settlement but also the centralisation of administrative control of the funds to a delimited set of individuals. By ‘administrative control’, I refer to the authority to release legally mandated disbursements of the coconut levies – including, most importantly, the power to make investment decisions and to manage these investments, when the uses of the coconut levies were expanded to allow for the mobilisation of funds
beyond price stabilisation. It constitutes a central aspect of the rent settlement’s regulation because it has to do with its day-to-day implementation and enforcement.

**Interlocking directorates**

The centralisation and delimitation of administrative control of the coconut levy collections was achieved through the entrenchment of interlocking directorates – governing boards represented by the same set of people – commanding the three organisations that emerged as the main enforcers of the rent settlement: the PCA, COCOFED, and UCPB. Table 5.1 illustrates how ‘linked’ the governing boards of these organisations were in 1980. It shows that all members of the PCA board of directors were also members of the UCPB board. Four directors of COCOFED – including the chairman and president – were also directors of either PCA or UCPB, or both. Cojuangco, shown in Chapter 3 as one of the key beneficiaries of the rent settlement, was both director of PCA and president of UCPB.

**Regulatory infrastructure ordained by Marcos**

Marcos used the same set of presidential decrees that effected the privatisation of the coconut levy funds to put in place an organisational infrastructure regulating the rent settlement featured by intimately linked governing boards. The process of setting up the organisational infrastructure for administrative control of the rent settlement began with the establishment of PCA through the promulgation of PD No. 232 ("Creating a Philippine Coconut Authority," 1973) by Marcos in August 1973. PCA was originally established with the broad mandate of coordinating the development of the coconut sector and regulating, when necessary, trade and export of its products. The decree effectively centralised the governance of the industry under on agency as it abolished and transferred to PCA the functions and budgets of other coconut-related government agencies like the Coconut Coordinating Council (CCC), the Philippine Coconut Administration (PHILCOA) and the Philippine Coconut Research Institute (PHILCORIN).
Between its promulgation in June 1973 and December 1974, this decree was amended four times – through the promulgation of other presidential decrees – with the purpose of defining the powers of PCA in the administration of coconut levy funds and also progressively delimiting the size and constitution of the board of directors. By July 1976, Marcos had promulgated the Coconut Industry Code, in which the role of PCA in regard to the administration of the levies was consolidated; and the size of the PCA’s board of directors, delimited to a group of seven individuals. The speed and frequency in which the laws were manipulated by Marcos within a span of five years from 1973 to 1978 provides a good indication of the central role played by the executive in shaping this rent settlement.
Three sets of the aforementioned amendments were enforced to reconstitute the PCA Board. The first was promulgated in August 1973, just two months after the original decree creating the Philippine Coconut Authority was passed. It had the effect of whittling down the size of the PCA board to nine members, and removing the role therein of three government functionaries. Marcos gave himself the power to handpick the chairman of the board, and created a new position: that of the vice-chairman, a position reserved for the PCA administrator, who was also to be a presidential appointee. A seat was also reserved for a representative from the Coconut Investment Company.

Meanwhile, the second set of amendments was promulgated just eight months after in April 1974. This reconstituted the governing board of PCA by bringing in two government representatives: one from the Department of Finance and the other, from the Board of Investments. This would have signalled a revised commitment to enhance the powers of government officials within the board, but the board was reconstituted again by the end of the year. This third set of amendments, enforced in December 1974, took back the enhanced powers given to state representatives in PCA’s governing board, which was decreased in size to seven individuals. All previous state functionaries were no longer given a role in this reconstituted board. Instead, two seats were given to the Philippine National Bank, at that point in the government-owned bank where the levies were deposited: its chairman was to be PCA’s chairman of the board; another PNB representative, the board’s president. The number of COCOFED representatives was increased from one to three. A seat was given to the United

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150 PD No. 271 ("Amending Presidential Decree No. 232 Creating a Philippine Coconut Authority," 1973) was signed into law by Marcos in order to amend PD No. 232 ("Creating a Philippine Coconut Authority," 1973). PD No. 232 originally provided for the establishment of an eleven-member board of directors constituted by five representatives of relevant government agencies – a representative from the National Science Development Board, who was to be the chairman of the board; undersecretary of Agriculture and Natural Resources; undersecretary of Trade; director of the Bureau of Plant Industry and director of the Bureau of Agricultural Extension – and six, from the private sector: three to be handpicked by the president from the private sector at large; the chairman of COCOFED; and the chairman of the United Coconut Associations of the Philippines. In the amended law, the representatives from the National Science Development Board, Bureau of Plant Industry and Bureau of Agricultural Extension were removed from the board.

151 Embodied in PD No. 414 ("Further Amending Presidential Decree No. 232 as Amended," 1974), which authorised the PCA to implement what was at first a temporary price stabilisation scheme, and to collect the CCSF levy for this purpose.

152 Embodied in PD No. 623 ("Further amending Presidential Decree No. 232, as Amended," 1974a)
Coconut Associations of the Philippines, and the ‘owner and operator of the coconut seed nut farm’ – Cojuangco – was expressly given the power to recommend one representative. This PCA board configuration was retained in the Coconut Industry Code, except that the two PNB seats were reverted back to two representatives of the government appointed by the president. In a nutshell, the three sets of amendments had the effect of shoring-up of the position of coconut industry representatives and appointees of the president within the board.

The remaining set\(^{153}\) of the aforementioned four amendments was promulgated by Marcos to enable PCA to exercise new powers in relation to the coconut levies. In particular, the amendments related to authorising the PCA to collect a new and – unlike the CCSF levy – permanent levy to finance investments into the coconut industry, including the establishment and operation of what would be Cojuangco’s coconut farm.

In a nutshell, the presidential decrees promulgated by Marcos between 1973 and 1978 helped lay down the regulatory infrastructure governing the rent settlement in two significant ways. First, they fostered the deepening of PCA powers from being an agency with a broad coordinative and regulatory mandate, to one empowered to exercise the licit power of the state to expropriate surplus from producers through the imposition of coconut levies. Second, they progressively delimited the role of state functionaries in the governing board of PCA and centralised control of the agency to representatives of the coconut industry and associates of Marcos.

The second point is best illustrated by analysing the PCA board composition from 1974 to 1984\(^{154}\), as shown in Table 5.2 In a nutshell, data presented in the

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\(^{153}\) Embodied in PD No. 582 ("Further Amending Presidential Decree No. 232, as Amended," 1974b)

\(^{154}\) While levy collections were suspended from 1982, I chose to observe the PCA composition until a few more years after this because even after 1982, the economic entities funded by coconut levies were still in operation. UNICOM, the processing monopoly was not dissolved until 1985. This make 1984 a good end-point, being just two years before Marcos’ downfall from power – he was unseated by a popular uprising in 1986.
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</table>

Source: PCA, 2009
table shows that in the eleven years that I reviewed, it was only in 1974 when there was significant representation from agencies of the government. In seven of these years, COCOFED had three representatives in the board. From 1978 to 1984, one could even surmise that coconut industry representatives dominated the board as COCOFED’s three votes plus the vote of their allied organisation, UCAP, constituted majority of the seats. Other than the representatives of the sector, the only other central figure in the board is presidential associate Cojuangco, who served as board director for ten out of the twelve years reviewed in the table.

COCOFED: power diminished
Given such an organisational configuration governing the rent settlement, it is no wonder that the relevant series of presidential decrees have been interpreted as a means used by Marcos to cede control of PCA to COCOFED. However, an analysis of the share of the coconut levies administered by PCA cannot lead one to conclude that COCOFED was decisive in regulating the rent settlement through its role in the PCA board. I will show that the while national leaders of COCOFED were key figures in said interlocking directorates, as shown in Table 5.1, evidence pertaining to the fund allocations directly administered by each of these organisations indicate that the producers association was neither the sole nor dominant force in the administrative arrangement that emerged. To be sure, PCA administered a significant portion of the coconut levy collections: as shown in Table 5.3, PCA was responsible for 40 per cent of the disbursements. However, as also shown in the table, PhP 3.29mn of the PhP 3.86mn (or 85 per cent) administered by PCA was earmarked for specific purposes: consumer and exporter subsidies and Cojuangco’s replanting programme. In other words, there was little room to shape the expenditures of PCA around the objectives of COCOFED as the uses of the fund had already been determined by fiat. As has already been shown in Chapter 3, the price subsidies were effectively transfers from producers, whom the COCOFED were supposed to be representing, to consumers and exporters. Moreover, it was shown that the replanting programme benefitted Cojuangco without contributing to the productive goals of the sector.

155 See for example Hawes (1997, p. 74)
If COCOFED’s pronounced role in the board of PCA cannot be interpreted as evidence of coconut producers’ power to shape the rent settlement, what about the direct role the organisation played in mobilising a portion of the collections? The evidence suggests that even the direct control exercised by COCOFED to administer a portion of the levy collections could not be plausibly interpreted as indicative of the power of levy contributors to shape the rent settlement around their goals.

First, COCOFED ended up administering only about PhP 1.04 bn, at 11 per cent of the total amount relatively small portion of total collections. This is small relative to the share that FEDECAFE controlled in Colombia, and relative to the share controlled by the UCPB and PCA boards.

Second, there is no evidence to indicate that the choice of how these funds were used were subjected to democratic processes within COCOFED, as they were in FEDECAFE. As discussed in Chapter 3, COCOFED leaders later on faced charges of corruption related to how these funds were mobilised.

### Table 5.3 Uses of coconut levy collections, by administrator

<table>
<thead>
<tr>
<th>Items</th>
<th>Amount (in PhP)</th>
<th>Share in total (in %)</th>
</tr>
</thead>
<tbody>
<tr>
<td>UCPB-Administered Collection</td>
<td>4,795,791,001.32</td>
<td>49.46</td>
</tr>
<tr>
<td>Coconut Industry Investment Fund (CIIF)</td>
<td>2,572,143,884.69</td>
<td>26.53</td>
</tr>
<tr>
<td>Insurance Fund</td>
<td>994,941,396.29</td>
<td>10.26</td>
</tr>
<tr>
<td>Debt Service</td>
<td>38,970,509.40</td>
<td>0.40</td>
</tr>
<tr>
<td>UNICOM</td>
<td>1,189,735,210.94</td>
<td>12.27</td>
</tr>
<tr>
<td>PCA-Administered Collection</td>
<td>3,855,599,959.06</td>
<td>39.77</td>
</tr>
<tr>
<td>Subsidy</td>
<td>2,147,207,603.38</td>
<td>22.15</td>
</tr>
<tr>
<td>PCA Research and Development [R and D and operating expenses]</td>
<td>242,892,132.30</td>
<td>2.51</td>
</tr>
<tr>
<td>Premium Duty</td>
<td>173,142,231.78</td>
<td>1.79</td>
</tr>
<tr>
<td>Fertiliser Distribution Program</td>
<td>52,521,977.03</td>
<td>0.54</td>
</tr>
<tr>
<td>Donation to Children's Hospital [Lungsod ng Kabataan]</td>
<td>50,000,000.00</td>
<td>0.52</td>
</tr>
<tr>
<td>Ang Tahanan Maharlika</td>
<td>40,000,000.00</td>
<td>0.41</td>
</tr>
<tr>
<td>Hagenmaier Aqueous Coconut Processing Project</td>
<td>2,659,959.82</td>
<td>0.03</td>
</tr>
<tr>
<td>Replanting</td>
<td>1,147,176,054.75</td>
<td>11.83</td>
</tr>
<tr>
<td>Cocofed-Administered Collection (and Others, jointly and severally)</td>
<td>1,044,048,789.29</td>
<td>10.77</td>
</tr>
<tr>
<td>Distribution of Stock Certificate of UCPB to Coco Farmers</td>
<td>694,833.81</td>
<td>0.01</td>
</tr>
<tr>
<td>Copra Price Stabilization Fund (CPSF)</td>
<td>144,922,065.14</td>
<td>1.49</td>
</tr>
<tr>
<td>Development and Socioeconomic Projects for Coco Farmers</td>
<td>759,911,891.34</td>
<td>7.84</td>
</tr>
<tr>
<td>Acquisition of controlling interest at UCPB</td>
<td>115,520,000.00</td>
<td>1.19</td>
</tr>
<tr>
<td>Census Committee</td>
<td>23,000,000.00</td>
<td>0.24</td>
</tr>
<tr>
<td>Total collections</td>
<td>9,695,439,749.67</td>
<td>100.00</td>
</tr>
</tbody>
</table>

Source: SAO, 1997

What the evidence supports is that UCPB ultimately emerged as the most important regulatory conduit of the rent settlement. As shown in Table 5.3, among the three organisations administering the funds, the bank ended up
administering the biggest share of the collections: PhP4.8bn or 50 per cent of the total coconut levy collection. Moreover, while PCA and COCOFED administered coconut levies for use in ‘one-off’ projects – like price subsidies, and welfare and income transfers – UCPB administered investments of the funds that created further rent streams. These investments, in turn, were nominally owned by UCPB – all on behalf of the coconut farmers, of course. As can be seen in Table 5.3, UCPB administered the mobilisation of coconut levies for the vertical integration of the coconut industries – and for this purpose the establishment of the United Coconut Oil Mills (UNICOM) and procurement of various coconut oil milling facilities as financed by the CIIF. As could be recalled from Chapter 3, this specific mode of using the funds generated monopsony rents as market power was shored up the top-end of the value chain in the coconut sector.

The role of UCPB in administering the rent settlement, like that of PCA and COCOFED, was also established by presidential fiat. The first important step Marcos took to strengthen the role of UCPB in administering the rent settlement was to make it the depository of all coconut levy collections. The monies were deposited in the UCPB, interest-free and were to service the credit requirements of coconut farmers. The Coconut Industry Code also gave the bank full authority to invest the funds in enterprises involved in commercial and industrial activities related to the coconut and palm oil sectors.

In UCPB, it was Cojuangco and not COCOFED representatives that reigned supreme. The COA team that audited UCPB operations in 1986 indicated that Cojuangco “controlled the UCPB for more than ten years” (Commission on Audit, 1986b, p. 9). Cojuangco was the president of the bank from the time it was purchased in 1975 to 1986. Again as explained in Chapter 3, Cojuangco was not only awarded personal shares of stocks in the Bank, but also awarded a five-year renewable management contract and the right to appoint three members of the board of directors – all these, by virtue of brokering the deal that led to the purchase of UCPB. Hawes (1987, p. 79) also suggests that while COCOFED was represented in the board of the bank, it was outnumbered in the bank’s

156 PD No. 755 (“Approving the Credit Policy for the Coconut Industry as Recommended by the Philippine Coconut Authority and Providing Funds Therefor,” 1975) was promulgated for this purpose.
executive committee, which was constituted by five members: COCOFED’s Lobregat, Cojuangco, and three individuals who represented the stakes of the bank’s former major stakeholders before UCPB was procured for the coconut farmers. A COCOFED official interviewed by Hawes (1987, p 82) said that it was in the management team set up at the UCPB where “landlord politicians of COCOFED felt they were losing out to the political associations of the president [Marcos].”

In summary, out of the flurry of presidential decrees promulgated by Marcos between 1973 and 1981, the administrative infrastructure for regulating and enforcing the rent settlement that emerged was one in which power resided in three organisations: PCA, COCOFED and UCPB. These organisations were governed by boards of interlocking directorates, with significant participation by COCOFED representatives. The presidential decrees initially strengthened COCOFED position within the PCA. But when Marcos authorised the purchase of what became UCPB and gave this bank the power to mobilise coconut levies for investments to effect the vertical integration of the industry, a power shift in terms of the regulatory control of the rent settlement ensued. In the end, a presidential associate trumped the powers of COCOFED representatives – resulting in a rent settlement in which the producers association controlled and received a relatively thinner stream of rent assignments.

Rent settlement contested: the post-Marcos period

The regulation of the rent settlement associated with the coconut levies took an interesting turn in 1986, soon after Marcos was deposed from power.157 Among

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157 Marcos fled the Philippines in February 25, 1986 following a peaceful popular uprising usually referred to as the “people power revolution” or the “EDSA revolution”, after the name of a major highway in Metro Manila. Amid protests over allegations of cheating in the presidential elections held a few weeks earlier in February 7, a group of military forces took refuge in military camps in the capital in February 22 after a botched plot against Marcos. The camps were surrounded by thousands of civilians to prevent an assault by Marcos’ loyalist military forces. Over the next few days, more military units defected to the rebel side even as the civilians gathered in EDSA rapidly swelled to massive numbers. Marcos, along with his immediate family and some of his closest associates, were flown to Hawaii by the US government. Marcos remained in the US state until his death in 1989.

Hours before Marcos fled the country, Corazon “Cory” Aquino, the opposition candidate believed to have won the elections, was sworn in as President. Aquino was a self-described housewife but had gained prominence as the widow of popular opposition senator Benigno “Ninoy” Aquino, who was assassinated in 1983 at Manila’s airport upon his return from exile in the US.
the very first acts of the newly installed government of president Corazon Aquino, who took over from Marcos, was to sequester ‘ill-gotten wealth’ deemed to have been amassed by the deposed president, his relatives and close associates by exploiting access to public authority during the 20 years that the president was in power. Among those sequestered in 1986 were the assets acquired using the coconut levies including, as explained in Chapter 3: COCOFED and Cojuangco’s shares of stocks in the bank UCPB; COCOFED and Cojuangco’s shares of stocks in the San Miguel Corporation, the investments made by UCPB through the Coconut Industry Investment Fund (including the oil mills and the oleo-chemical manufacturing plant discussed in Chapter 3), the Coconut Investment Company, and COCOFED’s copra trading company, COCOMARK. As alluded to in Chapter 3, a case – docketed as Civil Case No. 0033 – was subsequently filed by the Philippine government in 1987 at the Sandiganbayan against Eduardo Cojuangco, Jr, and sixty other. Among the sixty other individuals were all the members of interlocking directorates, and national officers of the COCOFED cited in Table 5.1. As also noted in Chapter 3, the case was later subdivided (in 1995) into eight separate cases, collectively called the ‘coconut levy cases’, which contested the legality of mobilising the levies for the following: the purchase of the UCPB, the creation of the CIIF companies, the creation and operation of the coconut seed farm by Cojuangco, the purchase

158 The first executive order Aquino issued, EO No. 1, was the establishment of the Presidential Commission on Good Government tasked with recovering ‘ill-gotten wealth’ under the Marcos government. This commission issued the sequestration order.

159 Aquino’s second executive order, EO No. 2, specified ‘ill-gotten wealth’ to include “assets and properties in the form of bank accounts, deposits, trust accounts, shares of stocks, buildings, shopping centres, condominiums, mansions, residences, estates, and other kinds of real and persona properties in the Philippines and in various countries of the world.”

160 Information from court document: “Republic of the Philippines versus Sandiganbayan, etc. (Re: Sequestration Orders Revoked by Sandiganbayan),” 1995. Based on this document, Cojuangco’s shares of stocks in San Miguel Corporation were similarly sequestered, as were 250 other corporations in which he had a stake.

161 Civil Case No. 0033-A, regarding the Anomalous Purchase and Use of First United Bank, now “United Coconut Planters Bank”

162 Civil Case No. 0033-B, regarding the Creation of Companies out of Coco Levy

163 Civil Case No. 0033-C, regarding the Creation and Operation of Bugsuk Project and Award of PhP 998 mn Damages to Agricultural Investors, Inc ding the Creation of Companies out of Coco Levy.
and settlement of the debts of oil mills described in Chapter 3, and the acquisition of the San Miguel shares of stocks.

The sequestration of the coconut levy assets and filing of above-described cases by the Philippine government meant that, when Marcos was ousted from office in 1986, two things were set in motion: first, a legal challenge to the assignment of rights to rent streams associated with the coconut levies or the rent settlement prescribed when Marcos was in power, particularly the rights appropriated by Cojuangco and COCOFED; and second, the undermining of the regulatory infrastructure that Marcos set up to control the mobilisation of coconut levies. In other words, both the ownership of coconut levy-funded assets, and control of the returns from these became open to contestation. Therefore, in the post-Marcos period, the regulation of the rent settlement related to the adjudication of this contest.

After 1986, the contested rent settlement revolved around the claims that, on one hand, Marcos-nominated rent settlement beneficiaries, and on the other hand, emergent groups purporting to represent the interest of coconut producers had on the coconut levy-funded companies and their investments. Altogether what was being contested was valued at somewhere between PhP 50 to100 billion in 2012. This figure is equivalent to a five- to ten-fold increase of the total estimated levy contributions of coconut farmers.

To provide a better picture of the contested continuing wealth streams, I present data obtained from a COA audit of the CIIF oil mills (Commission on Audit, 1997, p. 13) in Table 5.4. The table shows that the net worth of the original PhP 2.57 million-allocation of the coconut levy collections for CIIF had grown to PhP 13.36 billion by 1996. The report also indicates that the controlling interest in UCPB, for which PhP 115.52 million of the levies was

\[164\] Civil Case No. 0033-D, regarding the Disadvantageous Purchases and Settlement of the Accounts of Oil Mills out of Coco Levy Funds ding the Creation of Companies out of Coco Levy.

\[165\] Civil Case No. 033-F, regarding the Acquisition of San Miguel shares of stocks.

\[166\] The three other cases are: Civil Case No. 0033-E regarding, Unlawful Disbursement and Dissipation of Coco Levy Funds; Civil Case No. 0033-G, regarding the Acquisition of Pepsi-Cola; and Civil Case No. 0033-H, regarding Behest Loans and Contracts. The last two do not directly involve the mobilisation of coconut levy funds, but loans given by the UCPB during Marcos’ time. The list of cases are from “Republic of the Philippines versus Eduardo M. Cojuangco Jr, et al, Re: Acquisition of San Miguel Corporation Shares of Stock” (2007, p. 4)

\[167\] This figure was quoted to me in an interview with Oscar Santos on May 1, 2009, former PCA administrator and president of the Coconut Industry Reform Movement (COIR). The range has to do with the fact that the total value fluctuates with the market valuation of the SMC stocks.
invested, was valued at PhP 366.55 million, as of 1996. (Commission on Audit, 1997, p. 5) In an interview I had with a CIIF official\textsuperscript{168}, the figure of PhP 13 billion was quoted as the value of CIIF companies; but PhP 14 billion, as the value of the bank shares. The interview was done in 2009, which should give a sense of how the value of the UCPB shares had grown from 1996 to 2009 – and also of the fact that the valuation of most coconut-levy enterprises had stagnated, while that of the bank had grown dramatically. Moreover, one could also deduce that the lion’s share of the estimated value of coconut levy-associated investments – as suggested above, this could be as high as PhP 100 billion in total – is accounted for by the value of San Miguel stocks.

Table 5.4 Original CIIF investments and net worth as of December 1996

<table>
<thead>
<tr>
<th>Companies</th>
<th>Original investments</th>
<th>Net worth, as of December 1996</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oil mills and subsidiaries</td>
<td>732,715,801.55</td>
<td>10,138,815,000.00</td>
</tr>
<tr>
<td>United Coconut Chemical Inc.</td>
<td>864,250,000.00</td>
<td>1,215,554,000.00</td>
</tr>
<tr>
<td>United Coconut Planters Life Assurance Corp</td>
<td>16,250,100.00</td>
<td>1,354,080,000.00</td>
</tr>
<tr>
<td>United Cocoa Plantation Inc.</td>
<td>90,000,000.00</td>
<td>-72,270,000.00</td>
</tr>
<tr>
<td>Iligan Bay Express Corp</td>
<td>9,000,000.00</td>
<td>21,337,000.00</td>
</tr>
<tr>
<td>United Coconut Planters International</td>
<td>147,610,000.00</td>
<td>418,133,000.00</td>
</tr>
<tr>
<td>CIIF Finance Corp</td>
<td>0.00</td>
<td>182,314,000.00</td>
</tr>
<tr>
<td>United Coconut Planters Management</td>
<td>10,000,000.00</td>
<td>dissolved in 1988</td>
</tr>
<tr>
<td>Seven Copra Trading Companies</td>
<td>158,000,000.00</td>
<td>dissolved in 1986</td>
</tr>
<tr>
<td>United Coconut Oil Mills Inc. (UNICOM)</td>
<td>544,200,000.00</td>
<td>dissolved in 1985</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>2,572,025,901.55</strong></td>
<td><strong>13,257,963,000.00</strong></td>
</tr>
</tbody>
</table>

Source: SAO 97-10, 1997 (Commission on Audit, 1997)

Meanwhile, there were two nodes through which the contested rent settlement was adjudicated: judicial court rulings and presidential action during the course of what obviously was a long drawn out process of litigation.

Court rulings on aspects of the court levy cases had the effect of regulating the post-Marcos rent settlement by prescribing who had property rights over the contested assets acquired through the coconut levies, and the income streams these assets generated. Court decisions ruled on the issue of whether and how coconut producers who paid the levies had a rightful claim to the assets acquired through their contributions. But it must also be underlined that the rulings took a while to decide, and indeed, enforce. And even after the rulings had been promulgated, it also took time for the rulings to be final and executory. All these

\textsuperscript{168} Interview requested anonymity. Interview undertaken on May 15, 2009 in Manila, Philippines.
meant that the process of the long drawn out and costly litigation itself provided the possibilities for a negotiated settlement.

The drawn-out judicial litigation process provided the successive presidents after Marcos the latitude to regulate the rent settlement while the courts were in the process of deciding on issues of ownership. The exercise of presidential authority came in the form of executive orders containing formulations of how the income and profit from the coconut levy assets were to be mobilised and controlled. Moreover, because the corporate boards of the UCPB, San Miguel Corporation, and the CIIF group of companies controlled the mobilisation of said income and profit streams, appointments in these boards was also a means for the regulation of the rent settlement. These appointments, in turn, were made by the president through the Presidential Commission on Good Government, first formed in 1986 to oversee the sequestration of ill-gotten wealth during Marcos’ presidency. Thus, the choice of PCGG commissioners and head had significant consequences on the rent settlement. Finally, because the Philippine government was the plaintiff in the coconut levy cases and the enforcer of the sequestration of assets, decisions on legal strategies in the pursuit of these cases ultimately rested on the sitting president, including the decision to enter out-of-court settlements.

What is interesting about all these presidential actions is that they also reflected the configuration of interests that held sway under the term of a given president – i.e., who the given president was favouring among those contesting the settlement. An enduring quality of the rent settlement in the Philippines was thus that, even under conditions of a formal democracy, executive prerogative underpinned its regulation. In the post-Marcos period, the exercise of executive authority was influenced by outcomes of negotiations presidents fostered with beneficiaries of the Marcos period rent settlement, keen on maintaining their claims on the assets; and emergent groups, purporting to represent the interest of coconut producers in the contest for the rent settlement.

In a nutshell, if during the time of Marcos, the rent settlement was regulated through the articulation of concentrated executive power and the establishment of a centralised regulatory infrastructure, the ouster of Marcos led to a key change: opening up the rent settlement to contestation in decentralised arenas. The contest for the rent settlement was played out in courts of law, in corporate boards, and in attempts to influence presidential authority.
Court decisions assign property rights to the state

From 1989 to 2011, jurisprudence on some aspects of the coconut levy cases had vital consequences on the rent settlement. In a nutshell, through court rulings, COCOFED lost their rights to assets acquired through the coconut levy funds – particularly shares of stocks in UCPB and the San Miguel shares, as described in Chapter 3 – while Cojuangco also lost his claims on UCPB, but not on his shares in San Miguel. These were effected through two sets of court decisions, that weighed in on the nature of the coconut levy funds as public funds, and on the ownership of assets said to have been acquired using said funds (i.e., UCPB shares) or assets acquired by companies set up through the funds (i.e., San Miguel shares).169

The first set of decisions relate to three resolutions released by the Supreme Court in response to petitions filed by either (1) beneficiaries of the Marcos years rent settlement against the sequestration orders on the coconut levy-funded assets, and the consequences thereof (i.e., the voting rights in the corporate boards of the coconut levy-funded corporations that were ceded to the Philippine government as a result of the sequestration orders) or (2) the Philippine government seeking to nullify earlier decisions of the Sandiganbayan lifting some of the sequestration orders. In general, the Supreme Court upheld the decision to sequester the coconut levy-funded assets, and to allow the government to continue exercising the right to vote their shares in the corporate boards. These decisions effectively weakened the claims of private agents, like Cojuangco and the COCOFED, on assets that could be shown to have been acquired through the use of the funds.

Two of these rulings affirmed that the coconut levy funds used to acquire the contested assets were “imbued with public interest” As a basis for upholding government’s sequestration of the assets. The first one was made in 1989, when the Supreme Court dismissed the petition of COCOFED to nullify the government’s sequestration orders, affirming that the coconut levy funds used in the procurement of shares in said corporations as being “affected by public

169 I was directed to these rulings by Royandoyan (2007), whom I also interviewed on May 15, 2009 in Manila, Philippines. Royandoyan was one of Arroyo’s appointees as UCPB Board member as one of the NGO representatives.
interest”.

The second one was made in 1995, when the Supreme Court overturned a 1990 Sandiganbayan decision suspending the sequestration of coconut levy-funded shares in the UCPB. Again the ruling affirmed that the funds used to procure said shares were “affected with public interest, [hence,] it follows that the corporations formed and organized from those funds and all assets acquired therefrom should also be regarded as ‘clearly with public interest’”.

Meanwhile, the third relevant ruling was made by the Supreme Court in 2001, overturning an earlier court order given by Sandiganbayan earlier that allowed COCOFED and Cojuangco, among others, to continue voting their shares in UCBP while the relevant case was still being tried. In this ruling, the Supreme Court was even more categorical in classifying the coconut levy funds as public funds, saying “the coconut levy funds are not only affected with public interest, they are, in fact, prima facie public funds”. The court cited, among others, the following as reasons for such a classification: coconut levy funds were raised with the use of the police and taxing powers of the State; they were levies imposed by the State for the benefit of the coconut industry and its farmers; and the very laws governing coconut levies recognized their public character.

The second set of decisions relate to rulings issued by the Sandiganbayan on two of the subdivided coconut levy cases: Civil Case No. 0033-A, regarding the use of coconut levies for the procurement of UCPB; and Civil Case No. 0033-F, regarding the use of the same for the procurement of shares of stocks in the San Miguel Corporation. Of interest to my analysis is a series of partial summary judgements made by the Sandiganbayan in 2003, 2004 and 2007. These rulings were more significant than the first set of decisions because they ruled on issues of ownership of UCPB and the contested San Miguel shares and thus

170 From the Supreme Court Decision dated October 2, 1989, ruling on the petition of COCOFED to annul the sequestration orders on their assets. ("Philippine Coconut Producers Federation (COCOFED), et al vs. PCGG (RE: Petition to annul sequestration orders) ", 1989)

171 From the Supreme Court Decision dated January 23, 1995, a ruling overturning Sandiganbayan decision to revoke sequestration. ("Republic of the Philippines versus Sandiganbayan, etc. (Re: Sequestration Orders Revoked by Sandiganbayan),” 1995).

172 From the Supreme Court Decision dated December 14, 2001, ruling on the right of government to vote the sequestered shares ("Republic of the Philippines vs. COCOFED, et al. (RE: Right of government to Vote Sequestered Shares),” 2001).

173 According to Herminigildo Dumlao, from the Philippines’ Office of the Solicitor General and whom I interviewed on June 3, 2009 in Manila, a partial summary judgment is a judgment on the undisputed aspects of the case. It is not final and executory.
effectively ascribed property rights over the coconut levy-funded assets that had greatest remaining and continuing value.

In a 2003 Sandiganbayan ruling on the UCPB case, the court declared that the Philippine government owned both the shares claimed by COCOFED and that of Cojuangco. As I have explained in the first section of this chapter and in Chapter 3, the legal basis for the procurement of the bank that became UCPB, which was executed by the Philippine Coconut Authority but negotiated by Cojuangco, was a presidential decree (PD No. 755). The specific provision\textsuperscript{174} that explicitly referred to the purchase agreement arranged by Cojuangco was deemed unconstitutional by the court, which ruled that:

“the use of the CCSF to benefit private interest through the outright and unconditional grant of absolute ownership of the FUB/UCPB shares … to the undefined ‘coconut farmers’… negated the public purpose…to accelerate the growth and development of the coconut industry and achieve the vertical integration” \textsuperscript{175}

This presidential decree was also the legal basis for COCOFED’s claims on a 65 per cent share of UCPB, purchased using coconut levy funds on behalf of the “1.6 million coconut farmers”. In effect, the court ruled that the COCOFED’s shares were thus obtained illegally and consequently declared these shares owned by the Philippine government. Meanwhile, as could be recalled from Chapter 3, Cojuangco’s shares in the UCPB refer to the 7 per cent share in the bank that he acquired for negotiating the deal to procure the bank FUB, in which his uncle Peping Cojuangco had majority shares. Again on the basis that the agreement between PCA and Cojuangco was undertaken under the invalidated PD No. 755, the transfer of these shares were deemed void; and the Cojuangco shares, also owned by the Philippine government.\textsuperscript{176} “This partial summary judgment was

\textsuperscript{174} Section 1 of PD No. 755, the ‘Declaration of National Policy’, stating that:

“It is hereby declared that the policy of the State is to provide readily available credit facilities to the coconut farmers at preferential rates; that this policy can be expeditiously and efficiently realized by the implementation of the "Agreement for the Acquisition of a Commercial Bank for the benefit of the Coconut Farmers" executed by the Philippine Coconut Authority, the terms of which "Agreement" are hereby incorporated by reference; and that the Philippine Coconut Authority is hereby authorized to distribute, for free, the shares of stock of the bank it acquired to the coconut farmers under such rules and regulations it may promulgate.”


declared final but appealable in a separate ruling made by the *Sandiganbayan* in May 2007. (Royandoyan, 2007, p. 179)

On the matter of the contested San Miguel shares – the procurement of which, as I have explained in Chapter 3, was also negotiated by Cojuangco and resulted in CIIF mills owning 31 per cent of San Miguel shares, and Cojuangco himself securing 16 per cent in 1983 – the *Sandiganbayan* rendered judgment in 2004 declaring the CIIF block of San Miguel shares, which were being claimed by COCOFED, were owned by the Philippine government “on behalf of coconut farmers”, as were the CIIF oil mills and holding companies used to buy those shares.177 In this ruling, the unconstitutionality of provisions in the presidential decrees penned by Marcos – particularly in the Coconut Investment Code and the Revised Code – declaring the coconut levy funds as privately owned by ‘coconut farmers’ was also upheld. Following the same logic used in the UCPB case, the court questioned whether the use of the coconut levies for the establishment of the aforementioned CIIF oil mills and holding companies – and by extension the San Miguel shares they acquired – served a public purpose. This judgment was also declared by the *Sandiganbayan* as final but appealable in 2007. (Royandoyan, 2007, p. 180)

While the government won its petition for partial summary judgment on the COCOFED shares of SMC, it lost the petition it filed on the Cojuangco shares, thus lifting the government sequestration of these shares. In 2004, *Sandiganbayan* denied government’s petition essentially on grounds that the following issues remained unresolved: (1) whether Cojuangco used coconut levy funds to procure his shares; and (2) whether Cojuangco served in the governing bodies of PCA, UCPB and/or CIIF oil mills at the time the SMC shares were bought; and (3) whether he took advantage of his close ties with Marcos to secure concessions for the loans he took to acquire his shares in SMC.178 In 2007,

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Sandiganbayan rendered a summary judgement on the case, deciding in favour of Cojuangco and ruling that the Philippine government was unable to establish that Cojuangco illegally acquired his San Miguel shares. This was upheld by the Supreme Court in 2011, a decision explained in Chapter 3. It could be construed from the 2007 Sandiganbayan and 2011 Supreme Court rulings that the courts deemed that the government failed to provide evidence to support its case on the three unresolved issues that would have proven that Cojuangco directly and illegally used the coconut levies to finance his purchase of San Miguel shares.

In a summary, these court rulings established the following: (1) that coconut levy funds were public funds; and (2) assets shown to have been unquestionably acquired through the mobilisation of coconut levy funds (i.e., majority shares in UCPB, COCOFED shares in San Miguel Corporation and the CIIF group of companies) were owned by the government, on behalf of coconut farmers”. With these rulings, the mobilisation of the continuing income streams from the coconut levy investments, and the operation of the CIIF companies were put in direct control of the state, which now had the prerogative to interpret what it meant to act in behalf of those who contributed to make these investments possible. COCOFED also lost their claims on these. Meanwhile, while Cojuangco lost his claims on UCPB, he retained ownership of his San Miguel shares.

(Royandoyan, 2007, p. 178). This was one of the issues resolved in the 2011 Supreme Court Ruling, a decision favouring Cojuangco ("Republic of the Philippines vs. Sandiganbayan (First Division), Eduardo Cojuangco Jr., et al. Re: Acquisition of San Miguel Corporation Shares of Stocks ", 2011).


Supreme Court Decision dated April 12, 2011, ruling on ownership of Cojuangco’s shares in the San Miguel Corporation ("Republic of the Philippines vs. Sandiganbayan (First Division), Eduardo Cojuangco Jr., et al. Re: Acquisition of San Miguel Corporation Shares of Stocks ", 2011).

As could be expected, the government filed a motion for reconsideration of this decision in November 2011 (Lopez, 2011). Meanwhile, various farmers’ organisations also voiced their opposition to the court decision (Ubac, 2012). After the Supreme Court issued a ruling in 2012 ("Philippine Coconut Producers Federation (COCOFED) et al vs. Republic of the Philippines (Re: Sandiganbayan Partial Summary Judgements dated July 11, 2003 and May 7, 2004)," 2012) upholding the 2004 Sandiganbayan partial summary judgement granting the state ownership of UCPB and San Miguel shares that were claimed by COCOFED, Joey Faustino, one of the leading personalities from civil society advocating for the ‘recovery’ of the levies, issued a statement urging a re-opening of the case. He said that,

“The UCPB decision clearly shows that the bank was a public corporation all along. Therefore, Cojuangco was holding public office when he borrowed money to buy the shares for himself.”(Faustino, 2013)
Negotiating the post-Marcos rent settlement outside the courts of law

In the process of these judicial rulings being decided, promulgated, and contested, executive authority was also exercised with the effect of regulating the rent settlement. As the court rulings were increasingly favouring the Philippine government to have the rightful claim over the contested assets, the adjudicating power of the state in this contested rent settlement – as articulated in presidential decisions implementing court rulings – also gained strength. Contending claimants to the rent settlement struggled to influence presidential action, and through this, their claims on the coconut levy funded-assets. In what follows, I present, in a synoptic fashion, actions of a succession of presidents after Corazon Aquino, and analyse what these reveal about the influence exercised by the contending claimants to the rent settlement.

I begin with Fidel Ramos, who was president of the Philippines from 1992 to 2001 and promulgated two executive orders of interest during his term. In 1995 – notably a time when Supreme Court rulings affirming that coconut levy funds were ‘imbued with public interest – Ramos promulgated EO No. 277, which upheld the principle of ‘coconut levy funds’ being ‘public funds’, and ordered that they be utilised and managed as such.

He ordered the setting up of an ad-hoc committee that was mostly made up of government actors to oversee fund utilisation. This committee was tasked with consulting with “coconut farmer’s

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182 I am excluding from the analysis what happened during the time of Corazon Aquino, who was president of the Philippines from 1986 to 1992. Court cases related to the coconut levies were filed during her term of office and I would argue that the contest for the rent settlement was thus happening in the courts of law at this point. In particular, beneficiaries of the Marcos years rent settlement were, at this period, fighting the sequestration orders and their right to continue participating in the boards of the CIIF companies, UCPB and San Miguel Corporation.

183 Accounts of presidential actions described here are chiefly from Royandoyan (2007) and Faustino (2003). I interviewed both Royandoyan and Faustino (See Appendix 1 for details). As with Royandoyan, Faustino was one of Arroyo’s appointees to the UCPB Board, also a representative of the NGO sector.

184 In particular, Ramos ordered the following through EO No. 277 (“Directing the Mode of Treatment, Utilization, Administration and Management of the Coconut Levy Funds,” 1995, p. 3):

“...The coconut levy funds, which include all income, interests, proceeds or profits derived therefrom, as well as all assets, properties and shares of stocks procured or obtained with the use of such funds, shall be treated, utilized, administered and managed as public funds, consistent with the uses and purposes under the laws which constituted them and the development priorities of the government, including the governments’ coconut productivity, rehabilitation, research, extension, farmers organizations and market promotions programs, which are designed to advance the development of the coconut industry and the welfare of the coconut farmers.” (underscoring mine)

185 In particular, Ramos ordered the Secretary of Agriculture to chair the committee, constituted by heads of the Presidential Commission on Good Government, Philippine Coconut Authority, United Coconut Planters Bank and the Coconut Industry Investment Fund. (EO No. 277, p.3)
organisations” and devising a ‘master plan’ for the years 1995 to 2000. In 1998, right before the end of his term, Ramos promulgated EO No. 481, which called for lifting of sequestration orders on coconut levy assets, with the purpose of liquefying these assets for use in the ‘master plan’ devised under EO No. 277. The order directed the constitution of a committee, made up of heads of the Presidential Commission on Good Government, the PCA, and UCPB to administer the disposition of the ‘unlocked coconut levy funds’. The executive order also affirmed that these funds would be treated as public funds.

In effect, even before the Supreme Court had categorically classified the coconut levy funds as ‘public funds’ in 2001, Ramos already declared through these executive orders that they were as such. Seen in this light, they signified Ramos’ posturing against COCOFED and Cojuangco, who of course at this point were battling against the classification of the funds as public in character. Considering that Cojuangco ran against Ramos in the presidential race of 1992 partly explains this posturing – Cojuangco was obviously not a presidential ally.

However, the symbolic significance of these presidential orders did not translate operationally. As noted by Royandoyan (2007, p. 34), the Pambansang Koalisyon ng mga Samahang Magsasaka at Manggagawa sa Niyugan (National Coalition of Coconut Farmers and Labourers, PKSMMN), a coalition of organisations formed in 1994 to campaign for the recovery of the coconut levies, was complaining about the lack of implementing mechanisms for EO No. 277. Another organisation, the Coconut Industry Reform Movement (COIR), a coalition of non-government organisations and coconut farmer’s organisations, was noted as echoing a dissatisfaction that nothing came out of the executive order two years after it had been promulgated. (Royandoyan, 2007, p. 41)

Meanwhile, EO No. 481, having been promulgated right before the elections in 1998, was seen as ploy to shore up the campaign of Ramos’ supported candidate, Jose de Venecia, and woo the votes of coconut farmers. (Royandoyan, 2007, p. 43)

As it turns out, Ramos’ candidate lost the election, and the president who took over from him from 1998 to 2001 was Joseph Estrada. Estrada, who was the vice-president under Ramos’ term, was the running mate of Cojuangco in the 1992 elections. Unsurprisingly, the presidential actions of Estrada reflected a posturing that was the polar opposite of Ramos’. As could be deduced from the
discussion on court rulings, above, this was a period when the crucial rulings on ownership of coconut levy-funded assets had still not been handed down, and so the reconstitution of the Marcos period rent settlement was still very much at play. There were two presidential actions that are emblematic of how nearly this happened under the watch of Estrada.

First, Estrada appointed known allies of Cojuangco and COCOFED to key positions soon after he was sworn into office in 1998. Eduardo Escueta, a lawyer of the COCOFED, was appointed as the administrator of PCA. Felix de Guzman, an aide to Estelito Mendoza, the legal counsel of Cojuangco was appointed head of the PCGG. With a ‘friendlier’ PCGG, government representatives in the San Miguel Corporation voted Cojuangco back as chairman of the board. (Royandoyan, 2007, pp. 45-46).

Second, Estrada promulgated two executive orders in November 2000 that ordered the establishment of private trust funds, capitalised by coconut levy-funded assets. The first of these was EO No. 212, which ordered the establishment of a one billion-peso fund, to be financed by the sale of coconut levy-funded assets186, managed by a committee of five presidential appointees. This executive order reverted back to how Cojuangco and COCOFED preferred to treat coconut levy funds: as private funds.187 The fund was to finance a programme called ERAP’s188 Sagip Niyugan (Save Coconut Lands), which was to provide assistance to supplement the income of coconut farmers and encourage the creation of local demand for coconut oil and other coconut products. The day after this executive order was issued, Estrada promulgated EO No. 213. This executive order called for the establishment of a perpetual trust fund to be capitalised by the shares of CIIF in the San Miguel Corporation. The fund was to be managed and administered by a committee of ten189, of which one was from COCOFED. Only the interest income from the trust fund was to be mobilised for

186 In compliance with the Office of the Solicitor General was directed to undertake what was necessary to implement the purpose (Section 4, EO No. 212) thus implying ordering the sequestration orders to effect the sale of the assets.
187 Section 5 of the executive order calls for the audit of the fund to be undertaken by a ‘reputable auditing firm’, not the Commission on Audit, which audits all public funds.
188 Erap is a moniker Estrada is more popularly known by.
189 Four of these were to be representatives of government (including the secretaries of Agriculture and Agrarian reform), four from coconut farmers’ organisations, one from the CIIF and one from a non government organisation involved in agricultural development (Section 6, EO No. 212).
use by the committee. This trust income was to be allocated such that: 20 per cent was disbursed to COCOFED, 30 per cent to four other coconut farmers’ organisations, 30 per cent for ‘agricultural programmes’ not limited to the coconut sector, 3 per cent for administration costs, and the remaining balance reverted to the trust fund. Again, audit was to be undertaken by an external auditor, as if it were not a public fund.

These executive orders immediately reveal a clear departure from the Ramos executive orders. Aside from the reversal back to treating the coconut levy funds as private funds – it is also easy to see the deal that seems to have been struck with COCOFED and Cojuangco in these orders: the implied lifting of sequestration orders on coconut levy assets, the shares of the trust fund income that were to be allocated for COCOFED, along with the seats in the trust committee that were given to the organisation, all in exchange for COCOFED letting go of its claims on the SMC shares and the other assets. Note also that no mention is made of Cojuangco’s SMC shares for capitalising the trust fund.

Royandoyan (2007, pp. 45-78) offers a fascinating account of the negotiations that happened before the promulgation of these orders. Based on accounts in the newspapers in the Philippines, Royandoyan says negotiations between Cojuangco and the Estrada government on the ‘unlocking’ of the coconut levy assets and talks on an executive order promulgating this began in 1999. In a newspaper interview, Cojuangco’s lawyer spoke of the establishment of a fund suspiciously similar to what was described in Estrada’s EO. No 213: “a self-sustaining trust fund”, capitalised by the COCOFED shares that at that time was worth PhP40 bn, to be used by “legitimate farmers”. Talks of a deal with Cojuangco, especially one that gave concessions to COCOFED, were opposed by some farmers groups, leaders of churches and Wigberto Tañada, a congressman from the coconut-producing province of Quezon, whose family also figured prominently in the political struggle against the Marcos dictatorship. A multi-sectoral formation – the Multi-sectoral Task Force for Coconut Levy Recovery (MSTF, but from here on the Multi-sectoral Task Force) – was consequently

190 The four included PKSMNN and COIR, whom I have previously introduced and two others: the National Federation of Small Coconut Farmers Organisations (NFSCO) and the Nagkaisang Ugnayan ng Maliliit ng Magsasaka at Manggagawa sa Niyugan (United Front of Small Coconut Farmers and Labourers).
organised – chiefly composed of those opposing said deal – and became a key organisation figuring from then on in the negotiations for post-Marcos period rent settlement.

The 10-member council leading this group is indicative of the forces aligned against the original claimants to the rent settlement. Of the ten, only three\textsuperscript{192} were directly involved in the coconut sector, the rest were politicians\textsuperscript{193}, leaders of churches\textsuperscript{194} in the Philippines, and NGO leaders\textsuperscript{195}. (Royandoyan, 2007, pp. 53-54) Under the leadership of this council, the task force drafted its own version of an executive order that it presented to the Estrada’s Secretary of Agrarian Reform, Horacio Morales.\textsuperscript{196} Their draft order also called for the creation of a trust fund, but was different from EO No. 313 on the following points: it affirmed the public character of the coconut levy funds, and subjected their disposition to the Commission on Audit; and it excluded the participation of COCOFED in both the proposed governing committee and in the allocation of funds. (Royandoyan, 2007, pp. 59-60)

Meanwhile, before EO No. 313 was promulgated, other coconut farmers groups also emerged, in contraposition to the Multi-sectoral Task Force, expressing support for the Estrada order. These included a Quezon and Bicol-based coconut farmers group called the \textit{Nagkaisang Ugnayan ng Maliliit ng Magsasaka at Manggagawa sa Niyugan} (United Front of Small Coconut Farmers and Labourers), the National Confederation of Small Coconut Farmers\textsuperscript{197}, and the

\textsuperscript{192} Including: Oscar Santos, chairperson of COIR (itself a coalition of coconut farmers groups and NGOs); Jose Romero Jr, representing the coconut industrial sector; and Efren Villaseñor, leader of PKSMN.

\textsuperscript{193} Including: former Senator Alberto Romulo, and as previously noted, Congressman Wigberto Tañada.

\textsuperscript{194} Including: Bishop Fernando Capalla, of Mindanao Interfaith (a Catholic bishop working with Muslim ulamas in the Philippines); and Bishop Roman Tiples, secretary general of the National Council of Churches in the Philippines.

\textsuperscript{195} Including: Jose Concepcion Jr, chairperson of the Catholic-Bishops-Businessmen’s Conference; Ting Jayme, representing the Philippine Rural Reconstruction Movement; and Romeo Royandoyan, representing the Philippine Peasants Institute.

\textsuperscript{196} Morales had links with many members of the council due to their joint involvement in the struggle against the Marcos dictatorship. In my own interview with Joey Faustino, a member of the Multisectoral Task Force, he shared in the talks with Morales, they exchanged as many as 36 draft versions of an executive order (Interview, April 22, 2009).

\textsuperscript{197} This organisation was established during the time of Corazon Aquino, and organised by the PCA. In my interview with Faustino, he indicated that this probably had the biggest mass base of the different farmers groups. (Interview, April 22, 2009) It was organised when Virgilio David, who I have explained in Chapter 3 wrote among the first expose of the irregularities in the coconut levies when he was the military advisor in the sector during Martial Law, was PCA administrator and expressly to counteract the force of COCOFED.
Kalipunan ng Maliliit ng Magniniyog sa Pilipinas (Federation of Small Coconut Farmers and Farm Workers in the Philippines). These three convened the National Coconut Farmers Summit in March 2000 to express support for the executive order. (Royandoyan, 2007, pp. 63, 66-67) By showing support to the Estrada version of the order, it was evident that this faction of coconut farmers did not oppose the government striking a compromise deal with Cojuangco and COCOFED.

Royandoyan’s depiction of the configuration of interests and organisational formations involved in the negotiations regarding the content of the executive order, effectively regulating the post-Marcos settlement, shows that coconut producers were factionalised in their representation in these negotiations. One line of division clearly had to do with the willingness to enter into a compromise deal with the Cojuangco-COCOFED faction. Moreover, it is also interesting that those opposing said compromise were led by a multi-sectoral organisation.

In the end, Estrada passed the executive order more faithful to the original version that was being talked about when he had just begun talks with Cojuangco. The only difference is, in the ‘division of spoils’ – the allocation of income from the trust fund – the order he issued apportioned shares for coconut farmers groups from both those who agreed with a ‘compromise deal’ (i.e., NIUGAN and NCSFO) and those who were part of the Multi-sectoral Task Force and opposed the same (i.e., COIR and PKSMMN).

However, during the year that Estrada promulgated the order, he was having political troubles of his own, and was facing an impeachment proceeding in House of Representatives and charged with bribery and corruption. In January 2001, soon after he issued the coconut levy-related executive orders, he fled Malacañang due to large-scale protest action in Manila resulting from perceived irregularities in the impeachment trial, and the Supreme Court declared the

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198 With the country’s senators acting as judges and presided over by the Supreme Court’s chief justice, the impeachment trial of Estrada was held from December 7, 2000 until January 16, 2001. Estrada was impeached on bribery and corruption charges for allegedly accepting hundreds of millions in pesos worth of pay-offs from syndicates that ran the illegal numbers game called ‘jueteng’. The impeachment trial was aborted when he was ousted from power following “EDSA Dos”, a series of protests in Manila that culminated in members of his Cabinet and, crucially, the military and defence department leadership announcing their “withdrawal of support”.

199 Estrada was ousted as President in January 16, 2001, following “EDSA Dos”, a series of protests in Manila that culminated in members of his Cabinet and, crucially, the military and defence department leadership announcing their “withdrawal of support”. The protests were led
presidential seat vacant. His term of office was cut prematurely, and his constitutional successor, vice president Gloria Macapagal Arroyo, took over from him. Estrada’s executive orders related to the levies, like the ones Ramos passed, never saw implementation.200

This leads me to the term of Arroyo, who was president of the Philippines from 2001-2010.201 Presidential action affecting the rent settlement under Arroyo was characterised by contradictory positioning – belying an attempt to play both sides of the contest.

On one hand, soon after the ouster of Estrada – and swept to power by a reform coalition that included some of the organisations and personalities involved in the Multi-sectoral Task Force202 – some of the early presidential acts of Arroyo related to the coconut levies were reflective of a reversal of the Estrada position. She suspended the Estrada executive orders three months into her term, and appointed a well-regarded lawyer, Haydee Yorac at the PCGG. In 2002, PCGG – through the government representatives seated in these boards – caused the elections of a new set of directors to the boards in the CIIF group of companies, UCPB and San Miguel Corporation. Out of about 85 seats that were to be occupied in the boards of these corporations, 30 were assigned to farmer representatives and NGO leaders. These 30 seats were equally shared by groups who were known to be supportive of a compromise deal with the Marcos period settlement beneficiaries; the other half, for those against the same. (Faustino, 2007, p. 2-4) For the first time, representatives of claimants to the rent settlement other than COCOFED and Cojuangco occupied a node for rent regulation in these boards. However, in my interview with Faustino203, who occupied one of the seats as UCPB board member, he bewailed that in all the negotiations that

by the opposition, key leaders of the Catholic Church, former President Corazon Aquino, and leftist groups.

Estrada’s Vice-President, Gloria Macapagal-Arroyo, replaced him to serve out the remainder of his term through 2004. Arroyo would later be elected by a narrow margin as President in 2004 in elections marred by allegations of cheating against her main rival who was a close friend of Estrada. After he was deposed from power, Estrada faced plunder and perjury charges before the country’s anti-graft court in a trial that lasted from 2001-2007. He was convicted of plunder and sentenced to “reclusion perpetua” (a penalty of up to 40 years imprisonment) but was immediately pardoned (or granted “executive clemency”) by Arroyo.

200 In 2011, they were declared unconstitutional by the Supreme Court.
201 When her first term ended in 2004, she ran again and won. Despite the constitutional term limits, she was allowed to run a second time because she was not voted into office in her first term.
202 CBCP and Tanada, were vocal opponents of Estrada.
203 Interview undertaken on April 22, 2009 in Manila, Philippines.
happened before these seats were taken, there was no real discussion among the contending claimants about how to use the funds. The coconut farmers groups represented in these boards could be deduced to each bring with them their own ideas of rent mobilisation.

On the other hand, the government under Arroyo continued to show indications of being open to negotiating with Cojuangco and COCOFED – even as the courts released the crucial rulings described in the previous section during her term. For one, government allowed Cojuangco known allies to hold on to their seats in UCPB-CIIF boards despite the relevant court rulings awarding these to government. (Faustino, 2007, p.5) Part of the compulsion of the government to maintain negotiations is the concern for the expeditious release of funds, which could not be mobilised while the litigation process was ongoing. The process was expected to drag on, as the accused appealed and contested the court rulings.

But, Arroyo’s position must also be understood in relation to the enduring power Cojuangco held in national politics. It must be noted that, throughout the period that the rent settlement was contested, Cojuangco exerted power in Congress as leader of a party holding seats in the house – the Nationalist People’s Coalition. This party was part of the coalition that backed Estrada’s presidency. In 2004, it also became part of the coalition that backed Arroyo’s presidency.

Meanwhile, as the possibility for a negotiated settlement remained open, a further splintering among the coconut producer claimants was happening. In October 2001, presidential advisers Dante Ang (presidential publicist) and Norberto Gonzales, are said to have organised a meeting between COCOFED, Cojuangco and two erstwhile members of the Multi-sectoral Task Force: Bishop Capalla and the chairperson of PKSMMN, Efren Villaseñor. This resulted in an agreement that called for the freeing up of the COCOFED shares in the San Miguel Corporation, and published in three major newspapers in the Philippines. (Faustino, 2007, p. 3) The Multi-sectoral Task Force was thus further factionalised.

The situation took a bad turn for Arroyo in 2005, when early into her second term of office, there were threats of an impeachment proceeding in Congress
because of her alleged involvement in rigging the 2004 presidential elections. After this, the posturing of her government became even more pronouncedly open to a negotiated settlement with Cojuangco and COCOFED, despite the described court rulings of 2003 and 2004. This was undoubtedly partly because of the importance of maintaining the support of Cojuangco’s party in the House of Representatives if there was to be impeachment proceedings.

Yorac died in 2005 and Arroyo replaced her with Camilo Sabio to head the PCGG. Under Sabio’s term in PCGG, Yorac appointees in the corporate boards of coconut levy companies were unseated. He fostered a second round of talks between Cojuangco, COCOFED and a new formation led by Capalla, the Bishops-Ulama-Pastors-Priests-Farmers-Lumad Conference. The Conference issued a statement supporting an out-of-court-settlement regarding the COCOFED shares. Sabio was also quoted in a television interview as supporting the same out-of-court settlement. (Faustino, 2007, p. 7)

In closing, in much of the period of contestation, what I have shown is that coconut producers were without a consolidated organisation to represent them. Various groups of coconut producers emerged, each with their own position about the mobilisation of remaining funds. In the course of the negotiations under different presidents, these groups aligned with different political brokers from outside the sector; some of them, even with Cojuangco and COCOFED.

In a nutshell, the contest for the rent settlement in the post-Marcos years was consequently marked by: (1) the use of executive authority, mostly to foster compromise deals that would free up the coconut levy funds; (2) splintered representation of coconut producers, and the participation of non-coconut sector-based individual political agents like NGOs and church leaders; and (3) attempts by beneficiaries of the Marcos years rent settlement – including Cojuangco and COCOFED – to divide and rule the splintered groups of coconut producers.

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204 President Gloria Macapagal-Arroyo was embroiled in the “Hello Garci” scandal, in which a wire-tapped telephone conversation believed to be between her and Virgilio Garcillano, a high-ranking election official nicknamed “Garci”, was made public in 2005. The conversation was interpreted by the opposition and some independent observers to be about collusion to rig the 2004 presidential elections in her favour. Impeachment charges, based on possible electoral fraud as allegedly exposed by the scandal, were repeatedly brought against Arroyo by opposition lawmakers but motions to take up the issue were each time defeated by Arroyo’s allies who dominated the Philippine Congress.
Conclusion

I have analysed in this chapter the mechanisms regulating the rent settlement in the Philippines during two distinct periods: the first, when Marcos was in power; the second, after he had been ousted. I showed the important differences in the regulation of the rent settlement under these two periods.

During the Marcos period, the rent settlement was captured by a configuration of agents from within and beyond the coconut sector. The capture was facilitated by the way Marcos utilised the concentrated executive authority accorded to him under Martial Law. In a nutshell, Marcos used his powers to promulgate presidential decrees to establish the grammar for the formal assignment of rights to rent streams.

After had had been ousted from power, and the formal democratic institutions began to take hold in the Philippines in 1986, the rent settlement Marcos prescribed and the regulatory infrastructure he put in place were challenged and partly dismantled. In the post-Marcos period, the rent settlement was thus contested: with beneficiaries of the settlement during the Marcos period battling it out with emergent claimants. The contest was adjudicated through court rulings and presidential action. The court rulings ultimately assigned the contested property rights to the state. However, they never caused the closure of the possibility for a negotiated settlement. And this was a situation that proved problematic for coconut producers as they negotiated their claims on the rent settlement in the post-Marcos years. In these negotiations, they were not only without a consolidated organisation to represent them, but various groups of coconut producers emerged each with their own position about the mobilisation of remaining funds.

In closing, I have shown in this chapter that because of the absence of a genuinely consolidated and accountable coconut producers association in the Philippines, those bearing the burden of the levies had difficulty in shaping the rent settlement around the productive goals of the sector or their welfare needs. In the formal and informal institutions and political processes through which access to rent streams were determined and/or negotiated, the long-term imperatives of production that in Colombia were articulated by the FEDECAFE, were in the Philippines largely superseded by the prerogatives of executive authority, which in turn were mostly based on political calculations of a
succession of presidents from 1970 to 2000. Because of this, the rent settlement that emerged in the Philippine coconut sector ultimately had a transient character to it; and as shown in this chapter, vulnerable to periods of capture and contestation.
Chapter 6. State-led, producer association-anchored mechanisms for rent regulation in the Colombian coffee sector

In this chapter, I examine how FEDECAFE – and through them, the coffee producers – shaped, controlled and enforced the rent settlement associated with coffee levies. Here, I draw on the richly documented historiography of the FEDECAFE, including its role in mobilising the coffee levies, and present an original reading of the formal rules governing the sector. I analyse the institutions and organisations that permitted the productive regulation of the rent settlement in contrast to the Philippines. I show how the FEDECAFE played a central role in regulating the rent settlement through institutions that did not only have well-defined parameters but were also as stable as the logic that governed rent mobilisation was consistent. In Chapter 5, I showed that the COCOFED developed neither the legitimacy nor organisational processes to decisively shape the rent settlement that obtained around the goals of coconut production. In this chapter, I relate the Colombian counterpoint to the capture and contestation in the regulation of the rent settlement.

I focus on three key features of rent regulation in the Colombian case: the codification in contractual form of the parameters governing fund use and mobilisation; the associational avenues – organisational structures and processes – that linked the Federation to the levy contributors; and the role given to the Federation in statecraft, particularly in the articulation of coffee pricing policy. These will show that in contrast to the COCOFED in the Philippines, Colombia's FEDECAFE featured prominently in the means by which the rights to the state-engineered rent streams associated with the coffee levies were enforced and regulated. For one, the inscription of the rent settlement in legally binding contracts between the state and the Federation, signed and renewed every ten years since 1927, implied that the claim of the federation on the levies was more transparent and stable than it was in the Philippines. This institutional arrangement meant that the mobilisation of the rents was more an object for negotiation between the Federation and the state, and less subject to the whims of the state’s executive authority alone. Meanwhile, the Federation's fully formed and functioning organisational processes gave voice to members about how the
levies were to be invested, and allowed them to hold their leaders to account. This implied that coffee producers exercised not just delegated – like in the Philippines – but also direct authority in regulating the rent settlement. But even more crucially, through the avenues of associational life, levy contributors directly participated in the regulation of the rent settlement, and thereby also aiding in legitimising the rent settlement to an extent that was never achieved in the Philippines. Finally, the FEDECAFE also directly participated in governmental bodies that decided on policies that had the effect of enforcing the key modes of mobilisation of the levies, particularly the use of levies to stabilise coffee producer income. In Colombia, the FEDECAFE was at the heart of crafting coffee pricing policy, and through that helped determine a distribution of income that helped its members weather the usual cyclical patterns of boom and bust that afflict commodity markets like that of coffee.

However, all these are not to romanticise or overestimate the role of ‘participation’ in the Colombian ‘coffee story’. Here, the state played a tempering influence on the power of the Federation in the organisations regulating the rent-settlement. In each of the three features of rent regulation that I have chosen to highlight, I will show how the state exercised countervailing power – with the effect of defining the limits of the Federation's exercise of control.

**Rent settlement codified in contractual form**

The parameters of levy mobilisation were inscribed in contracts signed by representatives of the government and the FEDECAFE. There were generally two types of contracts entered into by the Federation and the government: the ‘contract for services’ (contrato de prestacion de servicios), which mostly related to the mobilisation of the general export tax collected from 1928 to 1972 and also the taxes on international receipts collected from 1935 to 1939; and the ‘contract for administering the Coffee Fund’ (contrato de administracion del Fondo Nacional del Café), which related to the mobilisation of coffee levies remitted to the Fund, including the taxes on international receipts

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205 Represented by the president and/or government ministers in Trade, Agriculture and Finance.

206 Represented by the general manager of the Coffee Federation, except in 1928, when the president of the Federation’s National Committee signed the document.
collected in the 1940s, the taxes on low grade coffee, the retention duty, *ad valorem* tax, part of the exchange rate differentials and later on the coffee contribution – all of which were explained in the previous chapter. The contract for services rendered was first signed in 1928, and renewed, every ten years and seven times hence within the period of my study (1927-2000). The contract for administering the Coffee Fund was first signed in 1940, when the Fund was established, and then renewed in 1970. But the two were merged into one contract from 1978 onwards. (Junguito and Pizano, 1997, pp 32-34, 76-80)

*Contracts defining 'entitlements to rent streams'*

The 1928 ‘contract for services’ stipulated that the government was to remit to the Federation all collections of general tax\(^{207}\); the 1938 contract, included the tax on international receipts collected in the 1930s.\(^{208}\) In exchange for these, and for a renewable period of ten years, the Federation was to undertake the following ‘services’\(^{209}\): (1) promote Colombian coffee; (2) stimulate good practices in cultivation, protecting the health of both workers and fruits of production; (3) establish warehouses to stimulate the commercialisation of coffee; (4) study coffee production technologies, and sales and promotion strategies deployed in coffee-producing and consuming nations; (5) encourage the establishment of national coffee toasting capacity within and beyond the country; (6) publish a trade magazine to be distributed for free to all exporters and coffee producers and sent out to government functionaries, and to publicise information about the Federation, including general plans and budgets; (7) generate coffee statistics; (8) develop and open up external markets in Europe, the Americas and elsewhere. Aside from the right to mobilise the general export tax, the Federation was also given the right to all income streams from the operation of the warehouses, as long as these were used “for the benefit of the

\(^{207}\) Provision in Clausula 4o, Contrato Celebrado entre el Gobierno Nacional y La Federación Nacional de Cafeteros en Desarrollo de la Ley 76 de 1927 (Gobierno Nacional del Colombia y La Federacion Nacional de Cafeteros, 1928).

\(^{208}\) Provision in Clausula 2, 1938 Contrato Celebrado entre el Gobierno Nacional y La Federación Nacional de Cafeteros en Desarrollo de la Ley 76 de 1927 (Gobierno Nacional del Colombia y La Federacion Nacional de Cafeteros, 1928).

\(^{209}\) Provision in Clausula 1o, 1928 Contrato Celebrado entre el Gobierno Nacional y La Federación Nacional de Cafeteros en Desarrollo de la Ley 76 de 1927 (Gobierno Nacional del Colombia y La Federacion Nacional de Cafeteros, 1928)/
industry”.

210 These provisions about the Federation’s right to the stipulated coffee levies and the authorisation of their specific modes of mobilisation remained largely unchanged until the contract of 1968, after which in 1978, as has been noted, the service contract was fused with the Coffee Fund-related contract.

Meanwhile, the 1940 contract for the administration of the Coffee Fund related to the mobilisation of the levies streamed into the then newly established Fund primarily for the purpose of buying the coffee stocks necessary to comply with the international treaties in place, including undertaking to store and conserve the stocks in a good condition. The 1940 contract also allowed the FEDECAFE to sell coffee stocks it procured within the confines of the restrictions on supplies embedded in the international treaties in place. An amendment to this contract in 1943 authorised the investment of revenue streams from these sales into government bonds – in an attempt to help sterilise the inflationary effects of high external prices of coffee in the 1940s. (Junguito and Pizano, 1997, p. 81) This set the precedent for investing Coffee Fund resources in support of the purposes of price stabilisation.

The 1940 contract was to be in place as long as the agreements were in effect. But Junguito and Pizano (1997) explain that the contract was extended indefinitely, even after the end of the Inter-American Coffee Agreement in 1948 since the Federation still held significant volumes of coffee stock inventories that remained unliquidated (Junguito and Pizano, 1997, p 79) and the levies remitted to the fund even expanded (Junguito and Pizano, 1997, p 33). Between 1948 and 1970, the Coffee Fund took on a more permanent nature because of the new coffee levies assigned to it (as explained previously, part of the coffee exchange rate differentials, ad valorem, and the retention duty), and a new contract was

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210 Provision in Clausula 1o(c), 1928 Contrato Celebrado entre el Gobierno Nacional y La Federación Nacional de Cafeteros en Desarrollo de la Ley 76 de 1927 (Gobierno Nacional del Colombia y La Federacion Nacional de Cafeteros, 1928).

211 Provision in Clausula 1o, Contrato Celebrado entre El Gobierno y La Federación de Cafeteros sobre Ejecución del Acuerdo de Cuotas (Gobierno Nacional del Colombia y La Federacion Nacional de Cafeteros, 1940).

212 Provision in Clausula 4o, Contrato Celebrado entre El Gobierno y La Federación de Cafeteros sobre Ejecución del Acuerdo de Cuotas (Gobierno Nacional del Colombia y La Federacion Nacional de Cafeteros, 1940).

213 Provision in Clausula 2a, Contrato Celebrado entre El Gobierno y La Federación de Cafeteros sobre Ejecución del Acuerdo de Cuotas (Gobierno Nacional del Colombia y La Federacion Nacional de Cafeteros, 1940).
drawn up in 1970. This was a contract for administering the Coffee Fund in light of the new regulatory functions – particularly the stabilisation of domestic prices. (Junguito and Pizano, 1997, p 78)

From 1978 onwards, the two types of contracts were merged into one. With the abolition of the coffee levies that used to finance the ‘contract for services’, the contracts from then on related to the mobilisation of the Coffee Fund, particularly in light of its pronounced stabilisation function. The provisions on the sources and uses of the Coffee Fund in the 1978 contract give a good indication of the changes that this merging embodied. For one, the Coffee Fund was for the first time explicitly cast as a permanent facility established for the protection, defence and development of the coffee sector. 214 Said contract stipulated that the coffee levies destined for the Fund were to be used by the Federation for operations that included: (1) buying and selling coffee at home and abroad; (2) facilitating the trading of coffee; (3) stockpiling coffee and conserving the inventories in good condition; and (4) investments in companies supportive of the coffee industry. 215 In addition to these market-regulating interventions, the Federation was tasked with delivering a list of services that while more fleshed-out, did not really diverge much from those stipulated in earlier contracts. The services included: (1) research and experimentation related to coffee cultivation, storage, and industrial uses; (2) promotion of good cultivation and technical practices, as well as those that improve the quality of life in the coffee zones; (3) promotion of programmes of diversification in the coffee zones; (4) the promotion of environmental conservation in the coffee zones; (5) the promotion of cooperatives as an instrument for the commercial activities of the Federation and in support of social needs of coffee communities; (6) the regulation of internal and external marketing of coffee; and (7) support for government initiatives with links to the sector, especially those related to transportation, and the prevention of the smuggling of coffee. 216 In a nutshell, the

214 Provision in Clauses Primera, Contrato Celebrado entre El Gobierno y La Federación de Cafeteros por la Administración del Fondo Nacional del Café (Gobierno Nacional del Colombia y La Federación Nacional de Cafeteros, 1978).
215 Provision in Clauses Cuarta, Contrato Celebrado entre El Gobierno y La Federación de Cafeteros por la Administración del Fondo Nacional del Café (Gobierno Nacional del Colombia y La Federación Nacional de Cafeteros, 1978).
216 Provision in Clauses Novena, Contrato Celebrado entre El Gobierno y La Federación de Cafeteros por la Administración del Fondo Nacional del Café (Gobierno Nacional del Colombia y La Federación Nacional de Cafeteros, 1978).
key change embodied in the contracts from 1978 onwards was the prominence given to the marketing board operations of the Federation, and through these the mobilisation of the levies for the purposes of domestic price stabilisation. However, the required expenditures for fomenting production and enhancing producer welfare in the coffee sector were still in place, if expanded and cast in more specific terms than in the earlier contracts.

While the contractual change described above represents an important shift in the parameters of fund mobilisation, what remained enduring and stable was the principle of the Federation having the sole right to mobilise the coffee levies within the limits of what benefitted the development and protection of the sector. In effect, these contracts codified the Federation's entitlements to rent streams associated with coffee levies.

_The tempering influence of the state_

Having said this, there were other key changes in the contracts, as they historically evolved, that reflected debates about the ‘public character’ of the Coffee Fund (and coffee levies), and related to this the mechanisms through which the state enforced fiscal accountability. The evolution of contractual provisions reflecting how the state figured in approving and auditing modes of levy mobilisation provides a good indication of this. In the 1928 contract, the FEDECAFE only needed to submit, for the Ministry of Industry’s approval, a plan articulating budgeted expenditures of the levies. But in the 1978 contract, the budget of the Coffee Fund needed both the approval of the National Committee of the FEDECAFE and the concurrence of the government through an executive decree issued by the President. Moreover, in the 1928 contract – and in effect until the 1968 contract – a governmental body overseeing financial institutions (La Superintendencia Bancaria) was tasked with verifying that the investments made of the funds were in accordance with the budget, and auditing financial transactions from any commercial operations. But from 1978 onwards, these oversight functions were transferred to an independent governmental body overseeing government funds (La Contraloria General de la Republica) – signalling the recognition of coffee levies as public funds.

Junguito and Pizano (1997, pp. 28-31) flag other changes in the contracts that signal an increasing role for state oversight of the coffee levies. For one, in the
1968 contract, the Federation was directed to provide information to the Colombian Monetary Board (*La Junta Monetaria*) about fund status and projects on both a monthly and annual basis, and to send all budgeted expenditures in foreign currencies to the Board – in a bid to widen the access of the government to information about the operations of the Federation. Both the 1978 and 1988 contracts have provisions allowing the Ministry of Finance to hire two independent consultants to give advice to government on matters of coffee policy – again seen as a bid to lessen the dependence of the government on the Federation for technical information.

All these give an indication of a key difference between coffee levies and coconut levies. In the Philippines, coconut levies were deemed as ‘owned by coconut producers’ in the Marcos administration’s decrees, and this was used as justification for their exemption from usual auditing procedures of public funds until Marcos was removed from power. In Colombia, the FEDECAFE were deputised to be the ‘administrator’ of the coffee levies, and their mobilisation subjected to state control and legally binding agreements that defined the parameters of the levies’ uses.

In summary, the contracts between the government and the Federation had the effect of codifying the rent settlement associated with the coffee levies by effectively specifying: (1) the resources that the FEDECAFE was authorised to mobilise; (2) the allowed uses of all these resources; and (3) the means through which the power of the Federation to mobilise these resources was supervised and controlled. That is to say, these contracts formally inscribed the right of the FEDECAFE to the state-engineered rent streams associated with the collection of the coffee levies; and regulated these rights by articulating the limits of fund mobilisation, along with nodes of state control.

**Associational avenues for voice and legitimisation**

If the contracts celebrated between the Colombian government and the FEDECAFE lent to the stability of the Federation's claims on the rent settlement while at the same time enshrining some of the ways through which the state exercised control over its enforcement, the active associational life of the Federation could be interpreted as a means by which members of the Federation also had a place in regulating the rent settlement. Through a robust organisational
structure and processes for exercising voice and extracting accountability, and other means by which coffee producers influenced the rent settlement 'from below', coffee producers in Colombia played a significant role in shaping and enforcing the uses of the coffee levies, a role that coconut producers never had in the Philippines.

*Functioning organisational hierarchy*

Throughout the period of study, the FEDECAFE had a fully functioning organisational structure, counterpart evidence of which I did not find in the Philippine case. By ‘fully functioning’, I mean organisational processes that gave members the space to exercise voice and extract accountability from organisational leaders. Figure 6.1 depicts, in a simplified manner, the organisational hierarchy governing the Federation, a structure that has largely remained unchanged since the federation’s founding in 1927.

**Figure 6.1 Simplified organisational hierarchy: The FEDECAFE**

At the very top is the National Congress, constituted by two to six representatives – depending on the share in national production – elected by card-carrying members of the Federation in each of the 51 coffee-growing
departments in Colombia. The National Congress has been convened at least once a year, although it has also been extraordinarily called to session. In the National Congress, the Federation's budget is debated and approved, as are plans for the major initiatives undertaken for the benefit of producers such as those outlined in the previous chapter (Junguito & Pizano, 1997, pp. 12-14). It also elects the Federation's General Manager and representative to the National Committee (Bentley & Baker, 2000, p. 4).

But even the Federation's highest authority has a place for interventions by the state representatives. For example, from 1935 to 1989, the President of Colombia needed to approve all the agreements reached in the National Congress before they could be put into action. And until 1997, government representatives sitting in the Federation's National Committee had a voice, though no vote in the National Congress. (Junguito & Pizano, 1997, p. 15) However, the National Congress was more a place of 'dialogue' between the government and members of the Federation, given that their role was consultative rather than decisive.

Meanwhile, the National Committee comes next to the National Congress in the Federation's organisational hierarchy. It is composed of Federation and government representatives, and decides on key policy issues confronting the coffee sector nationally and internationally. Some of their most important decisions related to the investment of coffee levies – for example the establishment of warehousing facilities, and the organisation of ALMACAFE; the creation of the Banco Cafetero – and the management of the price bonanzas in 1956, 1977 and 1986, as well as the crisis of the 1990s. When the Coffee Fund was established, the National Committee became the most powerful body in all decisions related to the Fund.

The composition of the National Committee – particularly the number of seats held by the government – has always been a subject of debate and underwent several changes throughout the period covered by my study. In 1928, the government held -only one in seven seats in the Committee. In 1935, the total number of seats was expanded to 10, with 5 members chosen by the National Congress and 5, by the government. (Cárdenas & Partow, 1998, p. 7) The

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217 For a complete list of the major decisions made by the National Congress between 1927 to 1997, refer to Junguito and Pizano (1997, pp 15-18)

218 For a complete list of the major decisions made by the National Congress between 1927 to 1997, refer to Junguito and Pizano (1997, pp 18-20)
The Federation regained the majority of the seats by 1958 (Cárdenas & Partow, 1998, p. 9), which is significant because this marks the start of the Fund's more pronounced stabilisation function. By 1997, the National Committee was constituted by 14 members, of which 8 were elected in the Federation's National Congress from candidates constituted by departmental representatives. (Junguito & Pizano, 1997, p. 18) However in that year, two non-voting representatives of the government – the two consultants of the Ministry of Finance noted in the first section of this chapter – were given permanent seats in the Committee. (Junguito and Pizano 1997, pp. 18, 28) Thorp (2000) has a comment on the change in the composition of the Committee in 1935 that might very well apply to the changes that happened down the line. She suggests that the Federation may have deliberately deployed the enlargement of the state's voice in the Committee as a means to achieve the following: (1) to increase the Federation management's ability to negotiate long-term solutions against the short-term instincts of the coffee producer members; and (2) to enhance the ascendancy of the Committee to coordinate coffee policy, and thereby place the Federation at the heart of the crafting of coffee policy. (Thorp, 2000, p. 18) However, Junguito and Pizano (1997, p. 29) suggest that in regard to the special seats given to independent consultants of the Ministry of Finance, the Federation indicated a level of 'discomfort' at their perceived interference with the affairs of the association. Despite these tensions, Junguito and Pizano (1997, p. 31) nevertheless depict the Committee as generally having been an effective permanent forum for the coordination of coffee policy—determining among others, the internal support price and the rates of retention; and as having been largely effective at putting coffee policy above 'partisan politics'.

The Executive Committee and the General Manager come next to the National Committee in the organisational hierarchy. In general, they are responsible for the execution of plans approved in the National Congress. The Executive Committee is constituted by the representatives of the Federation in the National Committee. They organise the work of the departmental committees; authorise the permanent investments of the Federation's own resources; prepare and adopt the budget of the Federation and approve the planned budgets of the Departmental Committees. (Junguito and Pizano, 1997, p. 20)
Meanwhile, the Federation's General Manager oversees the day-to-day operations of the Federation in the execution of the plans approved by the National Committee and the Executive Committee. The Manager is tasked with keeping the National Committee informed of the market conditions and sectoral situation; proposing policies for key issues confronting the sector; representing the Colombian government in international fora related to coffee, like the International Coffee Organisation. The Manager also plays a mediating or bridging role between the government and the association. He/she is chosen from a list prepared by the National Committee, and needs to be elected by two-thirds of the National Congress. The government has a veto power in the preparation of the list, but not the election. Throughout the Federation's 80-year history, it has only had eight General Managers – a fact often cited as having a stabilising effect, assuring continuity and a steady hand in the implementation of relevant coffee policies. (Junguito and Pizano, 1997, pp. 21-22)

Finally, forming the core of the decentralised aspects of the Federation's associational life are the Departmental and Municipal Committees. Departmental Committees are operational in all 15 departmental capitals that produce at least 2 per cent of national production. These committees are composed of 6 members elected by card-carrying members of the Federation, and organise and implement the work of the Federation at the local level. They are convened regularly, are at the forefront of implementing investments in social goods and rural infrastructure in the coffee zone, and intervene actively in the formation of cooperatives. I have already shown in Chapter 4 (Table 4.4) that they played a very important role in the associational life by directly controlling a significant portion of the Federation's budget: from 1975 to 1997, transfers to these committees accounted for more than half of the Federation’s appropriated expenditures. In general, these committees exercise a significant degree of autonomy to the extent that they are assured a share of the coffee levies through their statutory shares in tax on low-grade coffee, exchange rate differentials and the *ad valorem* tax. That is to say local leaders do not need to lobby with national leaders of the Federation for a share of the resources because their percentage shares in these resources are inscribed in law. Aside from these shares, they also receive extraordinary transfers from the Federation, proof of which I have shown in the previous chapter: that the budget appropriated to these committees was
typically higher than their statutory shares in the coffee levies. Moreover, they also get revenue streams from the internal coffee sales undertaken by the Federation, aside from income from their own investments. (Junguito and Pizano, 1997, p. 23) In comparison to Departmental Committees, Municipal Committees – composed of 6 elected members in municipalities within coffee-growing departments – are not as dynamic, given that they do not proportionately control the same breadth of resources as the Departmental Committees. At the Municipal level, cooperatives are more visible than these committees. (Junguito and Pizano, 1997, p. 24) However, this does not detract from the general point that the Departmental Committees constituted a vital part of the organisational hierarchy and being fully functional, something that finds not parallel in the Philippines.

Control 'from below': means and limits
But the even bigger point to make is that avenues of associational life available to members of the FEDECAFE may be interpreted as a means by which they regulated the rent settlement, or controlled it 'from below'. Through their Federation, coffee producers have recourse to predictable and regular organisational processes for exercising voice and extracting accountability. For example, elections of representatives are an integral aspect of associational life in the Federation. ‘Coffee elections’ are held in municipalities and departments to choose local-level committee members. In 2010, 214,000 producers – representing a participation rate of 65 per cent – took part in elections where they chose 364 municipal and 180 principal and alternate members of Departmental Committees from about 14,000 candidates. (Federación Nacional de Cafeteros, 2011, p. 21) Meanwhile, members of these committees then elected delegates to the National Congress. National Congress representatives chose the Federation’s representatives to the National Committee and the General Manager. Organisational bylaws define the term limits of these representatives, to whom members delegated the authority to decide on the Federation’s strategic priorities, the budget of the Federation and the Coffee Fund.

Aside from participation in elections, there is evidence for members’ exercise of voice in the choice of spending priorities. I have already noted the significant portion of the budget that is directly appropriated to Departmental Committees –
thus departmental expenditures could be construed to directly reflect the social
demands of coffee producers on the ground. Bentley and Baker (2000, p. 6)
provide another good example: the case of the Federation’s work in research and
development. They relate how, through extension agents, the Federation annually
administers a questionnaire designed to ascertain the ‘research demands’ of
coffee producers. The information they generate is then submitted to the National
Congress and used a basis for the annual research plan of the CENICAIFE.

The existence of avenues of participation like elections and mechanisms for
the exercise of voice in the spending priorities of the Federation – all of which
were crucially absent in the comparator case, the Philippines – provided the
Federation with the means to broadly construct a narrative of democratic
participation and representation. This was important for two reasons. On one
hand, this narrative was important for establishing the legitimacy of the
Federation to represent levy contributors in negotiations with the state about the
uses of coffee levies and the surplus from marketing operations. On the other
hand, it lent to fostering loyalty among members – an insight from Thorp (2000)
– which I have explained was crucial for the Federation to fulfi the regulatory
functions in the market for coffee.

However, the extent to which steering and enforcement of the rent settlement
was participatory should not be overestimated. For one, it must be emphasized
that the most important use of the coffee levies – embodied in the use of the
Coffee Fund as a means for the stabilisation of domestic prices – was steered by
the National Committee, which was constituted by both elected representatives
of the Federation and appointed representatives of the state. While the Federation
had a majority of seats in this body for a long time, I have also explained how
state functionaries had an increasing role in this Committee. However, as argued
by Thorp (2000), the Federation’s willingness to include the state in this
important node of rent settlement regulation could be construed as a deliberate
strategy by higher echelons of the Federation’s management to see through the
delicate calculus of tending to the short-term social demands of the members and
asking them to make long-term sacrifices for the exigencies of price stabilisation.

The more serious questions about the extent and nature of coffee producer
participation in the associational life of the Federation are to be found in
historical work by scholars like Koffman (1969) and Palacios (1980). Koffman
(1969, pp. 187-190) asked whether the ‘local leaders’ of the Federation were primarily coffee growers. He found anecdotal evidence in some coffee departments showing that elected Municipal and Departmental committee members were also professionals, local politicians and businessmen – although he concedes that they were also coffee growers, only that they were only secondarily so. Both Palacios and Koffman underscore the power of the Federation as emanating not from its membership, but its working as a ‘top-down’ ‘semi-officialised bureaucracy.’ Even Thorp (2000, pp. 12-13) suggests that decision-making processes in the Federation were “never notable for their degree of consultation”; the organisational culture, “never participatory as this is understood today”. She describes the organisational culture as “hierarchical, in a patron-client mode”, applying to the position of the general manager, enjoying a position of authority within and beyond the federation; to members of the National Coffee Committee, comprising notable regional coffee personalities, managed by the general manager but wielding power in the regions; to relations between national, regional, and local committees; and to the relations of small producers to their local committees. (Thorp 2000, p 13) These observations should temper glowing accounts of the extent to which coffee producers directly controlled the rent settlement from below and constrains us from concluding that practice of voice and accountability explains differences in the rent settlement that obtained in Colombia and the Philippines.

A role in determining coffee policy

Although the influence of the FEDECAFE in shaping macroeconomic policy in Colombia has waned with the declining economic importance of the sector towards the end of the 20th century (See Eslava & Meléndez, 2009; Jaramillo et al., 1999; Junguito, 1996 for elaborations on this theme.), for a good part of the century – soon after the establishment of the Federation in 1927 up until the coffee export market was deregulated in 1989 – the Federation had considerable clout in the determination of macroeconomic policies in Colombia. Aside from sector-specific policies, the Federation also had a strong influence in the shape of Colombia's foreign exchange rate policy, which obviously affects the price of coffee as an export commodity. These policies affecting coffee prices could be construed as mechanisms for enforcing the rent settlement associated with coffee prices.
levies to the extent that they could be activated as levers for mediating the relationship between external and domestic coffee prices or the distribution of coffee income through the ups and downs of the coffee commodity cycle. Managing this relationship was at the heart of stabilisation, which in turn represented the most important goal of the mobilisation of Coffee Fund resources. This is to say that aside from the role vested upon the FEDECAFE as a monopsonistic buyer of domestic coffee stocks, its power to shape the state policies that reinforced the goals of stabilisation for its producer members is indicative of the Federation's rent-regulating role, which again finds no resonance in the Philippine case.

In this the final section of the chapter, I will explain the two most important ways by which the FEDECAFE crafted and/or influenced the shape of the policies affecting coffee prices, and through these, controlled the distribution of producer income in the coffee sector. First, they directly crafted coffee pricing policy through the official roles they were given in the governmental bodies that were responsible for articulating and enforcing these policies. Second, they influenced macroeconomic policy through the channels that tied them to the executive branch of government as well as to the most powerful economic councils shaping macroeconomic policy in Colombia.

The power to determine coffee prices
The role given to the Federation's National Committee, which I have signalled to be an organisational arena in which the state influence increased over the years, but in which the Federation retained majority seats, is a good indication of the extent of the power of the federation to shape coffee pricing policy.

Junguito and Pizano (1997, pp 332-336) document the historical evolution of the system of guaranteed floor prices; and based on their analysis of the laws governing this evolution, the Federation always played a central role in determining the minimum support price. They point out that the system of guaranteed floor prices in which the FEDECAFE figured prominently was first decreed in 1955 -- Decreto 332 de febrero 15 de 1955 -- a law that directed all buying agents to purchase coffee at a fixed set of prices for five different quality-based 'types' of coffee: café trillado, tipo maragogipe, pergamo limpio Federacion, pergamo corriente, pergamo inferior al corriente. The law
further stipulated that the FEDECAFE was to guarantee a set of prices applied to these types of coffee at higher – by no more than 10 percent – rates than the fixed minimum set applied to the purchases of private individual buying agents, and that the Federation's purchase at these rates were to be backed by Treasury. Junguito and Pizano (1997, p. 334) explain that the government believed that potential losses from the Federation's buying operations that it was effectively guaranteeing could be recuperated from the export taxes collected. The Federation was empowered to fully determine any changes to these minimum prices. In 1967, the system was simplified and the floor price was fixed only for one type of coffee, called the 'federation type', a mark of good quality. Under the *Estatuto Cambiario de marzo de 1967*, this minimum price was to be guaranteed by the Coffee Fund, and at a rate determined by a committee composed of the ministers of Finance and Agriculture, as well as the general manager of the FEDECAFE. (Junguito and Pizano, 1997, pp 334-336) This committee is still in place today, having been carried over in the new law – Ley 9 de 1991 – governing coffee levies after the end of an international regime of regulated world exports of coffee. While the establishment of this committee suggests that the floor prices were from then on jointly determined by the government and the Federation, Junguito and Pizano (1997, p. 336) suggest that in reality it was the Federation's National Committee that still determined the prices, and the rates were just referred to the committee for approval.

As with the determination of the minimum support price, the Federation's National Committee also played a significant role in setting retention duties, which I have earlier pointed out as the most important form of coffee taxation since 1958 until it was folded into the *contribucion cafetera* in 1991. Junguito and Pizano's (1997, p. 250-253) depiction of the evolution of legal norms governing this coffee levy helps substantiate this point. According to them, *Decreto Legislativo 102 de abril de 1958*, the law that put the duty in place stipulated that the Federation's National Committee had the power to modify the rate of retention, with the approval of the Ministry of Finance. Later, in 1958, the rate of retention was fixed by law – Ley 1a de enero de 1959 – at 15 per cent, but could be re-adjusted by the government with the approval of the Federation's National Committee and an inter-agency council, the *Comite Nacional de Politica Economica y Social (CONPES)*, of which the Federation was the only
member from the private sector. In 1960, there were was greater room for flexibility in setting the retention duty when a law – *Ley 81 de 1960* – was passed to amend the 1959 law and authorised the government to determine the rate but again with the approval of the National Committee. This was in effect until 1965, when a new law was passed – *Decreto Legislativo 2322 de 1965* – that did not specify that rates of retention required the concurrence of the Federation's committee. However, this lasted only for two years and by the time a new law was passed governing retention duties in 1967 – *Decreto Ley 444 de 1967* – the power to approve the retention duty was returned to the National Committee, a power they retained until the duty was abolished and folded into the *contribucion cafetera* in 1991.

With the power to determine the minimum support price and rate of retention, the Federation was then both a commercial agent in – involved in trading operations as a marketing board – and a regulator of the coffee market, a dual function that Ramirez et al (2002, p. 117) note as being conflictual. The role they played in the determination of the support price – which involved processing information about world market conditions – implied that the Federation had priority access to market intelligence that they could use to the disadvantage of other private agents. Meanwhile, their influence in the setting of retention duty rates meant that they also had a means to regulate the accumulation of the Coffee Fund's most important asset: the coffee inventories. Their role in these policies thus embody not just the technical function of regulating coffee markets, but also embeds significant political powers: they were means for shoring up the power of the Federation as a commercial operator in the coffee market, and for enhancing the value of the Fund they then had the power to leverage and mobilise.

*Power beyond the coffee sector*

The powers that the Federation exercised in relation to the crafting and articulation of state policies went beyond those that affected only the fortunes of the coffee sector. This was inevitable because of the economic position of coffee as Colombia's top export for much of the twentieth century. This position implied that policies affecting coffee prices ultimately had ripple effects on the general price levels (inflation) and the price of foreign currency (foreign exchange rates).
The power the Federation exerted over these macroeconomic variables came in two forms: indirect and direct. The indirect power relates to the consequences of Federation-crafted policies that were specific to the coffee sector but nevertheless influenced the comportment and/or management of these variables. The direct power relates to the influence they exercised over foreign exchange policy, as well as in broader development strategies.

The indirect power of the Federation over the management of inflation is most evident during periods of rising external coffee prices. Junguito and Pizano (1997, pp 360-362) explain some of the mechanisms through which periods of coffee price bonanzas affected general price levels. All things being equal, they could lead to inflationary pressures through their expansionary effect on aggregate demand, particularly when the price increase leads to increased real producer incomes. They could also be inflationary when the increased foreign exchange earnings expand the country's reserves, and through that its monetary base, and is unaccompanied by an appreciation of the domestic currency.

Following this, there are two important ways in which the Federation helps manage inflation in Colombia. First, by seeing to the use of the minimum support price as a countercyclical tool – in particular by transferring the windfall from periods of rising external prices to the Fund, rather than producers – the Federation helps decrease the inflationary pressures of rising coffee prices via the aggregate demand channel. Second, by allowing the windfall to be saved in the Fund or in bonds issues by the Central Bank, they prevent the expansion of the monetary base. (Junguito and Pizano, 1997, p 362).

Meanwhile, Jaramillo et al (1999) write of the Federation's indirect influence over foreign exchange policy and a way by which the Federation may be interpreted to contributing to the ability of the Colombian state to manage rationally foreign exchange movements. In particular, because the Federation had the power to control some of the policies that determined the income of producers – particularly through the system of guaranteed support price and retention duty rates – the Colombian government had the space to pursue an exchange rate policy that curtailed some of the windfall of extraordinary external price increases. That is to say, the Federation concentrated on non-exchange rate related variables to influence the coffee income distribution policy. Jaramillo et al observe that in the period 1962-1991, when the Federation's ability to perform
regulatory functions was at its peak, the Federation did not resist the real appreciation of the peso. However, in periods of falling external coffee prices, the Federation also successfully lobbied for devaluation – an example of the direct way coffee producers shaped macroeconomic policies. Bates (1997, pp. 64-67) provides an account of how the Federation did this in the aftermath of the Great Depression in the 1930s. In the face of falling external coffee prices, the depreciation of the national currency would mean that the fall in local currency prices could be partly cushioned relative to the fall in dollar prices. The government obviously initially bucked the call because it would have meant an increase in the cost of repaying its dollar-denominated public debts. The situation for the sector was aggravated by the fact that this was all happening under a regime of fixed exchange rates, at a level that represented an overvaluation of the currency. In response to this situation, the Federation formed a delegation to lobby the Ministry of Finance, Chamber of Deputies and Office of the President. They pressed their demands through meetings with the press and leaders of the political parties. Bates suggests that it was due to the sustained pressure of the Federation that the government relented. By 1934, the official exchange rate had converged to the market rate. Bates' depiction of the power of the Federation to influence exchange rate policies during times of crises is echoed by Junguito (1996) in his analysis of how the government managed periods that were adverse for coffee producers. For example, in the period of 1956-1968, which was characterised by falling external coffee prices, the government managed the foreign exchange situation through measures that devalued the currency, including: the elimination of multiple exchange rates in 1957, the nominal devaluation of the currency in 1962, and the establishment of a crawling peg system in 1967.(Junguito, 1996, p. 10) The recourse to a currency devaluation to help sustain the real income of coffee producers also happened in the period 1980-1985, when the coffee sector faced a crisis not because of falling external prices, but in the aftermath of the generalised economic crisis in the region.

219 In contrast, by the end of 1991, when further adjustments to non-exchange rate variables were rendered impossible with the breakdown of the International Coffee Agreement, the Federation became more resistant to currency revaluation. This concern was raised in 1993, when the Coffee Fund balances had already deteriorated. By 1996, the Federation was openly opposing appreciation, casting it as the "most serious threat" to the coffee industry (Jaramillo et al., 1999, p. 13).
kicked off by the Mexican debt crisis. (Junguito, 1996, p. 16) Junguito (1996) thus concludes that these indicate how the Federation was successful at demanding currency devaluation during periods of crisis.

As a final point, the direct influence of the Federation on policies with macroeconomy-wide consequences is also shown by the concrete channels it had access to and through which it was linked to arenas of 'high politics'. The Federation's General Manager has been described as Colombia's "second most powerful man", because of his direct access to the President and Finance Minister. (Urrutia, 1983, p. 116) Urrutia also emphasizes that the FEDECAFE had the distinction of being the only private sector group represented in the most important advisory councils in Colombia: one coordinating economic and social policy (Consejo Nacional de Politica Economica y Social), the other trade policy (Consejo Superior de Comercio Exterior). Another way of demonstrating the coffee sector's direct influence on macroeconomic policy is suggested by Jaramillo et al (1999), who examine the regional origins of Ministers of Finance and Governors of the Central Bank in Colombia from 1930-1998. They find that the coffee growing departments, which account for less than 25 per cent of the national population, have accounted for 42 per cent of all of the Ministers of Finance Colombia has ever had, and 40 per cent of Governors of the Central Bank.

Conclusion

I have laid out in this chapter the final piece of the Colombian counterpoint to the Philippine case study: the ways by which the FEDECAFE – and through them, the coffee producers – shaped, controlled and enforced the rent settlement. In this chapter, I explained the key features in the regulation of the rent settlement that show how FEDECAFE played a more decisive role in regulating the rent than COCOFED. First, the codification of FEDECAFE’s right to mobilise the coffee levies and the rent streams obtaining proved to be more stable, and less a subject of presidential prerogative that it was in the Philippines, where presidential orders – both those made under an authoritarian and democratic conditions – were prone to reversal and manipulation. Second, coffee producers had access to associational avenues that were not available to coconut producers in the Philippines. A working organisational hierarchy, and regularised processes and
predictable arenas for the exercise of voice, performed at the very least, the function of legitimising the FEDECAFE as the representative of coffee producers in Colombia, a status never achieved in the Philippines – although it does not completely explain the differences in the rent settlement that obtained. Third, while the state had a means to define the limits of the Federation's power and articulate the exigencies of economy-wide developmental objectives, the Federation was at the heart of the making of coffee policy – playing a role that was never obtained by the Coconut Federation in the Philippines. The articulation of the FEDECAFE's – and by extension the coffee producers – indirect and direct power over the determination of both sector-specific pricing policies and economy-wide macroeconomic policies has very important implications about the enforcement of the rent settlement associated with coffee levies in Colombia. With the economic fortunes of the sector deeply implicated with that of the country's, the FEDECAFE acquired the political muscle to see through the mobilisation of coffee levies with the interests of the sector at heart. Through the direct means of influencing both coffee pricing policies and macroeconomic variables affecting the distribution of coffee incomes, the Federation also had the means of enforcing the desired ends of this rent settlement: the stabilisation and maximisation of producer income through the ups and downs of the coffee commodity cycle.
Chapter 7. Conclusion

In this dissertation, I set out to contribute to an understanding of some of the political conditions that allowed for the emergence of production-promoting state-engineered rents, proceeding from an analytical framework critical of the conclusions of neo-classical economic models of rent-seeking\(^{220}\), and sympathetic to literature cognizant of the potential role state-mediated rents may play in addressing specific challenges of late development.\(^{221}\) Towards this end, I investigated an institutional framework deployed by the state ostensibly to develop key agricultural export sectors in Colombia and the Philippines, which are two middle-income economies that have largely failed to launch dynamic development trajectories against the metric of successful late development set by East Asian tigers. The institutional framework effectively deputised private agents with the authority to extract, regulate and use state-engineered rents: it authorised the associations of Colombian coffee producers (FEDECAFE) and Philippine coconut producers (COCOFED) to mobilise resources generated through the use of the state’s coercive power to tax: levies paid by the producers.

The Philippine ‘coconut story’ would seem to confirm the worst predictions of neo-classical economics’ models of rent-seeking and its developmental consequences. In particular, coconut levies in the Philippines and the participation of the COCOFED in their mobilisation are associated with negative accounts of rent capture.\(^{222}\) Private gains were captured by the leaders of the federation and associates of President Ferdinand Marcos, who legislated the collection of the levies under Martial Law in the Philippines. These gains were at the expense of depressed producer incomes.\(^{223}\) But, the Colombian ‘coffee story’ flouts the same predictions. The coffee levies in Colombia and the participation of the FEDECAFE in their mobilisation are associated with positive outcomes,

\(^{220}\) As surveyed in Chapter 1, the classic works on these are Krueger (1975) and Posner (1975).
\(^{221}\) As surveyed in Chapter 1, these include literature on the developmental state in East Asia (Amsden, 1989; Amsden and Hikino, 1994; and Wade, 1990); on alternative lenses with which to analyse rents and rent-seeking articulated in the body of work of Khan (1995, 2000a, 2000b, 2004a, 2004b, 2004c, 2005a, 2005b); and the role of state-mediated rents in engendering stable and peaceful conditions for production (North et al, 2007; Putzel and di John, 2009)
\(^{222}\) See for example, Aquino (1999); Manapat (1991); Parreño (2003); Hawes (1997); Boyce (1993) – all of which I surveyed in Chapter 1.
\(^{223}\) See for example, Clarete and Roumasset (1983); Intal and Power (1990) – all of whom I surveyed in Chapter 1.
such as growth-enhancing investments in coffee production and marketing\textsuperscript{224} and welfare improvements in the lives of coffee producers.\textsuperscript{225} I sought to explain these contending outcomes by looking at an important variation in the political organisation of rent-seeking in Colombia and the Philippines: whereas FEDECAFE directly mediated the rent settlement between the state and the producers; COCOFED shared this role with individual political agents from outside the sector. I then deployed a research strategy that sought to locate the basis of this variation in political economy; and its implications on the rent settlement that obtained. In a nutshell, I sought to answer three empirical questions. To explore the basis of the variation, I asked the ‘political economy question’: ‘What can a historical view of political economy teach us about the variation in the power exercised by Colombian coffee producers and Philippine coconut producers in the determination and regulation of rent streams?’ To explore the implications of the variation, I asked two interrelated questions: ‘the rent settlement question’: ‘What are the key features of the rent settlement associated with coffee levies in Colombia and coconut levies in the Philippines, in terms of the mobilisation of the levies, the associated rent entitlements and the claimants to these?’ and the ‘regulatory question’: ‘To what extent did the producers associations shape the rent settlement in these countries?’

In the first section of this concluding chapter, I will synthesize my key findings on these three questions. As I have already summarised the country-specific findings in each of the concluding sections of Chapters 2 to 6, the focus of the synthesis here will be on the comparative insights generated by my research. In the second section, I will explore the significance of these findings, as well as the methodological approach that I developed to research the developmental impact of state-engineered rents in terms of their theoretical implications and an agenda for further research that is suggested by my work. Here I will situate my work in the theoretical terrain involving the study of the ‘politics of rents’, and suggest an agenda for research within this terrain utilising the analytical lens of ‘sectoral rent settlements’.


\textsuperscript{225} See Thomas (1985); Grievance (2002); and Bentley and Baker (2000) -- works I surveyed in Chapter 1.
On the ‘power and the peril’ of producers associations seeking rents

By answering the questions of ‘political economy’, ‘rent settlement’ and ‘regulation’ – as described above – I sought to offer a political lens through which to dissect the experience of two producers associations in securing rights to and mobilising rent streams. Below, I synthesise my findings, with a focus on the implications of the comparative empirical evidence I generated in the course of my research on the developmental consequences of state-engineered rents being allocated to and mobilised by producers associations.

On the power of producers and the possibilities for collective action

The set of evidence that I gathered in researching the ‘political economy question’ reveals the conditions governing the exercise of organisational power, the prospects for producer collective action, and the establishment of the rent settlements in Colombia and the Philippines.

The economic base of power of FEDECAFE was stronger than that of COCOFED. For one, the coffee sector generated the single most important stream of foreign exchange revenues for much of the twentieth century in Colombia. While coconut exports were also important in the Philippine context, they were never as dominant over such a long period of time. Moreover, while both sectors have been characterised by smallholding production, coffee producers had a more significant land base, in terms of land size and ownership.

Conditions for producers’ collective action were also more encouraging in Colombia than the Philippines. The initial terms with which Colombian coffee producers engaged in international trade required them to band together to solve bottlenecks in production that inhibited their competitiveness. In contrast, the Philippine coconut export sector was established and indeed flourished under conditions that did not require them to compete: privileged access to a protected market by a former coloniser, the US.

Finally, the variations in the political origins of the rent settlement associated with the levies – particularly characteristics of the original coalition that backed the settlement when first established – hint at the broader political constrains that conditioned the ability of producers associations to shape the rent settlement. In Colombia, it was a coalition of Conservative local politicians and coffee growers...
and businessmen in the smallholding coffee regions, whose goal of political stability was virtuously aligned and linked with fostering production in these regions. In the Philippines, an authoritarian president’s ambition to consolidate his political base, which governed the establishment of the rent settlement in coconuts, did not rely on enhancing production, just on giving limited access to rent streams to his chosen associates. Moreover, Colombian coffee producers were the central fulcrum in the original coalition that saw to the establishment of the institutional framework for levy collection. The Conservative local politicians in Colombia needed their support in ways that Marcos did not require the political support of coconut producers in the Philippines.

In general, the conditions in Colombia led to a more politically powerful and robustly organised producers’ association, in a rent settlement that from the beginning was backed by a coalition whose political goals were virtuously aligned with the goals of enhancing coffee production. In the Philippines, conditions led to an association with a comparatively weaker economic base, whose incentives for collective action were dampened by the colonial legacies of the US and whose access to the rent settlement was governed by the particularistic goals of an authoritarian president, which in turn were not crucially dependent on enhancing the productive capacity of the coconut sector.

These findings suggest the difficulties of replicating the Colombian ‘coffee story’ both in other sectors in Colombia, but also in other developing countries. The historical specificities that underpin the power of FEDECAFE and the developmental potential of the rent settlement it figured in are difficult to replicate – particularly, the dominant role the sector played in terms of generating export earnings, and conditions in political economy that allow for the serendipitous alignment of the productive and political goals of the coalition backing the settlement. These also warn about the ease with which the Philippine ‘coconut story’ could be replicated within national political economy contexts where political organisations play a less significant role in intermediating and articulating interests. However, the political challenge for economic development here is not the eradication of rents but an understanding of sectors where, because of the configuration of organisational power and political interests, robust producers organisations could be expected to shape rent settlements around productive goals.
On variations in the rent settlement and its regulation

The set of evidence that I gathered in researching the ‘rent settlement question’ confirms my proposition that the same institutional arrangement, which allowed private agents to appropriate public power and thereby access rent streams, yielded different rent settlements. By closely analysing audit reports and court documents in the Philippines, and published secondary data on coffee levies and their uses in Colombia, I showed the two important ways in which the rent settlements varied: first, in terms of the claimants, second, in terms of the governing logic of rent mobilisation. In Colombia but not in the Philippines: producers from the sector contributing the levies were the chief claimants of the rent settlement; and the enhancement of productive capacity was the governing logic of rent mobilisation.

In Colombia, I showed that levies were historically used to address specific production bottlenecks, and to provide goods enhancing the welfare of coffee producers. But the chief use of the levies has been to stabilise producer income through interventions in the domestic and international markets, with FEDECAFE engaging in the buying and selling operations characteristic of a marketing board. The rents from marketing board operations were used for the coffee producers to weather the cyclical peaks and troughs of international coffee prices. They were also used in investments, but mostly undertaken to strengthen the capacity of FEDECAFE to perform its regulatory functions in the coffee markets.

In contrast, the rent settlement associated with coconut levies was characterised by significant re-distributive transfers benefitting agents outside of the sector, in modes of rent mobilisation ungoverned by the logic of enhancing production in the sector. These transfers were effected through both legal and illegal uses of the levies. A significant portion of re-distributive transfers were captured by a presidential associate, who did not only obtain purposively allocated rent transfers, but was also able to accumulate capital by leveraging his authority to control the levies. Meanwhile, COCOFED also enjoyed access to rent streams that were relatively thinner than what FEDECAFE had access to. But, there is no compelling evidence to suggest that COCOFED acted in the best interests of its members and systematically ploughed back rents it had access to.
in order to enhance the productive capacity of the sector. The welfare and productivity programmes represented a miniscule portion of levies disbursed, tainted by charges of corruption. The bank that was set-up to provide credit to farmers became the node for administering a monopoly that extracted surplus from them. Coconut levies were also similarly used – if in a less transparent, more cumbersome process than in Colombia – to shore up concentrated market power in the industrial end of the sector. But rents generated therein, again unlike in Colombia, were not used to stabilise producer income. Finally, this rent settlement is associated with a deal that generated the most value of all investments made of the levies: shares of stocks in a blue-chip corporation. While coconut producers bore most – if not all – of the burden of this investment, their rights to the returns were something they had to contest in the end.

Meanwhile, the set of evidence that I gathered from researching the ‘regulatory question’ provides insights about a potential political explanation for the variations in the rent settlements that obtained from similarly designed institutions. By analysing the means through which the respective rent settlements were determined and enforced in Colombia and the Philippines – as reflected in relevant presidential decrees and court documents in the Philippines; and contracts governing the coffee levies as well as an original reading of the relevant secondary literature – I showed that FEDECAFE had a more stable base from which to decisively shape the rent settlement than COCOFED. In Colombia, the coffee producers’ claims on the rent settlement were embodied in contracts, subjected to bargaining between, and signed by, FEDECAFE and the state. These claims were transparent and the assignment of rights was stable. In the Philippines, these were embodied in presidential decrees and/or executive orders subjected to bargaining between COCOFED, other intermediary interests and the state. These claims were so tenuous that the courts, under the period of democratic transition in the Philippines, ruled that it was the state and not the producers that ultimately had rights to the levies and resources generated from their mobilisation.

In both periods of authoritarian rule and of formal democracy in the Philippines, it was executive authority articulated by the president that proved decisive in regulating the rent settlement. The presidential decrees during the time of Marcos performed the same regulatory function as the executive orders
issued by the succession of presidents after him. The only difference is that executive orders under the democratic period were underpinned by negotiations of the state with both new claimants to the rent settlement – constituted by highly factionalised coconut producer groups and their political backers from outside the coconut sectors – and the beneficiaries of the settlement under Marcos. These negotiations, and the executive orders that they produced, mirrored a ‘division of spoils’ among the claimants and in regard to the coconut levy-funded assets with continuing value, but no clear indication of how the ‘spoils’ were to be used to incentivise production.

In contrast, while state control was also exercised in the regulation of the rent settlement in Colombia, FEDECAFE was able to steer the rent settlement around the goals of production. FEDECAFE’s working organisational hierarchy and the associational avenues it offered for the exercise of voice and the extraction of accountability provided coffee producers with the means to practice direct authority over the rent settlement. Moreover, I also showed how FEDECAFE exercised direct and indirect influence in the determination of coffee pricing and macroeconomic policies. This aided in the enforcement of a key objective of the rent settlement: the stabilisation and maximisation of producer income through the ups and downs of the coffee commodity cycle.

The comparative views I proffer on the rent settlement associated with coconut levies in the Philippines and coffee levies in Colombia, and the role that producers associations played in their regulation, reveal ‘the power and the peril’ of state-engineered rents, and of producers association seeking them.

The perils of state-engineered rents for the prospects of development may well be borne out in polities where producers groups are too politically weak to promote the productive use of rents – this is what is revealed by the Philippine case. But the Colombian case illustrates the striking possibilities for development where producers associations operate under conditions where their authority to mobilise rents is backed by political power. In such a setting, the collective goals of the sector, as articulated by the FEDECAFE, motivated the uses of the rent. In the Philippines there was a constant tension between particularistic goals (of the brokers and political leaders) and those of the sector. The weakness of COCOFED in the Philippine political economy meant that the particularistic goals of political entrepreneurs won out in the end.
Moreover, access to rents secured by producers associations aids in building conditions for a polity where interest articulation is done by producer groups rather than intermediary individual agents. While my analysis of the political economy conditions would seem to suggest that FEDECAFE was, as also suggested by Schneider (2004) ‘born strong’, they were also made strong by the access they had to the coffee levies, and more crucially, by their use of the same for productive ends.

Finally, the participation of producers associations in regulating the mobilisation of state-engineered rents may help build developmental capacities of the state. For example, in Colombia, it helped build the capacity of the Colombian state to coordinate production goals in the coffee sector. It also led to the establishment of long-lived private organisation with parastatal functions, thereby shoring up the capacities of Colombia’s agro-bureaucracy. In the Philippines, neither state capacity nor long-lived organisations arose as the rent settlement was underpinned by dyadic negotiations between political entrepreneurs and the state. Also, as a result of the state’s direct links with the coffee sector through the coffee producers association, the rent settlement was inscribed within the framework of a time-bound contract that shored up capacities for state monitoring of rent outcomes in Colombia. In the Philippines, the rent framework rested on the wheeling and dealing of power brokers and the practice of the politics of privilege by the executive.

**On the study of ‘rents’ and their role in development**

In Chapter 1, I explained the four competing approaches in the study of the ‘politics of rents’, particularly the conditions that allow state-engineered rents to perform developmental functions contrary to the predictions of neo-classical economic models of rent-seeking, that I arrayed myself against. These four included approaches developed by political economists and development scholars anchoring their explanations on: (1) the agency of political leaders\(^\text{226}\); (2) the nature of state power\(^\text{227}\); (3) the incentives engendered by pre-existing

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\(^{226}\) In Chapter 1, I categorised North (1981) and Olson (1993) as among those whose works capture this approach.

\(^{227}\) In Chapter 1, I explained that this derived chiefly from the literature on developmental state, including: Kohli (2004), Doner et al (2005), and Evans (1992).
structures of political competition and rent-taking\textsuperscript{228}; and (4) specific conditions that allow the emergence of state capacities to foster and manage production-promoting rents.\textsuperscript{229} I explicitly cast my lot with the fourth approach, choosing it as my starting point, but utilising the approach through a methodology that looks at sectoral rent settlements. In what follows, I will explain how my research findings and the methodology I developed to generate them square against my observations about the weaknesses of the first three approaches, and how they contribute to strengthening the fourth. In the final section, I suggest ways by which the ‘sectoral rent settlement’ approach that I developed may be used to test, validate and further develop my work’s findings as they apply not only to Colombia and the Philippines, but other late developers like them.

\textit{Theoretical implications}

The theoretical implications of my work can be categorised into three: ways in which my empirical findings temper the critique of some of the approaches that I discussed in Chapter 1; the way they confirm and add a new dimension to the critique I have already articulated in that chapter; and the new insights in understanding or studying the role of rents in development generated by my research.

\textit{First}, I recognise that the explanatory power of some of the approaches that I criticised cannot be totally discounted. For one, there are ‘agency’-related explanations to the variations in the rent settlements that obtained. This is strongest in the Philippine case, where the agency of presidents was absolutely key, in as much as the exercise of executive authority was a significant node of rent regulation. But the Colombian case could be similarly interpreted, albeit agency there refers not to the political calculations of the holder of executive authority, but to the motivations unifying the coalition that backed the establishment of the rent settlement benefitting smallholders. However, in both the Philippine and Colombian cases, agency was exercised not by utility maximising political agents based on considerations of time horizons (as suggested by Olson (1993) – but for considerations of establishing political

\textsuperscript{228} In Chapter 1, I discussed how Bates (1995, 1997) and Vishny and Shleifer (1993) could be interpreted as utilising this approach.

\textsuperscript{229} In Chapter 1, I summarised the main propositions in Khan (2004a) as representative of this approach.
stability. This is true for Marcos trying to build a political base for his authoritarian rule; for the succession of presidents that followed him – particularly Arroyo and Estrada – who used the post-Marcos rent settlement to enhance their chances for surviving the periods of political crisis they faced; and for the coalition of coffee growers and businessmen and Conservative politicians, who promoted smallholding production in coffee to counter the tendencies of political conflict inherent in large coffee estate-based production. These are akin to the actuations less of self-interested political agents keen on extracting the most surplus during the time they are in power, and more of political agents in a limited access order (as in North et al, 2007, 2009) who want to provide privileged access to rents to engender cooperation from key segments of the polity.

Second, my empirical findings strengthen the critique against strict conceptions of the developmental state that look at state capacity in terms of power and autonomy. I suggested that the rent settlement associated with coffee levies in Colombia built state capacities through a process whereby the state established direct links with the coffee producing class and regulated the coffee rent settlement. This lends credence to Khan’s argument that state developmental capacities are built in the process of development and are not a pre-requisite for development (Khan, 2004a). Moreover, providing FEDECAFE with the means to regulate the rent settlement – in the process of which the Colombian state can be said to have given up some autonomy – was part of the condition that enabled FEDECAFE to become a long-lived sustainable organisation, articulating productive interests. This again, could be seen as a way by which conditions existed in Colombia for taking an intermediate step in between the primitive limited access order towards an open access order, where productive interests are articulated by long-lived organisations (North, et al, 2007, 2009, 2013).

Third, my method for analysing the politics of rents through the lens of sectoral rent settlements opens up new ways of interrogating well-established ideas in development studies.

Viewing the way coffee levies in Colombia were mobilised to enable FEDECAFE to function as a marketing board as a feature of a politically-determined ‘rent settlement’ also engenders a re-engagement with the conclusions of Bates (1981) about marketing boards in Africa. For one, dispersed
coffee producers in Colombia were able to build a strong and accountable association, defying the predictions of Olson’s (1961) logic of collective action, as I suggested in Chapter 2. But more importantly, this made possible the rise of a marketing board in Colombia – run by a producers association – that did not just extract surplus from rural producers to subsidise urban consumers. This means that when the operations of a marketing board are established through a ‘rent settlement’ whereby a producers association is involved in surplus extraction and the mobilisation of rents, it is entirely possible that market interventions can buttress and support productive goals in agriculture.

Finally, viewing the mobilisation of coconut levies in the Philippines through the lens of a ‘rent settlement’ suggests that the ‘coconut story’ is more than just a story about the excesses of a thieving president, which has characterised most previous accounts. That the contest for rent settlement after Marcos had been deposed from power redounded to negotiations for the division of the continuing rent streams among contending claimants, rather than their productive uses, shows that the graver problem lies in the organisation of rent-seeking in the Philippines. And this has persisted across different political regimes in the Philippines: the failure of productive classes to engage in contests for rent streams through consolidated political organisations. This insight, in turn, offers a more nuanced view of the developmental consequences of rent-seeking in countries like the Philippines: one that looks beyond the lens of corruption and instead focuses on the way rent-seeking is politically organised.

An agenda for further study utilising the lens of ‘sectoral rent settlements’
By way of concluding this dissertation, I now suggest ways by which the lens of ‘sectoral rent settlements’ may be used to test, validate and further develop my main claim that state-engineered rents assigned and mobilised in rent settlements intermediated by producers associations could promote developmental goals.

First, further research could be undertaken in Colombia to ascertain whether producers associations in other key economic sectors have been able to negotiate their own rent settlements. There are associations among rice farmers, cut flower growers, and cattle ranchers in Colombia – sectors of varying economic importance. If they were able to successfully negotiate rent settlements, did they benefit the growers and also advance the productive goals of the sector? Did they
perform the same regulatory functions that FEDECAFE did for coffee? Research on other rent settlements in Colombia could test the proposition that when it is producers associations who seek rents, this could be supportive of the productive mobilisation of rents. But such a study could also begin to answer the question of why – despite the preponderance of producers associations in Colombia relative to the Philippines – over-all indicators of economic growth, rate of industrial transformation and savings rates remain similar in both countries? Alternatively, why did success in coffee not translate to other sectors in the economy?

Second, further research in the Philippines could be undertaken in sectors that are closer to Colombian coffee in terms of the dominant role in the country’s export sector. One such sector is the sugar sector, which though now a shadow of what it used to be, was the sector that played the historical role that coffee did in Colombia, both as a means of integrating with the world market, but also as the singularly dominant export crop before the ascendance of coconuts. Marcos also fostered a rent settlement with sugar planters, who had a more expansive land base and established presence in the industrial end of the sector. (See Boyce, 1993; Hawes, 1997) Another sector is the micro-electronics sector, which currently stands as the single-most important export sector of the Philippines. This sector also received state-engineered rents in the form of tax breaks enjoyed by firms, located in export-processing zones, where operations of firms producing these are based. Did these ‘rents’ foster production in this sector and did it matter that there were no producers associations in the sector?

The view to sectoral rent settlements ultimately allows for the examination of the fine gradients between failure and success among late developers. This dissertation thus contributes to a gaping hole in the literature on the developmental state, which tends to only have explanations for two phenomena: states that fail and states that succeed. Countries like Colombia and the Philippines—in failing to see to processes of industrial upgrading—will be both classed in this broad literature among those that failed. But in this dissertation, I showed that there are lessons learned too from the finer gradients of failure and success. In the story of the development of the coffee sector in Colombia, there was a state that exhibited developmental rent management capacities. A key political condition that was absent in the Philippines, the wider political organisation of rent-seeking that enabled organised producers to shape the rent
settlement decisively, made possible the emergence of these capacities. The success of the Colombian coffee story provides a view of the political conditions that enhance the possibilities for failed late developers to break free from patterns of rent-seeking detrimental to development. But the failure of Colombia to exhibit long-term economic development patterns significantly different from the Philippines also indicates the difficulty and complexity of converting sectoral successes into a generalised story of development.
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254


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Republic of the Philippines vs. Sandiganbayan (First Division), Eduardo Cojuangco Jr., et al. Re: Acquisition of San Miguel Corporation Shares of Stocks - Dissenting Opinion of Justice Brion, No. Civil Case No. 0033-F (Supreme Court of the Philippines 2011).

Republic of the Philippines vs. Sandiganbayan (First Division), Eduardo Cojuangco Jr., et al. Re: Acquisition of San Miguel Corporation Shares of Stocks - Dissenting Opinion of Justice Carpio Morales, No. Civil Case No. 0033-F (Supreme Court of the Philippines 2011).


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<th>Name</th>
<th>Designation</th>
<th>Date of interview</th>
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<tr>
<td>Agustin, Yvonne</td>
<td>Executive Director, United Coconut Associations of the Philippines (UCAP)</td>
<td>May 12, 2009</td>
<td>Pasig City, Philippines</td>
</tr>
<tr>
<td>Anonymous</td>
<td>‘CIIF Company’</td>
<td>May 15, 2009</td>
<td>Makati City, Philippines</td>
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<td>Capalla, Fernando</td>
<td>Archbishop of the Catholic Church in Davao City</td>
<td>June 1, 2009</td>
<td>Davao City, Philippines</td>
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<tr>
<td>Cárdenas, Jorge at FEDECAFE</td>
<td>Former General Manager, National Coffee Federation (FEDECAFE)</td>
<td>March 5, 2010</td>
<td>Bogotá, Colombia</td>
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<tr>
<td>David, Virgilio</td>
<td>Board Member and Former Administrator, Philippine Coconut Authority (PCA)</td>
<td>May 9, 2009</td>
<td>Quezon City, Philippines</td>
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<tr>
<td>Dumlao, Herminigildo</td>
<td>Lawyer, Office of the Solicitor General (OSG)</td>
<td>June 3, 2009</td>
<td>Makati City, Philippines</td>
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<tr>
<td>Espinoza, Rodolfo</td>
<td>President, RACAFE &amp; CIA, S.C.A. (exporting company)</td>
<td>February 12, 2010</td>
<td>Bogotá, Colombia</td>
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<td>Faustino, Joey</td>
<td>Executive Director, Coconut Industry Reform Movement (COIR)</td>
<td>April 22, 29 and</td>
<td>Quezon City, Philippines</td>
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<td>May 9, 2009</td>
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<td>Fernández, Juan Pablo</td>
<td>Political Adviser, Office of the Senator Jorge Enrique Robledo</td>
<td>February 2, 2010</td>
<td>Bogotá, Colombia</td>
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<td>Guhl, Andrés</td>
<td>Professor, Universidad de Los Andes Centro Interdisciplinario de Estudios sobre Desarrollo (CIDER)</td>
<td>January 25, 2010</td>
<td>Bogotá, Colombia</td>
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<tr>
<td>Junguito, Roberto</td>
<td>Academic and Former Minister of Finance</td>
<td>February 15, 2010</td>
<td>Bogotá, Colombia</td>
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<td>Leibovich, José</td>
<td>Academic and Executive Director, Centro de Estudios Regionales Cafeteros y Empresariales (CRECE)</td>
<td>February 9, 2010</td>
<td>Bogotá, Colombia</td>
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### Appendix 1. List of Interviewees (continuation)

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<tr>
<td>Liquete, Arturo</td>
<td>Deputy Administrator, PCA</td>
<td>May 3, 2009</td>
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<tr>
<td>Lozano, Jorge</td>
<td>President, Asosación Nacional de Exportaciones de Café de Colombia (ASOEXPORT)</td>
<td>February 16, 2010</td>
<td>Bogotá, Colombia</td>
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<tr>
<td>Mejía, Rafael</td>
<td>President, Sociedad de Agricultores de Colombia (SAC)</td>
<td>January 28, 2010</td>
<td>Bogotá, Colombia</td>
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<tr>
<td>Misas, Gabriel</td>
<td>Professor and Director, Instituto de Estudios Políticos y Relaciones Internacionales (IEPRI), Universidad Nacional de Colombia</td>
<td>February 4, 2010</td>
<td>Bogotá, Colombia</td>
</tr>
<tr>
<td>Pizano, Diego</td>
<td>Academic and Consultant, FEDECAFE</td>
<td>February 15, 2010</td>
<td>Bogotá, Colombia</td>
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<tr>
<td>Reyes, Camila</td>
<td>Government adviser to the Ministry of Finance, FEDECAFE National Committee</td>
<td>February 11, 2010</td>
<td>Bogotá, Colombia</td>
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<td>Espinoza, Rodolfo</td>
<td>President, RACAFE &amp; CIA, SCA (exporting company)</td>
<td>February 12, 2010</td>
<td>Bogotá, Colombia</td>
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<td>Royandoyan, Romeo</td>
<td>Executive Director, Centro Saka, Inc</td>
<td>May 15, 2009</td>
<td>Quezon City, Philippines</td>
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<tr>
<td>Santos, Oscar</td>
<td>President, Coconut Industry Reform Movement and former Congressman</td>
<td>May 1, 2009</td>
<td>Manila, Philippines</td>
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<tr>
<td>Silva, Santiago</td>
<td>Researcher, FEDECAFE National Office</td>
<td>February 10, 2010</td>
<td>Bogotá, Colombia</td>
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<tr>
<td>Steiner, Robert</td>
<td>Executive Director, Centro de Investigacion Económico y Social (FEDESAROLLO)</td>
<td>January 29, 2010</td>
<td>Bogotá, Colombia</td>
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