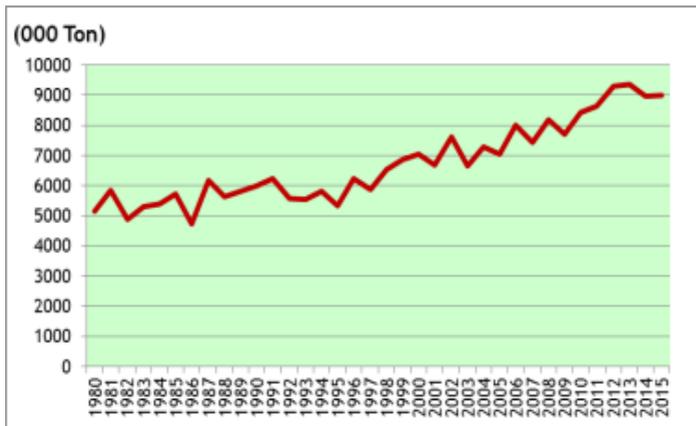


# CHAPTER I

## A. Background

Indonesia is the third-largest coffee producing country in the world. This is due to Indonesia's geographical location which is ideal for coffee growth and production. Coffee consumption is also very common for people in Indonesia. It can even be considered very popular both in Indonesia and in the world. Coffee has two important roles in terms of plantation crops. The first is from the production side. This plant is a supporter of the economy through the production base of raw materials and the basis of absorption of labor. Second, coffee also has a role on the trade side. Coffee is a widely traded agricultural product and is the most important commodity after oil. (Sahat, Nuryartono, & Hutagaol, 2016)

Coffee is a plantation product that has market opportunities, both domestically and abroad. Since 1984, the share of Indonesian coffee exports in the international coffee market has been the third highest after Brazil and Colombia, even for Robusta coffee, Indonesia's exports have been ranked first in the world. Most of Indonesia's coffee exports are Robusta coffee (94%), and the rest is Arabica coffee. However, since 1997 Indonesia's position has been shifted by Vietnam. The United States is the first largest importing country for coffee products in Indonesia. The demand for Indonesian coffee exports to the United States (US) market is quite high, but apart from importing coffee from Indonesia, the US also imports coffee from other coffee-exporting countries in the world to meet the demand for coffee in the US (Bogor Agricultural Institute, 2017).



*Picture 1.1 The development of the world's coffee plant area 1980–2013*

The development of world coffee production in the form of raw coffee bean production from 1980 to 2015 seems to fluctuate but continues to increase every year. In 1980, world coffee production reached 5,144,280 tons and increased in 2015 to 9,007,320 tons. The average production growth during the period was 2.09%. According to data from USDA, the highest world coffee production was in 2013 which reached 9,340,260 tons (Ministry of Agriculture, 2016).

Coffee is one of the mainstay commodities in the plantation sub-sector that has an important role for Indonesia's economic growth, among others as a source of foreign exchange earnings, a provider of employment, and as a source of income for coffee farmers and for other economic actors involved in cultivation, processing and in manufacturing coffee business. It is estimated that in the present and in the future, the management of the coffee plantation sub-sector has great potential to be developed. Even in the international market, coffee is the second most traded commodity after crude oil.

However, efforts to develop coffee commodities are still faced with several problems, both originating from the international market order and from the domestic market order. In the international market order, fluctuating prices seem to be a continuous feature because they are influenced by fluctuations in world coffee production (Albina Ginting, 2019)

Coffee is one of the export commodities which export trade system is regulated, which is including the Indonesian Customs Tariff Book HS Number 09.01 and 21.01. Provisions regarding coffee export are regulated several times by Regulation of the Minister of Trade of the Republic of Indonesia, namely regulation Number 26/M-DAG/PER/12/2005, replaced by Number 27/M-DAG/PER/7/2008 and lastly Number 41/M-DAG/PER/9/2009 Regarding Coffee Export Provisions which was last changed by Regulation of the Minister of Trade Number 10/M-DAG/PER/5/2011.

### **Coffee Export Terms**

1. Coffee exports can only be carried out by companies that have been recognized as Registered Coffee Exporters (ETK) and Temporary Coffee Exporters (EKS) by the Director General of Foreign Trade of the Ministry of Trade.
2. Each coffee export must also be accompanied by a Coffee Export Approval Letter (SPEK). SPEK is a letter of approval for the implementation of coffee exports to all destination countries issued by the Service responsible for trade in the Province/Regency/City. SPEK can also be used for shipments from export ports throughout Indonesia.
3. In addition, the exported coffee must comply with the quality standards set by the Minister of Trade and must be accompanied by an SKA Form ICO certificate of origin, namely a certificate used as accompanying documents for

goods (coffee) exported from all over Indonesia. , which proves that the goods (coffee) originality, are produced and/or processed in Indonesia. (GAEKI, 2021).

The International Coffee Organization (ICO) was founded in 1963 under the auspices of the United Nations. Its members include coffee exporting and importing countries, which aim to address the challenges facing the world's coffee sector through international cooperation. The purpose of establishing the ICO is to make a practical contribution to the world coffee economy and to improve living standards in developing countries by:

1. Enabling government representatives to exchange views and coordinate coffee policies and priorities at regular high-level meetings
2. Coffee quality improvement through the Coffee Quality-Improvement Program (CQP)
3. Initiating coffee development projects to improve quality and marketing, and combat disease
4. Promote coffee consumption through innovative market development activities
5. Taking a part of a brief conclusion of the research from the previous chapters
6. Promoting a sustainable coffee economy and environmental standards through studies and expert panels
7. Providing objective and comprehensive information and research on the world coffee market
8. Ensuring transparency in the coffee market through the provision of statistics
9. Producing market reports, econometric models, in-depth economic studies and country coffee profiles (The International Coffee Organization (ICO), 2021)

The International Coffee Agreement (ICA) is an agreement signed by coffee exporting countries since 1962.

The most recent agreement is the agreement signed by the 77 Members of the International Coffee Council which was held in London on 28 September 2007. The overall purpose of this Agreement is to strengthen global coffee sector and promote sustainable expansion in a market-based environment for the betterment of all participants in the sector. Other new goals include encouraging members to develop appropriate food safety procedures in the coffee sector, encouraging members to develop strategies to help local communities and small-scale farmers to benefit from coffee production, and facilitating the availability of information on financial tools and services (International Coffee Organization (ICO), 2021).

## **B. Research Question**

How is international coffee organization (ICO) role in Indonesia coffee production?

## **C. Conceptual Framework**

To analyze How is international coffee organization (ICO) role in Indonesia coffee production the author used concept of National Interest, the Concept of International Organization and International Regime.

### **1. Concept of National Interest**

According to Jack Plano and Ray Olton, national interest is the fundamental and main objective for decision makers in designing the foreign policy. Therefore, national interest is considered as a tool for analyzing country's foreign policy. National interest is state most vital needs which constituted from generalized conceptions of elements (Plano, 1988).

Plano and Olton agreeing that there are five elements that constitute the national interest of a country. These each element are vital for the being of

a country in international world. Those elements are (Plano, 1988) :

- a. Self-preservation: Right to defend the country
- b. Independence: Right to free from being colonized and independent
- c. military security: Right to possessed military in the country
- d. territorial integrity: Right to maintain the country's territorial
- e. economic well-being: Right to improve its country's welfare

Based on the five elements that arranged, the author of this research agreed that economic well-being element is the most compatible element to describe How is international coffee organization (ICO) role in Indonesia coffee production. Economy has been playing crucial role in countries development. Indonesia as one of developing countries has been urging its development of economy through many sectors.

As stated above, coffee as one of the agriculture commodities has been supporting Indonesian's GDP. Therefore, Indonesia has been urging the growth of coffee sector trading activities. In doing so, Indonesia joined the International Coffee Organization (ICO) in which the main objective of the ICO is to strengthen the coffee commodity sector globally and to develop a sustainable market-based environment for the advancement of all member countries. With the fact that ICO members countries represent 97% of world coffee production and more than 80% of world consumption (Dubois, 2013), Indonesia plays a big role within the environment in the organization as Indonesia is considered as one of the biggest producers

of coffee commodities. As coffee has been supporting Indonesian devise, the government urge to maintain the domination of Indonesia in global market of coffee as well improving the quality of the commodity in order to compete with others big exporter countries such as Brazil, Vietnam and Columbia.

## **2. Concept of International Organization**

The concept of International Organization can be defined according to many scholars, for the example is from Bowett D.W. which he defined international organization as permanent organization which formed by the presence of international agreement which most of the time is multilateral agreement, and within the formation of the organization, there is mutual goals for all of the members (Bowett, 1970). According to Boer Mauna, international organization is association consists of independence and sovereign states. The association is aimed on achieving mutual interest through many organs from the association itself. In this research, the concept of international organization is focused on the definition of international organization by Teuku May Rudi which defined international organization as the pattern of cooperation among countries based on clear and complete organizational structure. The organization is expected to carry out its function in a sustainable and institutionalized manner in order to achieve the goals that is agreed by either each countries member or noncountries member with the countries member (Rudy, 1998).

Based on Rudi's definition of international organization, there are four important constituents of international organization, those are: international cooperation, mutual interest of members which agreed upon, clear and complete organization structure and

functioned in sustainable manner. International organization is aiming on cooperation among actors and non-actors either governmental or non-governmental to solve the problem that being faced in order to achieve mutual interests of the actors involved. As for the goal of the organization is to manage or coordinate the activities of members in particular field which shaded by the organization. In order to achieve the goals of the organization, it is true that the structure of the organization is crucial for the role of the organization. In short, if the structure has begun to functioned, the organization has carried out certain roles.

In international world, international organization categorized by three categories based on its role of the organization, those are (Rudy, 1998);

a. International Organization as instrument

As an instrument, international organization is utilized by its members to achieve certain goals based on its foreign policy goals. The characteristic of international organization as an instrument is that the members of the organization have right to limit the actions of the organization.

b. International Organization as arena or forum

As an arena or forum, international organization is utilized by its member to provide body of meetings in order to gather, discuss and as well cooperate to overcome problems that occurred among its own members.

c. International Organization as actor

As an actor, international organization is characterized by the unaffected actions by the organization. As an actor, the action of international organization is not limited by its

members national interest. Therefore international organization as an actor could give neutral input without any interest of its member involved in the action.

In the global coffee sector, International Coffee Organization is categorized as an arena or forum in which International Coffee Organization provides body of meetings, discussions and cooperation which set an aim on introducing and managing initiatives designed to improve the functioning of the global coffee market. In this case, the establishment of International Coffee Organization can be backgrounded by the idea of collapse in market prices due to over - produced the commodity which is coffee by the largest producer of coffee, Brazil in 1906s. During that time, Brazil tried to cope with the decline of coffee prices by conserving its coffee in order to increase the prices. Yet due to the the global recession of the 1930s followed by the 2nd World War, the action by Brazil caused problem within the global coffee market itself due to the loss of its demand of coffee commodity (Dubois, 2013).

Further, the necessity of International Coffee Organization as an arena or forum is that In 1962, which the first held of International Coffee Agreement that led to the establishment of International Coffee Organization in 1963, there were concern about the dependency coffee exporter of its coffee export commodity which dominates over 50% of their total export earnings (Dubois, 2013). With the dependency of coffee exporter towards coffee export, this led to a problem in global market. Therefore, international organization formed an arena or forum to carried out

initiatives to overcome problems that occurred among its members.

In implying the concept of international organization in Indonesian coffee cases, International Coffee Organization would facilitate Indonesian coffee industry a development of communication, community assistance and dissemination of knowledge about the world coffee economy sector. As Indonesia has been struggling with the competition of export activities due to the low quality of coffee commodity, joining ICO would support Indonesian improvement of coffee that led to the increase of coffee export. Besides, in joining ICO, Indonesia would maintain and improving its position in engaging international cooperation in coffee sector.

### **3. International Regime**

International institutions or regimes began to develop during World War II, where the Bretton - Woods meeting held in mid-1944 was the forerunner to the formation of international institutions or regimes, especially in the economic field. According to Robert O Keohane, an international institution is a set of government regulations that include networks of rules, norms and ways to regulate and monitor their impact. "Norms" in this context are values that contain trusted facts, causes and rectitude (fairness/honesty). Meanwhile, what is meant by "values" are standard behaviors that are formed because of obligations and obligations (Keohane, 1998).

International institutions as explained above can be interpreted as one of three forms, namely as follows:

- a. Formal organizations between governments or non-governmental interstate organizations. As an

organization that has a specific purpose, this organization can monitor activities and provide responses to these activities and this organization is formed by states.

- b. International regimes Regimes are institutions that have explicit regulations that are approved by states. These regulations are related to several international relations issues. For example, the IMF regime which was formed at Bretton Woods in 1944, and the Maritime Law regime initiated by the United Nations in the 1970s.
- c. Conventions, in social theory and philosophy, conventions are informal institutions that have rules and implicit understandings that shape the expectations of the actors involved. Conventions allow these actors to understand other actors without explicit rules, in order to coordinate their actions. For example, the principle of immunity in traditional diplomacy was a convention before it was codified in two international treaties in the 1960s (Keohane, 1998).

Within the international regime itself, there are three main theories that are considered as perspective-based theoretical approaches, namely neo-liberalism, realism, and cognitivism (Hasenclever, Mayer, & Rittberger, 1997). The three main theories within the international regime itself then indicate the emergence of approaches used as a tool for analyzing variables. The approaches include; (1) interest-based, whose analysis basically reflects on neoliberalism; (2) power-based that reflects realism in the focus of the analysis study; and (3) knowledge-based based on cognitivism by prioritizing the relationship between science and actors (Hasenclever, Mayer, & Rittberger, 1997).

Interest-based approach based on the perspective of neoliberalism describes the state as having a selfish nature that is always selfish and always prioritizes their absolute gain. This neoliberal-based approach focuses on economic theory, especially regarding information and transaction costs. In this case, the international regime is seen as having a role to help each country realize their respective interests. With the interests that must be fulfilled by each country, triggering the emergence of an international regime. These interests can be realized by holding international cooperation between countries that are part of a regime.

The basic assumption of this interest-based approach is that as a rational and self-interested actor, the state has a fixed goal. To realize these fixed goals, countries must unite common interests with other countries through structured forms of cooperation. An interest-based approach can be said to also adopt institutionalist values regarding regime effectiveness. Regimes are considered as effective tools that can be used to realize their interests more easily. However, what needs to be underlined here is that the institutionalist values adopted by the neo-liberalism perspective are limited, so that the rational choice model is not affected by rule-governed practices or institutions (Hasenclever, Mayer, & Rittberger, 1997).

The second approach that analyzes the international regime is the power approach which is based on realism. The realist perspective prioritizes power because of the assumption of an anarchy system in the world. This approach still uses a state-centric approach, where the state has a major role in regulating

a regime. In this approach it is seen that the state has a role to regulate the course of international cooperation.

The third approach is a knowledge-based approach, this approach focuses more on the interests of each country and the normative ideas contained therein. In this approach states are understood as role-players rather than utility-maximizers. As a result, this approach tends to use institutionalism more clearly than realism and neo-liberalism. In his writings Hasenclever (1996) distinguishes this approach into two parts, namely weak cognitivism and strong cognitivism. The formation of the identity and interests of the state is the main thing that forms the basis of weak cognitive thinking. Meanwhile, the strong cognitive approach sees the existence of historical structures in the form of norm values, history of struggle and emotional closeness that can explain the cognitivism approach.

In analyzing the problem of How is international coffee organization (ICO) role in Indonesia coffee production, the author uses the international regime as an appropriate alternative to understand it. Where in the neo-liberalism approach that has been conveyed earlier, it is explained that countries will obey the regime if these countries have the same interests. Here Indonesia and the member countries of the ICO (International Coffee Organization) are faced with the same challenges in the development of the coffee industry. Therefore, the existence of the ICO (International Coffee Organization) is expected to be able to overcome the challenges faced by the coffee sector in Indonesia through international cooperation agreements, so that it can realize Indonesia's interests to improve its coffee industry sector.

#### **D. Hypothesis**

How is ICO (international coffee organization) role in Indonesia coffee production:

1. Improve the quality of coffee in Indonesia
2. To maintain the country's foreign exchange sources through coffee export

#### **E. Research Methodology**

This study uses a qualitative method, which is a method carried out in a study that does not involve calculations. This method pays attention to the behavior of international actors by connecting the causes and effects that occur using an inductive explanatory literature technique that will attempt to reveal and analyze phenomena or events related to the problems studied.

#### **F. Data Collection Techniques**

The type of data used by the author is secondary data. Writing this thesis uses data collection techniques through library research, based on secondary data from books, magazines, journals, articles, newspapers, internet, and other forms of writing that are relevant to the object of thesis writing.

#### **G. Research Reach**

To limit the analysis, the scope of this study is limited in time, the time review in this study was carried out since 2007 when the most recent International Coffee Agreement (ICA) was issued. So that the research does not widen, the researcher takes the scope of the International Coffee Organization (ICO) and the scope of the coffee trade in Indonesia.

#### **H. Writing System**

The systematics in writing this paper will be divided into five chapters as follows:

**CHAPTER I:** Introduction consisting of Background Problem, Problem Formulation, Theoretical Framework, Hypotheses, Research Methods, Research Range, and Writing Systematics.

**CHAPTER II:** Explain about the history and development of the coffee trade in Indonesia

**CHAPTER III:** Explain about changes in coffee quality improvement in Indonesia

**CHAPTER IV:** Analyzing the coffee trade in Indonesia which acts as a source of foreign exchange for the country.

**CHAPTER V:** A brief conclusion of the research from the previous chapters