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COFFEE

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HEARINGS

BEFORE THE

COMMITTEE ON FINANCE
UNITED STATES SENATE

EIGHTY-EIGHTH CONGRESS

SECOND SESSION

ON

H.R. 8864

AN ACT TO CARRY OUT THE OBLIGATIONS OF THE UNITED STATES UNDER THE INTERNATIONAL COFFEE AGREEMENT, 1962, SIGNED AT NEW YORK ON SEPTEMBER 28, 1962, AND FOR OTHER PURPOSES

FEBRUARY 25, 26, AND 27, 1964

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COFFEE

TUESDAY, FEBRUARY 25, 1964

U.S. SENATE,
COMMITTEE ON FINANCE,
Washington, D.C.

The committee met, pursuant to notice, at 10:10 a.m., in room 2221, New Senate Office Building, Senator Harry F. Byrd (chairman) presiding.

Present: Senators Byrd, Long, Douglas, Gore, Talmadge, McCarthy, Hartke, Fulbright, Williams, Carlson, Morton and Dirksen.

Also present: Elizabeth B. Springer, chief clerk.

The CHAIRMAN. The hearing today is on the bill H.R. 8864, to carry out the obligations of the United States under the International Coffee Agreement, 1962, signed at New York on September 28, 1962. I submit for the record a copy of the bill and an excerpt from the House Report 870, giving the purpose and summary of the pending bill.

(The bill and excerpt from the House report follow:)

[H.R. 8864, 88th Cong., 1st sess.]

AN ACT To carry out the obligations of the United States under the International Coffee Agreement, 1962, signed at New York on September 28, 1962, and for other purposes

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "International Coffee Agreement Act of 1963".

SEC. 2. On and after the entry into force of the International Coffee Agreement, 1962, and for such period prior to October 1, 1965, as the agreement remains in effect, the President is authorized, in order to carry out the provisions of that agreement—

(1) To regulate the entry of coffee for consumption, or withdrawal of coffee from warehouse for consumption, including (A) the limitation of entry, or withdrawal from warehouse, of coffee imported from countries which are not members of the International Coffee Organization, and (B) the prohibition of entry of any shipment from any member of the International Coffee Organization of coffee which is not accompanied by a certificate of origin or a certificate or reexport, issued by a qualified agency in such form as required under the agreement.

(2) To require that every export or reexport of coffee from the United States shall be accompanied by a certificate of origin or a certificate of reexport, issued by a qualified agency of the United States designated by him, in such form as required under the agreement.

(3) To require the keeping of such records, statistics, and other information, and the rendering of such reports, relating to the importation, distribution, prices, and consumption of coffee as he may from time to time prescribe.

(4) To take such other action, and issue and enforce such rules and regulations, as he may consider necessary or appropriate in order to implement the obligations of the United States under the agreement.

SEC. 3. As used in section 2 of this Act, "coffee" means coffee as defined in article 2 of the International Coffee Agreement, 1962.

SEC. 4. The President may exercise any powers conferred on him by this Act through such agency or officer as he shall direct.

SEC. 5. The President shall submit to the Congress an annual report on the International Coffee Agreement, 1962. Such report shall contain full information on the operation of such agreement, including full information with respect to the general level of prices of coffee. Such annual report shall be submitted not later than January 15 of each year. The first such report shall be submitted not later than January 15, 1965.

SEC. 6. There are hereby authorized to be appropriated from time to time such sums as may be necessary to carry out the provisions of this Act, including the necessary expenses and contributions of the United States in connection with the administration of the International Coffee Agreement, 1962. The amount of the contributions of the United States to administer the agreement for any period shall not exceed 20 per centum of the total contributions assessed for such period to administer the agreement.

SEC. 7. The joint resolution of April 11, 1941, entitled "Joint resolution to carry out the obligations of the United States under the Inter-American Coffee Agreement, signed at Washington on November 28, 1940, and for other purposes" (19 U.S.C. 1355 and 1356) is repealed.

Passed the House of Representatives November 14, 1963.

Attest:

RALPH R. ROBERTS, *Clerk.*

PURPOSE AND SUMMARY OF H.R. 8864

The purpose of H.R. 8864 is to authorize the procedures required in order that the President might carry out the obligations of the United States under the International Coffee Agreement of 1962. That agreement has been signed by the United States, and the Senate has given its advice and consent to ratification.

The Committee on Ways and Means does not have jurisdiction with respect to the treaty itself. Rather, at the request of the President, your committee has undertaken to authorize the mechanical procedures for carrying out the obligations of the United States under that treaty. The procedures established by this bill are reasonable for that purpose.

Specifically, the bill would authorize the President to require all coffee entering U.S. markets and all exports of coffee from the United States to be accompanied by a certificate of origin or a certificate of reexport, to limit imports of coffee from nonmember countries, to require the keeping of certain records, statistics, and other information, and to take such other action as he may consider necessary to implement the obligations of the United States under the treaty. The bill also authorizes appropriations necessary to carry out the obligations of the United States under the treaty. Certain obsolete provisions of law would also be repealed.

The CHAIRMAN. The Chair recognizes Senator Fulbright.

Senator FULBRIGHT. Mr. Chairman, I apologize for requesting the privilege of saying a few words at this time, but the Committee on Foreign Relations is meeting on nominations in 20 minutes and I will not be able to stay here to hear the testimony of Secretary Harriman and Mr. Mann.

My committee did handle the treaty on this matter and I think that it was a great tragedy that this legislation was not passed shortly afterward.

There seems to be considerable misunderstanding about the significance and the effect of this agreement. Many people seem to think that it is committing us to the principle of a support program in the international field, which it is not.

Secretary Mann and Secretary Harriman and their experts will be able to give you the details as to the actual working of the program. I only wish to make a general statement.

In the field of foreign relations I think it would be a great disaster and a great tragedy if this Congress would reject this implementing legislation. The witnesses will prove to you, I believe, that the recent rise in the price of coffee is not attributable to this agreement. We had much higher prices in 1954 when there was no prospect of an agreement and these violent fluctuations have been characteristic of coffee and other raw materials in the international field and they are simply coincidences without any question, as I believe the testimony will show. The price rise has nothing to do with this agreement or this legislation, so I do hope that this committee will approach this matter with an open mind and give due consideration of the political implications if it should reject this implementing legislation. I can think of nothing that could injure our relations in Latin America and Africa more than the rejection of this measure.

Our foreign policy has been characterized for many years by a peculiar ambivalence. On the one hand we offer these people aid and on the other hand we are extremely shortsighted in assisting them to achieve any reasonable stability in the prices of their major commodities.

So I do urge the committee to be very serious and consider this and not reject it. This legislation deserves the most careful consideration of not only the domestic economic aspects but also the international political considerations involved.

Thank you very much, Mr. Chairman.

The CHAIRMAN. Thank you, Senator.

The first witness to appear before the committee this morning is the Honorable W. Averell Harriman, Under Secretary of State for Political Affairs.

Mr. Secretary, will you proceed, sir?

STATEMENTS OF HON. W. AVERELL HARRIMAN, UNDER SECRETARY OF STATE FOR POLITICAL AFFAIRS; THOMAS C. MANN, ASSISTANT SECRETARY, INTER-AMERICAN AFFAIRS; AND JEROME JACOBSON, DEPUTY ASSISTANT SECRETARY, ECONOMIC AFFAIRS, U.S. DEPARTMENT OF STATE

Mr. HARRIMAN. Thank you, Mr. Chairman.

Mr. Chairman and gentlemen of the committee, I welcome the opportunity to appear before this committee in support of H.R. 8864, a bill authorizing certain procedures necessary for carrying out the obligations of the United States under the International Coffee Agreement.

I have a prepared statement, sir, which I have distributed but I will read it fairly hurriedly if I may to save your time.

May I say at the outset that I deeply regret the confusion the Department of State caused last December when it requested urgent committee action on H.R. 8864 and then reversed itself. I am fully aware that your chairman was prepared to hold expeditions hearings on the bill at that time and that his role regrettably was described inaccurately in certain editorial comment. We accept full responsibility. There was certainly no trap, no ploy, no gambit, nor any coffeemanship on the part of this committee, nor, may I add, on the part of the Department of State. The administration did not want this bill to interrupt other urgent and priority legislation then before the Senate and we knew, as a result of the Coffee Council's action in November, that we would not need the authority requested in this bill before April. It was for these reasons that the request for early hearings was withdrawn.

We deposited our instrument of ratification on December 27 to keep the agreement alive—it would have died on December 31 otherwise—but we have not—and I repeat—we have not taken any actions for which authority is requested in this bill.

The legislation is now before this committee and I should like to explain the background of the coffee agreement, the purpose of this legislation, and recent developments in the world coffee market.

In the summer of 1962, nearly 60 coffee producing and consuming countries negotiated the International Coffee Agreement. The United States took the lead in helping to develop and negotiate this agreement. Its purpose is to stabilize the world coffee market—a market with a long history of severe price fluctuations.

Coffee is the single most important agricultural commodity in the trade of the developing countries. More than 30 countries in Latin America and Africa depend on coffee for an important if not major part of their export earnings. It represents 50 percent or more of all earnings in many countries. More than 20 million persons in these countries are engaged in its production and trade. Coffee is a vital factor in economic, political, and human terms. Coffee is subject to sharp price fluctuations. This seriously impedes the development effort of these countries and their possibilities for economic and social progress.

In announcing the Alliance for Progress, President Kennedy assured the Latin Americans of our full cooperation in helping to correct the instability in commodity trade.

I may say here that when I was Ambassador I went to a number of countries and I found that that comment in the statement the President made to the Latin American countries was highly welcomed everywhere.

The coffee agreement was a test case. The Senate, too, recognized the major economic and political significance of coffee. On May 21, 1963, it gave its advice and consent to ratification of the agreement.

The agreement is not a wholly self-executing treaty. Legislation is required to enable the United States to meet its obligations under the agreement. Specifically, H.R. 8864 authorizes the President to limit exports of coffee from nonmember countries, to require the keeping of certain records, and to require all coffee entering the U.S. markets and all exports of coffee to be accompanied by a certificate of origin or re-export. The certificate is a paper indicating the source of the coffee; it will enable the Coffee Council to maintain a statistical check on exports and to detect quota violations. The bill also authorizes appropriations necessary to carry out the obligations of the United States under the agreement.

In its report on the agreement, the Foreign Relations Committee recommended that Congress limit the initial validity of the implementing legislation to a period of 2 years. Congress can thus review the experience accumulated with the operation of the agreement. The administration accepted this recommendation. The bill before you will expire automatically on October 1, 1965, to insure such congressional review.

The House Ways and Means Committee examined the procedures established in H.R. 8864. It found them reasonable and necessary and recommended favorable action in the House. On November 14 last, the House approved H.R. 8864.

On December 27, the United States deposited its instrument of ratification. Had we not done so, the agreement would have died by December 31. For by that date instruments of ratification were required from countries accounting for at least 80 percent of total coffee exports and 80 percent of total coffee imports in 1961. The coffee imports that we account for had to be spoken for by an instrument of ratification by December 31.

Let me make clear that we have not yet carried out any actions that the powers we're seeking would permit. In this sense our participation in the agreement has not been effective. Yet, we have not been in violation of the agreement. For the Coffee Council has postponed until April 1 the introduction of the certificate of origin and the limitation of imports on nonmembers. And these are the very matters for which the pending legislation is needed. If we cannot carry out our responsibilities the agreement will be virtually worthless.

Wholesale or green coffee prices have risen sharply recently. I know that the members of this committee are concerned by this and that you may want to know what role the agreement has played in that rise and whether it can be used to check it.

I want to state unequivocally that the coffee agreement did not cause the rise in coffee prices. That rise was triggered by a virtually unprecedented combination of natural disasters to coffee plantations in Brazil—the world's largest coffee producer. First came frost, then fire, then drought, and the drought is still continuing, particularly in São Paulo. That is one of the Brazilian provinces that is an important producer of coffee.

The change in Brazil's crop prospects is enormous. In the season 1959–60, Brazil produced 44 million bags of coffee; 37 million bags were of exportable quality. This year exportable production is barely 19 million bags. Some of our officials believe next year's exportable crop will not exceed 13 million bags; the Brazilians—some Brazilians—say 8.5 to 9 million bags. Some in our trade say it may be even less than this.

No one can tell, but whichever figure is right, it is clear that a buyer's market has been turned dramatically into a seller's market. Buyers are scurrying to buy up the short crop to assure themselves of fresh coffee. As Brazilian coffee prices have risen, other coffee prices have been pushed upward as well. That's the way the market works.

The situation would be worse but for Brazil's large stocks. Unfortunately, they are not all of the qualities that we consume here. Of the approximately 50 million or so bags in stock, our trade believes

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that perhaps 20 to 22 million bags are of exportable quality. That may see Brazil through for the next few years until the trees revive from nature's ravages. But the market will be in a highly vulnerable position given the possible exhaustion of stock. Consequently, higher prices than we have known in the past years of glut—the last 5 years—are to be expected. We're in a seller's market, not a buyer's market. And buyers will always pay more for fresh coffee than for "stored" coffee from stocks.

Some say that quotas are a factor, albeit minor in the price rise. The fact is that exporters had a system of quotas in effect in the year following the negotiation of the agreement. Nevertheless, coffee prices continued to decline and reached new lows in August and September of 1963. Basically, that was because quotas were considerably too large and production was overabundant.

When the Brazilian situation appeared to be turning the market around, an effort was made to raise quotas but because market developments could not be clearly foreseen, no action was approved. However, now we have a background of rapid rise in prices and large buying for inventories as a safeguard against still higher prices. Accordingly, a little over 2 weeks ago, the Council of the Coffee Agreement raised quotas. Another 2.3 million bags of coffee will legally be available for export. In our judgment this will assure that the quotas will not be a factor in future price rises, if any. If further quota increases seem necessary, we are confident that producers would again agree with us and action would be taken. After all, look at the vote on the recent quota increase: importers voted unanimously for the increase and exporters voted 842 out of 955, including Brazil and Colombia, for the increase also. That is an impressive record of nearly unanimous agreement.

Price stability is what we are after and quotas should be used for this purpose. But on one thing we are all agreed—exporters and importers—and that is that the quota system should not act to keep available supplies from coming to the market. If natural factors force prices up, that is one thing; we do not want export quotas to bring this about. This has not happened so far and we are sure we can prevent it in the future as well. If not, the agreement would not be doing its job and we would, I assure you, reconsider our role in it.

But we should have no illusions about what quotas can do. Coffee is roasted—not quotas. And quota increases will not put one more berry on a coffee tree. We have to face that fact that we are in for a period of tight supply and that prices are bound, therefore, to be above their depressed levels of recent years.

Mr. Chairman, in this tight market our membership in the agreement has been of decided advantage to us. We have now a large international forum in which governments face each other to discuss their mutual problems concerning coffee. The exporters made very clear in the very recent depressed days for coffee that they needed our help to stem a sharp price decline. In the same way, we have now made it very clear that we expect exporters to make coffees available to the market as fully as practicable. If they fail to do this and if as a result prices rise, they would not be acting in the spirit of the agreement which is to seek stability in coffee markets. We would not hesitate to say this or to act upon it. Indeed, members of our trade have told us that, but for our presence in the agreement, it is likely prices could be even higher than today. Our presence in the agreement is a decided advantage to us and to other consumers in dealing with the tight supply situation we face.

I strongly recommend, the Department of State recommends, the enactment of H.R. 8864. Without the implementing legislation, the United States will be unable to carry out its obligations with respect to certificates of origin and import control, essential elements of the agreement. The legislation will expire October 1, 1965. The next year and a half will tell us whether the agreement is doing its job and if, therefore, it should remain in being.

I cannot overemphasize the importance to our political relations with the developing countries, and with Latin America in particular, of our continued active participation in the International Coffee Agreement. For many low-income countries, what we do to ameliorate the conditions of their commodity trade is far more important than what we do about aid, and they have stated so on numerous occasions to us.

In fact, the sharp price fluctuations in primary commodity trade often more than offset our development aid. These countries want to be able to earn their own way through trade and not have to rely on aid alone. Coffee as the single most important agricultural commodity in the trade of the low-income countries is a test case. The good faith of this administration and the credibility of our efforts to help the developing countries raise their living standards is involved. It would not do for us to back away from the agreement just because prices are up, in my humble judgment. Indeed, we would be called fair weather friends—interested in stability only when prices are really low but uninterested when prices rise because nature has played its trick on production. Stability is not a short-run matter; it takes time to bring it about and with time the agreement will help do just that.

Failure of the United States to continue as an active member of the agreement would be a most damaging blow to our relations with the developing countries, especially of Latin America, and to the Alliance for Progress.

Secretary Mann is here to answer any questions which any member of the committee wishes to ask on that aspect as well as other aspects of the coffee agreement.

The United States helped to bring the agreement into being; it must not be responsible for its demise, I sincerely hope, Senators.

The CHAIRMAN. Thank you, Mr. Harriman. Mr. Harriman, you speak of backing away from an agreement. What agreement do you refer to? To what agreement did you have reference?

Mr. HARRIMAN. Well, this is the implementing legislation that is before you gentlemen now; there will be no International Coffee Agreement unless the Senate passes this legislation which is before you, sir, H.R. 8864.

The CHAIRMAN. I believe you are familiar with the fact that the chairman of the committee called the President on December 12 and was advised by the President that he would not deposit these papers. Therefore, I don't know what agreement you refer to.

Mr. HARRIMAN. Well, Mr. Chairman, I believe you were subsequently contacted and so were others—I won't burden the committee with the details—but it was pointed out that other legislation at the end of the year was of greater importance, in the opinion of the administration, than this legislation. Then, subsequently it was found that we had to deposit by the end of the year because other countries had come along and had deposited their approvals and if we had not effected our deposit, the whole 4 year's work of discussions would have fallen down.

We were faced with the dilemma, sir, of letting the whole agreement collapse—to dishonor our agreement to which, of course, the Senate had given its advice and consent. Yet we do not believe we have acted in bad faith with this committee, because our participation in the agreement will not be effective unless the Senate takes action on this bill.

And as I understood it, you were telephoned as well as other members of the committee—I haven't got the record as to whom this situation was explained. I was under the impression that the bill was discussed and the committee had understood it.

I want to reiterate that the reversal of the hearing was not done at your behest, sir, but it was done at the behest of the administration for the reasons I have described.

The CHAIRMAN. And so you are saying now that we must not back down or back away from our agreement. You remember the confusion that existed, that occurred when the bill was set for hearing, this bill, before the committee——

Mr. HARRIMAN. Well, I have explained, sir, in my testimony that——

The CHAIRMAN. The Chairman telephoned the President and the President said there would be no agreement until the committee could consider the implementing legislation after completion of action on the administration's tax bill.

Mr. HARRIMAN. I was not handling this—I was not handling the matter at that time but I understood, sir, there was a call to you again explaining that we had to ratify by the end of the year, or else the whole negotiations would collapse. In fact, the understanding which had been reached with the State Department did not jeopardize the Senate's ability to give its final consideration to the implementing legislation.

The CHAIRMAN. I want to repeat——

Mr. HARRIMAN. Mr. Chairman——

The CHAIRMAN. We were in no wise responsible for this delay, because we were prepared to act on December 12, 1963.

Mr. HARRIMAN. Yes, sir. I want to join you, sir——

The CHAIRMAN. At one hour, however, we were asked by the administration to act and the next hour we were asked to defer action until the latter part of January or February when action on the tax bill had been completed.

Mr. HARRIMAN. That is correct, sir.

The CHAIRMAN. So it was no fault of this committee.

Mr. HARRIMAN. No fault of this committee, as you recall, it was in May that the Senate Foreign Relations Committee gave its advice and consent and the House acted on this agreement—the 14th of November, was it?

Mr. JACOBSON. That is right.

Mr. HARRIMAN. And with the congestion of legislation of the year, with which you are all familiar, the administration decided not to press this legislation before the end of the year, and it was for that reason that its request for the hearing was reversed. Obviously, the committee is in no sense at fault. I do want to emphasize the fact that there was no bad faith on the part of the administration because our participation in the agreement cannot become effective unless implementing legislation of the character that is now before you is passed by the Senate.

We were in, sir, a most difficult situation—whether we would let all of the 4-years' work that had been done on this collapse, not go forward with the treaty which the Senate had acted upon, or ratify pending Senate action on the implementing legislation. I want to point out that the Coffee Council decided that certificates of origin would not go into effect until April 1, which now gives the Senate opportunity to act before the effective date for the certificate system.

The CHAIRMAN. Now, the purpose of this bill, the pending bill, is to stabilize the price of coffee, is that correct?

Mr. HARRIMAN. That is the purpose of the agreement. That is the hope, that is the expectation, and in connection with the negotiations and in connection with the testimony with regard to it, it was made very clear that our objective was not in any way to provide for a rise in the price of coffee but to prevent a decline from the already low level prevailing in 1962. The price of coffee had gone to a very low basis as compared to previous prices. I think that it is fair to say that if we look at the last 11 years, we find in 5 years prices were substantially above current levels, in 1 year price was about the same as current levels, and then for 5 years it has been substantially less than the present price.

In 1962 and 1963, the price reached a low which coffee had not reached for, I don't know, 12, 13 years.

The CHAIRMAN. How much higher is the price of coffee now than the average price, let us say, of the last 10 years?

Mr. HARRIMAN. I think the price today, I am told, the spot for Santos 4 is about 47 cents. Last year is was 34 cents.

The CHAIRMAN. I mean, how much higher? I want to know how much higher it is now than it was.

Mr. HARRIMAN. How much higher now?

The CHAIRMAN. Yes.

Mr. HARRIMAN. It was 52 in 1953; 55 in 1954; 52 in 1955; 51 in 1956; 49 in 1957; 40, approximately, in 1958; 43.9 and then—oh, these are average import prices, these are not the Santos prices. May I give you different figures?

On Brazilian Santos 4 coffee the prices were 57 cents in 1953; 78.7 cents in 1954; 57 in 1955; 58 in 1956; 58 in 1957; in 1958 it was 48, approximately the present price.

Then the price dropped and in 1959 it was approximately 37; in 1960 it was 36.6; in 1961 it was 36; and in 1962 it was 33.9 and the average for 1963 was 34.

The CHAIRMAN. What was the increase in cents?

Mr. HARRIMAN. Now, I am told by a mathematician that the price today is no higher than the average for the last 10 years, but we consider it a high price.

Senator CARLSON. Would the Chairman yield for a question on the price of coffee?

The CHAIRMAN. Yes.

Senator CARLSON. Mr. Secretary, I have before me the Wall Street Journal for Friday, February 21, and the cash prices on commodities on the board, or in New York: Coffee, Santos 4's, New York—and this is Thursday—47.5 cents a pound; a year ago 33.5.

Mr. HARRIMAN. That is correct. That is just what I am testifying to, sir.

Senator CARLSON. I thought that your figures were——

Mr. HARRIMAN. Until today, they were 48 cents. You said 47.5. The average for the year, as I have it before me, is 34.11 for the year 1963.

The CHAIRMAN. How much higher is the price of coffee now than it was 2 years ago?

Mr. HARRIMAN. Two years—using Brazilian Santos 4, 2 years ago it was approximately 34 cents.

The CHAIRMAN. 34 cents?

Mr. HARRIMAN. On the average.

The CHAIRMAN. And it is 13 cents higher now?

Mr. HARRIMAN. It is 14 cents higher.

The CHAIRMAN. I was told by the State Department, the White House yesterday, they expected an increase of 4 percent more.

Mr. HARRIMAN. I don't know. No one can tell what the price will go to. There are members of the industry here who are better qualified to project forward. The forward prices are even higher than the spot prices, which would appear to indicate that either buyers want to protect themselves against a possible future rise, or be sure that they get the quality of coffee that they need. Those are technical matters of the trade.

The CHAIRMAN. Do you agree in the State Department that the price of coffee is going higher?

Mr. HARRIMAN. I beg your pardon?

The CHAIRMAN. Do you agree with the White House that it is going higher?

Mr. HARRIMAN. I cannot guess. I could not guess, but I would not be surprised if they did.

The CHAIRMAN. I was told by the White House yesterday, they expected an increase of 4 percent or more.

Mr. HARRIMAN. Well, Senator, you have been as experienced as I have been in projecting market prices ahead of time and I think the fact that futures are higher would indicate that that is correct. But I do want to say that no one that I know of believes that this agreement has had anything to do with these higher prices. It was the unusual crop failure in Brazil, one of the worst, I believe, on record, a triple disaster.

The CHAIRMAN. The point I want to get clear in my mind is when you stabilize it, are you going to stabilize it at the high prices or the low prices or what prices? You say that the purpose of this agreement is to stabilize the price of coffee.

Mr. HARRIMAN. Well, in the discussions——

The CHAIRMAN. Because if you stabilize it at the present price plus the 4 cents expected to be added, I would imagine that would be the highest price coffee has ever had in any period of time.

Mr. HARRIMAN. Well, Mr. Chairman, this agreement is not to fix prices. It was never intended in any way to do so, but to attempt to prevent, as best can be done by these limiting procedures, the unusually high or unusually low prices. And we believe that this agreement will have some tempering effect on the upswing of coffee. We cannot tell, however, what will happen.

Now, crop developments, of course, in Brazil will determine to some extent how high these prices will go. How long it will take for Brazil to reexpand its production to a more normal basis, that is a fact which nature will play a part in. As I have indicated in my testimony, there is considerable difference of opinion as to the size of the crop of Brazilian coffee that will be available for exports next year, and the price will be affected by the prospects for the following year as well.

Now, these are factors which the industry, who are here to testify for the bill, can give you greater details on than I can. But I want to underline the fact, Mr. Chairman, that this agreement did not contemplate the fixing of prices, but contemplated cooperative arrangements which would tend to prevent some of the extreme fluctuation in coffee prices.

For example, in 1954 the price of Santos 4 averaged nearly 79 cents as against 48 at this time. Now, that was extreme. And, of course, all the years from 1953 through to 1958 were all substantially above the present spot price of Santos 4. They were all above 56 cents, or 57. So that we are not——

The CHAIRMAN. Your objective——

Mr. HARRIMAN. We are hopeful that it won't rise to the extremes that it did in the first 5 years of the last decade. Whether it will do that or not we cannot guarantee, but this is a cooperative arrangement. The pressure will be on the exporting countries and the pressure will be on cooperation within the industry to prevent an extreme price rise which might well have happened if it had not been for this agreement.

Certainly this agreement had nothing to do with the rise. There is nothing in this agreement which increases the chances of a rise. Whatever value there is in this agreement is to prevent a rise.

Now, if there had continued to be the very high surplus of production which existed in the last 3 years, why, then this agreement would have prevented the bottom falling out of the prices and the disaster which would have occurred to these exporting countries.

Now, we believe it is important to our general national welfare to have these countries that are dependent upon coffee have as far as practicable a stable income so they can go ahead and run their affairs and not have these very great ups and downs which have in the past created a great deal of dislocation.

The CHAIRMAN. The Chair has one more question that he would like to get clear in his mind. On the one hand you say the objective of this bill is to stabilize the price of coffee and on the other hand you say it is not to fix the price of coffee.

Mr. HARRIMAN. That is correct.

The CHAIRMAN. Well, there must be some influence somewhere, on the price of coffee, in order to stabilize it.

Mr. HARRIMAN. Well, the agreement—its purpose calls for the prices not to fall below the 1962 figure.

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The CHAIRMAN. Then you——

Mr. HARRIMAN. And the technique to prevent a collapse in price is to establish export quotas in order to hold the surplus off the market, to be worked off in a more orderly way.

If there had not been this triple disaster in Brazil, which I think is unique in the history of Brazil—and if I am wrong in that, they will check me—this agreement would have tended to stabilize the upturn as well as stabilize the downturn because the quotas would have been increased, as they have been, and the price would have been held down.

But, unfortunately, the collapse in the production in Brazil—exportable production dropped from 37 million bags in the 1959–60 crop year to 19 million bags in the present crop year, and it may go as low as 8 to 13 million bags next year. These are bags. So that this extraordinary drop from 37 million down to an anticipated 8 to 13 million is what caused this extraordinary situation. But even so the price has not gone, so far, to the levels which reigned between the years 1953 and 1957. In those 5 years, the price was still above today's price. Actually, in 1958 the prices were then about what they were today.

So that it may have had some effect on preventing skyrocketing speculation. The industry I understand is here to testify. Mr. McKiernan who is president of the National Coffee Association will testify for this bill. We have been, the State Department has been in constant touch with the association, the consumers of coffee, and have had the benefit of their advice and I understand that they are going to testify favorably to this bill.

So that our industry as well as the producing countries are for it. Now, of course, the treaty would not be effective if we, who consume more than half the coffee of the world, were not to implement our part in the agreement.

The CHAIRMAN. Are you more concerned about preventing coffee from going to a lower price or going to a higher price?

Mr. HARRIMAN. Well, we hope that this agreement will tend to keep the fluctuations within a narrower range than has been the fact in the past. We don't expect to have a fixed price of coffee but it is hoped that the range will be limited as the result of this cooperation between the principal producing countries—I understand over 90 percent of the producers have already signed up and most of the larger consuming countries—so that we hope by this cooperation there will tend to be less of a speculative range of prices.

It was an unfortunate occurrence of nature that the largest producer of coffee, Brazil, which accounts for more than 40 percent of the coffee grown in the world, has had this triple disaster.

The CHAIRMAN. Thank you.

Senator Long?

Senator LONG. You started to give us one set of prices and then you gave us another. There appeared to be a very wide range of difference between those two sets of prices, the average price and Santos price.

Mr. HARRIMAN. The prices I have given you are the Santos prices or Brazilian prices and they are more affected by this, more directly affected by this.

Senator LONG. Well, you——

Mr. HARRIMAN. Excuse me. The prices that I gave you for the year were the average prices for the year.

Senator LONG. It was somewhat confusing to me. Weren't you looking at two sets of figures, giving us the prices on one chart from which you were reading and the prices on the other?

Mr. JACOBSON. Senator, would you be kind enough to tell us which table you are referring to?

Senator LONG. Well, Mr. Harriman started reading from one set of tables, from which he quoted us a figure of 55 cents for 1953. Then he read some Santos prices, and gave us 57.

Mr. HARRIMAN. Well, those were the average import prices of all coffees, some of them of lower grades than Santos and some of them higher grades. We gave you the Santos 4 figures because Brazil is the largest exporter and the country where the great difficulty has arisen and is the price which has affected the——

Senator LONG. Well, you have managed to confuse us by using those two sets of figures.

Mr. HARRIMAN. Yes, I am sorry, sir. So was I, sir. I apologize.

Senator LONG. In 1958——

Mr. HARRIMAN. I had two tables in front of me.

Senator LONG. All right, sir. For 1958 you quoted a figure of 58 from one chart and then for 1958 you quoted a figure of 48 at Santos prices. This is a 10-cent difference.

Mr. HARRIMAN. No, sir, I am sorry. I want to expunge that from the record. I have got several tables here and I started to read from the wrong one, which——

Senator LONG. I understand.

Mr. HARRIMAN. I will make the record straight; the price of Santos coffee, 1953, was 57.9.

Senator LONG. I have that now. Now, the Santos prices are what we would regard as the controlling prices at which the——

Mr. HARRIMAN. I mentioned them, sir, because it is the Brazilian coffee which has caused the great shortage.

Senator LONG. Now, I put down a set of figures and I just ran an average for the years 1959 to 1963. You gave me prices that averaged 35.5 cents. Then for the years 1953 to 1957 you gave me a list of prices which averaged out to 61.6 cents.

Now, are you in a position to say that the 61.6 cents average for that 5-year period is far too high and that the price of 35.5 is a depressed price?

Mr. MANN. Yes.

Mr. HARRIMAN. Yes. We felt that the price of coffee was too high in the 5 years that you speak of and we think—our position is that we are going to work to try to hold it more in the range of the last 5 years.

Senator LONG. Can you give us some indication of what you think the proper prices should be—if you are trying to pick a figure out of the air, would it be somewhere between those two prices, or what would it be?

Mr. HARRIMAN. Well, all we have agreed to is to try to maintain the price at the price that was in effect last year, 1962. That was when the agreement was settled, not go below that and not to attempt to raise it substantially above that price.

Now, that is a matter for the trade, the countries involved in the agreement, to be in touch with constantly.

Senator LONG. In other words——

Mr. HARRIMAN. But the basic view is that the prices in the last 5 years were more realistic than they were in the previous 5 years that you spoke of, Senator.

Senator LONG. Then you do not think that the 35.5-cent price is particularly out of line, or that it is substantially above what it was, in the 5-year period——

Mr. HARRIMAN. Senator, on this matter may I ask that Mr. Mann, who is very familiar with this and who has lived with this, with the economic end in the State Department and who is thoroughly familiar with the effect of coffee on the world economic scene, to speak of this?

Senator LONG. All right.

Mr. MANN. Senator, we would think that the average of 61.6 for the years between 1953 and 1957 is certainly too high. I would think that the other average that you gave us, the 35——

Senator LONG. That is the 5-year average, arrived at by averaging out the figures from 1959 to 1963.

Mr. MANN. And you are asking what in our opinion——

Senator LONG. I am asking whether the average price of the 5 years is a fair price or a depressed price.

Mr. MANN. I would say it would be somewhere around 40, maybe as high as 45 but certainly between 40 and 45 would be a fair price although, as Governor Harriman testified, the purpose of this agreement, all we are committed to in the agreement is to prevent its falling below the price of 33.96—is it not?

Mr. JACOBSON. Roughly.

Mr. MANN. Now, the reason it is important to prevent it falling below that price is that some 14 Latin American countries depend very substantially on the export of coffee and price of coffee, and they are faced with a population explosion, Senator, which is doubling their population every 25 years.

They have got to have trade in order to double the number of jobs, double their food production in this same span of time, which is a fantastically difficult thing to do, and they have had these wild fluctuations in the price of coffee, their most important export, not because of the presence or absence of any coffee agreement, but because of the vagaries of production in Brazil.

In 1959–60, for example, they produced 44 million bags of coffee; 37 million bags were exportable. In 1964 their exportable production is expected to drop to somewhere between 8.5 and 13 million bags.

Now, this gives you some idea of the tremendous damage done by frost, by fire, by drought, and that sort of thing.

And whenever the price hits rockbottom they are in trouble and we are in trouble. This agreement is designed to protect the consumer as well as the producer. It is a two-barreled thing, not to try to abolish the law of supply and demand, because obviously you cannot do that, prices are affected by supply and demand, but to try in an orderly way to avoid dumping excesses in times of low prices and to open up the gates in times when it is scarcest and the coffee is available.

Senator LONG. Well, here is the thing that concerns me, Mr. Mann. On this commodity agreement and others—I am not sure precisely what this agreement says. I know I have some knowledge about it. It is perfectly all right with me for this Nation to agree to take our requirements of a commodity like sugar or coffee at a price that will enable the other country to maintain a living scale of wages for its people and to negotiate the agreements on that basis. I don't want to eat sugar or drink coffee at a price that is going to require somebody else to live a pitiful existence.

But now when we undertake to tell someone that we are going to take his product at a price above what we would have to pay on a fluctuating market ordinarily, it seems to me that we ought to have something in that agreement where that fellow assures us that he is going to deliver our requirements on that basis.

Now, if you were negotiating an agreement for any private business in America and you agreed you were going to pay a fellow more than he could get somewhere else, you would insist that he provide your requirements at that price or at least on some basis where you could compute what his cost was. You would provide for it that way in the contract. Now, with sugar we were led for years to believe if we could break their quota system we could buy sugar at 3 cents a pound. We broke it all right. I looked at it once and it was 13 cents a pound instead of 3.

Now, what is our prospect of some kind of assurance that if we agree to pay a higher price by helping them stabilize the market that we are going to be assured that at some future date we won't have to pay twice that price?

Mr. MANN. Well, in the first place, Senator, let me make clear that this is different from a sugar agreement in that we pay the same price for coffee as every other coffee exporter in the world. There is no two-price system in this as there is in sugar or used to be in sugar and to some extent still is. We pay the same price as a consumer that every other consuming nation in the world pays. This gives us the identical interest as Western Europe, for example, which imports coffee just as we do.

The agreement does provide that when supplies are tight, the quotas will be increased in order to prevent the price from going too high, and there was a meeting in London just last month in which Mr. Jacobson was able with the nearly unanimous consent of exporting and consuming countries to get an increase of some 2.3 million bags of coffee in order to hold this price. The difficulty is there just isn't enough coffee available for export, or at least the coffee buyers are afraid that they are going to run short. It isn't a matter of manipulation. It is a matter of stocks and supply and having enough stock to meet the demands, and the coffee buyers in this country have been building up their stocks, and I don't blame them for that. They have to be sure they can get coffee. They are paying higher prices in the futures market precisely because of the fact that they are not sure enough coffee is going to be available.

And this drought, the lowering of production in Brazil, has done some odd things. For example, the Colombian Milds are a much higher grade of coffee than Santos 4 and customarily priced higher than Santos 4 but are now below Santos 4 simply because there are more mild coffees for the bins than the Santos Brazilian types.

Senator LONG. Here is my reaction to this. I didn't negotiate it and don't know all the details, but it seems to me what I did when I voted for the coffee agreement, and I did it with that understanding, was to pay more for coffee. That is the way it seems to me. The United States was the principal consumer and we were using our economic power. That is the way we used our economic power, to help stabilize their market and see that they got what they regarded as a fair price for coffee. We explained that to them. I am willing to pay them that. But once we do that, it seems—it seemed to me that any negotiator looking after our interests should have something in there to guarantee us that we are not going to be the victim of extortion in this thing and when coffee is in short supply that they are not going to charge us 78 cents or a dollar for coffee.

Now, what mechanism do we have to guarantee that that is not going to happen?

Mr. MANN. The whole agreement rests on the idea of export quotas. Each country has an export quota which it is obligated to fill. They calculate what the world demand is going to be, what the world supply would be to keep coffee prices reasonably stable, and they give each country a quota.

Now, sometimes you miscaculate what the demand will be and the agreement provides that when coffee prices go up, you can have emergency meetings and you can raise the quota to put more coffee on the market in order to stabilize the price, keep it from going up higher.

This is the main mechanism for that, and I think that exporting and importing countries are agreed that this should operate in a way which is fair both to the consumer and to the producer.

I want to emphasize again that it isn't just to drive the price up artificially to the sky. It is to keep it at a fair level, allowing for problems of drought, and so forth, which do affect price.

Senator LONG. Well, now, we were in the hands of the Philistines as far as sugar is concerned. All these people talked about what friends of ours they were and we were protecting their price of sugar. We had bad weather in Europe. Cuba went out as a producer by becoming a Communist government, and so these people were obligated to deliver sugar, and they delivered it all right, at 13 cents a pound. We were lucky to get it even then. We had the speculators absolutely with their hands around the necks of the American consumer.

The answer to this is obvious. We should stockpile sugar if they are not going to produce it for us. So that every time a speculator has his hands around our necks, we can put sugar on the market and protect ourselves. Can we be sure we are going to be protected from that kind of thing as far as coffee is concerned and won't be——

Mr. MANN. Yes, sir.

Senator LONG (continuing). Won't be sitting back one day and looking at 78 cents or a dollar price on coffee?

Mr. MANN. Yes. Even from sugar—I want to say from Mexico where I last served, they sold us sugar when it cost them, the difference between our price and the world price cost them $15 million, only a few months ago. They have been continually selling sugar to us in quantities which in the opinion of many people in Mexico reduced their domestic stocks to below the level that they ought to maintain them. So there has been cooperation from these countries, even in the sugar field.

Senator LONG. Did they have a commercial interest in doing that?

Mr. MANN. Yes, sir. They did that because they didn't want the American Congress and the American people to feel they were withholding stocks just because the price at that time was lower in the United States. They wanted to sell it in a stable market which in the long run they think would be higher.

Senator LONG. How much of a discount was that, that $15 million?

Mr. MANN. I can't remember offhand. Roughly a cent and a half a pound, Senator. Not only Mexico but other countries did this, too. I simply say this to indicate that these producing countries do understand the importance of stability and are willing to take losses as well as make gains.

Senator LONG. Well, now, do you think that this agreement does protect us from paying an exorbitant price in the future?

Mr. MANN. Yes; I do. I do, provided the production of coffee doesn't fall below a level so that the coffee doesn't exist in stocks. If you don't have coffee, there is nothing in this agreement that will prevent prices from rising. But if you have adequate stocks, it will.

Senator LONG. Why don't we stockpile some here? Then we would know we were going to have it in the event the production falls off.

Mr. MANN. I think our industry maintains at times like this rather large inventories. But they can tell you better than I. I have no objection to a stockpile.

The CHAIRMAN. Senator Williams?

Senator WILLIAMS. Mr. Harriman, in your report you state that the agreement is not a wholly self-executing treaty. Is it a partially executing treaty? Why is the word "wholly" used?

Mr. HARRIMAN. Yes. There are some aspects of the agreement which we can now carry out but it will not be possible for us to fully implement the agreement without this legislation, so that I think it is fair to say that the agreement will not be fully operative without this legislations.

Senator WILLIAMS. What can you do without the legislation?

Mr. HARRIMAN. Well, we sit in the Coffee Council, we discuss quotas, and we voted the other day, last month, to increase the quotas. That we have done. But the agreement cannot become fully operative unless we are able to do what this enabling legislation provides, which is to keep the records of where the coffee comes from to our country and to generally cooperate in the other aspects of keeping the statistical records which make the agreement effective.

Senator WILLIAMS. Do you agree that as we consider this legislation which is now before us, that the committee can act as a free agent, consider it on its merits, and is free to accept or reject this legislation without any——

Mr. HARRIMAN. Certainly, sir.

Senator WILLIAMS (continuing). Any suggestion that we are violating an agreement?

Mr. HARRIMAN. The committee of the Senate is completely free to act in any way which in its wisdom it decides to act. I hope that it will approve the legislation because it is, we believe, eminently in the interests of the U.S. Government and the people of the United States over the years to help in stabilizing commodity prices.

This is the first attempt we have made. This has been under discussion for many years, 4 years specifically, and a most unfortunate event has occurred which is the triple disaster in Brazil in coffee production. I hope that the Senate will not let that interfere with the long-range objectives of the agreement.

I may say, Senator, that on the advice of the Senate we are asking for legislation really for only 18 months, until October 1965, for the effective period of the bill which is before you, and that will give the Senate, the Congress, the administration, a chance to review the workings of the coffee agreement and see whether it is worthwhile to continue with it. It isn't a long period.

I think in this present emergency we believe that it is clearly to our interests to have the cooperative relationship which exists through this agreement continue and that it will tend to lessen the abnormal prices. So that I think the U.S. consumer's have much to gain by this agreement, and if we were to abandon it at this time, the general attitude toward the United States would, I think, be very adversely affected. Mr. Mann can tell you specifically about the Latin American countries. They produce 75 percent of the coffee and are most affected. That is the area in the world which is most affected, although coffee is produced in Africa and the Far East.

Mr. MANN. Senator, I would like to say that if we do not—if the Senate does not act favorably on the enabling legislation, in my opinion as the person responsible for Latin American affairs, the effect in that area would be nothing short of calamitous. There is no issue affecting our relations with the area as a whole which is as important as this one is.

Senator WILLIAMS. Well, I am not suggesting whether we should should not, and I fully respect your position and may or may not agree with it ultimately when we report this legislation. The point I am trying to make is that the mere fact that the Senate ratified this treaty in no way binds our committee of Congress or our Government to adopt this legislation.

Mr. HARRIMAN. That is correct.

Senator WILLIAMS. That is the point I am trying to establish.

Mr. HARRIMAN. That is correct.

Senator WILLIAMS. That was clearly stated in the letter which you sent down to the Congress at the time this treaty was ratified when you stated that the executive branch will not attempt to make the participation of the agreement effective until implementing legislation is approved by the Congress. It was clearly stated that we would be a free agent to accept or reject this legislation on its merits and the mere ratification of the treaty would in no way be binding on our part to subsequently approve this legislation.

Mr. HARRIMAN. I understood that was the understanding at the time.

Senator WILLIAMS. Should it be rejected, it will in no way be a repudiation of any previously made agreement.

Mr. HARRIMAN. I understood that the Senators were told at that time that our participation in the treaty wouldn't be effective without the implementing legislation. It was hoped, and it was the intention of the State Department not to sign the treaty without implementing legislation. Unfortunately events which were not within the State Department's control made it impossible for the Senate to give consideration to this legislation prior to the date when we had to either cut, fish, or go ashore.

Senator WILLIAMS. Have you signed the treaty?

Mr. HARRIMAN. It was signed on December 27 which was 4 days before the deadline.

Senator WILLIAMS. I notice that you state that if Congress fails to approve this and if as a result prices rise, they would not be acting in the spirit of the agreement which is to seek stability in the coffee market.

Now, do I understand that the purpose of this treaty and this agreement from the standpoint of the State Department was to stabilize the prices of coffee, that is, raise them above the level at which they were when you negotiated the treaty?

Mr. HARRIMAN. No. There was no commitment of that kind. The commitment as I understand it——

Senator WILLIAMS. I didn't ask if there was a commitment. I said was that your purpose?

Mr. HARRIMAN. To see that the prices didn't go lower than the general level prevailing in 1962.

Senator WILLIAMS. How much does a 1-cent rise in the price of coffee mean to the consumers of the world?

Mr. HARRIMAN. Well, I have some data here. I think that 1 cent—our figures here show that a 1-cent rise would be about 5 cents a month to the average family.

Senator WILLIAMS. How much would that be in dollars, about $70 million?

Mr. HARRIMAN. No. This is to an average family of four in the United States.

Mr. JACOBSON. The added cost to the consumers of the world, Senator, for a 1-cent rise in price is roughly $60 to $70 million. For each 1-cent rise in price.

Senator WILLIAMS. That was my understanding. We were told when the treaty was before the committee that each 1-cent rise meant about $70 million extra for the consumers.

Mr. JACOBSON. That is right.

Senator WILLIAMS. Now, the United States uses about 52 percent of the coffee, is that not correct?

Mr. JACOBSON. That is right.

Senator WILLIAMS. Therefore, how much does each 1-cent rise in the price of coffee mean to the consumers of America?

Mr. JACOBSON. Roughly $30 to $35 million.

Senator WILLIAMS. And the price of coffee has gone up how much since the ratification of this treaty?

Mr. JACOBSON. We have to average all coffee but let us say roughly 10 to 12 cents a pound.

Senator WILLIAMS. Then how much does that mean the price of coffee has risen to the consumers of America since the treaty was ratified?

Mr. JACOBSON. Roughly $350 to $400 million at an annual rate.

Senator WILLIAMS. $350 to $400 million more that the consumers are paying today than they were prior to ratification of the treaty. I understand the State Department——

Mr. HARRIMAN. Senator, may I point out that I have been talking about import prices. The retail prices don't necessarily fluctuate exactly the same as the——

Senator WILLIAMS. You have been in business long enough to——

Mr. HARRIMAN. As the import and wholesale prices do.

Senator WILLIAMS. Certainly, Mr. Harriman, no one is more familiar with the free enterprise system than you are and you are well aware of the fact that any price increase in the wholesale level ultimately is reflected in the consumer price. So the fact that these prices have as yet not been passed on to the consumers does not mean that they will not pay——

Mr. HARRIMAN. Certainly.

Senator WILLIAMS. In the end.

Mr. HARRIMAN. Certainly. But they don't—as you look at the figures they don't necessarily fluctuate exactly in accordance with the spot market.

Senator WILLIAMS. But by the same token, when the market starts downward retail prices are slow in reflecting the downward price.

Mr. HARRIMAN. Right.

Senator WILLIAMS. So in the long run the answer is exactly the same.

Now, then, I understand in answer to the question earlier, you agreed that the rise in the price of coffee since the ratification of this treaty last August is costing the American consumers now around $350 to $400 million more than it was costing prior thereto; is that correct?

Mr. JACOBSON. Senator, the answer in purely mathematical terms is just as you have given it, but the point is it is not the agreement which has caused this increase in price.

Senator WILLIAMS. That was not my question. I am just speaking of the statistical facts, that the price of coffee——

Mr. JACOBSON. Yes, sir.

Senator WILLIAMS. It is costing around $350 to $400 million more today.

Mr. JACOBSON. That is right. At import value, and I think our trade can tell you at retail value it has been somewhat less so far than might seem——

Senator WILLIAMS. Yes; but the price, whenever it declines, will have the same lag in the retail prices at that time.

Mr. JACOBSON. Right.

Senator WILLIAMS. So that is merely postponing the cost.

Now, it is expected, as I understand by the State Department, that there will be possibly another at least 4-cent rise in the retail price; is that right?

Mr. JACOBSON. Well, I don't—I suspect that the retail price will rise another few cents a pound to catch up with the growth in the cost of imported coffee; that is right, sir.

Senator WILLIAMS. Are you expecting any further rise in the wholesale price of coffee?

Mr. JACOBSON. That is going to depend on what happens in Brazil in the future. We would hope prices won't go higher in Brazil. I had the pleasure of discussing this matter with the Brazilians and Colombians and others in the meeting in London recently. They agreed that the rapid runup in price was undesirable for coffee. And they——

Senator WILLIAMS. But if that 4 cents—if there is an additional 4 cents in the price of coffee, it would mean another hundred million dollars added to the consumer cost here in America, would it not? Approximately?

Mr. JACOBSON. Well, yes, it would be roughly $100 million. That is right.

Senator WILLIAMS. And this ——

Mr. MANN. If there is.

Mr. JACOBSON. If there is. That is the way the Senator posed the question.

Senator WILLIAMS. I understand that, although I understand from the Department and administration they are expecting this 4 cents increase. But nevertheless this extra cost which you say is now around $350 to $400 million to the consumer will possibly have another additional $100 million added to the price of coffee for the consumers. Is this in the American consumers' interest and do you think they should be appreciative of this increase in cost of coffee?

Mr. HARRIMAN. Senator, I would like to go over those figures again. I understand the total import of coffee was about a billion dollars last year.

Mr. JACOBSON. That is right.

Mr. HARRIMAN. So a 10-percent increase means $100 million more.

Senator WILLIAMS. Well you are still getting back to the same answer. The price has increased 14 cents.

Mr. HARRIMAN. I want to state ——

Senator WILLIAMS. Coffee has increased fourteen cents since the treaty was ratified.

Mr. HARRIMAN. I want to state it is the judgment of the industry, the judgment of the State Department, that this treaty, his agreement on coffee, had nothing to do with that rise. That would have happened anyway and there is some indication that it might have risen substantially higher than it already has, sir. So that this is not the cause. This is a phenomenon which has happened, and had nothing to do with the treaty. Those negotiating the treaty had nothing to do with the climactic conditions and the devastating fires that took place in Brazil.

Senator WILLIAMS. I understand that to a large extent the rise in coffee is a result of natural causes, but is it not also true that nature moved in and did for you what you had intended to do anyway?

Mr. HARRIMAN. I don't think that is so.

Senator WILLIAMS. It was the intention of those negotiating this treaty to stabilize the prices and to move them higher, and I understood you to say in answer to an earlier question that you thought 40 to 45 cents was a realistic price. This definitely was a plan to raise the price of coffee. In fact, the whole purpose of this treaty was to raise the price of coffee above what you described as a low level of last year.

Now, if that is not the purpose of the treaty, then what is there in this treaty that would hold it down?

Mr. HARRIMAN. The purpose of it, sir, was to prevent the collapse to a point where our friends and neighbors in Latin America would go bankrupt or would be so desperately affected that they would not be able to meet their international obligations.

Senator WILLIAMS. But it was a one-way protection, was it, not? There was nothing in there that would protect the price of coffee from going to a dollar a pound, is there?

Mr. HARRIMAN. Yes, there is the provision that if prices go too high the quotas will be increased.

Senator WILLIAMS. Well, we could request an increase of quotas but it would be possible under this agreement for a request for increased quotas to be rejected.

Mr. HARRIMAN. I don't think so. This agreement is not a one-way street at all. I think we have an enormous interest in the stability of the world, the stability of those countries that produce for us. I know I was very active in business for many years and we gave a great deal of consideration in our relations with our suppliers to make sure that they were able to continue to supply us. I think the same thing is true of the United States as a whole, that we make great efforts to see that the producing countries are able to supply us with what we need, and if they go bankrupt, you are going to have very, very difficult situations to deal with.

Senator WILLIAMS. I am not——

Mr. HARRIMAN. Of all the subjects in my talks all over the world with the developing nations they have asked above all that we behave as a responsible buyer, that we do not lend ourselves to this feast and famine. In many cases a feast creates indigestion just as a famine does, and I know of no single action on the part of the U.S. Government which can help to give the free people of the world a chance to develop themselves in freedom than cooperation in stabilizing the prices of the things that we consume.

Now, coffee was the first attempt. Of course, we did have an agreement on wheat. But coffee was the first attempt for a commodity of great importance to the developing countries, and if this fails, it will be a very great setback in our relations with all of the developing countries. In terms of normal business practice, it is important that we protect suppliers. In a world where there are conflicting forces, there is no one thing that would do more good to the Communist cause than that the United States should fail to pay a decent price for our raw materials.

Do you want to contribute to that, Mr. Mann?

Mr. MANN. I would simply like to add, Senator, that you are taking the rockbottom price over the——

Senator WILLIAMS. I didn't take it. You mentioned that situation.

Mr. MANN. Over a period of 1959 to 1963 the average price was around 35 cents. That may be low, Senator, but before there was a coffee agreement, the average price in the 5 years before that was 61.6 cents. The price today is 48 cents. We think 48 cents is too high. But if you look, if you will look at this over a span of years, the present price today is somewhat higher than it was for the last 5 years, but it is substantially lower than it was 5 years before that. And this is the fact I think that is of crucial importance in this whole thing. We don't want to depress prices and push them down to the lowest possible point and keep them there. The purpose of this agreement is to arrive at an orderly marketing, orderly production, which is favorable both to the consumer and to the producer and which will stabilize this price somewhere around 40 cents. Now, that is considerably lower. It may be slightly under that or slightly over that because we have never agreed on price.

Mr. HARRIMAN. May I say, sir, that the history has shown that where these developing countries have a reasonable price for their products, they are substantial buyers of American products of one type or another. So that even though with a 4-cent rise we may pay $100 million more, we find that those countries do buy a certain amount of additional products, which is valuable to our economy as a whole.

I don't know who it is that will get that extra job but certainly some people will get extra jobs and some companies will make more profits because of an increased price to these producing countries, in addition to which they have loans to the private and public institutions of the United States and these increasing prices will tend to make those loans good.

We have an interest in a stable economic world just as we have an interest in a stable American economy.

Senator WILLIAMS. Both of you——

Mr. HARRIMAN. We are no longer completely isolated from the world. We are affected by the welfare of almost every country in the world, more or less, depending on size.

Senator WILLIAMS. Does that complete your statement?

Mr. HARRIMAN. So that this isn't all lost—the increase has been sharper and much higher than had been expected. The expectation was to hold the price from going lower in order to keep a stable economic situation in those countries that are affected by it, sir. I think, Senator, that there is nothing that creates more enmity to the United States or more misunderstanding of the United States than when we buy products at below cost and see those countries go busted, bankrupt, and their economic problems become greater and greater. That is what happened in the great depression. Many of us went through it and saw it. And there is no single thing the United States can do to help stabilize the economy of the world, to help the prosperity of the world and help our own prosperity than to make every effort to give a fair price to the producing countries and to help in every way we can, to cooperate, to maintain as stable prices as we can. And this agreement is a first attempt in that direction.

For us to back away would be looked upon as an unwillingness to assume our responsibilities in the world.

I am sorry to be so definite but I am not entirely ignorant about these matters and I have had long experience in them as a businessman. I was an international banker during the twenties, during the depression years, and I saw what happened and I have seen what has happened since.

I want to repeat again. I know of nothing that we can do to help more the stability of the economic conditions of the world than to try to understand the problems of the countries producing the raw materials on which our country is dependent.

Senator WILLIAMS. Have you completed your statement? If so, I want to congratulate you on your statement and I am not saying whether I agree or disagree with it, but you didn't answer my question.

Mr. HARRISON. I am sorry, sir, if I didn't. I apologize.

Senator WILLIAMS. My question was this: Is there anything in this agreement whereby we alone can take any action if the price of coffee goes to a dollar a pound or anything to prevent it?

Mr. JACOBSON. Senator, we have the right in the agreement to demand of the producing countries that they agree to make coffee available through an increase in quotas which will assure us supplies that are at the right price.

Moreover, as we said just a few weeks ago at the Coffee Council meeting in London, in a very tight supply situation it is not enough just to increase quotas. You have to be willing to put your supplies on the market. We said it categorically. All importing nations said so. And we had assurances from Brazil and we had assurances from Colombia and we had assurances from other supplying countries that they would do just that, that they would draw on their stocks, because they said categorically that they recognized that failure to do so would drive up prices. Higher prices would lead to more production. More production would mean a collapse of prices later on and they did not want this.

It was bad for them just as it was bad for us. It is that kind of dialog going on through the agreement which in my opinion is our best defense as an importing nation.

Mr. HARRIMAN. May I say, sir, that the moral effect of this agreement will be in my judgment a factor in holding the price below what it would have gone to otherwise.

I want to point to the fact that in 1954, the Santos price went to almost 90 cents in some months and for the year the price averaged 78.7 cents. There was no agreement then. And it is that type of high price that we want to try to avoid.

Unfortunately, the producing countries realize that very frequently a feast which causes indigestion has just as bad an effect on the stability of their economy as too low prices. So that they are not——

Senator WILLIAMS. Again——

Mr. HARRIMAN. They are not going in my opinion to try to exploit this situation. Many of the countries are working to try to hold the situation in bounds. Our industry is represented here by the gentlemen who are responsible for the National Coffee Association, who will testify for the bill. They will explain in more detail than I can because I am not a coffee merchant, though I have financed a lot of coffee as a banker—John McKiernan, I understand, is going to appear before your committee and explain why our importers are for this agreement.

I believe one of the reasons is that they believe they can have a more stable supply, but, in any event, I will ask that they speak for themselves.

Senator WILLIAMS. I am not quarreling with what you are trying to do and I may not support this legislation. I am trying to find out what protection we have under this treaty. I am going to ask it until it is answered "yes" or "no."

Is there anything in this agreement if we pass this legislation whereby we as a nation could stop them from pushing the price of coffee to a dollar a pound? Can we make them increase their quotas if they do not agree?

Mr. HARRIMAN. I don't think quotas can increase the coffee crop in a given year. I mean that we can affect——

Senator WILLIAMS. I did not ask that, Mr. Harriman, if I may interrupt——

Mr. HARRIMAN (continuing). The production situation. I think it is fair to say that the agreement has a moral influence; the fact that producers sit around the table is a moral effect, but there is no language in the agreement except the increase in quotas, and there is no use increasing quotas beyond the coffee that exists. If the coffee doesn't exist, there is nothing that can be done in a given year to create it. This agreement does not create coffee. It attempts to put the coffee that is available on the market in a manner which will help stabilize the price. That is the objective—that is the technique which this agreement uses.

If there is any other proposal that you have, sir, for better protection of our consumers, I am sure that we would be very glad to have any proposal and to discuss it with the producing countries.

Senator WILLIAMS. Well, if they don't understand what you are trying to say any better than I can, then they will have trouble.

I am going back to my question again.

Mr. HARRIMAN. We can exercise a veto on any reduction of quotas which would hold available coffee off the market. That is in the agreement. We can prevent increases in price which would come from the holding off the market of coffee which is there. On actions affecting quotas the agreement provides for a two-thirds majority vote of the producers and consumers acting separately. Thus, 34 percent of the consumer vote can veto any action in regard to fixing of quotas.

Now, we have 40 percent of the consumer vote. The agreement provides that one country alone cannot exercise a veto. However, it is unthinkable that if we have a good case we can't get one of the number of consuming countries to vote with us, so that in fact we can veto the holding off the market of available coffee if the producers try to do it.

Senator WILLIAMS. I still don't know whether you said "yes" or "no."

Now, what I am trying to find out, Mr. Harriman—forgetting for the moment this natural disaster which reduced the stocks of coffee, but assuming that these countries all had surplus inventories but the coffee was held back in those countries, is there anything under this treaty where we could insist that they release some of that inventory and increase the quotas if the producing countries themselves said "no"?

Now, I am just trying to get a simple answer "yes" or "no." Maybe it doesn't belong in there but certainly either you can or you can't.

Mr. MANN. Senator, they cannot. They are bound by certain voting procedures and if they do that, it would be a violation of the agreement and we would leave the agreement.

Mr. HARRIMAN. We have a 3-month escape clause.

Senator WILLIAMS. I understand you can repudiate the agreement.

Mr. MANN. I would like to read a statement which I think is in response to a question you were asking, if I may. It is not long.

Senator WILLIAMS. I don't want to tie up the committee.

Mr. MANN. You asked about the provisions and I have got them here; that protect the consumer in the agreement. And I can read this.

Senator WILLIAMS. All right.

Mr. MANN (reading):

Consumer protection against any unwarranted price increases is assured by a number of specific provisions in the agreement, probably the most important are the provisions relating to the establishment and adjustment of export quotas. Export quotas are intended to control the amount of coffee that may be made available to the market by the producing countries during a given period and thus directly affect the price.

The agreement provides that all decisions on the establishment and adjustment of export quotas shall be taken by distributed two-third majority vote. That is to say, a concurrent two-thirds majority of the importers and exporters voting separately. As the United States has 400 votes out of 1,000 votes held by the importing countries, this in effect gives us a veto power over the decisions of the Council. We would, to make the vote effective, need only one other importing country voting with us. The number of votes held by it would be of no consequence as we alone have more than one-third, but it was felt desirable to provide that one country alone could not exercise the veto.

We cannot conceive of any situation in which the United States advocated a veto where we could not persuade at least one other importer on the merits of our position. In addition to the voting provisions of the agreement with regard to export quotas, two other provisions are noteworthy in that they specifically recognize the undesirability of marked changes in coffee prices for whatever reason and provide for corrective action under voting procedures which are easier to attain than the standard procedure of the distributed two-thirds majority.

These two provisions are quoted below:

All members recognize that marked price rises or falls occurring within brief periods unduly distort underlying trends in price, cause grave concern to both producers and consumers, and jeopardize the attainment of the objective of the agreement. Accordingly, if such movement in general price levels occurs within a brief period, members may request a meeting of the Council which by distributed simple majority vote may revise the total level of the quarterly export quotas in effect.

That is paragraph 5. Paragraph 6:

If the Council finds that a sharp and unusual increase or decrease in general level of the prices is due to artificial manipulation of the coffee market through agreements among importers or exporters or both, it shall then decide by a simple majority vote on the corrective measures that should be applied to readjust the total level of the quarterly export quotas in effect.

Now, all of those provisions relate to the question of protecting the consumer. We have a very large vote because we are a very large consumer, and we are confident that if anybody tries to take advantage of the American consumer, we can protect him under this agreement.

Senator WILLIAMS. Then as I understand it, the United States plus one could veto it.

Mr. HARRIMAN. Yes, sir.

Senator WILLIAMS. But the United States alone, assuming everybody else was against us, could not veto it, isn't that the answer?

Mr. JACOBSON. Yes.

Senator WILLIAMS. Thank you. I wish you had said that a half hour ago. That is the answer to my question.

Mr. MANN. And as a practical matter, we feel as strongly about this, Senator, as you do, that the consumer get a fair shake.

Senator WILLIAMS. I was merely trying to get the procedure and finally you have given the answer.

The CHAIRMAN. Senator Douglas?

Senator DOUGLAS. Mr. Chairman, I would like to make two preliminary comments before I indulge in any questioning.

First, I would like to say I have known the Under Secretary for Political Affairs for many years. I think there is no American of his generation who has had the distinguished career which he has had in business, finance, and in public affairs. His long experience in various branches of government both National and State, is unequalled by any American, and it is a real pleasure as well as an honor I think to have him here before us.

Mr. HARRIMAN. Thank you, sir.

Senator DOUGLAS. I mean that most sincerely.

The second comment is really a request. If there has not already been submitted for the record, I would appreciate it if the text of the treaty could be printed in these hearings. If the quotas granted to each country would also be printed, if the bylaws of the international coffee organization could be printed, if the provisions of Brazil, Colombia, Nicaragua, Costa Rica, El Salvador, Guatemala dealing with the production and export of coffee could also be printed together with a description of the various organizations of coffee producers and exporters, commonly known as coffee cartels, this would be very helpful.

The CHAIRMAN. Without objection the material will be inserted in the record when submitted by the State Department.

Senator DOUGLAS. Now can that be done?

Mr. MANN. Yes, sir. Whatever information we have or can get we will give you.

Senator DOUGLAS. Can it be submitted for the record?

Mr. MANN. Yes, sir.

(The information referred to follows:)

International Coffee Agreement 1962

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INTERNATIONAL COFFEE ORGANIZATION
LONDON

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INTERNATIONAL COFFEE AGREEMENT, 1962

Preamble

The Governments Parties to this Agreement,

Recognizing the exceptional importance of coffee to the economies of many countries which are largely dependent upon this commodity for their export earnings and thus for the continuation of their development programmes in the social and economic fields;

Considering that close international co-operation on coffee marketing will stimulate the economic diversification and development of coffee-producing countries and thus contribute to a strengthening of the political and economic bonds between producers and consumers;

Finding reason to expect a tendency toward persistent disequilibrium between production and consumption, accumulation of burdensome stocks, and pronounced fluctuations in prices, which can be harmful both to producers and to consumers; and

Believing that, in the absence of international measures, this situation cannot be corrected by normal market forces,

Have agreed as follows:

CHAPTER I—OBJECTIVES

ARTICLE 1

Objectives

The objectives of the Agreement are:

(1) to achieve a reasonable balance between supply and demand on a basis which will assure adequate supplies of coffee to consumers and markets for coffee to producers at equitable prices, and which will bring about long-term equilibrium between production and consumption;

(2) to alleviate the serious hardship caused by burdensome surpluses and excessive fluctuations in the prices of coffee to the detriment of the interests of both producers and consumers;

(3) to contribute to the development of productive resources and to the promotion and maintenance of employment and income in the Member countries, thereby helping to bring about fair wages, higher living standards, and better working conditions;

(4) to assist in increasing the purchasing power of coffee-exporting countries by keeping prices at equitable levels and by increasing consumption;

(5) to encourage the consumption of coffee by every possible means; and

(6) in general, in recognition of the relationship of the trade in coffee to the economic stability of markets for industrial products, to further international co-operation in connexion with world coffee problems.

CHAPTER II—DEFINITIONS

ARTICLE 2

Definitions

For the purposes of the Agreement:

(1) "Coffee" means the beans and berries of the coffee tree, whether parchment, green or roasted, and includes ground, decaffeinated, liquid and soluble coffee. These terms shall have the following meaning:

(*a*) "green coffee" means all coffee in the naked bean form before roasting;

(*b*) "coffee berries" means the complete fruit of the coffee tree; to find the equivalent of coffee berries to green coffee, multiply the net weight of the dried coffee berries by 0·50;

(*c*) "parchment coffee" means the green coffee bean contained in the parchment skin; to find the equivalent of parchment coffee to green coffee, multiply the net weight of the parchment coffee by 0·80;

(*d*) "roasted coffee" means green coffee roasted to any degree and includes ground coffee; to find the equivalent of roasted coffee to green coffee, multiply the net weight of roasted coffee by 1·19;

(*e*) " decaffeinated coffee " means green, roasted or soluble coffee from which caffein has been extracted; to find the equivalent of decaffeinated coffee to green coffee, multiply the net weight of the decaffeinated coffee in green, roasted or soluble form by 1·00, 1·19 or 3·00, respectively;

(*f*) " liquid coffee " means the water-soluble solids derived from roasted coffee and put into liquid form; to find the equivalent of liquid to green coffee, multiply the net weight of the dried coffee solids contained in the liquid coffee by 3·00;

(*g*) " soluble coffee " means the dried water-soluble solids derived from roasted coffee; to find the equivalent of soluble coffee to green coffee, multiply the net weight of the soluble coffee by 3·00.

(2) " Bag " means 60 kilogrammes or 132·276 pounds of green coffee; " ton " means a metric ton of 1,000 kilogrammes or 2,204·6 pounds; and " pound " means 453·597 grammes.

(3) " Coffee year " means the period of one year, from 1 October through 30 September; and " first coffee year " means the coffee year beginning 1 October, 1962.

(4) " Export of Coffee " means, except as otherwise provided in Article 38, any shipment of coffee which leaves the territory of the country where the coffee was grown.

(5) " Organization ", " Council " and " Board " mean, respectively, the International Coffee Organization, the International Coffee Council, and the Executive Board established under Article 7 of the Agreement.

(6) " Member " means a Contracting Party; a dependent territory or territories in respect of which separate Membership has been declared under Article 4; or two or more Contracting Parties or dependent territories, or both, which participate in the Organization as a Member group under Article 5 or 6.

(7) " Exporting Member " or " exporting country " means a Member or country, respectively, which is a net exporter of coffee; that is, whose exports exceed its imports.

(8) " Importing Member " or " importing country " means a Member or country, respectively, which is a net importer of coffee; that is, whose imports exceed its exports.

(9) " Producing Member " or " producing country " means a Member or country, respectively, which grows coffee in commercially significant quantities.

(10) " Distributed simple majority vote " means a majority of the votes cast by exporting Members present and voting, and a majority of the votes cast by importing Members present and voting, counted separately.

(11) " Distributed two-thirds majority vote " means a two-thirds majority of the votes cast by exporting Members present and voting and a two-thirds majority of the votes cast by importing Members present and voting, counted separately.

(12) " Entry into force " means, except where the context otherwise requires, the date on which the Agreement first enters into force, whether provisionally or definitively.

CHAPTER III—MEMBERSHIP

ARTICLE 3

Membership in the Organization

Each Contracting Party, together with those of its dependent territories to which the Agreement is extended under paragraph (1) of Article 67, shall constitute a single Member of the Organization, except as otherwise provided under Article 4, 5 or 6.

ARTICLE 4

Separate Membership in Respect of Dependent Territories

Any Contracting Party which is a net importer of coffee may, at any time, by appropriate notification in accordance with paragraph (2) of Article 67, declare that it is participating in the Organization separately with respect to any of its dependent territories which are net exporters of coffee and which it designates. In such case, the metropolitan territory and its non-designated dependent territories will have a single Membership, and its designated dependent territories, either individually or collectively as the notification indicates, will have separate Membership.

ARTICLE 5

Group Membership upon Joining the Organization

(1) Two or more Contracting Parties which are net exporters of coffee may, by appropriate notification to the Secretary-General of the United Nations at the time of deposit of their respective instruments of ratification or accession, and to the Council at its first session, declare that they are joining the Organization as a Member group. A dependent territory to which the Agreement has been extended under paragraph (1) of Article 67 may constitute part of such a Member group if the Government of the State responsible for its international relations has given appropriate notification thereof under paragraph (2) of Article 67. Such Contracting Parties and dependent territories must satisfy the following conditions:

(*a*) they shall declare their willingness to accept responsibility for group obligations in an individual as well as a group capacity;

(*b*) they shall subsequently provide sufficient evidence to the Council that the group has the organization necessary to implement a common coffee policy, and that they have the means of complying, together with the other parties to the group, with their obligations under the Agreement; and

(*c*) they shall subsequently provide evidence to the Council either:

(i) that they have been recognized as a group in a previous international coffee agreement; or

(ii) that they have:

(*a*) a common or co-ordinated commercial and economic policy in relation to coffee, and (*b*) a co-ordinated monetary and financial policy, as well as the organs necessary for implementing such a policy, so that the Council is satisfied that the Member group can comply with the spirit of group membership and the group obligations involved.

(2) The Member group shall constitute a single Member of the Organization, except that each party to the group shall be treated as if it were a single Member as regards all matters arising under the following provisions:

(*a*) Chapters XI and XII;

(*b*) Articles 10, 11 and 19 of Chapter IV; and

(*c*) Article 70 of Chapter XIX.

(3) The Contracting Parties and dependent territories joining as a Member group shall specify the Government or organization which will represent them in the Council as regards all matters arising under the Agreement other than those specified in paragraph (2) of this Article.

(4) The Member group's voting rights shall be as follows:

(*a*) the Member group shall have the same number of basic votes as a single Member country joining the Organization in an individual capacity. These basic votes shall be attributed to and exercised by the Government or organization representing the group;

(*b*) in the event of a vote on any matters arising under provisions specified in paragraph (2) of this Article, the parties to the Member group may exercise separately the votes attributed to them by the provisions of paragraph (3) of Article 12 as if each were an individual Member of the Organization, except for the basic votes, which shall remain attributable only to the Government or organization representing the group.

(5) Any Contracting Party or dependent territory which is a party to a Member group may, by notification to the Council, withdraw from that group and become a separate Member. Such withdrawal shall take effect upon receipt of the notification by the Council. In case of such withdrawal from a group, or in case a party to a group ceases, by withdrawal from the Organization or otherwise, to be such a party, the remaining parties to the group may apply to the Council to maintain the group, and the group shall continue to exist unless the Council disapproves the application. If the Member group is dissolved, each former party to the group will become a separate Member. A Member which has ceased to be a party to a group may not, as long as the Agreement remains in force, again become a party to a group.

Article 6

Subsequent Group Membership

Two or more exporting Members may, at any time after the Agreement has entered into force with respect to them, apply to the Council to form a Member group. The Council shall approve the application if it finds that the Members have made a declaration, and have provided evidence, satisfying the requirements of paragraph (1) of Article 5. Upon such approval, the Member group shall be subject to the provisions of paragraphs (2), (3), (4) and (5) of that Article.

CHAPTER IV—ORGANIZATION AND ADMINISTRATION

ARTICLE 7

Establishment, Seat and Structure of the International Coffee Organization

(1) The International Coffee Organization is hereby established to administer the provisions of the Agreement and to supervise its operation.

(2) The seat of the Organization shall be in London.

(3) The Organisation shall function through the International Coffee Council, its Executive Board, its Executive Director, and its staff.

ARTICLE 8

Composition of the International Coffee Council

(1) The highest authority of the Organization shall be the International Coffee Council, which shall consist of all the Members of the Organization.

(2) Each Member shall be represented on the Council by a representative and one or more alternates. A Member may also designate one or more advisers to accompany its representative or alternates.

ARTICLE 9

Powers and Functions of the Council

(1) All powers specifically conferred by the Agreement shall be vested in the Council, which shall have the powers and perform the functions necessary to carry out the provisions of the Agreement.

(2) The Council shall, by a distributed two-thirds majority vote, establish such rules and regulations, including its own rules of procedure and the financial and staff regulations of the Organization, as are necessary to carry out the provisions of the Agreement and are consistent therewith. The Council may, in its rules of procedure, provide a procedure whereby it may, without meeting, decide specific questions.

(3) The Council shall also keep such records as are required to perform its functions under the Agreement and such other records as it considers desirable, and shall publish an annual report.

ARTICLE 10

Election of the Chairman and Vice-Chairmen of the Council

(1) The Council shall elect, for each coffee year, a Chairman and a first, a second and a third Vice-Chairman.

(2) As a general rule, the Chairman and the first Vice-Chairman shall both be elected either from among the representatives of exporting Members, or from among the representatives of importing Members, and the second and the third Vice-Chairmen shall be elected from representatives of the other category of Members; these offices shall alternate each coffee year between the two categories of Members.

(3) Neither the Chairman nor any Vice-Chairman acting as Chairman shall have the right to vote. His alternate will in such case exercise the Member's voting rights.

ARTICLE 11

Sessions of the Council

As a general rule, the Council shall hold regular sessions twice a year. It may hold special sessions if it so decides. Special sessions shall also be held when either the Executive Board, or any five Members, or a Member or Members having at least 200 votes so request. Notice of sessions shall be given at least thirty days in advance, except in cases of emergency. Sessions shall be held at the seat of the Organization, unless the Council decides otherwise.

ARTICLE 12

Votes

(1) The exporting Members shall together hold 1,000 votes and the importing Members shall together hold 1,000 votes, distributed within each category of Members—that is, exporting and importing Members, respectively—as provided in the following paragraphs of this Article.

(2) Each Member shall have five basic votes, provided that the total number of basic votes within each category of Members does not exceed 150. Should there be more than thirty exporting Members or more than thirty importing Members, the number of basic votes for each Member within that category of Members shall be adjusted so as to keep the number of basic votes for each category of Members within the maximum of 150.

(3) The remaining votes of exporting Members shall be divided among those Members in proportion to their respective basic export quotas, except that in the event of a vote on any matter arising under the provisions specified in paragraph (2) of Article 5, the remaining votes of a Member group shall be divided among the parties to that group in proportion to their respective participation in the basic export quota of the Member group.

(4) The remaining votes of importing Members shall be divided among those Members in proportion to the average volume of their respective coffee imports in the preceding three-year period.

(5) The distribution of votes shall be determined by the Council at the beginning of each coffee year, and shall remain in effect during that year, except as provided in paragraph (6) of this Article.

(6) The Council shall provide for the redistribution of votes in accordance with this Article whenever there is a change in the Membership of the Organization, or if the voting rights of a Member are suspended or regained under the provisions of Article 25, 45 or 61.

(7) No Member shall hold more than 400 votes.

(8) There shall be no fractional votes.

ARTICLE 13

Voting Procedure of the Council

(1) Each representative shall be entitled to cast the number of votes held by the Member represented by him, and cannot divide its votes. He may, however, cast differently from such votes any votes which he exercises pursuant to paragraph (2) of this Article.

(2) Any exporting Member may authorize any other exporting Member, and any importing Member may authorize any other importing Member, to represent its interests and to exercise its right to vote at any meeting or meetings of the Council. The limitation provided for in paragraph (7) of Article 12 shall not apply in this case.

ARTICLE 14

Decisions of the Council

(1) All decisions of the Council shall be taken, and all recommendations shall be made, by a distributed simple majority vote unless otherwise provided in the Agreement.

(2) The following procedure shall apply with respect to any action by the Council which under the Agreement requires a distributed two-thirds majority vote:

(*a*) if a distributed two-thirds majority vote is not obtained because of the negative vote of three or less exporting or three or less importing Members, the proposal shall, if the Council so decides by a majority of the Members present and by a distributed simple majority vote, be put to a vote again within 48 hours;

(*b*) if a distributed two-thirds majority vote is again not obtained because of the negative vote of two or less importing or two or less exporting Members, the proposal shall, if the Council so decides by the majority of the Members present and by a distributed simple majority vote, be put to a vote again within 24 hours;

(*c*) if a distributed two-thirds majority vote is not obtained in the third vote because of the negative vote of one exporting Member or one importing Member, the proposal shall be considered adopted;

(*d*) if the Council fails to put a proposal to a further vote, it shall be considered rejected.

(3) The Members undertake to accept as binding all decisions of the Council under the provisions of the Agreement.

ARTICLE 15

Composition of the Board

(1) The Executive Board shall consist of seven exporting Members and seven importing Members, elected for each coffee year in accordance with Article 16. Members may be re-elected.

(2) Each Member of the Board shall appoint one representative and one or more alternates.

(3) The Chairman of the Board shall be appointed by the Council for each coffee year and may be re-appointed. He shall not have the right to vote. If a representative is appointed Chairman, his alternate will have the right to vote in his place.

(4) The Board shall normally meet at the seat of the Organization, but may meet elsewhere.

ARTICLE 16

Election of the Board

(1) The exporting and the importing Members on the Board shall be elected in the Council by the exporting and the importing Members of the Organisation respectively. The election within each category shall be held in accordance with the following paragraphs of this Article.

(2) Each Member shall cast all the votes to which it is entitled under Article 12 for a single candidate. A Member may cast for another candidate any votes which it exercises pursuant to paragraph (2) of Article 13.

(3) The seven candidates receiving the largest number of votes shall be elected; however, no candidate shall be elected on the first ballot unless it receives at least 75 votes.

(4) If under the provisions of paragraph (3) of this Article less than seven candidates are elected on the first ballot, further ballots shall be held in which only Members who did not vote for any of the candidates elected shall have the right to vote. In each further ballot, the minimum number of votes required for election shall be successively diminished by five until seven candidates are elected.

(5) Any Member who did not vote for any of the Members elected shall assign its votes to one of them, subject to paragraphs (6) and (7) of this Article.

(6) A Member shall be deemed to have received the number of votes originally cast for it when it was elected and, in addition, the number of votes assigned to it, provided that the total number of votes shall not exceed 499 for any Member elected.

(7) If the votes deemed received by an elected Member would otherwise exceed 499, Members which voted for or assigned their votes to such elected Member shall arrange among themselves for one or more of them to withdraw their votes from that Member and assign or reassign them to another elected Member so that the votes received by each elected Member shall not exceed the limit of 499.

ARTICLE 17

Competence of the Board

(1) The Board shall be responsible to and work under the general direction of the Council.

(2) The Council may, by a distributed simple majority vote, delegate to the Board the exercise of any or all of its powers, other than the following:

(a) annual distribution of votes under paragraph (5) of Article 12;

(*b*) approval of the administrative budget and assessment of contributions under Article 24;

(*c*) determination of quotas under the Agreement;

(*d*) imposition of enforcement measures other than those whose application is automatic;

(*e*) suspension of the voting rights of a Member under Article 45 or 61;

(*f*) determination of individual country and world production goals under Article 48;

(*g*) establishment of a policy relative to stocks under Article 51;

(*h*) waiver of the obligations of a Member under Article 60;

(*i*) decision of disputes under Article 61;

(*j*) establishment of conditions for accession under Article 65;

(*k*) a decision to require the withdrawal of a Member under Article 69;

(*l*) extension or termination of the Agreement under Article 71; and

(*m*) recommendation of amendments to Members under Article 73.

(3) The Council may at any time, by a distributed simple majority vote, revoke any delegation of powers to the Board.

ARTICLE 18

Voting Procedure of the Board

(1) Each member of the Board shall be entitled to cast the number of votes received by it under the provisions of paragraphs (6) and (7) of Article 16. Voting by proxy shall not be allowed. A member may not split its votes.

(2) Any action taken by the Board shall require the same majority as such action would require if taken by the Council.

ARTICLE 19

Quorum for the Council and the Board

(1) The quorum for any meeting of the Council shall be the presence of a majority of the Members representing a distributed two-thirds majority of the total votes. If there is no quorum on the day appointed for the opening of any Council session, or if in the course of any Council session there is no quorum at three successive meetings, the Council shall be convened seven days later; at that time and throughout the remainder of that session the quorum shall be the presence of a majority of the Members representing a distributed simple majority of the votes. Representation in accordance with paragraph (2) of Article 13 shall be considered as presence.

(2) The quorum for any meeting of the Board shall be the presence of a majority of the members representing a distributed two-thirds majority of the total votes.

ARTICLE 20

The Executive Director and the Staff

(1) The Council shall appoint the Executive Director on the recommendation of the Board. The terms of appointment of the Executive Director shall be established by the Council and shall be comparable to those applying to corresponding officials of similar inter-governmental organizations.

(2) The Executive Director shall be the chief administrative officer of the Organization and shall be responsible for the performance of any duties devolving upon him in the administration of the Agreement.

(3) The Executive Director shall appoint the staff in accordance with regulations established by the Council.

(4) Neither the Executive Director nor any member of the staff shall have any financial interest in the coffee industry, coffee trade, or coffee transportation.

(5) In the performance of their duties, the Executive Director and the staff shall not seek or receive instructions from any Member or from any other authority external to the Organisation. They shall refrain from any action which might reflect on their position as international officials responsible only to the Organization. Each Member undertakes to respect the exclusively international character of the responsibilities of the Executive Director and the staff and not to seek to influence them in the discharge of their responsibilities.

ARTICLE 21

Co-operation with other Organizations

The Council may make whatever arrangements are desirable for consultation and co-operation with the United Nations and its specialized agencies and with other appropriate inter-governmental organizations. The Council may invite these organizations and any organizations concerned with coffee to send observers to its meetings.

CHAPTER V—PRIVILEGES AND IMMUNITIES

ARTICLE 22

Privileges and Immunities

(1) The Organization shall have in the territory of each Member, to the extent consistent with its laws, such legal capacity as may be necessary for the exercise of its functions under the Agreement.

(2) The Government of the United Kingdom of Great Britain and Northern Ireland shall grant exemption from taxation on the salaries paid by the Organization to its employees, except that such exemption need not apply to nationals of that country. It shall also grant exemption from taxation on the assets, income and other property of the Organisation.

CHAPTER VI—FINANCE

ARTICLE 23

Finance

(1) The expenses of delegations to the Council, representatives on the Board, and representatives on any of the committees of the Council or the Board shall be met by their respective Governments.

(2) The other expenses necessary for the administration of the Agreement shall be met by annual contributions from the Members assessed in accordance with Article 24.

(3) The financial year of the Organization shall be the same as the coffee year.

ARTICLE 24

Determination of the Budget and Assessment of Contributions

(1) During the second half of each financial year, the Council shall approve the administrative budget of the Organization for the following financial year, and shall assess the contribution of each Member to that budget.

(2) The contribution of each Member to the budget for each financial year shall be in the proportion which the number of its votes at the time the budget for that financial year is approved bears to the total votes of all the Members. However, if there is any change in the distribution of votes among Members in accordance with the provisions of paragraph (5) of Article 12 at the beginning of the financial year for which contributions are assessed, such contributions shall be correspondingly adjusted for that year. In determining contributions, the votes of each Member shall be calculated without regard to the suspension of any Member's voting rights or any redistribution of votes resulting therefrom.

(3) The initial contribution of any Member joining the Organization after the entry into force of the Agreement shall be assessed by the Council on the basis of the number of votes to be held by it and the period remaining in the current financial year, but the assessments made upon other Members for the current financial year shall not be altered.

(4) If the Agreement comes into force more than eight months before the beginning of the first full financial year of the Organization, the Council shall at its first session approve an administrative budget covering only the period up to the commencement of the first full financial year. Otherwise the first administrative budget shall cover both the initial period and the first full financial year.

ARTICLE 25

Payment of Contributions

(1) Contributions to the administrative budget for each financial year shall be payable in freely convertible currency, and shall become due on the first day of that financial year.

(2) If any Member fails to pay its full contribution to the administrative budget within six months of the date on which the contribution is due, both its voting rights in the Council and its right to have its votes cast in the Board shall be suspended until such contribution has been paid. However, unless the Council so decides by a distributed two-thirds majority vote, such Member shall not be deprived of any of its other rights nor relieved of any of its obligations under the Agreement.

(3) Any Member whose voting rights have been suspended, either under paragraph (2) of this Article or under Article 45 or 61, shall nevertheless remain responsible for the payment of its contribution.

ARTICLE 26

Audit and Publication of Accounts

As soon as possible after the close of each financial year, an independently audited statement of the Organization's receipts and expenditures during that financial year shall be presented to the Council for approval and publication.

CHAPTER VII—REGULATION OF EXPORTS

ARTICLE 27

General Undertakings by Members

(1) The Members undertake to conduct their trade policy so that the objectives set forth in Article 1 and, in particular, paragraph (4) of that Article, may be achieved. They agree on the desirability of operating the Agreement in a manner such that the real income derived from the export of coffee could be progressively increased so as to make it consonant with their needs for foreign exchange to support their programmes for social and economic progress.

(2) To attain these purposes through the fixing of quotas as provided for in this Chapter and in other ways carrying out the provisions of the Agreement, the Members agree on the necessity of assuring that the general level of coffee prices does not decline below the general level of such prices in 1962.

(3) The Members further agree on the desirability of assuring to consumers prices which are equitable and which will not hamper a desirable increase in consumption.

ARTICLE 28

Basic Export Quotas

(1) For the first three coffee years, beginning on 1 October 1962, the exporting countries listed in Annex A shall have the basic export quotas specified in that Annex.

(2) During the last six months of the coffee year ending 30 September 1965, the Council shall review the basic export quotas specified in Annex A

in order to adjust them to general market conditions. The Council may then revise such quotas by a distributed two-thirds majority vote; if not revised, the basic export quotas specified in Annex A shall remain in effect.

ARTICLE 29

Quota of a Member Group

Where two or more countries listed in Annex A form a Member group in accordance with Article 5, the basic export quotas specified for those countries in Annex A shall be added together and the combined total treated as a single quota for the purposes of this Chapter.

ARTICLE 30

Fixing of Annual Export Quotas

(1) At least 30 days before the beginning of each coffee year the Council shall adopt by a two-thirds majority vote an estimate of total world imports for the following coffee year and an estimate of probable exports from non-member countries.

(2) In the light of these estimates the Council shall forthwith fix annual export quotas which shall be the same percentage for all exporting Members of the basic export quotas specified in Annex A. For the first coffee year this percentage is fixed at 99, subject to the provisions of Article 32.

ARTICLE 31

Fixing of Quarterly Export Quotas

(1) Immediately following the fixing of the annual export quotas the Council shall fix quarterly export quotas for each exporting Member for the purpose of keeping supply in reasonable balance with estimated demand throughout the coffee year.

(2) These quotas shall be, as nearly as possible, 25 per cent of the annual export quota of each Member during the coffee year. No Member shall be allowed to export more than 30 per cent in the first quarter, 60 per cent in the first two quarters, and 80 per cent in the first three quarters of the coffee year. If exports from any Member in one quarter are less than its quota for that quarter, the outstanding balance shall be added to its quota for the following quarter of that coffee year.

ARTICLE 32

Adjustment of Annual Export Quotas

If market conditions so require, the Council may review the quota situation and may vary the percentage of basic export quotas fixed under paragraph (2) of Article 30. In so doing, the Council shall have regard to any likely shortfalls by Members.

ARTICLE 33

Notification of Shortfalls

(1) Exporting Members undertake to notify the Council at the end of the eighth month of the coffee year, and at such later dates as the Council may request, whether they have sufficient coffee available to export the full amount of their quota for that year.

(2) The Council shall take into account these notifications in determining whether or not to adjust the level of export quotas in accordance with Article 32.

ARTICLE 34

Adjustment of Quarterly Export Quotas

(1) The Council shall in the circumstances set out in this Article vary the quarterly export quotas fixed for each Member under paragraph (1) of Article 31.

(2) If the Council varies the annual export quotas as provided in Article 32, then the change in that annual quota shall be reflected in the quotas for the current and remaining quarters, or the remaining quarters, of the coffee year.

(3) Apart from the adjustment provided for in the preceding paragraph, the Council may, if it finds the market situation so requires, make adjustments among the current and remaining quarterly export quotas for the same coffee year, without, however, altering the annual export quotas.

(4) If on account of exceptional circumstances an exporting Member considers that the limitations provided in paragraph (2) of Article 31 would be likely to cause serious harm to its economy, the Council may, at the request of that Member, take appropriate action under Article 60. The Member concerned must furnish evidence of harm and provide adequate guarantees concerning the maintenance of price stability. The Council shall not, however, in any event, authorize a Member to export more than 35 per cent of its annual export quota in the first quarter, 65 per cent in the first two quarters, and 85 per cent in the first three quarters of the coffee year.

(5) All Members recognise that marked price rises or falls occurring within brief periods may unduly distort underlying trends in price, cause grave concern to both producers and consumers, and jeopardize the attainment of the objectives of the Agreement. Accordingly, if such movements in general price levels occur within brief periods, Members may request a meeting of the Council which, by distributed simple majority vote, may revise the total level of the quarterly export quotas in effect.

(6) If the Council finds that a sharp and unusual increase or decrease in the general level of prices is due to artificial manipulation of the coffee market through agreements among importers or exporters or both, it shall then decide by a simple majority vote on what corrective measures should be applied to readjust the total level of the quarterly export quotas in effect.

ARTICLE 35

Procedure for Adjusting Export Quotas

(1) Annual export quotas shall be fixed and adjusted by altering the basic export quota of each Member by the same percentage.

(2) General changes in all quarterly export quotas, made pursuant to paragraphs (2), (3), (5) and (6) of Article 34, shall be applied *pro rata* to individual quarterly export quotas in accordance with appropriate rules established by the Council. Such rules shall take account of the different percentages of annual export quotas which the different Members have exported or are entitled to export in each quarter of the coffee year.

(3) All decisions by the Council on the fixing and adjustment of annual and quarterly export quotas under Articles 30, 31, 32 and 34 shall be taken, unless otherwise provided, by a distributed two-thirds majority vote.

ARTICLE 36

Compliance with Export Quotas

(1) Exporting Members subject to quotas shall adopt the measures required to ensure full compliance with all provisions of the Agreement relating to quotas. The Council may request such Members to adopt additional measures for the effective implementation of the quota system provided for in the Agreement.

(2) Exporting Members shall not exceed the annual and quarterly export quotas allocated to them.

(3) If an exporting Member exceeds its quota for any quarter, the Council shall deduct from one or more of its future quotas a total amount equal to that excess.

(4) If an exporting Member for the second time while the Agreement remains in force exceeds its quarterly quota, the Council shall deduct from one or more of its future quotas a total amount equal to twice that excess.

(5) If an exporting Member for a third or subsequent time while the Agreement remains in force exceeds its quarterly quota, the Council shall make the same deduction as provided in paragraph (4) of this Article, and in addition the Council may take action in accordance with Article 69 to require the withdrawal of such a Member from the Organization.

(6) The deductions in quotas provided in paragraphs (3), (4) and (5) of this Article shall be made by the Council as soon as it receives the necessary information.

ARTICLE 37

Transitional Quota Provisions

(1) Exports of coffee after 1 October 1962 shall be charged against the annual export quota of the exporting country concerned at such time as the Agreement enters into force in respect of that country.

(2) If the Agreement enters into force after 1 October 1962, the Council shall, during its first session, make such modifications as may be necessary in the procedure for the fixing of annual and quarterly export quotas in respect of the coffee year in which the Agreement enters into force.

ARTICLE 38

Shipments of Coffee from Dependent Territories

(1) Subject to paragraph (2) of this Article, the shipment of coffee from any of the dependent territories of a Member to its metropolitan territory or to another of its dependent territories for domestic consumption therein or in any other of its dependent territories shall not be considered as the export of coffee, and shall not be subject to any export quota limitations, provided that the Member concerned enters into arrangements satisfactory to the Council with respect to the control of re-exports and such other matters as the Council may determine to be related to the operation of the Agreement and which arise out of the special relationship between the metropolitan territory of the Member and its dependent territories.

(2) The trade in coffee between a Member and any of its dependent territories which, in accordance with Article 4 or 5, is a separate Member of the Organization or a party to a Member group, shall however be treated, for the purposes of the Agreement, as the export of coffee.

ARTICLE 39

Exporting Members not Subject to Quotas

(1) Any exporting Member whose average annual exports of coffee for the preceding three-year period were less than 25,000 bags shall not be subject to the quota provisions of the Agreement, so long as its exports remain less than that quantity.

(2) Any Trust Territory administered under a trusteeship agreement with the United Nations whose annual exports to countries other than the Administering Authority do not exceed 100,000 bags shall not be subject to the quota provisions of the Agreement, so long as its exports do not exceed that quantity.

ARTICLE 40

Exports not Charged to Quotas

(1) In order to facilitate the increase of coffee consumption in certain areas of the world having a low *per capita* consumption and considerable potential for expansion, exports to countries listed in Annex B shall not, subject to the provisions of sub-paragraph (*f*) of this paragraph, be charged to quotas. The Council, at the beginning of the second full coffee year after the Agreement enters into force, and annually thereafter, shall review the list with a view to determining whether any country or countries should be deleted from it, and may, if it so decides, delete any such country or countries.

In connexion with exports to the countries listed in Annex B, the provisions of the following sub-paragraphs shall be applicable:

(*a*) At its first session, and thereafter whenever it deems necessary, the Council shall prepare an estimate of imports for internal consumption by the countries listed in Annex B, after reviewing the results obtained in the previous year with regard to the increase of coffee consumption in those countries and taking into account the probable effect of promotion campaigns and trade arrangements. Exporting Members shall not in the aggregate export to the countries listed in Annex B more than the quantity set by the Council, and for that purpose the Council shall keep those Members informed of current exports to such countries. Exporting Members shall inform the Council not later than thirty days after the end of each month of all exports made to each of the countries listed in Annex B during that month.

(*b*) Members shall supply such statistics and other information as the Council may require to assist it in controlling the flow of coffee to countries listed in Annex B and its consumption therein.

(*c*) Exporting Members shall endeavour to renegotiate existing trade agreements as soon as possible in order to include in them provisions preventing re-exports of coffee from the countries listed in Annex B to other markets. Exporting Members shall also include such provisions in all new trade agreements and in all new sales contracts not covered by trade agreements, whether such contracts are negotiated with private traders or with government organizations.

(*d*) In order to maintain control at all times of exports to countries listed in Annex B, the Council may decide upon further precautionary steps, such as requiring coffee bags destined to those countries to be specially marked and requiring that the exporting Members receive from such countries banking and contractual guarantees to prevent re-exportation to countries not listed in Annex B. The Council may, whenever it deems necessary, engage the services of an internationally recognized world-wide organization to investigate irregularities in, or to verify exports to, countries listed in Annex B. The Council shall call any possible irregularity to the attention of the Members.

(*e*) The Council shall annually prepare a comprehensive report on the results obtained in the development of coffee markets in the countries listed in Annex B.

(*f*) If coffee exported by a Member to a country listed in Annex B is re-exported to any country not listed in Annex B, the Council shall charge the corresponding amount to the quota of that exporting Member. Should there again be a re-exportation from the same country listed in Annex B, the Council shall investigate the case, and unless it finds extenuating circumstances, may at any time delete that country from Annex B.

(2) Exports of coffee beans as raw material for industrial processing for any purposes other than human consumption as a beverage or foodstuff shall not be charged to quotas, provided that the Council is satisfied from

information supplied by the exporting Member that the coffee beans are in fact used for such other purposes.

(3) The Council may, upon application by an exporting Member, decide that coffee exports made by that Member for humanitarian or other non-commercial purposes shall not be charged to its quota.

ARTICLE 41

Assurance of Supplies

In addition to ensuring that the total supplies of coffee are in accordance with estimated world imports, the Council shall seek to ensure that supplies of the types of coffee that consumers require are available to them. To achieve this objective, the Council may, by a distributed two-thirds majority vote, decide to use whatever methods it considers practicable.

ARTICLE 42

Regional and Inter-regional Price Arrangements

(1) Regional and inter-regional price arrangements among exporting Members shall be consistent with the general objectives of the Agreement, and shall be registered with the Council. Such arrangements shall take into account the interests of both producers and consumers and the objectives of the Agreement. Any Member of the Organization which considers that any of these arrangements are likely to lead to results not in accordance with the objectives of the Agreement may request that the Council discuss them with the Members concerned at its next session.

(2) In consultation with Members and with any regional organization to which they belong, the Council may recommend a scale of price differentials for various grades and qualities of coffee which Members should strive to achieve through their pricing policies.

(3) Should sharp price fluctuations occur within brief periods in respect of those grades and qualities of coffee for which a scale of price differentials has been adopted as the result of recommendations made under paragraph (2) of this Article, the Council may recommend appropriate measures to correct the situation.

ARTICLE 43

Survey of Market Trends

The Council shall keep under constant survey the trends of the coffee market with a view to recommending price policies, taking into consideration the results achieved through the quota mechanism of the Agreement.

CHAPTER VIII—CERTIFICATES OF ORIGIN AND RE-EXPORT

ARTICLE 44

Certificates of Origin and Re-export

(1) Every export of coffee from any Member in whose territory that coffee has been grown shall be accompanied by a certificate of origin modelled on the form set forth in Annex C, issued by a qualified agency chosen by that Member. Each such Member shall determine the number of copies of the certificate it will require and each copy shall bear a serial number. The original of the certificate shall accompany the documents of export, and a copy shall be furnished to the Organization by that Member. The Council shall, either directly or through an internationally recognized world-wide organization, verify the certificates of origin, so that at any time it will be able to ascertain the quantities of coffee which have been exported by each Member.

(2) Every re-export of coffee from a Member shall be accompanied by a certificate of re-export issued by a qualified agency chosen by that Member, in such form as the Council may determine, certifying that the coffee in question was imported in accordance with the provisions of the Agreement, and, if appropriate, containing a reference to the certificate or certificates of origin under which that coffee was imported. The original of the certificate of re-export shall accompany the documents of re-export, and a copy shall be furnished to the Organization by the re-exporting Member.

(3) Each Member shall notify the Organization of the agency or agencies designated by it to perform the functions specified in paragraphs (1) and (2) of this Article. The Council may at any time, for cause, declare certification by a particular agency unacceptable to it.

(4) Members shall render periodic reports to the Organization concerning imports of coffee, in such form and at such intervals as the Council shall determine.

(5) The provisions of paragraph (1) of this Article shall be put into effect not later than three months after the entry into force of the Agreement. The provisions of paragraph (2) shall be put into effect at such time as the Council shall decide.

(6) After the respective dates provided for under paragraph (5) of this Article, each Member shall prohibit the entry of any shipment of coffee from any other Member which is not accompanied by a certificate of origin or a certificate of re-export.

CHAPTER IX—REGULATION OF IMPORTS

ARTICLE 45

Regulation of Imports

(1) In order to prevent non-member exporting countries from increasing their exports at the expense of Members, the following provisions shall apply with respect to imports of coffee by Members from non-member countries.

(2) If three months after the Agreement enters into force, or at any time thereafter, the Members of the Organization represent less than 95 per cent of world exports in the calendar year 1961, each Member shall, subject to paragraphs (4) and (5) of this Article, limit its total annual imports from non-member countries as a group to a quantity not in excess of its average annual imports from those countries as a group during the last three years prior to the entry into force of the Agreement for which statistics are available. However, if the Council so decides, the application of such limitations may be deferred.

(3) If at any time the Council, on the basis of information received, finds that exports from non-member countries as a group are disturbing the exports of Members, it may, notwithstanding the fact that the Members of the Organization represent 95 per cent or more of world exports in the calendar year 1961, decide that the limitations of paragraph (2) shall be applied.

(4) If the Council's estimate of world imports adopted under Article 30 for any coffee year is less than its estimate of world imports for the first full coffee year after the Agreement enters into force, the quantity which each Member may import from non-member countries as a group under the provisions of paragraph (2) shall be reduced by the same proportion.

(5) The Council may annually recommend additional limitations on imports from non-member countries if it finds such limitations necessary in order to further the purposes of the Agreement.

(6) Within one month from the date on which limitations are applied under this Article, each Member shall inform the Council of the quantity of its permissible annual imports from non-member countries as a group.

(7) The obligations of the preceding paragraphs of this Article shall not derogate from any conflicting bilateral or multilateral obligations which importing Members have entered into with non-member countries before 1 August 1962; provided that any importing Member which has such conflicting obligations shall carry them out in such a way as to minimize the conflict with the obligations of the preceding paragraphs, take steps as soon as possible to bring its obligations into harmony with those paragraphs, and inform the Council of the details of the conflicting obligations and of the steps taken to minimize or eliminate the conflict.

(8) If an importing Member fails to comply with the provisions of this Article, the Council may, by a distributed two-thirds majority vote, suspend both its voting rights in the Council and its right to have its votes cast in the Board.

CHAPTER X—INCREASE OF CONSUMPTION

ARTICLE 46

Promotion

(1) The Council shall sponsor a continuing programme for promoting the consumption of coffee. The size and cost of this programme shall be subject to periodic review and approval by the Council. The importing Members will have no obligation as respects the financing of this programme.

(2) If the Council after study of the question so decides, it shall establish within the framework of the Board a separate committee of the Organization, to be known as the World Coffee Promotion Committee.

(3) If the World Coffee Promotion Committee is established, the following provisions shall apply:

(*a*) The Committee's rules, in particular those regarding membership, organization, and financial affairs, shall be determined by the Council. Membership in the Committee shall be limited to Members which contribute to the promotional programme established in paragraph (1) of this Article.

(*b*) In carrying out its work, the Committee shall establish a technical committee within each country in which a promotional campaign will be conducted. Before a promotional campaign is inaugurated in any Member country, the Committee shall advise the representative of that Member in the Council of the Committee's intention to conduct such a campaign and shall obtain that Member's consent.

(*c*) The ordinary administrative expenses relating to the permanent staff of the Committee, other than the costs of their travel for promotion purposes, shall be charged to the administrative budget of the Organization, and shall not be charged to the promotion funds of the Committee.

ARTICLE 47

Removal of Obstacles to Consumption

(1) The Members recognize the utmost importance of achieving the greatest possible increase of coffee consumption as rapidly as possible, in particular through the progressive removal of any obstacles which may hinder such increase.

(2) The Members affirm their intention to promote full international co-operation between all coffee exporting and importing countries.

(3) The Members recognize that there are presently in effect measures which may to a greater or lesser extent hinder the increase in consumption of coffee, in particular:

(*a*) import arrangements applicable to coffee, including preferential and other tariffs, quotas, operations of Government import monopolies and official purchasing agencies, and other administrative rules and commercial practices;

(*b*) export arrangements as regards direct or indirect subsidies and other administrative rules and commercial practices; and

(*c*) internal trade conditions and domestic legal and administrative provisions which may affect consumption.

(4) The Members recognize that certain Members have shown their concurrence with the objectives stated above by announcing their intention to

reduce tariffs on coffee or by taking other action to remove obstacles to increased consumption.

(5) The Members undertake, in the light of studies already carried out and those to be carried out under the auspices of the Council or by other competent international organizations, and of the Declaration adopted at the Ministerial Meeting in Geneva on 30 November, 1961:

(*a*) to investigate ways and means by which the obstacles to increased trade and consumption referred to in paragraph (3) of this Article could be progressively reduced and eventually, whenever possible, eliminated, or by which their effects could be substantially diminished;

(*b*) to inform the Council of the results of their investigation, so that the Council can review, within the first eighteen months after the Agreement enters into force, the information provided by Members concerning the effect of these obstacles and, if appropriate, the measures planned to reduce the obstacles or diminish their effects;

(*c*) to take into account the results of this review by the Council in the adoption of domestic measures and in proposals for international action; and

(*d*) to review at the session provided for in Article 72 the results achieved by the Agreement and to examine the adoption of further measures for the removal of such obstacles as may still stand in the way of expansion of trade and consumption, taking into account the success of the Agreement in increasing income of exporting Members and in developing consumption.

(6) The Members undertake to study in the Council and in other appropriate organizations any requests presented by Members whose economies may be affected by the measures taken in accordance with this Article.

CHAPTER XI—PRODUCTION CONTROLS

ARTICLE 48

Production Goals

(1) The producing Members undertake to adjust the production of coffee while the Agreement remains in force to the amount needed for domestic consumption, exports, and stocks as specified in Chapter XII.

(2) Not later than one year after the Agreement enters into force, the Council shall, in consultation with the producing Members, by a distributed two-thirds majority vote, recommend production goals for each of such Members and for the world as a whole.

(3) Each producing Member shall be entirely responsible for the policies and procedures it applies to achieve these objectives.

ARTICLE 49

Implementation of Production-Control Programmes

(1) Each producing Member shall periodically submit written reports to the Council on the measures it has taken or is taking to achieve the objectives of Article 48, as well as on the concrete results obtained. At its first session the Council shall, by a distributed two-thirds majority vote, establish a time-table and procedures for the presentation and discussion of such reports. Before making any observations or recommendations the Council will consult with the Members concerned.

(2) If the Council determines by a distributed two-thirds majority vote either that any producing Member has not, within a period of two years from the entry into force of the Agreement, adopted a programme to adjust its production to the goals recommended by the Council in accordance with Article 48, or that any producing Member's programme is not effective, it may by the same majority decide that such Member shall not enjoy any quota increases which may result from the application of the Agreement. The Council may by the same majority establish whatever procedures it considers appropriate for the purpose of verifying that the provisions of Article 48 have been complied with.

(3) At such time as it considers appropriate, but in any event not later than the review session provided for in Article 72, the Council may, by a distributed two-thirds majority vote, in the light of the reports submitted for its consideration by the producing Members in accordance with paragraph (1) of this Article, revise the production goals recommended in accordance with paragraph (2) of Article 48.

(4) In applying the provisions of this Article, the Council shall maintain close contact with international, national and private organizations which have an interest in or are responsible for financing or, in general, assisting the development plans of the primary producing countries.

ARTICLE 50

Co-operation of Importing Members

Recognizing the paramount importance of bringing the production of coffee into reasonable balance with world demand, the importing Members undertake, consistently with their general policies regarding international assistance, to co-operate with the producing Members in their plans for limiting the production of coffee. Their assistance may be provided on a technical, financial or other basis, and under bilateral, multilateral or regional arrangements, to producing Members implementing the provisions of this Chapter.

CHAPTER XII—REGULATION OF STOCKS

Article 51

Policy Relative to Coffee Stocks

(1) At its first session the Council shall take measures to ascertain world coffee stocks, pursuant to systems which it shall establish, and taking into account the following points: quantity, countries of origin, location, quality, and condition. The Members shall facilitate this survey.

(2) Not later than one year after the Agreement enters into force, the Council shall, on the basis of the data thus obtained and in consultation with the Members concerned, establish a policy relative to such stocks in order to complement the recommendations provided for in Article 48 and thereby to promote the attainment of the objectives of the Agreement.

(3) The producing Members shall endeavour by all means within their power to implement the policy established by the Council.

(4) Each producing Member shall be entirely responsible for the measures it applies to carry out the policy thus established by the Council.

Article 52

Implementation of Programmes for Regulation of Stocks

Each producing Member shall periodically submit written reports to the Council on the measures it has taken or is taking to achieve the objectives of Article 51, as well as on the concrete results obtained. At its first session, the Council shall establish a time-table and procedures for the presentation and discussion of such reports. Before making any observations or recommendations, the Council shall consult with the Members concerned.

CHAPTER XIII—MISCELLANEOUS OBLIGATIONS OF MEMBERS

Article 53

Consultation and Co-operation with the Trade

(1) The Council shall encourage Members to seek the views of experts in coffee matters.

(2) Members shall conduct their activities within the framework of the Agreement in a manner consonant with the established channels of trade.

Article 54

Barter

In order to avoid jeopardizing the general price structure, Members shall refrain from engaging in direct and individually linked barter transactions involving the sale of coffee in the traditional markets.

ARTICLE 55

Mixtures and Substitutes

Members shall not maintain any regulations requiring the mixing, processing or using of other products with coffee for commercial resale as coffee. Members shall endeavour to prohibit the sale and advertisement of products under the name of coffee if such products contain less than the equivalent of 90 per cent green coffee as the basic raw material.

CHAPTER XIV—SEASONAL FINANCING

ARTICLE 56

Seasonal Financing

(1) The Council shall, upon the request of any Member who is also a party to any bilateral, multilateral, regional or inter-regional agreement in the field of seasonal financing, examine such agreement with a view to verifying its compatibility with the obligations of the Agreement.

(2) The Council may make recommendations to Members with a view to resolving any conflict of obligations which might arise.

(3) The Council may, on the basis of information obtained from the Members concerned, and if it deems appropriate and suitable, make general recommendations with a view to assisting Members which are in need of seasonal financing.

CHAPTER XV—INTERNATIONAL COFFEE FUND

ARTICLE 57

International Coffee Fund

(1) The Council may establish an International Coffee Fund. The Fund shall be used to further the objective of limiting the production of coffee in order to bring it into reasonable balance with demand for coffee, and to assist in the achievement of the other objectives of the Agreement.

(2) Contributions to the Fund shall be voluntary.

(3) The decision by the Council to establish the Fund and the adoption of guiding principles to govern its administration shall be taken by a distributed two-thirds majority vote.

CHAPTER XVI—INFORMATION AND STUDIES

ARTICLE 58

Information

(1) The Organization shall act as a centre for the collection, exchange and publication of:

(a) statistical information on world production, prices, exports and imports, distribution and consumption of coffee; and

(b) in so far as is considered appropriate, technical information on the cultivation, processing and utilization of coffee.

(2) The Council may require Members to furnish such information as it considers necessary for its operations, including regular statistical reports on coffee production, exports and imports, distribution, consumption, stocks and taxation, but no information shall be published which might serve to identify the operations of persons or companies producing, processing or marketing coffee. The Members shall furnish information requested in as detailed and accurate a manner as is practicable.

(3) If a Member fails to supply, or finds difficulty in supplying, within a reasonable time, statistical and other information required by the Council for the proper functioning of the Organization, the Council may require the Member concerned to explain the reasons for non-compliance. If it is found that technical assistance is needed in the matter, the Council may take any necessary measures.

ARTICLE 59

Studies

(1) The Council may promote studies in the fields of the economics of coffee production and distribution, the impact of governmental measures in producing and consuming countries on the production and consumption of coffee, the opportunities for expansion of coffee consumption for traditional and possible new uses, and the effects of the operation of the Agreement on producers and consumers of coffee, including their terms of trade.

(2) The Organization shall continue, to the extent it considers necessary, the studies and research previously undertaken by the Coffee Study Group, and shall periodically carry out studies on trends and projections on coffee production and consumption.

(3) The Organization may study the practicability of prescribing minimum standards for exports from Members who produce coffee. Recommendations in this regard may be discussed by the Council.

CHAPTER XVII—WAIVER

ARTICLE 60

Waiver

(1) The Council may, by a two-thirds distributed majority vote, relieve a Member of an obligation which, on account of exceptional or emergency circumstances, *force majeure*, constitutional obligations, or international obligations under the United Nations Charter[1] for territories administered under the trusteeship system, either:

(*a*) constitutes a serious hardship;

(*b*) imposes an inequitable burden on such Member; or

(*c*) gives other Members an unfair or unreasonable advantage.

(2) The Council, in granting a waiver to a Member, shall state explicitly the terms and conditions on which and the period for which the Member is relieved of such obligation.

CHAPTER XVIII—DISPUTES AND COMPLAINTS

ARTICLE 61

Disputes and Complaints

(1) Any dispute concerning the interpretation or application of the Agreement which is not settled by negotiation, shall, at the request of any Member party to the dispute, be referred to the Council for decision.

(2) In any case where a dispute has been referred to the Council under paragraph (1) of this Article, a majority of Members, or Members holding not less than one-third of the total votes, may require the Council, after discussion, to seek the opinion of the advisory panel referred to in paragraph (3) of this Article on the issues in dispute before giving its decision.

(3) (*a*) Unless the Council unanimously agrees otherwise, the panel shall consist of:

(i) two persons, one having wide experience in matters of the kind in dispute and the other having legal standing and experience, nominated by the exporting Members;

(ii) two such persons nominated by the importing Members; and

(iii) a chairman selected unanimously by the four persons nominated under (i) and (ii), or, if they fail to agree, by the Chairman of the Council.

(*b*) Persons from countries whose Governments are Contracting Parties to this Agreement shall be eligible to serve on the advisory panel.

(*c*) Persons appointed to the advisory panel shall act in their personal capacities and without instructions from any Government.

(*d*) The expenses of the advisory panel shall be paid by the Council.

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(1) "Treaty Series No. 67 (1946)", Cmd. 7015.

(4) The opinion of the advisory panel and the reasons therefor shall be submitted to the Council which, after considering all the relevant information, shall decide the dispute.

(5) Any complaint that any Member has failed to fulfil its obligations under the Agreement shall, at the request of the Member making the complaint, be referred to the Council, which shall make a decision on the matter.

(6) No Member shall be found to have committed a breach of its obligations under the Agreement except by a distributed simple majority vote. Any finding that a Member is in breach of the Agreement shall specify the nature of the breach.

(7) If the Council finds that a Member has committed a breach of the Agreement, it may, without prejudice to other enforcement measures provided for in other articles of the Agreement, by a distributed two-thirds majority vote, suspend that Member's voting right in the Council and its right to have its votes cast in the Board until it fulfils its obligations, or the Council may take action requiring compulsory withdrawal under Article 69.

CHAPTER XIX—FINAL PROVISIONS

ARTICLE 62

Signature

The Agreement shall be open for signature at United Nations Headquarters until and including 30 November 1962 by any Government invited to the United Nations Coffee Conference, 1962, and by the Government of any State represented before independence as a dependent territory at that Conference.

ARTICLE 63

Ratification

The Agreement shall be subject to ratification or acceptance by the signatory Governments in accordance with their respective constitutional procedures. Instruments of ratification or acceptance shall be deposited with the Secretary-General of the United Nations not later than 31 December 1963. Each Government depositing an instrument of ratification or acceptance shall, at the time of such deposit, indicate whether it is joining the Organization as an exporting Member or an importing Member, as defined in paragraphs (7) and (8) of Article 2.

ARTICLE 64

Entry into Force

(1) The Agreement shall enter into force between those Governments which have deposited instruments of ratification or acceptance when Governments representing at least twenty exporting countries having at least 80 per

cent of total exports in the year 1961, as specified in Annex D, and Governments representing at least ten importing countries having at least 80 per cent of world imports in the same year, as specified in the same Annex, have deposited such instruments. The Agreement shall enter into force for any Government which subsequently deposits an instrument of ratification, acceptance or accession on the date of such deposit.

(2) The Agreement may enter into force provisionally. For this purpose, a notification by a signatory Government containing an undertaking to seek ratification or acceptance in accordance with its constitutional procedures as rapidly as possible, which is received by the Secretary-General of the United Nations not later than 30 December 1963, shall be regarded as equal in effect to an instrument of ratification or acceptance. It is understood that a Government which gives such a notification will provisionally apply the Agreement and be provisionally regarded as a party thereto until either it deposits its instrument of ratification or acceptance or until 31 December 1963, whichever is earlier.

(3) The Secretary-Ge[illegible]l of the United Nations shall convene the first session of the Council, [illegible] be held in London within 30 days after the Agreement enters into force.

(4) Whether or not the Agreement has provisionally entered into force in accordance with paragraph (2) of this Article, if by 31 December 1963 it has not definitively entered into force in accordance with paragraph (1), those Governments which have by that date deposited instruments of ratification or acceptance may consult together to consider what action the situation requires, and may, by mutual consent, decide that it shall enter into force among themselves.

Article 65

Accession

The Government of any State Member of the United Nations or of any of its specialized agencies and any Government invited to the United Nations Coffee Conference, 1962, may accede to this Agreement upon conditions that shall be established by the Council. In establishing such conditions the Council shall, if such country is not listed in Annex A, establish a basic export quota for it. If such country is listed in Annex A, the respective basic export quota specified therein shall be the basic export quota for that country unless the Council decides otherwise by a distributed two-thirds majority vote. Each Government depositing an instrument of accession shall, at the time of such deposit, indicate whether it is joining the Organization as an exporting Member or an importing Member, as defined in paragraphs (7) and (8) of Article 2.

Article 66

Reservations

Reservations may not be made with respect to any of the provisions of the Agreement.

ARTICLE 67

Notifications in respect of Dependent Territories

(1) Any Government may, at the time of signature or deposit of an instrument of acceptance, ratification or accession, or at any time thereafter, by notification to the Secretary-General of the United Nations, declare that the Agreement shall extend to any of the territories for whose international relations it is responsible, and the Agreement shall extend to the territories named therein from the date of such notification.

(2) Any Contracting Party which desires to exercise its rights under Article 4 in respect of any of its dependent territories, or which desires to authorize one of its dependent territories to become part of a Member group formed under Article 5 or 6, may do so by making a notification to that effect to the Secretary-General of the United Nations, either at the time of the deposit of its instrument of ratification, acceptance or accession, or at any later time.

(3) Any Contracting Party which has made a declaration under paragraph (1) of this Article may at any time thereafter, by notification to the Secretary-General of the United Nations, declare that the Agreement shall cease to extend to the territory named in the notification, and the Agreement shall cease to extend to such territory from the date of such notification.

(4) The Government of a territory to which the Agreement has been extended under paragraph (1) of this Article and which has subsequently become independent may, within 90 days after the attainment of independence, declare by notification to the Secretary-General of the United Nations that it has assumed the rights and obligations of a Contracting Party to the Agreement. It shall, as from the date of such notification, become a party to the Agreement.

ARTICLE 68

Voluntary Withdrawal

No Contracting Party may give notice of voluntary withdrawal from the Agreement before 30 September 1963. Thereafter, any Contracting Party may withdraw from the Agreement at any time by giving a written notice of withdrawal to the Secretary-General of the United Nations. Withdrawal shall become effective 90 days after the notice is received.

ARTICLE 69

Compulsory Withdrawal

If the Council determines that any Member has failed to carry out its obligations under the Agreement and that such failure significantly impairs the operations of the Agreement, it may, by a distributed two-thirds majority vote, require the withdrawal of such Member from the Organization. The Council shall immediately notify the Secretary-General of the United Nations of any such decision. Ninety days after the date of the Council's decision, that Member shall cease to be a Member of the Organization, and, if such Member is a Contracting Party, a party to the Agreement.

ARTICLE 70

Settlement of Accounts with Withdrawing Members

(1) The Council shall determine any settlement of accounts with a withdrawing Member. The Organization shall retain any amounts already paid by a withdrawing Member, and such Member shall remain bound to pay any amounts due from it to the Organization at the time the withdrawal becomes effective; provided, however, that in the case of a Contracting Party which is unable to accept an amendment and consequently either withdraws or ceases to participate in the Agreement under the provisions of paragraph (2) of Article 73, the Council may determine any settlement of accounts which it finds equitable.

(2) A Member which has withdrawn or which has ceased to participate in the Agreement shall not be entitled to any share of the proceeds of liquidation or the other assets of the Organization upon termination of the Agreement under Article 71.

ARTICLE 71

Duration and Termination

(1) The Agreement shall remain in force until the completion of the fifth full coffee year after its entry into force, unless extended under paragraph (2) of this Article, or earlier terminated under paragraph (3).

(2) The Council, during the fifth full coffee year after the Agreement enters into force, may, by vote of a majority of the Members having not less than a distributed two-thirds majority of the total votes, either decide to renegotiate the Agreement, or to extend it for such period as the Council shall determine.

(3) The Council may at any time, by vote of a majority of the Members having not less than a distributed two-thirds majority of the total votes, decide to terminate the Agreement. Such termination shall take effect on such date as the Council shall decide.

(4) Notwithstanding termination of the Agreement, the Council shall remain in being for as long as necessary to carry out the liquidation of the Organization, settlement of its accounts, and disposal of its assets, and shall have during that period such powers and functions as may be necessary for those purposes.

ARTICLE 72

Review

In order to review the Agreement, the Council shall hold a special session during the last six months of the coffee year ending 30 September 1965.

ARTICLE 73

Amendment

(1) The Council may, by a distributed two-thirds majority vote, recommend an amendment of the Agreement to the Contracting Parties. The amendment shall become effective 100 days after the Secretary-General of the United

Nations has received notifications of acceptance from Contracting Parties representing at least 75 per cent of the exporting countries holding at least 85 per cent of the votes of the exporting Members, and from Contracting Parties representing at least 75 per cent of the importing countries holding at least 80 per cent of the votes of the importing Members. The Council may fix a time within which each Contracting Party shall notify the Secretary-General of the United Nations of its acceptance of the amendment, and, if the amendment has not become effective by such time, it shall be considered withdrawn. The Council shall provide the Secretary-General with the information necessary to determine whether the amendment has become effective.

(2) Any Contracting Party, or any dependent territory which is either a Member or a party to a Member group, on behalf of which notification of acceptance of an amendment has not been made by the date on which such amendment becomes effective, shall as of that date cease to participate in the Agreement.

Article 74

Notifications by the Secretary-General

The Secretary-General of the United Nations shall notify all Governments represented by delegates or observers at the United Nations Coffee Conference, 1962, and all other Governments of States Members of the United Nations or of any of its specialized agencies, of each deposit of an instrument of ratification, acceptance or accession, and of the dates on which the Agreement comes provisionally and definitively into force. The Secretary-General of the United Nations shall also notify all Contracting Parties of each notification under Article 5, 67, 68 or 69; of the date to which the Agreement is extended or on which it is terminated under Article 71; and of the date on which an amendment becomes effective under Article 73.

In witness whereof the undersigned, having been duly authorized to this effect by their respective Governments, have signed this Agreement on the dates appearing opposite their signatures.

The texts of this Agreement in the English, French, Russian, Spanish and Portuguese languages shall all be equally authentic. The originals shall be deposited in the archives of the United Nations, and the Secretary-General of the United Nations shall transmit certified copies thereof to each signatory and acceding Government.

[Here follow the signatures]

ANNEX A

Basic Export Quotas

(60-kilogramme bags)

Brazil	18,000,000
Colombia	6,011,280
Costa Rica	950,000
Cuba	200,000
Dominican Republic (*a*)	425,000
Ecuador	552,000
El Salvador	1,429,500
Guatemala	1,344,500
Haiti (*a*)	420,000
Honduras	285,000
Mexico	1,509,000
Nicaragua	419,100
Panama	26,000
Peru	580,000
Venezuela	475,000
Cameroun	762,795
Central African Republic	150,000
Congo (Brazzaville)	11,000
Dahomey	37,224
Gabon	18,000
Ivory Coast	2,324,278
Malagasy Republic	828,828
Togo	170,000
Kenya	516,835
Uganda	1,887,737
Tanganyika	435,458
Portugal	2,188,648
Congo (Leopoldville) (*b*)	700,000
Ethiopia	850,000
India	360,000
Indonesia	1,176,000
Nigeria	18,000
Rwanda and Burundi (*b*)	340,000
Sierra Leone	65,000
Trinidad	44,000
Yemen	77,000
Grand Total	45,587,183

(*a*) The Republic of Haiti and the Dominican Republic shall be permitted to export 20 per cent more than their respective adjusted basic quotas in the coffee year 1963–64. In no event, however, shall such increases be taken into account for the purpose of calculating the distribution of votes. In the review of the Agreement, provided for in Article 72, the two-year production cycle in those countries shall be given special consideration.

(*b*) In the first coffee year, the Republic of the Congo (Leopoldville), after presentation to the Council of acceptable evidence of an exportable production larger than 700,000 bags, shall be authorized by the Council to export up to 900,000 bags. In the second and third coffee years it is permitted to increase its coffee exports by an amount not to exceed 20 per cent over those for the previous year. After presentation to the Council of acceptable evidence of an exportable production larger than 340,000 bags, Rwanda and Burundi may be authorized by the Council to export a combined total of up to 450,000 bags in the first coffee year, 500,000 bags in the second coffee year and 565,000 bags in the third coffee year. In no event, however, shall the increases allowed those countries in the first three years be taken into account for the purpose of calculating the distribution of votes.

ANNEX B

Non-quota Countries of Destination, referred to in Article 40, Chapter VII

The geographical areas below are non-quota countries for purposes of this Agreement:

Bahrein
Basutoland
Bechuanaland
Ceylon
China (Taiwan)
China (mainland)
Federation of Rhodesia and Nyasaland
Hungary
Iran
Iraq
Japan
Jordan
Kuwait
Muscat and Oman
Oman
Philippines
Poland
Qatar
Republic of Korea
North Korea
Republic of Viet-Nam
North Viet-Nam
Romania
Saudi Arabia
Somalia
South-West Africa
Sudan
Swaziland
Thailand
Republic of South Africa
Union of Soviet Socialist Republics

ANNEX C

Certificate of Origin

This certificate is made pursuant to the International Coffee Agreement. A copy of this certificate must be submitted with export documents and will be required for export (and import) clearance.

No. .... *(to be cited in any future correspondence)*

Member .... *(producing country)*

I hereby certify that the green, soluble, roasted, semi-roasted or other coffee described below has been produced in .... *(producing country)*.

per S.S.: or other carrier

from: *(name of port or other point of embarkation)*

to: *(name of port or country of final destination)*

via:

on or about: (date)

Shipping Marks or other identification	Quantity (number of units)	Total Weight		Observations
		Kg.	lbs.	
Green		Gross Net	Gross Net	
Roasted or Soluble		Gross Net	Gross Net	

Other (specify)

....

Date ....

Signature .... *(Certifying Officer)*

.... *(Certifying Agency)*

ANNEX D

List of Exports and Imports in 1961

I.—EXPORTS

(thousands of 60-kilogramme bags)

Country	*Bags*	*Per cent*
Bolivia	(a)	0·0
Brazil	16,971	39·2
Burundi and Rwanda ...	397	0·9
Cameroun	591	1·4
Central African Republic	121	0·3
Colombia	5,651	13·1
Congo (Brazzaville) ...	(a)	0·0
Congo (Leopoldville) ...	499	1·2
Costa Rica	835	1·9
Cuba	85	0·2
Dahomey	40	0·1
Dominican Republic ...	327	0·8
Ecuador	381	0·9
El Salvador	1,430	3·3
Ethiopia	950	2·2
Gabon	(a)	0·0
Ghana	28	0·1
Guatemala	1,255	2·9
Guinea	200	0·5
Haiti	348	0·8
Honduras	210	0·5
India	539	1·2
Indonesia	1,091	2·5
Ivory Coast	2,618	6·0
Jamaica	(a)	0·0
Liberia	41	0·1
Madagascar	651	1·5
Mauritania	(a)	0·0
Mexico	1,433	3·5
Nicaragua	349	0·8
Nigeria	(a)	0·0
Panama	(a)	0·0
Paraguay	25	0·1
Peru	567	1·3
Portugal	1,976	4·5
Rwanda (*see* Burundi)		
Sierra Leone	85	0·2
Tanganyika	438	1·0
Togo	171	0·4
Trinidad and Tobago ...	38	0·1
United Kingdom (Kenya)	536	1·2
United Kingdom (Uganda)	1,806	4·2
Upper Volta	(a)	0·0
Venezuela	406	0·9
Yemen	80	0·2
Total	43,219	100·0

(a) Less than 22,000 bags.

II.—IMPORTS

(thousands of 60-kilogramme bags)

Country	Bags	Per cent
Afghanistan	(a)	0·0
Albania	(a)	0·0
Argentina	574	1·3
Australia	156	0·4
Austria	218	0·5
Belgium	1,036	2·4
Bulgaria	60	0·1
Burma	(a)	0·0
Byelorussian SSR (included in USSR)		
Cambodia	(a)	0·0
Canada	1,119	2·6
Ceylon	(a)	0·0
Chad	(a)	0·0
Chile	113	0·3
China	(a)	0·0
Cyprus	(a)	0·0
Czechoslovakia	175	0·4
Denmark	727	1·7
Federal Republic of Germany	3,540	8·1
Federation of Malaya	109	0·2
Federation of Rhodesia and Nyasaland	(a)	0·0
Finland	638	1·5
France	3,882	8·9
Greece	132	0·3
Hungary	39	0·1
Iceland	29	0·1
Iran	(a)	0·0
Iraq	(a)	0·0
Ireland	(a)	0·0
Israel	74	0·2
Italy	1,753	4·0
Japan	244	0·6
Jordan	23	0·1
Kuwait	(a)	0·0
Laos	(a)	0·0
Lebanon	158	0·4
Libya	(a)	0·0
Luxembourg (included in Belgium)		
Mali	(a)	0·0
Mongolia	(a)	0·0
Morocco	129	0·3
Nepal	(a)	0·0
Netherlands	1,147	2·6
New Zealand	35	0·1
Niger	(a)	0·0
Norway	450	1·0
Pakistan	(a)	0·0
Philippines	(a)	0·0
Poland	89	0·2
Republic of Korea	(a)	0·0
Republic of Viet-Nam	(a)	0·0
Romania	(a)	0·0
Saudi Arabia	(a)	0·0
Senegal	(a)	0·0
Somalia	(a)	0·0
South Africa	185	0·4
Spain	300	0·7
Sudan	154	0·3
Sweden	1,295	3·0
Switzerland	541	1·2
Syria	31	0·1
Thailand	83	0·2
Tunisia	48	0·1
Turkey	36	0·1
Ukrainian SSR (included in USSR)		
Union of Soviet Socialist Republics	371	0·9
United Arab Republic	70	0·2
United Kingdom	978	2·3
United States	22,464	51·7
Uruguay	45	0·1
Yugoslavia	143	0·3
Total	43,393	100·0

(a) Less than 22,000 bags.

International Coffee Organization, International Coffee Council, Third Session (Special), London, February 10–12, 1964

RULES OF THE INTERNATIONAL COFFEE ORGANIZATION

(Approved provisionally by the Council)

[Draft]

RULES OF THE INTERNATIONAL COFFEE ORGANIZATION

I. Representation in the Council

Rule 1—Designations by Member Countries

In the case of Member Countries, designations of all Representatives, Alternates, and Advisers shall be issued in writing by the Ministry of Foreign Affairs or the Diplomatic Mission of the Member concerned either in the country where the seat of the Organization is located or where a session takes place. The Ministry of Foreign Affairs of a Member Country may delegate the right of designation or accreditation to any other Governmental agency of that country, in which case the name of the designated Governmental agency must be communicated in writing to the Executive Director.

Rule 2—Designations by Member-Groups

Credentials of the Representative, Alternates, and Advisers, of a Member-Group shall be issued by the Government or Organization which represents the Member-Group or, if there is no such Organization, by the Government which represents the Member-Group, in accordance with Rule 1.

Rule 3—Reception of Communications

Each Member shall inform the Executive Director in the manner set forth in Rules 1 and 2 of the name and address of the person, resident at the seat of the Organization, to whom all notices and other communications should be sent. Any notice or communication forwarded to the person so designated shall be deemed to have been delivered to the Member concerned. Whenever there is a change in the person so designated, the Executive Director shall immediately be notified in writing.

Any notification made under this Rule to the person designated by the Government or Organization which represents a Member-Group shall be deemed to have been transmitted to all participants of the Member-Group.

Rule 4—Designations to the Board

Each Member elected to the Executive Board shall, as early as possible after the election is held, inform the Executive Director, in writing, of the name of its Representative and Alternates, to the Board. Whenever the person or persons designated to the Board is changed, the change shall be notified to the Executive Director immediately.

Rule 5—Composition of Delegation

Each Member shall, as early as possible after receiving notification of a session of the Council, inform the Executive Director in writing of the name of its Representative, Alternate, and Advisers. Such information should normally be received not later than forty-eight hours before the opening of the session. Names of the Representatives of the Members referred to in Rule 8 shall be communicated to the Executive Director.

Rule 6—Working Group on Credentials

A Working Group on Credentials shall be appointed by the Chairman at the beginning of each session of the Council. It shall examine the Credentials and report without delay.

Rule 7—Observers

The Council may invite the United Nations, its specialized agencies, any appropriate intergovernmental organization, any Government eligible to attend the United Nations Coffee Conference, 1962, or all other Governments of States member of the United Nations or of any of its specialized agencies to send observers to Council sessions. Observers shall have no voice in the proceedings of the Council except by invitation of the Council. They may upon invitation from the Chairman of a Working Group of the Council attend particular meetings of such Working Group.

Rule 8—Seating of Member-Groups

Member-Groups shall be allocated at the table as many seats, located together, as there are participating countries within each Group. If there is an organization representing the Group, an additional seat shall be provided. Except as provided in Article 5(2), each Member-Group shall have only one spokesman who may relinquish the right to speak to any one Alternate who will thus become spokesman for the Member-Group.

II. The Chairman and the Vice Chairman of the Council

Rule 9—Election

At the last regular session held in each coffee year the Council shall elect a Chairman, a first, a second, and a third Vice Chairman for the following coffee year. The term of office shall be for the duration of the coffee year. However, the Chairman or Acting Chairman shall remain in office until his successor assumes office.

Rule 10—Nominations

When the Chairman is to be elected from importing countries, a nomination or nominations shall be made by the importing countries, and when the Chairman is to be elected from the exporting countries, a nomination or nominations shall be made by the exporting countries. A similar procedure shall be applied for the election of the Vice Chairman.

Rule 11—Absence

If the Chairman of the Council is absent from a meeting or any part thereof, his place shall be taken by one of the Vice Chairmen in the order established by the Council at the time of their election. A Vice Chairman acting as Chairman shall have the same powers and duties as the Chairman.

Rule 12—Incapacity

If the Chairman resigns or is incapacitated, his place shall be taken for the remaining term of office by the first Vice Chairman. In the event both the Chairman and the first Vice Chairman resign or are incapacitated, the Council shall elect a new Chairman and first Vice Chairman from among Representatives of the same category of countries.

III. Sessions of the Council

Rule 13—Convocation

The Executive Director, on behalf of the Chairman of the Council, shall send to each person designated under Rule 3 a written notification of the date of the session of the Council together with the Draft Agenda. Such notification shall be sent at least 30 days in advance, except in cases of emergency when, at the discretion of the Chairman, a shorter but reasonable notice will be in order.

Rule 14—Agenda

The Draft Agenda for each session of the Council shall normally be prepared by the Executive Board. The Agenda shall be approved by the Council at the beginning of its first meeting of the session.

Rule 15—Quorum

The Executive Director, at each meeting of a session of the Council, shall advise the Chairman whether the quorum prescribed by Article 19(1) of the Agreement is present and which Member, if any, is authorized to represent another, in accordance with Article 13(2).

Rule 16—Powers and Duties of the Chairman During Meetings

In addition to exercising the powers conferred upon him elsewhere by these rules, the Chairman shall announce the presence or lack of a quorum, declare the opening and closing of each meeting, direct the discussions at such meetings, ensure observance of these rules, accord the right to speak, put questions to the vote, and announce decisions. The Chairman may, in the course of the discussion, propose a limit on the time to be allowed to speakers and of the number of times each Representative may speak on any question, the closure of the list of speakers, or the closure of the debate. He may, however, second the right of reply to any Representative of a speech delivered after he has declared the list closed makes this advisable. He may also propose the suspension or the adjournment of the meeting, or the adjournment of the debate on the particular subject or question under discussion.

Rule 17—Other Prerogatives of the Chairman

The Chairman of the Council may attend any meeting of the Executive Board and of any Working Group of the Council or of the Executive Board and take part in their proceedings without vote.

Rule 18—Permission To Speak

No speaker may address the Council without having previously obtained the permission of the Chairman. The Chairman may call a speaker to order if his remarks are not relevant to the subject under discussion.

Rule 19—Precedence To Speak

The Chairman and the rapporteurs of the Executive Board, and of Working Groups of the Council may be accorded precedence for the purpose of explaining the conclusions arrived at by the Executive Board or by their sub-Working Groups. The Executive Director may also be accorded precedence for the purpose of clarification in any matter.

Rule 20—Adjournment of the Debate

Any Representative may move the adjournment of the debate on the particular subject under discussion. In addition to the proposer of the motion, two Representatives may speak in favour, and two against, after which the motion shall immediately be put to the vote. The Chairman may limit the time to be allowed to speakers under this rule.

Rule 21—Closure of the Debate

Any Representative may move the closure of the debate on the particular subject under discussion, whether or not any other Representative has signified his wish to speak. Permission to speak on the closure of the debate shall be accorded only to two speakers, opposing the closure, after which the motion shall be immediately put to the vote. The Chairman may limit the time to be allowed to speakers under this rule.

Rule 22—Suspension or Adjournment of a Meeting

During the discussion of any matter, a Representative may move the suspension or the adjournment of the meeting. Such motions shall not be debated but shall be immediately put to the vote.

Rule 23—Order of Precedence for Motions of Procedure

Motions for recess or adjournment of the meeting, adjournment or closure of the debate, and other motions of procedure, shall take precedence, in the order mentioned, over any other motions or proposals.

Rule 24—Proposals and Amendments

Proposals and amendments shall normally be introduced in writing and handed to the Executive Director, who shall circulate copies to delegations. As a general rule no proposal shall be discussed or put to the vote at any meeting of the Council unless copies of it have been circulated to all delegations not later than the day preceding the meeting. The Chairman may, however, permit the discussion and consideration of proposals, amendments, or motions as to procedure, even though these amendments or motions have not been circulated or have been circulated only on the same day.

Rule 25—Motions on the Competence of the Council

Any motion calling for a decision as to the competence of the Council to adopt a proposal submitted to it shall be put to the vote before a vote is taken on the proposal in question.

Rule 26—Withdrawal of a Motion

A motion may be withdrawn by its proposer at any time before voting on it has commenced. A motion which has been withdrawn may be reintroduced by any Representative.

Rule 27—Reconsideration of a Decision

When a proposal has been adopted or rejected it may not be reconsidered unless the Council, by the same majority which was necessary for adoption of the decision to be reconsidered, so decides. Permission to speak on the motion of reconsideration shall be accorded only to two speakers opposing the motion after which it shall be immediately put to the vote.

Rule 28—Point of Order

During the discussion of any matter a Representative may raise a point of order and the point of order shall be immediately decided by the Chairman. A Representative may appeal against any ruling of the Chairman. The appeal shall be immediately put to the vote and the Chairman's ruling shall stand unless overruled by the Council. A Representative rising to a point of order may not speak on the substance of the matter under discussion.

Rule 29—Representation for Voting

A Member may authorize, or withdraw the authorization it has given to any other Member to represent its interest and to exercise its right to vote at any meeting or meetings of the Council by giving the Executive Director a written statement to that effect issued by one of the persons or institution designated in Rule 1 or 2 or issued by any person or institution authorized to sign the credentials under Rule 1 or 2. The Executive Director shall notify the Council of these statements and indicate the extent of authorization or withdrawal. He shall also maintain a file of all of these statements which shall be open for inspection by any Member. They will be deemed in order unless the Executive Director or any Member raises a question concerning them. Any question so raised shall be submitted to the Executive Board for recommendation to the Council as to what action should be taken.

Rule 30—Voting on Proposals

If two or more proposals relate to the same question, the Council shall, unless it decides otherwise, vote on the proposals in the order in which they have been submitted. The Council may after voting on a proposal, decide whether to vote on the next proposal.

Rule 31—Amendment to a Proposal

A motion is considered an amendment to a proposal if it merely adds to, deletes from, or revises part of that proposal. When an amendment is moved to a proposal, the amendment shall be voted on first. When two or more amendments are moved to a proposal, the Council shall first vote on the amendment furthest removed in substance from the original proposal and then on the amendment next furthest removed therefrom and so on, until all the amendments have been voted on. When, however, the adoption of one amendment necessarily implies the rejection of another amendment, the latter amendment should not be put to vote.

Rule 32—Voting on Parts of a Proposal or of an Amendment

A Representative may move that parts of a proposal or of an amendment shall be voted on separately. If objection is made to the reqeust for division, the motion for division shall be voted upon. Permission to speak on the motion for division shall be given only to two speakers in favour and two speakers against. If the motion for division is carried, those parts of the proposal or of the amendment which are subsequently approved shall be put to the vote as a whole. If all operative parts of the proposal or of the amendment have been rejected, the proposal or amendment shall be considered to have been rejected as a whole.

Rule 33—Voting

Voting shall be by rollcall from the list of exporting and importing Members in the English alphabetical order, beginning with the name of a Member selected at random by the Chairman. The result of each vote, including affirmative and negative votes and abstentions, shall be announced. However, in the determination of how many votes have been cast only affirmative and negative votes shall be counted.

Rule 34—Interruption and Explanation of Vote

After the Chairman has announced the beginning of the vote, no Representative shall interrupt the vote except on a point of order in connection with the actual conduct of voting. The Chairman may permit Representatives to explain their votes after the voting. The Chairman may limit the time to be allowed for such explanations.

Rule 35—Redistribution of Votes

Whenever a redistribution of votes is appropriate under Article 12(6) of the Agreement, the Executive Director shall prepare a redistribution of votes for Members of the Council and consequently for Members of the Board which shall be presented to the Executive Board for approval. All votes taken in the Executive Board and the Council thereafter shall be taken on the basis of redistribution approved by the Executive Board.

Rule 36—Working Groups

To facilitate its work, the Council may create such informal Working Groups as it considers necessary. These Groups shall normally be composed by a fair representation of exporting and importing Members. They shall establish their own procedures but in no case shall take a vote. They will cease to exist at the end of the session at which they were created.

Rule 37—Official Languages

English, French, Portuguese, and Spanish shall be the official languages of the Organization. The Executive Director shall make such arrangements for interpretation or translation as may be necessary. Documents shall be published in the official languages as needed. Any delegation whose members wish to speak at meetings of the Council or its Working Groups in any language other than one of the official languages shall arrange for interpretation into one of the official languages, any expense being met by that delegation.

Rule 38—Privacy of Meetings

All meetings of the Council shall be held in private unless it decides otherwise.

Rule 39—Record of Proceedings

Minutes of meetings of the Council shall consist of a summary record of the proceedings. Copies of the summary record of each meeting of the Council shall be sent to all delegations, or to the person designated under Rule 1, within ten days of the close of the session. Initially, such record shall be provisional. Any suggestion for amendment of the record shall be communicated to the Executive Director within forty (40) days of the closing date of the session. The amendments shall then be sent to the designated persons. A tape recording of the plenary sessions shall be kept available for consultation by Members. Unless the Council otherwise decides, Minutes shall be "Restricted" and shall be so marked.

IV. Decision of a Specific Question by the Council Without a Meeting

Rule 40—Determination that Council Decision should be Obtained without a Meeting

The Chairman of the Council may at his own discretion or shall by request of the Executive Board arrange for the Council to decide upon a matter without meeting.

Rule 41—Communication to Members

If it is determined to try to obtain a Council decision without a meeting the Executive Director shall send a communication approved by the Chairman to each Member. Such communication shall be sent to the authorities indicated in Rules 1 and 2 as the case may apply. The communication shall—

(a) clearly state the matter at issue, with indication of the result of the voting held within the Executive Board, if any;

(b) indicate specifically the proposal on which the Member is to vote;

(c) set the time when votes must be received, which shall not be less than thirty days after the dispatch of the communication except that in circumstances of exceptional emergency, which shall be explained in the communication, the period for reply shall not be less than seven days;

(d) request the Member to indicate with respect to the specific proposal outlined in the communication—

(1) whether it agrees that a decision should be taken without a meeting, and

(2) whether it votes for, against, or abstains.

Rule 42—Ascertaining the Decision

If at the end of the period for reply prescribed by the Chairman, Members representing the "quorum" specified in the first sentence of Article 19(1) of the Agreement have approved taking a decision without holding a meeting, the votes for and against the proposal to be decided shall be counted and the Council's decision ascertained. Abstentions regarding the substance of the question shall be recorded.

Rule 43—Member Not Agreeing That a Decision Be Taken Without a Meeting

A Member may not agree that a decision should be taken without a Meeting and yet it may wish to record whether it votes for, against, or abstains with respect to the specific proposal outlined in the communication. If a Member does not agree that a decision should be taken without a meeting and a "quorum" exists according to Rule 42, the vote that the Member may have recorded shall be counted. If a Member does not agree that a decision should be taken without a meeting and a "quorum" exists, and the Member has not recorded its vote with respect to the specific proposal, such member shall be considered as absent.

Rule 44—Report on the Decision

A report of the decision together with a statement of the number of votes for and against and of absentions shall be sent to all Members by the Executive Director as soon as practicable and no later than 10 days after the end of the period for reply. The decision shall be recorded as a resolution of the Council and numbered accordingly. The decision shall be announced to the Council at its next session.

V. Executive Board

Rule 45—Delegation of Powers

The Executive Board shall have the powers and perform the functions of the Council insofar as they are delegated to it by the Council.

Rule 46—Election of Members

The election of the seven exporting Members and the seven importing Members of the Executive Board shall be held during the last regular session of the Council in each coffee year. The term of office of the elected Members shall be for the duration of the coffee year.

If a member of the Board ceases to be a party to the Agreement, the Members who voted for, or assigned votes to it shall, during the next session of the Council at which it is considered practicable, elect a Member to fill the vacancy on the Board. Any Member which voted for, or assigned its votes to, the Member who has ceased to be a party to the Agreement, and which does not vote for the Member elected to fill the vacancy on the Board, may assign its votes to another Member of the Executive Board.

In the interim, the remaining Members of the Board of the category of the Member that has ceased to be a party to the Agreement shall continue to hold 1,000 votes in total. To this end the Executive Director shall prepare a redistribution of the 1,000 votes among that category of Members in such a manner as to ensure that each Member shall continue to hold the same proportion of votes *vis-a-vis* the other remaining Members of the same category as it held before the redistribution.

Rule 47—Meetings

The Executive Board shall meet as often as is necessary to fulfill its responsibility.

Rule 48—Convocation of Meetings

The Chairman of the Executive Board may convene a meeting of the Board when he considers it necessary. A meeting shall be convened when a Member or Members having at least 200 votes in the Board so request. In exceptional circumstances the Chairman may decide that a meeting be held in a place other than the seat of the Organization.

Rule 49—Prerogatives of the Chairman

The Chairman of the Executive Board may attend any meeting of the Council and of any Working Group of the Council or the Board and may, at his own discretion, preside over any Working Group of the Board.

Rule 50—Absence of Chairman

In the absence of the Chairman the Board shall elect a temporary Chairman.

Rule 51—Proceedings and Voting

The proceedings of and the voting in the Executive Board shall be in accordance with the procedure laid down for meetings of the Council in Rules 7, 15, 16, 18 through 28, 30 through 35, 37 through 39, and 64.

Rule 52—Working Groups of the Executive Board

To facilitate its work, the Executive Board may create such informal Working Groups as it considers necessary. These Groups shall establish their own procedures but in no case shall take a vote.

Rule 53—Invitation To Attend Board Meetings

The Board may invite any Member Country to be present at all or part of any meeting and to voice its opinion on any subject being discussed.

Rule 54—Summary of Decisions

A summary of the decisions reached during any series of meetings of the Board shall be approved by the Board at the end of the series and sent to all Members of the Organization, within 10 days after the last meeting of the series.

Rule 55—Review of Decisions

Any request by a Member that the Council review a decision made by the the Executive Board under any of the powers delegated to the Board under Article 17(2) of the Agreement shall be submitted to the Executive Director in writing within 30 days of the last meeting of the series in which the decision, against which the appeal is made, was taken. As soon as practicable after the receipt of the request the matter shall be reexamined by the Executive Board, which may reconsider its decision. If the Board decides not to modify its decision, its Chairman shall report the matter to the Chairman of the Council who shall include the matter in the Agenda for the next session of the Council. However, if the Executive Board or any five Members or a Member or Members having at least 200 votes so request, the Chairman of the Council shall follow the procedures laid down in Rules 40 through 44 or call a special session of the Council to consider the appeal. The Board shall decide whether to stay its decision pending the appeal to the Council. If however, within the period of 30 days mentioned above, there should be a Session of the Council, a Member may submit its request directly to the Council.

VI. Finance

Rule 56—Budget

Not later than 31 May of each year the Executive Director shall submit to the Executive Board a Draft Administrative Budget of the estimated expenditure for the following financial year, indicating the required contribution of each Member based on its votes. The Draft Budget, as approved by the Executive Board, shall then be sent to the persons designated in accordance with Rule 3 at least 30 days before the session of the Council at which the Budget is to be approved.

Rule 57—Authorization

The adoption of the Administrative Budget by the Council shall constitute an authorization to the Executive Director to incur obligations and to make expenditures within the limits of the Budget.

Rule 58—Transfer of sums

Subject to the prior approval of the Executive Board, the Executive Director is authorized to transfer any sum under a heading in the Administrative Budget to another heading or headings, provided that the total expenditure in the Budget shall not be exceeded, and subject to the same approval, to transfer sums from reserves approved by the Council to any heading or headings of the Administrative Budget. The Council will decide on the disposition of any uncommitted budgetary funds left at the end of a financial year.

Rule 59—Controls

The Executive Director—

(a) shall cause all contributions received to be deposited in an account or accounts opened in the name of the International Coffee Organization at a bank or banks approved by the Executive Board and shall arrange for withdrawals by cheque signed by two persons who shall be designated by the Executive Director;

(b) shall maintain an internal control which shall provide for an effective current examination or review of financial transactions in order to ensure regularity in the receipt, disposal, and custody of all funds and other resources of the Council, and to ensure conformity with the budget or other financial provisions approved by the Council;

(c) shall cause books of accounts to be kept showing all receipts and disbursements made and shall cause an inventory to be kept of all capital acquisitions and disposals.

Rule 60—Auditing and Submission of Accounts

The Executive Board shall appoint an independent auditor. The Executive Director shall submit to the Executive Board the Organization's accounts and the auditors report as soon as possible after the close of the financial year. The Executive Board shall submit its opinion of the Organization's accounts and of the auditors report to the Council at its next immediate meeting. These three documents shall be circulated to all Members.

VII. Staff

Rule 61—Selection

Members of the Staff shall be selected, as far as possible, on an international geographical basis and shall be appointed by the Executive Director on the basis of merit.

Rule 62—Appointment of Heads of Departments

In appointing the heads of departments the Executive Director shall consult with the Executive Board.

Rule 63—Line of Authority

Members of the Staff shall report and be responsible only to the Executive Director. Communications from the Council and the Board to the Staff and from the Staff to the Council and the Board shall be made through, and with the approval of, the Executive Director.

VIII. Executive Director

Rule 64—Statements by the Executive Director

The Executive Director may make statements to the Council and to its Working Groups concerning any question under consideration.

Rule 65—Duties and Responsibilities

The Executive Director, as the chief administrative officer of the Organization, shall be responsible to the Council for the organization and direction of the Staff. In addition to the duties established for him elsewhere by these rules he shall be responsible for the preparatory work necessary for the sessions of the Council and the meetings of the Executive Board and for carrying out the work devolving upon the Staff consequent on their decisions and recommendations. The Executive Director should if possible attend all sessions of the Council and the Executive Board. He may act as the official representative of the Organization.

Rule 66—Reports

The Executive Director shall report regularly to the Council and the Board on the following matters:

(a) Important developments in coffee markets bearing directly on quotas, prices, and restrictions on trade in coffee.

(b) World trade in coffee for the current and past quarters of the coffee year.

(c) Estimates of demand for each coffee year and each quarter.

(d) Compliance with provisions of the Agreement particularly as regards export quotas, regulation of imports, certificates of origin, stock controls, and statistical controls.

(e) Assistance requested by and rendered to Members to facilitate achievement of the purposes of the Agreement.

(f) Such other reports as the Executive Director or the Executive Board deems useful.

IX. SHORTFALLS

Rule 67—Notification

Each exporting Member, as early as can be determined and in any event not later than 31 May of each year, shall, in accordnace with Article 33(1) of the Agreement, notify the Executive Director (a) whether it has sufficient coffee available to export the full amount of its quota in that year and (b) the amount expected to be exported but not charged to quotas, as provided in Article 40 of the Agreement. In the event a shortfall is anticipated the exporting Member shall indicate the extent to which its quota will not be used.

X. ACCESSION TO THE AGREEMENT

Rule 68—Application and Recommendation

Any application for accession to the Agreement under Article 65 shall immediately be communicated by the Executive Director to all Members, and referred by him to the Executive Board for recommendation regarding conditions of accession to be agreed upon with the government concerned. The recommendation of the Executive Board shall be circulated to all Members.

Rule 69—Approval

If the Council approves the conditions for accession and the government concerned accepts them the accession shall be considered as approved by the Council under the terms of Article 65 of the Agreement. Such country shall, pending the deposit of its instrument of accession, have the status of a nonvoting observer on the Council.

Export quotas under the International Coffee Agreement, coffee year ending Sept. 30, 1964 (as increased on Feb. 12, 1964)

[In bags of 60 kilos]

Exporting members:	*Effective quota*	Exporting members—Con.	*Effective quota*
Bolivia	20,430	Nicaragua	428,111
Brazil	18,387,000	Nigeria	25,000
Colombia	6,140,523	OAMCAF	4,704,621
Congo (L)	970,425	OCIRU	423,923
Costa Rica	970,425	Panama	26,559
Cuba	204,300	Peru	632,470
Dominican Republic	520,965	Portugal	2,355,704
Ecuador	563,868	Sierra Leone	66,398
El Salvador	1,460,234	Tanganyika	444,820
Ethiopia	1,134,000	Trinidad/Tobago	64,946
Guatemala	1,488,407	Uganda	2,228,323
Haiti	514,836	Venezuela	485,213
Honduras	334,128	Kenya	527,947
India	367,740		
Indonesia	1,201,284	Total	48,234,044
Mexico	1,541,444		

COFFEE SITUATION—PROGRAMS AND POLICIES IN PRODUCING COUNTRIES

U.S. Department of Agriculture, Foreign Agricultural Service

CONTENTS

Coffee Situation, Programs, and Policies in Producing Countries

(By Leslie C. Hurt, Sugar and Tropical Products Division, Foreign Agricultural Service)

For the people of two continents—South America and Africa—coffee is a major money earner, as it is in Central America and numerous other tropical areas of the world. Annually, about $2 billion worth of coffee moves in world trade. In most producing countries, marketing policies and other coffee affairs are in the hands of quasi-government organizations, whose individual efforts have to a large degree been directed toward coping with the coffee industry's major problem: long-term growing surpluses. In mid-1963 nearly all these countries joined a long-term agreement to stabilize production and trade.

NORTH AMERICA

Costa Rica

Coffee production has more than doubled since 1950. The 1950–51 to 1954–55 average was 439,000 bags.[1] Production for 1962–63 was over a million bags.

Exports set a record of 827,000 bags in 1961. This accounted for 49 percent of all national exports, with a value of $43[2] million out of an export total of $87 million.

The coffee policy is made by the Oficina del Cafe, a semiautonomous Government agency representative of Government, growers, processors, and exporters. All coffee moving into commerce must be registered with the Oficina del Cafe. Coffee processors are required to pay 0.20[3] colón per fanega of ripe coffee berries entering their plants. (A fanega is a unit of measurement calculated to yield 110 pounds of green coffee.) There is also a net proceeds tax ranging from 10 percent at $42.50 per quintal (101.4 pounds) to 0 percent when the price is below $35 per quintal. The contracts tax amounts to 0.20 colón per fanega and there is a promotion tax of 0.20 colón per fanega.

A tax of 1 colón per quintal is levied on coffee sold for local consumption. Foreign exchange received from coffee sales must be sold to the Government at the official rate of 6.62 colóne per U.S. dollar. (1 colón equals 15.1 cents.)

No support price or export minimum price is at present in effect.

Cuba

Cuban coffee production for 1962–63 is estimated at 800,000 bags. Exports in 1959 were 52,000 bags, valued at approximately $2.5 million. Coffee exports accounted for less than 5 percent of Cuba's total exports valued at $63 million.

In recent years, coffee has been subjected to export quotas, in order to assure an adequate supply for internal consumption. The 1959–60 export quota was established at 22.5 percent of the estimated total production. Since November 1959, the Production and Foreign Trade Department of the National Institute of Agrarian Reform has been the sole exporter of Cuban coffee. Foreign exchange resulting from coffee exports is turned over to the money stabilization fund of the Cuban National Bank. Internal taxes amount to 0.20 cent per pound to the Coffee Brokers Association, and 0.24 cent per pound to the Coffee Stabilization Institute for a total of 0.44 cent per pound.

Cuba maintains a two-price system based, on the one hand, on a minimum price to be paid for exports and, on the other hand, on a higher price paid for internally consumed coffee.

A comprehensive long-range plan to improve production and processing is reported.

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[1] One bag equals 132.276 pounds of coffee, throughout this study, unless otherwise specified.

[2] Dollar indicates U.S. dollar or equivalent throughout this study, unless otherwise specified.

[3] One Costa Rica colón equals 15.1 cents at the official rate of exchange.

NOTE.—The material in this publication was assembled in the spring of 1963, and since that time changes in programs and policies may have taken place. In addition to the countries covered, there are a few other small producing countries not included in this study.

Dominican Republic

Production in Dominican Republic is estimated at 550,000 bags for 1962–63, compared with a 1950–51 to 1954–55 average of 455,000 bags. Coffee accounted for 10 percent of the value of all exports, and this share of the total has been declining in the past few years.

The Cafe Dominicano C por A., a private agency with other semiofficial functions, regulates policy, prices, taxes, promotion, and all aspects of marketing and retention.

Coffee taxes amount to about 9 percent of total revenues and about 25 percent of total export taxes. The following shows a graduated ad valorem export tax based on the New York price.

	Percent
15 cents to 32 cents per pound	18
32 cents to 40 cents per pound	28
Over 40 cents per pound	50

	Cents per pound
Graduated export tax (35 cents per pound, New York)	9.8
5 percent ad valorem merchandise tax	1.8
$2.80 per metric ton wharfage charge	.1
3 cents per kilogram fiscalization tax	1.4
Total tax (1961)	13.1

Support prices are fixed at 15 cents per pound for export and at 14.5 cents per pound for local sales. The Government policy is to encourage production by increasing acreage and efficiency. Eighty percent of the production is either sold as fresh cherry or depulped and washed on holdings where grown.

El Salvador

Coffee production in El Salvador has been increasing. The 1962–63 crop is estimated at 1,525,000 bags, compared with a 1950–54 average of 1,216,000 bags. Exports for 1961 amounted to 1,431,000 bags. Coffee accounts for about 60 percent of the total value of exports. Western Germany and the United States are the principal markets. Government policy encourages intensified cultivation. It proposes doubling production within 15 years. No governmental controls exist over planting in new areas or at the expense of other crops.

There are no formal price support programs in effect, although the Salvadoran Coffee Co. has announced that it will buy all unexported coffee at current market prices, after the International Coffee Agreement (ICA) quota for El Salvador has been exported.

Coffee export taxes represent at least 85 percent of the country's total export tax revenue. The proportion of total tax revenues arising from coffee has declined from 31 percent in 1955 to 16 percent in 1959, while total revenues have remained at the same level. There is a graduated export tax based on free-on-board price in dollars per quintal (101.4 pounds), as follows:

Free-on-board price	*Tax rate*
$30 or less	10 percent.
Above $30	$3 plus 20 percent of excess over $30.
	$4 plus 25 percent of excess over $35.
	$5.25 plus 30 percent of excess over $40.

Coffee sold for conversion to instant coffee in the local plant is taxed at the same rate as if exported.

Credit for coffee producers and traders is somewhat more readily available than for other agricultural operations, although interest rates are the same. The per capita annual consumption is estimated at 5.2 pounds.

Guatemala

Coffee production is approximately equal to that of El Salvador. Domestic consumption amounts to about 200,000 bags; 1961 exports equaled 1,255,000 bags. Coffee exports in 1961 were valued at $69 million, which was 60 percent of the country's total exports of $115 million.

Taxes represent about 10 percent of total Government revenue. Export taxes are graduated, based on New York price for Colombian coffee less $2 per quintal, as follows:

Price	*Export tax*
Up to $30 per quintal	10 percent.
Each increase of $2.50 up to $55 per quintal	Additional $0.50.
Each increase of $2.50 up to $60 per quintal	Additional $1.

Roasted and unground coffee packaged in 1-pound bags, and soluble coffee are exempt from export tax.

Haiti

Coffee production for 1962–63 is estimated at 625,000 bags. Exports in 1961 amounted to 348,000 bags. The value of these exports was $13 million, or 41 percent of the value of the nation's total exports. In most years the coffee shipments account for more than half of the total value of exports. Belgium-Luxemburg, Italy, and the United States have been the chief buyers of Haitian coffee.

The farms are generally family owned. Government policy is to improve quality and yield, but at the same time to encourage crop diversification.

Export taxes represent about 15 percent of total revenues. There is an export tax of 62.50 gourdes[4] per bag of 60 kilograms (9.5 cents per pound). There is also a graduated surtax to penalize poor quality (2.50 gourdes per bag for each grade below type 1—0.4 cent per pound). The export tax for type 2 is 9.9 cents per pound. A decree of June 29, 1961, requires mandatory purchase of 5-year bonds by coffee exporters at a rate of $1 per bag (0.8 cent per pound).

Honduras

Coffee production in Honduras has about doubled in the last 10 years, and total production for 1962–63 is estimated at 400,000 bags. Exports for 1961 amounted to 212,000 bags. The value of these exports was $9 million, 13 percent of the total value of exports, $67 million.

Government policy is to promote improved standards and techniques, but to discourage extension of cultivated area on the premise that the economy is excessively dependent upon coffee and fear that present plantations may be neglected. In past years, low-income farmers have received free seedlings from the Government.

The export tax amounts to $5 per 46-kilogram bag, and represents about 80 percent of the total Honduran export taxes and 3 percent of total revenues.

New farms resulting from land reform constitutes 40 percent of areas planted to coffee, and 60 percent of the holdings.

Mexico

Mexico is the third largest coffee producer in the Western Hemisphere. The 1962–63 harvest is estimated at 2.4 million bags. Exports in 1961 were 1,487,000 bags valued at $73 million. This represented 9 percent of the value of total national exports, of $826 million.

Eighty percent of the coffee area consists of farms with more than 25 acres per farm planted to coffee, while 90 percent of all Mexican coffee is grown in four States. The Mexican Coffee Institute, created in 1958, is charged with carrying out the general coffee policy of Mexico. Government policy is to remove from production 20 percent of the present low-producing coffee lands, but at the same time to raise standards and efficiency on the remainder, and ultimately to increase production above the present level.

There is no domestic support price for coffee. Export licenses are issued by the Ministry of Economy in accordance with the terms of the International Coffee Agreement. Export taxes on coffee provide about 3 percent of total national revenue and 20 percent of total export revenues.

Nicaragua

Total production for 1962–63 is at a peak of 485,000 bags. Exports in 1961 amounted to 349,000 bags, valued at $17 million, or 27 percent of the value of all exports.

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[4] One gourde equals 20 cents.

Government policy is to improve standards of cultivation and processing without encouraging extension of the planted area. There were 9,603 farms planted to coffee in 1960. There is no support price or export minimum price. Banco Nacional loans to coffee producers are about 25 percent of total crop loans and 9 percent of total bank credits. The exporters pay an export duty of $0.75 per quintal (101.4 pounds). All earnings of foreign currentcy must be exchanged with the National Bank.

Coffee is the most important export, followed by cotton and sesame. The processing is done in 12 beneficios (coffee-cleaning establishments) and plants on large plantations.

Panama

The 1962–63 crop totals 75,000 bags. Exports for 1961 amounted to 31,000 bags; this was only about 4 percent of total national exports.

There are about 5,091 farms producing coffee commercially. The Government policy is to stimulate production for export. The Institute of Economic Development (IFE) regulates coffee policy, offers guidance and assistance, and acts as a marketing agency. Processing is carried on entirely by growers except for that of exports, done in new beneficios built to produce a standard product for European market.

Minimum prices for coffee which became effective October 1, 1962, were $45 per 100 lbs. for type A high quality coffee, and $36 for first class coffee grown in the Central Provinces.

SOUTH AMERICA

Brazil

Brazil is much the largest producer and exporter of coffee in the world. Total production in 1962–63 was 27 million bags. Exports in 1961 were at 16,970,000 bags for a value of $710 million, accounting for 51 percent of value of total exports. About half of the exports go to the United States.

The Instituto Brasileiro do Cafe (Brazilian Coffee Institute, or IBC) is a joint Government-industry organization charged with carrying out the economic policy on Brazilian coffee, both in domestic and in foreign trade. The Institute was created in 1952, and has the authority for: (1) regulation and supervision of coffee transport to ports or consuming centers; (2) determination and supervision of quality; (3) regulation of trade, including fixing the quantities of port stocks, export quotas for ports and exporters, and determination of minimum export prices for each shipment according to grade and quality; (4) application of penalties for fraud or other infringement of existing regulations; (5) support of coffee prices, by intervention in the market, by fixing minimum export prices, or by other means, if necessary; (6) promotion of production, marketing and utilization research, and provision of information to growers; (7) conducting of advertising campaigns; and (8) engaging in international trade by direct sales, barter, or consignment.

The Bank of Brazil, on recommendation by the IBC, announces the effective loan rates for coffee in storage and in port warehouses, and determines the basis for production credit. All export and import licenses are granted by the Bank although the details of coffee export controls have been largely delegated to the Coffee Institute.

The IBC maintains a complex system of controls on movement and marketing of coffee from the time it leaves the grower. No controls on production have been applied since the creation of the Institute.

All coffee entering trade must be registered by the grower with the Institute. The Institute regulates the movement of coffee, releasing each lot for shipment to port and liberation for export, in the chronological order of registration.

Government policy encourages productivity of high quality coffee. There is a plan—Grupo Ejecutivo de Racionalizacao da Cafeicullura (GERCA)- for removing 2 billion trees, which is a program for improving quality and reducing production. Cooperatives and rural associations are widespread; several organizations run extension services and regulate coffee trade within the various States.

The export tax of US$22 per bag (60 kg.) or equivalent in other currencies for the 1962–63 crop is paid to the Bank of Brazil. State taxes vary, but in the aggregate amounted to 7 percent of the value of the coffee crop in 1958.

Types of tax include export, sales, economic development, hospital aid, gold, defense, school, and electrification.

Trade balances have shown a deficit in the last several years, as indicated:

[In millions of U.S. dollars]

	1956	1957	1958	1959	1960	1961
Gold and foreign exchange	611	476	465	438	428	563
Trade balance	+248	−96	−110	−92	−193	−58

Colombia

Colombian coffee production is estimated at 7,700,000 bags for 1962–63. Exports in 1961 were 5,651,000 bags valued at $308 million. Total value of the nation's exports for 1961 were $433 million, therefore coffee represented 71 percent of the total.

The Federación Nacional de Cafeteros (National Coffee Federation, or FNC) was created in 1927 with three objectives; (a) to protect the coffee industry, (b) to study its problems, (c) to further its interests. This is the agency charged by the Colombian Government to develop the official coffee policy of the country. Its financial resources come from the National Coffee Fund, made available to it by the Government.

The Federation fixes the levels of support prices and the official valuation for export sales. It purchases and stores coffee in carrying out price-support operations; issues export permits; and engages in foreign trade including direct sales, consignment, and barter transactions. Coffee production and marketing research, advertising, and banking and shipping are among the activities carried out directly or indirectly by the Federation. A training school at the research station, and outlets for fertilizer and insecticides are among the services provided to growers.

Bilateral barter of coffee was terminated as of January 30, 1962, but multilateral barter and compensation treaties remain in effect. There is a support price of 565 pesos[5] per 125 kilograms of pergamino (about 31.5¢ per pound of green coffee). The retention in kind requires exporters to turn over to FNC without compensation an amount of coffee equal to 15 percent of their exports. The Bank of the Republic raised the coffee export dollar to 7.10 pesos in December 1962.

A program of supervised credit and technical assistance to coffee producers has recently been inaugurated by the Federation. The program is aimed at increasing efficiency of production and stimulating other farm improvements including soil conservation and diversification. Colombia is attempting to industrialize low grades of coffee, using the pasilla (low grade) for oil extraction, animal feed, and possibly fertilizer material.

Ecuador

Coffee production in Ecuador has more than doubled during the past 10 years. The estimated production for 1962–63 is 850,000 bags. Exports for 1961 totaled 382,000 bags, valued at $14 million. This represented 11 percent of all exports, as the total value of goods exported amounted to $127 million.

The average farm is about 5 acres in size, and nearly all are owner-operated. About 70 percent of the coffee is depulped and washed for sale as parchment, and the remainder is sold as unwashed.

Taxes are levied at the national, provincial, and cantonal level. The total tax (on coffee priced at 33¢ per pound) amounts to 1.88¢ per pound. Export taxes represent about 2 percent of total revenues.

Coffee has declined in importance and is at present the third most important export, following bananas and cocoa. A multiple exchange rate is in effect, in which coffee receives a rate lower than the free rate given other commodities. Soluble coffee exchange proceeds may be sold at the free rate.

Ecuador's trade balance during the past several years has been favorable, as shown:

[In millions of U.S. dollars]

	1956	1957	1958	1959	1960	1961
Gold and foreign exchange	32	39	35	40	37	38
Trade balance	+8	+26	+28	+34	+30	+13

[5] 1 coffee exchange dollar is equivalent to 7.10 pesos.

Credit granted by the Development Credit System during the last 2 crop years has been exclusively for maintenance and renewal of old plantations and the Bank's policy is to try to eliminate cultivation of this crop in the marginal zones because of the fall in prices.

Peru

Peruvian coffee production has expanded sharply during the past decade. Total production for 1962–63 is estimated at 775,000 bags. Exports in 1961 amounted to 567,000 bags valued at $21 million. This represented 4 percent of the value of all national exports.

Few farms are coffee specialized, and sharecropping is widespread. Government policy places no controls or restrictions on coffee growing. Producers have been joining together in local cooperatives in order to export their coffees directly to foreign markets. The "voluntary" payment to the Government of 50 soles per quintal of 100 pounds ($1.88) for coffee exported was abolished as of April 27, 1962.

All exported coffees are washed. The Comité Cafetelero del Peco is the only officially recognized organization for growers and exporters. The Banco Industrial del Peru is a joint Government and privately sponsored development bank which finances coffee mills and processing plants. No controls or restrictions are applied on coffee.

Venezuela

Total production for 1962–63 is estimated at 850,000 bags. Exports for 1961 were 406,000 bags. The value of 1961 coffee exports amounted to $22 million, which was 1 percent of the value of all exports.

The Government policy is to encourage production and quality on existing plantations, but to decrease the area planted by 100,000 acres. There are about 815,000 acres planted to coffee, and about 460 million trees.

The Banco Agricola y Pecuario maintains beneficios in main marketing centers. The Sección de Café y Cacao, a Government agency, does research and extension work and administers coffee export regulations. The programa de café is a Government program to encourage production and improve quality and to promote social and economic stability, through rehabilitation and diversification. The National Fund for Coffee and Cocoa provides special credit facilities for growers.

An internal support price of 42 cents per pound is maintained by a favorable exchange rate for coffee exports and by direct payments to exporters from a special fund. There is no support tax or special internal tax on coffee.

Venezuela has had a very favorable trade balance in recent years, as shown in the following table:

[In millions of U.S. dollars]

	1956	1957	1958	1959	1960	1961
Gold and foreign exchange	942	1,446	1,050	703	558	624
Trade balance	+867	+498	+722	+792	+1,244	+1,254

AFRICA

Coffee production and exports have become increasingly important to many countries in Africa since World War II. About 80 percent of the production is Robusta, and the remainder is almost all Arabica. A small amount of Liberica is produced.

Many African nations have used coffee planting as a means of establishing seminomadic peoples on farms. Others have encouraged planting to diversify the agriculture of the country.

Angola

Angola is now the largest producer of coffee in Africa. Total production for 1962–63 is estimated at 3.1 million bags, three times the 1950–54 average. Angola exported 1,968,700 bags of coffee in 1961. Coffee accounted for about 35 percent of the value of all exports in 1960.

There are no special internal taxes assessed on Angolese coffee. The export tax amounts to 12 to 18 percent (with lesser amounts for higher quality) of the official value, an "additional tax" of 0.10 escudo[4] per kilogram (0.16 cents per

[4] The escudo equals 3.5 US$1.

pound). A surtax of 20 to 80 percent on the difference between 1946 prices and the price of the current month is charged.

Much of the coffee business is transacted through banks in continental Portugal. The Juta de Exportacão de Cafe, a Government agency, classifies and registers coffee for export; operates processing plants at ports; delegates quotas and deals with all other coffee matters. Quotas to traditional markets are set monthly for individual exporters of Robusta coffee in accordance with International Coffee Association directives and exporters' declared stocks. Minimum quality standards of Robusta exports to the United States are set at coffee equal or superior to second quality BB. Marketing is performed by usual commercial processes.

Except for the minimum export price provisions, and classification standards, coffee marketing is subject to little Government control. Coffee moves freely to ports, and internal prices are not supported. Warehouse warrants may be used as security for loans of about 50 percent of the value of stored coffee.

According to presently existing regulations, coffee exporters are required to deposit in Angola Coffee Board warehouses coffee equal to 18.5 percent of exports. This retained coffee is intended for shipment to Portugal, other Portuguese territories and new markets. On April 15, 1960, regulations were amended to allow 85 percent of this retention quota to be sold to national markets.

Cameroon

The 1962–63 Cameroon crop was 875,000 bags. The 1961 exports amounted to 546,000 bags valued at $21 million, which was 21 percent of the value of all Cameroon's exports.

Government policy no longer encourages planting, but does promote production of Arabicas and better quality Robustas. The National Office of Agricultural Export Products was created in May 1962 as a public establishment, financially autonomous, which is supposed to improve the principal markets for agricultural products—including coffee. Europeans produce about 30 percent of the coffee, but market a larger proportion.

The Caisse de Stabilization (CSF), is a financially autonomous Government agency authorized to stabilize prices and facilitate marketing to stockpile, and to maintain minimum guaranteed prices. There are two stabilization funds—one for Arabica and the other for Robusta.

Coffee export revenues are about 2 to 3 percent of total revenues. On Arabica, there exist a 4 percent export tax and a 4 percent turnover tax (for CSF), and on Robusta an export tax of 7 percent and a turnover tax of CFA 3,200 per ton or 0.6 cents per pound.

The franc area quota for coffee marketings is 733,000 bags. Coffee sold to France draws prices 50 percent higher than world market prices, the difference of which is used to subsidize exports at world prices. The subsidy is expected to be phased out by 1967.

Cape Verde Islands

Production amounts to about 2,000 bags per year, and is all of the Arabica variety. Exports are generally shipped to Portuguese territories. Classification and grading are handled under the Junta de Exportacão de Cafe.

Central African Republic

Production is on an upward trend, and currently amounts to about 150,000 bags. The area devoted to coffee increased from 22,000 acres in 1950 to 75,000 by 1960. Coffee is grown in a broad belt along the lower Congo (Leopoldville) border. Most of the production (75 percent) is of the Robusta variety, with the rest of the Excelsa variety.

The Government policy is to encourage coffee production as diversification for farmers. Seedlings and technical assistance are provided farmers. The Carisse de Stabilisation des Prix, a financially autonomous Government agency, markets and retains coffee to support minimum prices.

Comoro Islands

These islands produce only about 1,000 bags per year; however, 5 species of coffee are produced. The coffee is generally grown scattered among other crops. The grading and classifications are the same as for other French community coffees.

France and Zanzibar are markets for the coffee exported. A few producers export directly, and the remainder of the crop is handled by exporters.

Congo, Republic of (Brazzaville)

Coffee is one of the lesser exports of Congo (Brazzaville), but is increasing in output. Africans produce about 85 percent of the total, while the rest is produced by a few European farmers. All of the production is of the Robusta variety.

Congo, Republic of the (Léopoldville)

The 1962–63 production is estimated at 950,000 bags. Exports of coffee account for about 14 percent of the value of all exports.

The small African producer is protected by an established fixed price schedule set by the Provincial governments, although no general support price is provided to the industry as a whole.

The general policy of the Government is to increase production by providing trained planters with cheap credit. However, this credit is available to eligible planters of other products.

Office de Cafe Robusta, the marketing and grading agency, is run by Congolese. Cafecongo, the largest coffee marketing agency, markets Robustas, while Cafekiou markets Arabicas. Credit is extremely difficult to obtain. Growers are forced to sell at any price in order to pay labor, or allow the crop to be destroyed on the trees.

There is an export tax of 5 percent ad valorem on Robusta, and 9 percent ad valorem on Arabica.

Dahomey

Production amounts to about 20,000 bags a year. Coffee growing is limited to several areas in the south. All coffee is of the Robusta variety and practically all of the exports are to franc zone markets.

Ethiopia

Ethiopia is now producing about 1,280,000 bags of coffee. Exports in 1961 amounted to 1,017,000 bags. The value of the 1961 exports was $43 million, which represented 51 percent of the value of all national exports.

Government policy places official control over neither production nor quality of the crop. European plantations account for only 5 to 10 percent of exports. The coffee farmers are mostly squatters.

The east central region, where about 21 percent of the crop is grown, is the only area where estates have been formed.

The National Coffee Board of Ethiopia (NCBE) is responsible for cleaning and grading, promoting, and marketing. Coffee is processed mainly by the dry method. It cannot be stored at the ports because of the humid climate. The custom duty amounts to Eth$15 for 100 kilograms or 2.7 cents per pound.

Gabon

Gabon's coffee acreage increased from 494 acres in 1953 to 11,214 acres in 1960. All of the production is by natives. The crop now amounts to about 20,000 bags.

Ghana

There are about 50,000 acres in coffee, and this is scattered throughout the Forest Belt. Almost all of the coffee is Robusta, but there is some Liberica and some Arabica. Exports now are at a level of about 40,000 bags.

The Ghana Agriculture Produce Marketing Board purchases and handles the coffee in Ghana. The coffee is sold under two grades—grade 1, Superior Quality, and grade 2, Fair Average Quality.

Guinea

Guinea produces about 235,000 bags of coffee per year. Exports generally account for from 15 to 30 percent of the value of all the Republic's exports. The coffee is grown only in natural forest lands in the southeast, bordering Ivory Coast, Sierra Leone, and Liberia. The farms average 5 acres in size, with the few European plantations averaging 1,000 acres.

Government policy is to improve quality and efficiency rather than to increase acreage. The coffee is marketed internally by registered merchants, and is exported only by the Enterprise Nationale d'Exportation de Produits Guineans (national export company). Processing of the crop is done at four plants with mobile equipment.

Ivory Coast

Ivory Coast coffee production has reached about the 3-million-bag level. Exports in 1961 amounted to 2,563,000 bags. Coffee represents about 50 percent of the total value of all Ivory Coast exports, which in recent years has amounted to about $150 million.

Government policy is to improve efficiency and standards without encouraging extension of planted area. Average farms are of 5 to 10 acres, and much coffee is grown in remote areas beyond direct Government supervision. Stringent quality control begins at the farm, where sorting is done by hand. Machine grading of sizes is required; marketing of black beans (defective beans) from the four top qualities is prohibited to all markets, as well as other low-quality exports to France and to the United States.

The Government support price to the farmer is 14.8 cents per pound. Exports are subject to several taxes—these include export, inspection, statistical and port use taxes. The total of these amounts to about 3⅛ cents per pound of coffee.

In 1961 the French premium averaged 60 percent more than the world price. The coffees generally sell a few cents per pound below Ambriz AA's.

Kenya

Production for 1962–63 is at an alltime record record of 620,000 bags. Exports in 1951 amounted to 533,000 bags. Coffee generally accounts for about 30 percent of all export earnings.

There are 90,000 farms growing coffee, of which 706 are farmed by non-Africans. However, the African farms account for only 36 percent of the total coffee area.

Government policy has favored extension of production and maintenance of high quality. There is no restriction on plantings on non-African areas, but there is controlled planting in African areas.

The Kenya Coffee Marketing Board purchases, processes, and markets all the coffee. It licenses all coffeegrowers, subsidizes research and promotion, and may retain coffee stocks. Planters are not permitted to export, and licensed firms export all the coffee.

The Kenya Coffee Growers' Association handles all labor and trade union matters in behalf of member employers of coffee labor. There are about 114 African cooperatives with which the African planters are associated.

There are no export duties on coffee. The ad valorem duty on coffee production is small, and totals about $280,000 per year which is used for research.

Liberia

The coffee is grown by native smallholders on about 10,000 acres. The big part of the production is Robusta, the remainder, Liberica. Most of the Libericas go to Scandinavian countries.

The Malagasy Republic

Malagasy produces about 875,000 bags annually and exported 664,000 bags in 1961 valued at $23 million. Coffee accounted for 20 percent of total Malagasy exports, valued at $78 million.

The Malagasy Republic assesses an export duty of CFAF23 per kilogram of 2.2 pounds, or about U.S. $0.4 cents per pound. Taxes account for about 6 percent of total Government revenue.

There are a few plantations, but more than 85 percent of the coffee is produced by small Malagasy growers. Nearly all of the annual production consists of Robusta, grown almost entirely on the east coast. Several years ago a program was developed to increase production to 75,000 tons, but because of the difficult world market situation, Government policy currently is to maintain production at about present levels.

The minimum price to producers is CFAF110 per kilogram for superior coffee (20.4 cents per pound); CFAF108 per kilogram for courant type (19 cents per pound). The Caisse de Stabilisation, managed by representatives of the trade, growers, and Government, finances but does not maintain storage, regulates minimum domestic and export prices, acts to spread sales over the year, and is financed by the coffee export tax.

Nigeria

There are about 7,000 acres of coffee in the western region, and a small amount in the eastern region. Coffee farmers in the western region number about 5,000, most of whom have less than one-half acre. Production is the Robusta variety, and most of the exports are shipped to the United Kingdom.

Rwanda

Rwanda produces about 200,000 bags of coffee per year. This is the main source of income. About one-third of the population is involved in coffee production. The average area planted to coffee is 0.15 acres. The coffee is of the Arabica type. Many trees are yet to come into production. Coffee is the primary source of income. The minimum price to growers is fixed by a Government agency—Service des Affaires Economique.

Sierra Leone

There are about 125,000 acres in production, mostly of the Robusta variety. Marketing is done by the Cocoa Cooperative Federation and other licensed dealers. Export coffee is graded by the Produce Inspection Branch as Robusta FAQ (fair average quality), Liberica FAQ, or undergrade.

Spanish Guinea

Most of this production is in Rio Muni, on the mainland, and on several islands including Fernando Po. Rio Muni's acreage amounts to about 86,500 acres, while Fernando Po has about 25,000 acres. Almost two-thirds of the Rio Muni production is Liberica grown in the coastal areas, while the remainder is Robusta, grown in the interior. Most of the exports are sent to Spain.

Tanganyika

Coffee production amounts to about 500,000 bags, and exports account for about 15 percent of the value of all Tanganyika's exports. Small holdings account for 85 percent of the coffee area.

Government policy neither encourages nor discourages production, but supports research and technical services through a coffee board. The Coffee Marketing Board is a statutory organization, and the constituent members include grower organizations. Arabica makes up to 60 percent of the production, and it is marketed by three organizations: the Tanganyika Coffee Growers Association markets nonnative estate production; Kilimanjaro Native Cooperative Union and Tanganyika Cooperative Trading Agency market production of the Kilimanjaro area, and of other areas, respectively.

Export taxes are suspended, although the Coffee Board receives proceeds from a small levy. Local governments derive about 10 percent of revenues from a tax on African-produced coffee.

Togo

Production amounts to about 170,000 bags per year. The value of coffee exports represents about 40 percent of the total value of all exports. The coffee is grown northwest of Lome, and there are about 55 million coffee trees. The farms are all native small holdings.

Internal prices to producers amount to CFAF65 per kilogram (12.1 cents per pound). The f.o.b. export value is CFAF101 per kilogram (18.8 cents per pound). All exporters must be registered bby the Caisse de Stabilisation. All exports must be authorized by the Entente Professionnelle des Exportateurs de Cafe. The Caisse de Stabilisation guarantees a minimum price to growers and exporters, registers exports, finances retentions, and promotes. Taxes total about CFAF20.8 per kilogram or 3.9 cents per pound.

Uganda

This country is the third largest coffee producer in Africa. The total yield is slightly more than 2 million bags. Coffee exports account for about 40 percent of the value of all Uganda's exports. The United States has been the largest coffee importer, with the United Kingdom second.

All African-grown Robusta coffee, except that produced by the African Coffee Estates, is sold through a coffee marketing board organized in 1953. The Board purchases, grades, and markets the coffee by auction at Kampala. The African Coffee Estates may elect at the beginning of the coffee season to market coffee through the Board, or remain independent of regulations.

There are between 250,000 and 300,000 farms growing coffee. Smallholdings of less than 3 acres constitute 94 percent of the total crop. Government policy is to raise the quality.

ASIA

India

Production now amounts to about 1 million bags per year, having increased sharply in the past 10 years. There are about 271,000 acres planted to coffee. Forty percent of the acreage is on estates of less than 25 acres, while about

40 percent of the remainder is on estates of over 200 acres. Coffee is grown mainly in the southern regions, in Madras, Mysore, and Kerala.

About two-thirds of India's coffee is Arabica, and about one-third is Robusta. The Government policy is to increase acreage to about 300,000 acres, and to extend cultivation into other regions. This extension would be made to meet increasing domestic demand.

The India Coffee Board, which is a Government agency, controls the industry. The Board regulates the release of the common coffee pool to which all estate owners are required to deliver their production, and also fixes prices. Pool agents appointed by the Board collect, cure, store, process, and grade the coffee.

Exports currently amount to about 400,000 bags annually. Coffee for export is released by the Board through monthly open auctions.

Indonesia

Indonesia's coffee is grown on the islands of Java, Sumatra, Celebes, Bali, and Timor. About 85 percent of the acreage is in Robusta, 10 percent in Arabicas, and a small amount of Conugas. Prior to World War II estates were the most important segment of coffee growing, but now the smallholdings are more important. July and August are the peak harvest months, but some harvesting is done from May to December. Total acreage planted in 1958 was 612,000 acres.

Production has moved slightly upward in the past few years. Government policy does not call for expansion or limitation of production or of marketing. The export duty is 20 percent of the f.o.b. value of exports.

Sales for oversea shipments are handled by private exporters or agents for importers in other countries. Smallholders bring their coffee to trading centers on the islands, and to Medan, Palembang, Karang, Padang, Tandjong in Sumatra, and to Djakarta and Surabaya on Java.

Philippines

Production has increased by more than 5 times in the past 10 years. Present production amounts to about 600,000 bags, and the Philippines reached self-sufficiency for the first time this century in 1962–63. In the future there may be some exports. The coffee area amounts to about 100,000 acres, of which 25,000 acres are yet to come into production.

The main growing areas are the island of Luzon, Negros Island, Occidental Negros, and Mindanao Island. The harvesting season runs from November through April. Robusta accounts for the bulk of the production, while some Arabica, and smaller amounts of Liberica and Excelsa, are grown. Coffee rust and dieback diseases have been harmful to Arabica production, although the Government is encouraging production of this variety.

Most of the coffee is grown by small holders. The farmers generally sell to merchants or to cooperatives; however, some sell directly to factories. There are two soluble coffee factories in the Philippines. The Cooperative Marketing Association of the Philippines (COFCOMAP) is designated to market the coffee both locally and abroad.

Portuguese Timor

Coffee production is increasing slowly, but is still lower than it was in the 1880's. Practically all of the production of about 30,000 bags is exported. Robusta accounts for 65 percent of production, Arabica for 30 percent, and Liberica for the remainder. Coffee represents about 80 percent of the exports from Portuguese Timor. These exports are principally to the Netherlands, United Kingdom, Singapore, Australia, and Hong Kong.

Thailand

Thailand's coffee area increased from 1,573 acres in 1954 to 8,200 acres by 1960. The bulk of the production is in the south on small holdings, but there is scattered production throughout the country. Production increased from slightly over 1,000 bags in 1953–54 to a present level of about 10,000 bags. The Department of Agriculture hopes to have almost 22,000 acres in coffee by the end of 1963. Consumption of coffee has been rising sharply, and imports in 1961 amounted to 83,000 bags.

Vietnam

Coffee production in Vietnam amounts to about 50,000 bags annually. The highlands of central Vietnam account for the bulk of the production, which is about three-fourths Robusta and the remainder mainly Excelsa.

Present production in Vietnam is sufficient for domestic needs. Coffee is not exported now, but may be within a few years. Growers do their own pulping, washing, and cleaning, and sell to wholesalers who distribute to retailers.

Yemen

Coffee has been grown in Yemen for over 300 years, having been introduced from Ethiopia. Present production amounts to about 90,000 bags. The coffees are of the Arabica type, mostly of the typica variety, with some bourbon, and a type similar to the Ethiopian "Harrar." The peak harvest season is in the summer, but some harvesting is done all year. The farms are mainly small holdings, but there are some absentee owners with large acreages.

Farmers dry their coffee cherries on the ground. The dried pulp and parchment are then removed by hand grinding with mill stones. Private shippers do the exporting through the ports of Hadeida and Aden. The United States is the largest buyer of Yemen's coffee; however, France, Italy, and Switzerland also take substantial quantities.

Senator DOUGLAS. Now, as I see it, the essentials of this supplementary agreement was contained in paragraph 1 of section 2 beginning at the bottom line on page 1 and extending to line 9 on page 2. For the sake of the record I would like to read this paragraph and then to ask certain questions about it.

The President is given the authority—

to regulate the entry of coffee for consumption or withdrawal of coffee from warehouse for consumption including (*a*) the limitation of entry or withdrawal from warehouse of coffee imported from countries which are not members of the international coffee organization, and (*b*) the prohibition of entry of any shipment, from any member of the international coffee organization, of coffee which is not accompanied by a certificate of origin or certificate of reexport issued by a qualified agency in such form as required under the agreement.

Now, I take it this means that the President has the power to prevent coffee from coming into this country from any country which is not a member of the international coffee organization. That is true, is it not?

Mr. HARRIMAN. That is correct. May I say that I understand somewhere between 90 and 95 percent of the production of the world has already signed up.

Senator DOUGLAS. Yes. But I would like to point this out, that if any country should secede from the coffee organization, then we could shut off importation from that country and therefore in effect force them to stay inside the international coffee organization. Isn't that true?

Mr. HARRIMAN. The idea of that is to see that those who do not sign the agreement don't unduly profit by the restraints that others——

Senator DOUGLAS. I understand.

Mr. HARRIMAN. That other procedures——

Senator DOUGLAS. You say everyone is in now; but if a country gave up its membership, then the President of the United States could prohibit any coffee from that country entering into this country. Isn't that true?

Mr. JACOBSON. Senator, the obligation we have is not to exclude imports from nonmember countries but, rather, to limit their imports to the quantity in the base period.

Senator DOUGLAS. I understand. This may be the purpose but the language gives the President power to limit the entry or withdrawal from warehouse of coffee imported from countries which are not members of the international coffee organization.

Mr. JACOBSON. It should have read limited in accordance with the provisions of the agreement.

Senator DOUGLAS. As I see it, it could prevent this coffee from being taken from warehouses or introduced into the country; if language means anything, this is what it means, isn't that true?

Mr. JACOBSON. Yes, sir. It should have read, and I think it probably should read, limitation in accordance with provisions of the agreement, but since this is intended to carry out the agreement, I think that was implicit in the language.

Senator DOUGLAS. Let us pass on to subsection (b). The President also has the power to prohibit—

the entry of any shipment, from any member of the international coffee organization, of coffee which is not accompanied by a certificate of origin or certificate of reexport issued by a qualified agency in such form as required under the agreement.

Now, is it not true that virtually every country which produces coffee for export has a coffee exporting authority?

Mr. JACOBSON. Most countries do, that is right.

Senator DOUGLAS. Do you know any country which does not?

Mr. JACOBSON. Well, I think there are a few of the lesser producers in Africa which may not have formal organizations.

Senator DOUGLAS. Yes. Now, then, suppose these countries did not issue a certificate. Suppose coffee came in which did not have a certificate of authority from the exporting country. The President could deny access to the United States of that coffee. Is that not true?

Mr. JACOBSON. That is right, sir.

Senator DOUGLAS. So that in effect by our control over a major portion of the world's consumption of coffee, we can force countries and exporters to stay inside the terms of the agreement and the provisions of the member countries. Isn't that true?

Mr. JACOBSON. Well, they would have an inducement to remain, that is right.

Senator DOUGLAS. They would have a very powerful inducement in that the market could be shut off from them, isn't that true?

Mr. JACOBSON. No. They would be denied any growth in this market but they would be able to ship to this country or all countries as a rule.

Senator DOUGLAS. I don't see the word "growth" involved here. I see the President given the power to prohibit the entry—

of any shipment, from any member of the international coffee organization, of coffee which is not accompanied by a certificate of origin or a certificate of reexport issued by a qualified agency in such form as required under the agreement.

In other words, there can be no bootlegging of coffee into the United States unless it has been authorized by the exporting country under the terms possibly of an agreement or possibly not under the terms of an agreement; isn't that true?

Mr. JACOBSON. That is right, but if you are a nonmember of the agreement, sir, you would not have to have the certificate of origin but you would be limited to the amount of exports in the base period.

Senator DOUGLAS. Well, it doesn't even say that.

Mr. JACOBSON. This is in the agreement itself, Senator, which——

Senator DOUGLAS. But I mean this is the implementing ageement.

Mr. JACOBSON. I agree. Perhaps it would have been better had this been tied to the provisions of the agreement itself.

Senator MORTON. Isn't this implementing a portion of the treaty?

Mr. JACOBSON. Yes, sir.

Senator MORTON. You have stuff in the treaty you don't have to implement. We ratified the treaty once.

Senator DOUGLAS. Well, we are told that the treaty would not be effective unless the implementing authority was approved by the Congress.

Senator MORTON. It won't be effective unless this is approved, I agree, but at the same time we don't have to implement everything that is in the treaty.

Senator DOUGLAS. Now, if I may resume, does Brazil fix a minimum export price on the coffee which is exported from Brazil?

Mr. JACOBSON. She in effect sets a minimum registration price.

Senator DOUGLAS. Now, I hold in my hand the Wall Street Journal for this morning. On page 24, column 2, paragraph 5 or 6, there is a statement, "Brazil yesterday raised its minimum export price for coffee 4 cents a pound to 42 cents."

And turning to column 4 we find that "Santos coffee in New York yesterday rose to 49 cents a pound."

Now, then, is Brazil doing this under the International Coffee Treaty?

Mr. JACOBSON. No, sir; she is doing this in accordance with her own foreign exchange regulations.

Senator DOUGLAS. Is she violating the coffee treaty?

Mr. JACOBSON. Well, if we were persuaded that there actions unduly forced up prices, we could go into the international coffee organization and say this is not within the spirit of the agreement.

Senator DOUGLAS. But at the present she has not been declared in violation of the treaty.

Mr. JACOBSON. Sir, may I explain?

Senator DOUGLAS. I want to take the aggressive here if I may.

Mr. JACOBSON. I am sorry.

Senator DOUGLAS. Will Brazil issue a certificate of export for any coffees which sells below the minimum price which has been fixed?

Mr. JACOBSON. I think the answer is probably "No."

Senator DOUGLAS. In other words, Brazil will fix a minimum price, then will refuse to permit any coffee selling at a lower price to get a certificate of reexport. Is that right?

Mr. JACOBSON. Yes, but the minimum—

Senator DOUGLAS. Now, just a minute. Let's take this step by step. Then the coffee comes to us without a certificate of reexport and the President has the power to deny its entrance into the United States, isn't that true, or its withdrawal from a warehouse? Isn't that true?

Mr. JACOBSON. That is right.

Senator DOUGLAS. So we become an enforcing agency to support the price policy of the Brazilian Government unless the Brazilian Government is declared to be in violation of the International Coffee Agreement. Is that right?

Mr. JACOBSON. Well, I suppose that is one way of looking at it, yes.

Senator DOUGLAS. You say it is one way. Is it not the way?

Mr. HARRIMAN. Senator, the President, I would assume, would not act under circumstances which were not to the advantage of the United States.

Second, of course, we can withdraw within 3 months. So that if the Brazilian authorities have functioned in a manner which we thought was detrimental, we would first try to get them to change, and then we would act in whatever way we thought was in the interests of the United States to function. So I think it is somewhat hypothetical to assume that we would be in cahoots with any foreign government in taking action which is detrimental to the interests of our Nation.

Senator DOUGLAS. Well, let me ask this further question. Brazil, of course, is the major exporter of coffee. Are there similar requirements on minimum prices and certificates of export in most of the other Latin American countries such as Colombia, Nicaragua, Costa Rica, Guatemala, El Salvador?

Mr. JACOBSON. There are either such regulations with respect to certificates of origin in effect now or there will be as a consequence of their membership in the organization.

Senator DOUGLAS. In other words, what we have here is a cartel of the producing countries which can fix prices and also determine quantities to be exported, and the President is given the power to deny access to the markets of this country of any coffee produced outside the cartel agreement, and this cartel agreement is not only an agreement of producers but it is backed up by the authoritative of the rules of the governments of the exporting countries. Isn't that true?

Mr. JACOBSON. Senator, with all due respect, may I offer one comment on this question?

Senator DOUGLAS. Well——

Mr. JACOBSON. Because I——

Senator DOUGLAS. I would first like an answer yes or no, and then when that answer has been given, you can make the comment, but I don't want to have the thrust of the question diverted by a supplementary tangential reply.

Mr. JACOBSON. Well, I think the answer is, as Governor Harriman just presented it, but if in fact the system were working in this manner, to wit, if our powers were being used to enforce price rigging, which I thing is the thrust of your remark, I would say no, we would probably declare this to be in violation of the spirit, of the essence of the agreement.

Senator DOUGLAS. Isn't the price inherent in the system? We have the countries fixing minimum export prices. Just yesterday they sent the price in Brazil up by 4 cents, and I presume the Central American price will follow suit. I mean this is a straight cartel with the power of the government behind the arrangement. Isn't that true? And we emerge as an enforcing agency. If we didn't have this paragraph 1 in the supplementary agreement, their systems would fall apart because we could go outside the agreement or we could take bootleg coffee in.

Mr. JACOBSON. Senator, may I please offer one comment here?

Senator DOUGLAS. Surely.

Mr. JACOBSON. The price that Brazil is registering coffee at is about 4 to 5 cents below the going market price in New York.

Senator DOUGLAS. Naturally there are shipping costs and insurance costs.

Mr. JACOBSON. No. Even after taking that into account. The reason they raise the registration price is to assure that the exporters of coffee turn in to the Government the foreign exchange equivalents of the higher price that they are receiving for their coffees, but the price they were fixing is well below the going market price in New York. Certain other countries do not have registration prices at all. But the point is that I think the Brazilians would argue, and I think this is something we would argue back and forth with them in order to be satisfied, they would argue that this registration price is not forcing the price up. Rather, it is following the price. And I wish the people of the trade here would comment on this—they may well be able to answer this question for you better than I.

Senator DOUGLAS. Is it not true that the export quotas are fixed by the countries under your agreement?

Mr. JACOBSON. That is right.

Senator DOUGLAS. Well, now, is it not always to the interests of producers to get as high a price for their product as possible?

Mr. JACOBSON. That is right.

Senator DOUGLAS. Yes. Well, will there not be a bias, therefore, on the part of producers to try to raise prices? I believe the demand for coffee is inelastic and therefore this can be obtained through a reduction in the total quantities exported, or a failure to increase the quantities exported in proportion to the increase in quantity demanded.

Mr. JACOBSON. Senator, in August, before we knew about the catastrophe in Brazil, there was a quota exercise and the exporting countries had to decide within the agreement at what level quotas would be set for the following year. Many of the exporting countries were persuaded that the level of quotas agreed upon would in fact force prices down, not up. The year prior, and in an exporter agreement alone, they did set quotas and they set them so high that prices actually declined from 1962 to 1963. From the time we negotiated the agreement in August 1962 to the time of the next quota exercise in August 1963, quotas were in effect and in that period of time, sir, prices went down. And when quotas were again negotiated in August, many countries were persuaded that prices would again go down because quotas were too high. The bias in that case arose from the competing interests of all the exporters. They all wanted higher quotas and the result was a bias toward lower prices.

The Brazilian situation has turned the whole matter around.

Mr. HARRIMAN. May I make this comment, that in normal times these countries compete with each other and if there is any undue government influence in setting too high a price, that country suffers. But under the existing circumstances there might be a possibility of what you suggest, but I do believe that it would be impossible for the President to justify such an action as you describe. And secondly, the discussions within the group would certainly tend to force a country not to behave in a manner which you describe.

Back of this all is the United States, the size of the U.S. market, and the ability we have to get out in any 3-month period that we wish if anyone abuses this authority given. In the first place, the President doesn't have to exercise the powers we are seeking. Secondly, the United States could get out. Thirdly, this committee will have a good chance to review 18 months of operation of this agreement; namely, up to and including October 1965, when it runs out, before it takes further action. And I do not believe that anybody is unduly afraid of the type of action that you have described being taken by a country. It would in all probability redound to the disadvantage of the producers of that country.

Senator DOUGLAS. May I say it is much harder to get out of these agreements than to get into them. And I hope the members of the State Department will not take this amiss if I say that many Members of the Senate, of whom I was not one, were induced to vote for the original treaty on the promise that we would be free to deal with this situation when the implementing legislation came up.

Now, you have made it perfectly clear there is no legal obligation upon us to pass this implementing legislation, but you have also implied, I think, that there is a moral obligation upon us, because this would be backing away from the original treaty. Now suppose we pass this legislation and then later the President wants to kick over the traces and break the cartel by admitting coffee from countries outside the coffee organization or from mavericks inside these countries. Then he will be accused of breaking faith.

The point is in these international affairs we get led on step by step by step and even though we may be legally free to retreat and withdraw at any time, the pressures against us doing so become overwhelming and then in the cause of good neighbors it is said we should not exercise our legal rights.

Mr. HARRIMAN. Senator, may I field that one?

Senator DOUGLAS. Yes, indeed.

Mr. HARRIMAN. I don't believe you are under any more pressure today than you were when the Senate acting gave its advice and consent. This agreement is a result of 4 years of discussion. It is a general attitude that the President of the United States took in his talk in 1961. I am not sure that I have his language. Here we are. He stated to the Latin American ambassadors at the time of the inauguration of the Alliance for Progress, he said among four or five points:

> Five, the United States is ready to cooperate in serious case-by-case examination of commodity market problems. Frequent violent changes in commodity prices seriously injure the economy of many Latin American countries, draining their resources and stultifying their growth. Together we must find practical means of bringing an end to this pattern.

That was hailed the world over among the developing countries—I happened to be around the world at that time—and there is no statement of any President that has been more hailed than that statement.

So that this has been a policy of our Government for a long time. We have attempted to find a way to deal with it and this is the first attempt. Any time when we back away from it we are under equal pressure, so that I do not believe, sir, that the Senate has been placed in an intolerable position at this time. I think the pressure was just the same last May as it is today from the standpoint of carrying forward the spirit of good relationships between buyer and seller.

Senator DOUGLAS. Now, I can understand the desire of producing countries to get a higher price for their product, and I think it is true that the condition of the vast majority of the people in Latin America is a very low one. We would like to improve that condition. A vote for the Alliance for Progress is not a very popular course in my State. I consistently supported the Alliance. I think it is doing very good work. I want to see the conditions of the great mass of Latin American campesinos and peasants raised. But I think sometimes we confuse improvement in conditions of the people with improvement in the condition of the plantation owners and exporters.

Now, in the last 2 years my wife and I have traveled in Colombia, El Salvador, and Guatemala, I hasten to add at our own expense. Now, in El Salvador and Guatemala we found the prevailing rate of wages to be from 80 cents a day to $1 a day. The average quota of a 100-pound bag of green coffee beans, or cherries as I believe they are called, is approximately 100 pounds, one bag a day so that the picking cost is approximately a cent a pound.

Now, I know that there are other costs which are added on subsequently to this and you can produce elaborate statistics as to the proportion of the final price of coffee which goes into the hands of the peasants. And any material on this point would be welcome. I simply submit what I think is reputable evidence on the picking cost which is the main amount that goes to the peasants all over the countryside.

I think the coffee plantations are owned by a relatively small number of men. If we take the country of El Salvador, which it is true is a minor exporter of coffee, you hear the familiar figures that 14 families own the land of El Salvador, export the coffee. Now, just as in the case of the big 5 in Hawaii, I suppose marriage and descent in some cases diluted this, and I have heard statements that the number of families may now be as high as 40.

On the other hand, a friend of mine was having dinner with one of these families and this woman remarked, "You have heard about the 14 families, haven't you?" He replied "Yes." "Well, sir," she said, "I want to tell you there are only four families and our family is one of them."

There is high concentration in El Salvador, a great deal of concentration in Guatemala, a great deal of concentration in Colombia. I have never been in Brazil but I am told this is true in Brazil.

Now, we had this period of the middle fifties in which the price of coffee rose according to your own statistics to 80 cents and more. People told me that during this period the condition of the peasants did not appreciably improve. They were paid about the same wages as before. Gains went entirely or almost entirely to the planters.

Now, what was happening during this period? Not any appreciable increase in wages. Not any appreciable improvement in the conditions of the peasants. It was during that period that the revolutionary movements began to gather force because of the depressed condition of the peasants.

What did happen? Elaborate houses and plantation houses were built by the planters, and they sent abroad capital anonymously to be deposited in Swiss banks in numbered accounts, so that the identity of the owners would be concealed.

When I was in Mexico City some years ago I tried to find out about this from various students of Latin American finance. I believe it is true that from $1 billion to $2 billion a year of plantation profits was exported, deposited in cash accounts in foreign banks, some of them in New York banks but mostly in Swiss banks, in numbered accounts. Money was not used for the improvement of the condition of the people. It was not used for the development of industry. It was not used to expand employment. Whether it was fear of revolution, or belief in the unprofitability of Latin American industry, or the desire to have accounts that they could draw on when they spent their time on the Riviera and the various European resorts which they frequent, I don't know.

If I could be certain that this would really help the condition of the people farthest down or help it to any appreciable amount, I would be strongly tempted to vote for this legislation, but I see no assurance, Mr. Harriman, that this is going to happen. I think what will happen will be the enrichment of a relatively small class of people, that the trickle-down theory which my party has never advocated domestically, at least the northern section of my party has never advocated internally, that the trickle-down theory will work even less well in Latin America than it would in the United States. And therefore I support the Alliance for Progress because I think this is a means of building up the condition of the people. But I don't believe that you build up the condition of the people by enriching the multimillionaire landowners and coffee producers of Latin America.

Now, that is my faith. If I am wrong, I wish to be corrected. I know that you have very high humanitarian instincts, Mr. Harriman. I respect you. Indeed, I have great affection for you. But I will have to be convinced I am wrong.

Mr. HARRIMAN. I would like to answer your question but Mr. Mann is desirous of answering your question as he is responsible presently for the Alliance for Progress.

Senator CARLSON. Mr. Secretary, would you be willing to let me enter into this just a moment because it happens to be that I opposed this agreement a year ago and I made a statement here recently. I got a letter here from Colombia and they sent in a clipping that has been translated for me. It followed along what the Senator said. This lady berates me for being opposed to the coffee agreement.

She said:

> The independent coffee workers here draw a daily wage which does not even meet the U.S. minimum hourly wage (I am talking of the workers, not the rich landowners).
>
> It would seem that you have never been to Latin America, at least to Colombia, for if you had, and really had been made aware of the problem, you could not possibly think that a miserable 2.5-cent raise in wholesale coffee would warrant a 10-cent increase to the housewives in the United States.

Based on what the Senator just said, do we have any information how much the campsesinos are getting out of this in Brazil, Colombia? I would like to have the record show how much of an increase they get out on the farms.

Mr. MANN. Senator, I sympathize with your interest in this and also Senator Douglas. I would like, if I could, to make just two or three general comments at this time.

I served as Ambassador in El Salvador. I know all of the "14 families."

Senator DOUGLAS. There are 14.

Mr. MANN. Well, I use that in quotes, Senator, because I have a respect for those people. They are not leeches on the body of society. They die from heart attacks, from overwork, just as we do. They pay a very high export tax at the time they export a bag of coffee. They work hard. They are not wealthy by standards that I have seen in other Latin American countries. It is a very small country.

Senator DOUGLAS. You mean El Salvador.

Mr. MANN. El Salvador; it is true that capitalists in Latin America do sometimes in times of no confidence send their money away. Many of the people in Cuba who had confidence in Castro didn't, and they were wiped out.

It is something that should be discouraged, and I have confidence will be.

Also I would like to say that the Alliance for Progress, as you know, is doing its best to increase tax collections, bring about improvements in tax policy, and we are interested in raising wages up to the level where the economy itself won't be adversely affected.

A developing country can't pay the wages that we pay in Detroit. They do have built-in costs and very heavy taxes. And with your permission I would like to—I have a suspicion that wages in El Salvador in the last 24 months have been increased quite a good deal because they do have there a revolutionary government which is interested in the worker, and I think they have done quite a bit.

Mr. HARRIMAN. May I say a word or two on this subject? The Alliance for Progress, as you know, has as its objective the type of social reform which I know, Senator, from my 30 years knowledge of your attitude—we worked as colleagues in the early days of the depression and I have a full understanding of your philosophy and I respect it very much. I am sure that you are for the objectives of the Alliance.

Some countries are making more progress than others. The ability of the economy of the country to collect enough foreign exchange from its exports makes it possible or makes it impossible for them to carry forward the social reforms that are necessary, and coffee is one of the commodities where the Government does collect a very large share of the export-price, rather more than almost in any other case. I think perhaps it is more than any other case. And therefore it does go into the public treasury.

Now, what the Government does with that money depends on its policies and the pressure on the Government to carry forward the type of educational program which is necessary to eliminate illiteracy which is prevalent in some of the countries, to carry along the health programs, to carry forward many of the social reforms which are necessary, to make the investments that are necessary in the infrastructure which is required—all dependent on the export earnings.

And therefore, if we are to help these countries achieve the objectives which we have so enthusiastically joined in furthering, in my judgment we can do so only if we become a more responsible body, and this agreement, coffee agreement, is one modest step forward in that direction, and I do earnestly hope that you, Senator, will support it.

Some countries do not fully adhere to the very high objectives of the Alliance for Progress, though there are a number of other countries that do. I can only say that unless the Latin American countries get a reasonably stable price for their commodities and a reasonably fair price for their commodities, the Alliance for Progress cannot be a success. The social reforms that you are so keen to see them have will not be possible.

I don't know—Mr. Mann, would you agree with that statement?

Mr. MANN. I agree completely with that, Governor.

Senator DOUGLAS. I know this is a debatable subject and I respect your opinion very much. I would like to have included for the record, therefore, the export tariffs on coffee imposed by the various countries and the total amount of the collections which they get and the percent this forms of the export sales price.

(The information referred to follows:)

Coffee: 1962 exports, export value, and export tax revenue for specified countries

[Dollar amounts in thousands]

	1962 exports (thousands of bags, 132.3 pounds each)	Total export value	Export tax revenue [1]
Dominican Republic	487	$19,849	$5,558
El Salvador	1,263	74,227	8,165
Guatemala	1,552	74,034	11,105
Haiti	514	20,627	6,460
Honduras	264	11,450	1,720
Mexico	1,519	71,286	7,924
Nicaragua	338	15,430	331
Brazil	16,376	642,629	360,272
Colombia	6,561	343,065	43,400
Ecuador	551	20,901	1,820
Peru	624	24,191	1,650
Angola	2,615	65,192	7,930
Ethiopia	1,044	44,000	5,022
Ivory Coast	2,352	76,650	11,497

[1] In several cases these figures are derived, and should therefore be used as approximations only.

Senator DOUGLAS. May I say I think in El Salvador the Government is doing an excellent job. We are very competently represented there, splendidly represented, I think. I don't wish to cast any reflections on other countries. Brazil is the chief exporter of coffee. I suppose it dominates the coffee trade in Central America; North and South American countries are peripheral really to Brazilian coffee. I don't want to aggravate relationships with Brazil beyond what they are already, certainly, and I think perhaps the chief responsibility for any bad feeling that has developed has been the fault of Brazil, not our fault, and I labor under the disadvantage of never having been in Brazil, though I try to read a great deal about Brazil.

I would not say that the big landowners in Brazil have been conspicuous by their social point of view, and I am struck with the fact that the testimony which I was able to get in North and South America and Central America was that the big increase in prices in the midfifties was not accompanied by any appreciable improvement in the conditions of the peasants. Almost the entire amount according to the testimony that I received went into the hands of the planters, possibly in some cases of the Government, and after the prices subsided, there had been no permanent improvement in the lot of the peasants.

What I am afraid of is that by the devices which I have already tried to indicate, we may expect if we ratify this implementing legislation, the price of coffee will go up. The articulate, educated, wealthy groups in those countries will prosper. There is no surety that the families down at the bottom who live on a miserably low scale will benefit appreciably.

Now, in the embassies and the cocktail parties and the tea parties we will be acclaimed for following out the good neighbor policy, but this is the superficial crust of Latin American life. The real volcano is found underneath.

It is for these reasons that I have many doubts about this matter. I voted against the original treaty because I had just such fears as this. It is for these reasons that I still have many doubts, but I am ready to examine the question on its merits.

Mr. HARRIMAN. Senator, may I say that I wish that you would have come to São Paulo. I had not been to a Latin American economic meeting since 1948. I went to Bogotá then with General Marshall, and then I learned at firsthand that the thing that they wanted above all else is stability of price.

I was very much gratified to see the change in atmosphere between 1948 and this last year, 1963. The determination on the part of the ministers to take action along the lines of social reform as committed in the Alliance, social reform and social progress, improvement of the condition of the people, is very eloquent and they took steps at that time to organize a committee of alliance which will function a good deal along the lines of a similar committee in the Marshall plan.

If these countries will work together in the way in which they are beginning to—the Alliance is only 2 years old and it is only beginning to have its effect, but I was very much heartened—I think you would have been too, Senator, if you had been there. Progress has been made, unfortunately not as much as we would like, in improving conditions and anyone who goes to São Paulo cannot help but be amazed at the improvements made there. That is not true throughout Brazil. There are parts of Brazil where there is abject poverty, but in certain parts of Brazil there is very real progress.

This is true throughout Latin America. I think there is a growing understanding of responsibility of the educated groups in these different countries. Unfortunately where progress hasn't been made, there have been some revolutionary forces which have tended to set back progress rather than to advance it. Of course I am not going to mention any names. The most outstanding example of where revolutionary forces have come in to end abuses of people has been Cuba and there we know these revolutionary forces were disastrous to the welfare of the people.

Unless we can cooperate in helping these people to stabilize their economy—we are the big buyer and we are so much responsible for their welfare that I do hope on reconsideration you will support this, Senator. The questions you have asked are very penetrating and we shall do our best to provide the information. We will see that you get them, sir.

Senator DOUGLAS. Thank you very much.

The CHAIRMAN. The committee will recess until 10 o'clock tomorrow morning.

Mr. Secretary, I know you are very busy and if you have other appointments tomorow you need not appear unless you desire to do so. If additional information is desired, we shall direct our questions to Assistant Secretary Mann or Jacobson.

Mr. HARRIMAN. Thank you very much, Senator. I am grateful to you for your attention.

(Whereupon, at 12:30 p.m., the committee was in recess, to reconvene at 10 a.m., Wednesday, February 26, 1964.)

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COFFEE

WEDNESDAY, FEBRUARY 26, 1964

U.S. SENATE,
COMMITTEE ON FINANCE,
Washington, D.C.

The committee met, pursuant to recess, at 10 a.m., in room 2221, New Senate Office Building, Senator Harry F. Byrd (chairman) presiding.

Present: Senators Byrd, Douglas, Talmadge, McCarthy, Ribicoff, Williams, Carlson, Bennett, Morton, and Dirksen.

Also present: Elizabeth B. Springer, chief clerk.

The CHAIRMAN. The committee will come to order.

I submit for the record a letter and an accompanying statement of the Honorable Leonor K. Sullivan, Congresswoman from the State of Missouri.

CONGRESS OF THE UNITED STATES,
HOUSE OF REPRESENTATIVES,
Washington, D.C., December 13, 1963.

Hon. HARRY F. BYRD,
Chairman, Committee on Finance,
U.S. Senate,
Washington, D.C.

DEAR SENATOR BYRD: I appreciate the opportunity you have afforded me to file a statement with the Committee on Finance so that it will be available to the members when the committee considers H.R. 8864, to authorize the President to carry out the obligations of the United States under the International Coffee Agreement, 1962.

Since it will not be possible for me to appear before your committee on this matter, I am most anxious to call to the attention of the Committee on Finance the importance of retaining in H.R. 8864 the amendment which I offered to the bill when it was before the House on November 14. The gist of this amendment to section 2(3) of the bill is that it would require the coffee trade to keep records, statistics, and other information, and to make this information available to the President, on prices of various types and grades of coffee imported into this country and sold to the American people. The bill had previously required such records and information to be kept, and reported to the President, only on matters concerning the importation, distribution, and consumption of coffee.

Since the bill, in section 5, calls upon the President to submit annual reports to Congress on the operation of the International Coffee Agreement, 1962, "including full information with respect to the general level of prices of coffee," it is necessary, as Chairman Mills, of the Ways and Means Committee, conceded, in agreeing to my amendment, that the President have clear-cut power to obtain all the information he needs in order to include "full information with respect to the general level of prices of coffee" in his reports to Congress.

I am attaching the remarks I made in the House on November 14 when my amendment was added to the bill.[1] At that time I explained in some detail why it is not possible or practical for the President to rely on the published prices of coffee for his determinations of "the general level of prices of coffee." I ask that my speech on the amendment be incorporated as part of this letter.

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[1] Statement by Representative Sullivan appears on pp. 20717–20719 of the Congressional Record.

I am also enclosing pages from the Congressional Record of November 14 containing my remarks in general debate on H.R. 8864. In case you intend to have a printed record of hearings on H.R. 8864, I would appreciate having that additional material included in the printed volume. I am particularly interested, however, in having this letter and the accompanying remarks on my amendment made available to the members of the committee, and the additional material I am enclosing, as I said, is submitted only in case there will be a printed record.

Sincerely yours,

LEONOR K. (Mrs. JOHN B.) SULLIVAN,
Member of Congress.

Mrs. SULLIVAN. Mr. Chairman, as I explained during general debate on the bill, H.R. 8864 as reported, calls upon the President to report annually to the Congress on the operation of the International Coffee Agreement, including, and I quote, "full information with respect to the general level of prices of coffee." Such reports are called for in order to give the Congress a basis on which to decide whether continued U.S. participation in the international agreement is to our national interest, and whether the consumer is being properly protected against unwarranted increases in prices.

Elsewhere in the legislation, in section 2, paragraph 3, the President is authorized to require the coffee trade to keep such records, statistics, and other information, and to render to him such reports, relating to the importation, distribution, and consumption of coffee as he may from time to time prescribe. However, it should be noted that whereas the President shall submit to the Congress a full report each year on all aspects of the operation of the agreement, including full information with respect to the general level of prices of coffee, the section of the bill giving him authority to require the rendering to him of relevant information by the trade does not make any mention of his right to require information on prices. Certainly he should have that express authority if he, in turn, is to report to the Congress on this vital phase of the agreement's operations.

The international agreement is intended to achieve a stable floor under prices at about 1962 levels. However, we have a right to fear that under unforeseen circumstances, quota restrictions could also lead to a sharp rise in prices well above 1962 levels. So we have a right to know—the President has a clear duty to find out—what is happening to prices at any time during the life of our participation in the agreement.

Now the question might be asked, Mr. Chairman, why it should be any problem for the President or anyone else, to ascertain the prices of coffee. Presumably anyone could find out by reading the financial journals each day, or looking at the published daily information from the New York Coffee & Sugar Exchange. But it is not that simple.

As my Subcommittee on Consumer Affairs of the House Banking and Currency Committee has learned in connection with our study of sugar, the published daily spot price of a volatile commodity is not necessarily—not at all necessarily—the actual price at which importers are buying the commodity. The spot price represents only the price at which some sugar, for instance, comes into the country on a particular day—or will come in some weeks or months hence. But huge quantities are purchased on a fixed price basis which just doesn't show up in the published daily quotations.

Coffee futures are gyrating now in response to rumors, expectations, possibilities, and a great deal of speculative fever. A seat on the Coffee & Sugar Exchange sold a few days ago for $8,500, up $1,400 from the last previous sale. Futures speculation can certainly influence price—as we found out earlier this year in sugar—but it doesn't necessarily set the price at which most of the commodity is actually sold. Incidentally, this is not a federally regulated exchange.

Mr. Chairman, in carrying out his responsibilities to Congress and to the American people under the International Coffee Agreement, the President of the United States should have the clear-cut authority to obtain full and exact information, rather than be restricted to the bits and pieces of price information which may be fed out by the trade to suit its own purposes. This amendment gives him that authority. I urge its adoption.

The CHAIRMAN. Under Secretary W. Averell Harriman had a previous engagement for this morning and will not be with us. However, Assistant Secretary Thomas C. Mann and Deputy Assistant Secretary Jerome Jacobson, who accompanied the Under Secretary yesterday, are available for further questioning by the committee.

STATEMENT OF THOMAS C. MANN, ASSISTANT SECRETARY OF STATE, INTER-AMERICAN AFFAIRS; ACCOMPANIED BY JEROME JACOBSON, DEPUTY ASSISTANT SECRETARY, ECONOMIC AFFAIRS

The CHAIRMAN. Senator Carlson, I believe you have some questions to ask.

Senator CARLSON. Mr. Mann, I certainly appreciate your appearance here this morning.

What is your official position? Are you in the State Department——

Mr. MANN. Yes, sir. I am Assistant Secretary in Charge of Inter-American Affairs.

Senator CARLSON. In other words, this problem we are discussing gets very close to your operations.

Mr. MANN. Yes; it does.

Senator CARLSON. I have been trying myself to get a picture of the International Coffee Agreement and its operations. I did do a little reading a year ago when this matter was before our committee. As you know, I did oppose it. I thought we were getting our country into a position where we would let an agency completely out of the United States control the import of coffee.

Now, am I right in stating that the management of this Coffee Council is composed of 14 people of which we have 1 representative?

Mr. MANN. Senator, Mr. Jacobson, who is Deputy Assistant Secretary for Economic Affairs, helped to negotiate the agreement and knows more about the mechanics of its workings than I do. I was in Mexico at that time. I worked on coffee years ago but not very recently. May I turn to him?

Senator CARLSON. Mr. Mann, I am just trying to get information. I am trying to get this picture.

Mr. Jacobson, let us discuss the organization.

Mr. JACOBSON. Yes, I would be glad to do so.

There is a council composed of representatives of each of the member countries of the organization. That Council consists of approximately 60 representatives, 58 to 60 representatives. The votes in the Council, of course, are proportionate to countries' participation in world trade.

The day-to-day affairs of the organization are conducted by an executive board of 14 members. We have a permanent seat on the Board as do several other countries. The remaining seats on the Board are filled by representatives of a given country representing several countries. In other words, the arrangement is virtually the same as that which exists for the International Bank and for the International Monetary Fund.

Senator CARLSON. For the record, if you don't have it on the tip of your tongue, would you list the other 13 countries that are a part of this 14-member Board that are presently managing the operations.

Mr. JACOBSON. I can do so now, if you wish, but I can also submit it for the record.

Senator CARLSON. It might be interesting.

Mr. JACOBSON. All right. On the importing side—my associates will have to check me—on the importing side, the members for this year, are the United States, Germany, France, Netherlands, Sweden, Canada, and the United Kingdom. And on the exporting side, Brazil, Colombia, Guatemala, Mexico, Uganda—a representative of the Ivory Coast representing several African countries—and Indonesia.

Senator CARLSON. And the permanent meeting place of this Board and the Council is London.

Mr. JACOBSON. That is right, sir.

Senator CARLSON. And we contribute a certain share of it financially. What is our share financially?

Mr. JACOBSON. We carry approximately 20 percent of the costs. It is not more than 20 percent of the costs.

Senator CARLSON. And we are paying that cost now.

Mr. JACOBSON. We are paying only a very small share of the cost now because the necessary appropriation is provided for in this enabling legislation.

Senator CARLSON. Roughly what do you think our share will be? I don't care to ask for exact figures. Maybe we don't know. But what do you think it is going to cost us to be a member of this Board to participate, roughly?

Mr. JACOBSON. It is going to cost I estimate, roughly speaking, $110,000 to perhaps $120,000 per year. And it may be a wee bit lower later on because the first year's figures have the usual startup costs built into them.

Senator CARLSON. Now, the United Nations at least wrote this agreement, did they not, and approved it?

Mr. JACOBSON. They sponsored, merely called together the negotiating conference at which point their responsibility ended and the responsibility passed to all the countries participating in the negotiation itself.

Senator CARLSON. But they did recommend that we have or approve, at least, the organization of an International Coffee Agreement.

Mr. JACOBSON. They recommended that a negotiating conference be called, and I would say, sir, that it is fully within the general attitude and posture of the United Nations that they would favor an agreement of this kind. That is right, sir.

Senator CARLSON. I am not critical of it, I am just trying to understand——

Mr. JACOBSON. I understand.

Senator CARLSON (continuing). The background of it.

Now, it has been said that the purpose of this organization was not to increase the price of coffee. Is that correct?

Mr. JACOBSON. I think that is correct. The objectives spelled out in the agreement do not speak at all of fixing prices. The only objective specifically established in the agreement, sir, is that prices shall not be permitted to fall below the low level of 1962, or violently fluctuate up or down.

Senator CARLSON. I want to read from article 27 which is found on page 17 of the treaty, and I quote:

> The members of the agreement agree on the desirability of operating the agreement in a manner such that the real income derived from the export of coffee could be progressively increased.

Now, does that mean they are going up?

Mr. JACOBSON. Well, at the time that article was written, there was considerable discussion about it, and we made it very clear for the record at the negotiating conference that we saw the ultimate benefits to the producing countries coming from an expansion of consumption. If consumption rose, the income of the producing countries would rise apace with that. That is what we intended. I must say in all candor, Senator, that at the negotiating conference, there was considerable discussion with respect to the price objectives, the price targets, and the price obligations undertaken by the importing countries. We made it very clear that we had no specific obligation to help the producing countries raise their prices to any given target.

Senator CARLSON. Well, Mr. Jacobson——

Mr. JACOBSON. And other consuming countries were right with us in this, sir.

Senator CARLSON. I have read the proceedings, and as a layman having had no contact with it, I couldn't help but get the impression that one purpose was to raise the price of coffee, and I tried to follow it through. But we will just leave that.

Now, you said the desirability of, I wouldn't say limiting production—this agreement is so written that it tends to limit production, doesn't it?

Mr. JACOBSON. Oh, no, sir. There is an article, the number of which escapes me at the moment, called "Production Goals," and that article speaks of the desirability of nations bringing their production into line with the longer term estimates of demand. All countries would be concerned if production were greatly in excess of demand as in recent years. This would force prices down tremendously as did happen recently. Likewise, we would be equally concerned if production were too small because that would drive prices up. Our objective is to bring production in line with the long-term prospects for consumption so that price stability can be achieved by bringing production into balance with demand.

Senator CARLSON. In other words, that is a statement in the article already written, and we have agreed to it, isn't it? I want to read from article 157, just a short sentence or two. It reads this way: "May establish an international coffee fund to further the objective of limiting the production of coffee." Now, that can have but one idea in mind, can't it, and that is to reduce production in some of these countries?

Mr. JACOBSON. Well, the question is penetrating, and I think we have to carry ourselves back to the atmosphere of August 1962. Then we had tremendous overproduction, and the countries were concerned at the time that that overproduction meant even greater declines in price than we had already experienced. I think that is the origin of the article. But it is very, very clear that we would be tremendously concerned if we foresaw shortages of coffee production in the world, because that would mean higher prices, and this is something against the interests of our consumers.

Senator CARLSON. I have been amazed at the statements that have been made and testimony that has been presented here about all of a sudden we are in a coffee shortage when I would say as late as last September there was great concern as to what we were going to do with coffee. Is it not true that Brazil burned 6 million bags of coffee?

Mr. JACOBSON. The 6 million bags that she burned in recent years—I don't know the exact figure, but I do know that some coffee was burned. These were, as I understand it, extraordinarily low quality coffees, many, many years old that had lain in stocks, had rotted, and they were simply not fit for human consumption. There is a continuing culling process that goes on because simply to maintain stocks itself is an expensive matter. So they simply got rid of the stocks which were no longer salable.

Senator CARLSON. Is it not true that Brazil—and I am speaking of Brazil; I have nothing against Brazil; it is a great country—but isn't it true that Brazil destroyed mechanically in one instance 200,000 coffee trees in order to get the supply down?

Mr. JACOBSON. Well, I do know that an eradication program has been underway. The origin of that was in the tremendous overproduction which had existed in recent years.

For example, in 1959-60 Brazil produced 44 million bags of coffee. She alone produced more coffee than the entire world consumed, and in that year she put into stockpile roughly 20 million bags of coffee. This was completely uneconomic, and so she decided to end the surplus production by reducing production in the less productive areas and concentrating production in the productive ones.

Senator CARLSON. I assume they did it, of course, to get coffee production in line with the world market. Is that right?

Mr. JACOBSON. Well, with her estimates of what her possibilities were of selling coffee in the long term. The present situation I think I can say with conviction does not arise—the present shortage does not arise out of the eradication program. It arises clearly beyond any doubt from the national disasters which struck Brazil in the past year.

Senator CARLSON. I am accepting your word for that, and I have no doubt that they have had some disasters because I have read of them. I am not too familiar with them. There is a great reduction. What about other countries? We are in an International Coffee Agreement now. Aren't there other nations that might exceed their quotas if they were permitted to do so? Wouldn't Colombia and other countries be glad to ship us more coffee than they are doing now?

Mr. JACOBSON. I think the situation runs somewhat as follows: Colombia's current production for export just about is equal to her market possibilities. She has limited supplies of coffee in stock, perhaps 4 or 5 million bags which I am told by the Colombians represent normal working stocks plus a little overage, and they intend to make these stocks available to the market in order to assure that there is no shortage of Colombian coffee.

Senator CARLSON. Wouldn't that be true of other nations if we just said, well, let us just have a supply and demand system. Couldn't we go into Africa and other countries and buy coffee without going through the quota system?

Mr. JACOBSON. I think I can count on two or three fingers here the number of countries today that would have coffee available perhaps in excess of their quotas. By and large in Latin America there is no country—by and large, now, with rare exceptions—there is no country that finds itself limited in exporting by virtue of export quota. This is particularly true since we achieved the 2.3 million bag increase in export quotas at the recent meeting of the Coffee Council in London.

Senator CARLSON. I noticed yesterday it was discussed that we had had this meeting, and a statement made that if there seems to be any problem, we can get these quotas increased by a meeting of the Board, and you did do that. When did you do that?

Mr. JACOBSON. February 18, just 2 weeks ago.

Senator CARLSON. Isn't it a fact in December you had a meeting and tried to increase the quotas for the United States and were rejected by a vote——

Mr. JACOBSON. That is right. The situation then was, if I may say so, radically different. Then Brazilian coffee prices had moved up only about 4 cents a pound, and it was unclear what would happen to prices. The prices of Colombian coffees had not moved up at all. In fact the price of Colombian coffee was lower than it had been in 1962. And so at that time they did not agree to increase the quotas. They did agree to keep the situation under review.

I ought to point out that even then, in the face of potential increase in market, the vote to increase quotas failed by only the tiniest of margins. When we returned to London barely 3 months later in the face of a radical change in the market, the quotas were increased by a virtually unanimous vote both on the exporter and importer side.

(The following was later received for the record:)

I should like, if I may, to quote at this point from the Merrill, Lynch newsletter of February 19, the "Coffee Review" on the subject of the recent quota increase. I think the views expressed in the review reflect the consensus of the trade in this matter. It reads as follows:

"The most significant, yet widely anticipated, event of the past fortnight has been the decision of the International Coffee Organization to increase export quotas * * *.

"The Council rapidly closed the sharp differences of opinion which had characterized the quota question for many months. Conference delegates were for the most part pleased with the decision and confident the agreement had passed with flying colors the most rigorous test of its short life. In rapid order the image of the Organization in the eyes of consuming nations has been vastly improved and the concept has been reinforced that the coffee agreement is not a tool for unilateral use by producers. On the other hand, some producers are happy because of the relatively small increase in export quotas, now thought to be practically in harmony with recent demand levels. The fears of substantial price depression formerly so ardently advanced by certain producers appear to have vanished. The coffee market will be dictated by statistical and weather developments for some time to come. It now appears that the elevated quotas may have little effect for the time being on altering sparse offerings from Brazil. While reduced crops is a prominent reason for small offerings, the willingness of planters to hold beans as a hedge against rapid inflation should not be ignored. The London Robusta market is still experiencing strength, despite the fact that Africa is a world coffee producer segment that does not face sharp curtailment of crops. This strength only serves to emphasize the leadership of Brazilian price and crop developments in the world coffee market picture."

Mr. JACOBSON. I can state with conviction based on my discussions with the exporting countries that if the market should continue this way, I have no doubt whatsoever that they would approve a further increase in quotas because they are persuaded as we are that quotas should in no way contribute to the price rise. Natural factors may cause it, and that is something we can't control, but we certainly don't want artificial barriers such as quotas to contribute to the price rise.

Senator CARLSON. The facts are we did hold a meeting and did cast a vote to increase the quotas, and we failed.

Mr. JACOBSON. That is right, sir, as concerns Council action last November.

Senator CARLSON. I have here—I just happen to have an article from London in regard to this particular meeting where the quotas were rejected, and I shall not read it but I think it ought to be made a part of the record. It starts out—

LONDON, December 4.—The International Coffee Agreement is in grave danger of falling by the wayside, the Financial Times said today. Many members are sadly disillusioned, it said. The crisis has arisen over efforts to increase quotas. If these had succeeded, more coffee would have become available to meet pressing consumer demand and bring down the high prices ruling in some grades. But the International Coffee Council failed to give the necessary two-thirds majority to the Executive Board's recommendation * * *.

I would like to ask that this be a part of the record, Mr. Chairman.

The CHAIRMAN. Without objection.

(The article referred to is as follows:)

UNITED STATES ANGRY AT PRICE BOOST—COFFEE QUOTA RISE PERILS AGREEMENT

LONDON, December 4.—The International Coffee Agreement is in grave danger of falling by the wayside, the Financial Times said today. Many members are sadly disillusioned, it said.

The crisis has arisen over efforts to increase quotas. If these had succeeded, more coffee would have become available to meet pressing consumer demand and bring down the high prices ruling in some grades.

But the International Coffee Council failed to give the necessary two-thirds majority to the Executive Board's recommendation raising quotas by roughly 1 million bags.

Colombia was the major coffee power opposing higher quotas, the Financial Times reported. Colombia, with her top quality mild coffee, has not enjoyed the full extent of the rise in prices. It is the African Robusta coffee that has almost doubled in price this year, and in Africa there are mounting stocks which cannot be shipped because of limited quotas.

The United States has not yet fully ratified the Coffee Council. It has until December 31 to do so. If it fails, the operation will be made extremely invidious without the membership of the consumer of half the world's coffee exports.

The United States is angry at the higher prices, and there is considerable political opposition which may overcome the strategic reasons for keeping the agreement alive, said the Times.

If the United States does sign, the Council should survive to do battle again in March; if it does not the agreement is in the melting pot.

"The fact is that much of the enthusiasm for a pact has disappeared in the wake of the higher prices," the Financial Times said. "There is less danger of an excessive supply position in the next few years * * *."

"The official attitude of the United Kingdom is one of concern over the fate of the agreement, but it would not be too brokenhearted, given current conditions, if it failed."

Senator CARLSON. What position will we be in, different than we are now, assuming that Congress approved this implementing legislation? What position will our Nation be in different than it is right now assuming that Congress approves this implementing legislation? What position will our Nation be in different than it is right now assuming that Congress approves this implementing legislation? What can we do now or what can we do n the future that we cannot do now? That is what I want to know.

Mr. JACOBSON. There are really two things that we could do, two obligations we have undertaken which could carry out, that is, obligations written in the agreement. The first is to impose a certificate of origin. That is, to require that each bag of coffee entering the United States from a country that is a member of this agreement be accompanied by the certificate.

Senator CARLSON. Will that make less coffee?

Mr. JACOBSON. No. It should have no influence whatsoever on the quantity of coffee that comes into the United States because the exporter members of this agreement undertook this obligation when they signed the agreement to assure that every bag of coffee that they exported had this piece of paper on it, and we took the obligation to assure that each bag which came in had this piece of paper on it.

The piece of paper has one simple objective, and that is simply to trace the flow of coffee from exporter to importer to improve our statistical records and thereby assure everybody is living up to his obligations.

That was one thing. The second was to permit us, if the Council so decided, to impose limitations on imports from nonmembers. That is to say, when such nonmembers represent more than 5 percent of world trade. The general notion is one of equity. That is, countries that did not join the agreement should not, so to speak, get a free ride from the advantages of the agreement without incurring any of the obligations. And to encourage the countries to come into the agreement, there is a provision which states if nonmembers represent 5 percent or more of exports in a certain base period, that each importing country will impose an import quota on these nonmembers as a group and will limit its imports from nonmember countries to the volume in the base period.

Senator CARLSON. In other words, you want to make it airtight. You don't want any coffee to get around in this world without going through the Council or the Board.

Senator BENNETT. Five percent.

Senator CARLSON. Can't you change that 5 percent to 2 or 1? Couldn't this Board change that 5 percent to 1 or 2 percent?

Mr. JACOBSON. No, no.

Senator CARLSON. Where is it written—is it in the agreement?

Mr. JACOBSON. The obligations of the importers run only in terms of the provisions in the agreement, and the agreement says—I will turn to the article if I may, sir. That article first spells out the base period for the imposition of quotas, the description I have just provided. And then it goes on to say that the Council then makes the decision as to whether or not, in fact to require that these quotas be employed. The Council could in its wisdom, for example, in the present market circumstance, decide that there should not even be import quotas, but the Council could—you are quite right, sir. I am sorry. The Council could do this but here is a classic case where if we did not deem this to be in our interests, our voting rights would prevent any change in the basic regulation.

Senator CARLSON. We have 40 percent of the votes, however.

Mr. JACOBSON. Sorry?

Senator CARLSON. We have 40 percent of the votes.

Mr. JACOBSON. Yes. But under the voting arrangements importers and exporters vote separately, and our 40 percent of the importers vote plus one other country voting with us means, in effect, they could not change this provision unless we agreed to the change.

Senator CARLSON. Assuming we approve this implementing legislation, we will have no more representation on the Board. We have one member. We will have no more votes. And these have already been exercised, have they not, in the December meeting and in the meeting that you have held recently in regard to establishing quotas, plus the fact that we have been operating as though we were in full support and compliance and congressional approval of this agreement.

Mr. JACOBSON. Well, I think there are two or three different points there. On the Board we have one seat, that is correct, with 40 percent of the votes on the importer side. All the voting on the Board is by weighted vote. That is very, very clear.

Now, I think your next point was—it slipped my mind. May I ask for a refresher here?

Senator CARLSON. Well, I was trying to get a picture as to the operation of the Board under the completed congressional action——

Mr. JACOBSON. Oh, yes.

Senator CARLSON. Of the Congress that—some things we can do in the future was are not doing now. That is all I want to know.

Mr. JACOBSON. The powers that we could not exercise without the specific assent of this committee and of the Senate itself—the two powers that we could not exercise are those that I have just mentioned, to wit, the requirement that imports from members be accompanied by a certificate of origin and possibly the imposition of import quotas. Over the long term these are important elements of the agreement because they will, in effect, help to assure that the members of the agreement honor their obligations, both the importers and the exporters. That in essence is what makes this pending legislation important to the future of the agreement.

Senator CARLSON. I believe you agreed or maybe Ambassador Harriman or Secretary Mann yesterday agreed that the implementing legislation before this committee and before the Congress is subject and open even for amendment. In other words, if we can write other language in it and secure the approval of the Senate and this Congress in regard to this act—for instance, let us assume we should write in there that once coffee reaches a certain price this international agreement, as far as we are concerned, will not be in force and effect. What happens then?

Mr. JACOBSON. Well, we cannot undertake to, of course, bind the other members of the agreement with respect to the fixing of a specific price target. That issue was discussed, fully negotiated, and both the importer and exporter members agreed this would be inappropriate for the agreement. One can get himself into a certain amount of trouble by talking about specific prices because then often it tends to encourage the price to go to that specific figure.

I feel—perhaps this is a gratuitous remark on my part, sir, but I feel that flexibility really is a desirable thing, particularly in the kind of market that we have now which is extremely volatile. I think we just have to know, just have to be able to be agile, move fast, and just react to circumstances of the moment.

Senator CARLSON. Well, I have no objection to flexibility, but I don't like to have them go up all the time. I hear from Mrs. Carlson once in awhile. She goes to the grocery store and says coffee is up another cent or 2 or 3 cents, and I noticed in a St. Louis Post Dispatch the other day that we haven't reached the top yet. In fact, some of the large corporations, Manhattan Coffee Co., told how much they expect—"The Maxwell House Corp. announced a 4-cent increase, yesterday"—this is a week or so ago—and stated that prices will go considerably higher. I think someone mentioned it might go 8 or 10 cents higher in this article.

Mr. JACOBSON. Yes. Secretary Harriman referred to that yesterday when he said that the extent of price rises had not been fully reflected because—some of the trade here can tell you this better than I.

Senator CARLSON. They have been wholesale, have they? Wholesale prices reflected?

Mr. JACOBSON. Well, the price of imported coffee has risen. In some cases the roasters have passed this increased cost on in the channel of distribution. In some cases the increase in cost has yet to be passed on. I think Secretary Harriman tried to state yesterday what we expected the increase at retail to be in the light of what we know to be the increase in import costs so far.

If I may add one, sir, my wife is a great coffee drinker, too much in my judgment. She likes it particularly thick. If the spoon stands up in the cup, she knows she has the right consistency. I am fully aware of the increase in coffee prices.

Senator CARLSON. You know, we Scandinavians have to have coffee, and I am very careful of this.

I think I see the picture. I think we have made a good record on that, but now really—and this is probably Mr. Mann's problem because he is in the Latin American situation—really isn't the purpose of this International Coffee Agreement an international program as a part of the Alliance for Progress program; a foreign aid program; rather than any other type of program?

Mr. MANN. Well, I wouldn't call it, Senator, a foreign aid program. It is within the general aims of the Alliance for Progress. It does seek to meet a deeply held feeling throughout all of Latin America that in general over the last decade, the prices of the raw materials which they sell to us have not risen while the prices of manufactured goods which they buy from us have risen steadily. The result of this is a growing gap between their export earnings and our export earnings, a growing gap between per capita income in this country and per capital income abroad. And this is an effort not to fix the price but to prevent prices from wildly fluctuating and plunging down to levels which create serious political, social, and economic problems in those countries.

Senator CARLSON. Well, really, Mr. Secretary, isn't a large percentage of this increase in price taken in the way of taxes by these exporting countries? What percent of the export price of coffee does Brazil collect and put into the treasury of the Brazilian Government?

Mr. MANN. Well, I think the recent price increases have been largely absorbed by the Government of Brazil rather than by the producers or the exporters of coffee.

Secretary CARLSON. How much? Sixty percent?

Mr. MANN. This is a tax revenue.

Senator CARLSON. Sixty percent?

Mr. MANN. I think it is more than that.

Senator CARLSON. Sixty was the last I heard.

BEST AVAILABLE COPY

Mr. MANN. The exchange controls—the device used is the exchange to sell 100 percent of the foreign exchange earned on coffee sales at the official rate instead of 80 percent as it formerly was. This knocks out a windfall to the producer. Senator Douglas would say that is good because this means that large producers of coffee don't get a windfall profit. It goes into public works of the Brazilian Government.

Senator CARLSON. You mentioned public works. First, I want to state I am not insensitive to the problems of Latin America, and I have supported the Alliance for Progress. I voted for foreign aid funds. I am on the Foreign Relations Committee.

Mr. MANN. I understand that, Senator.

Senator CARLSON. And I am greatly concerned about it, but I think yesterday it was brought out that this increase in the price of coffee to the U.S. consumers could be $400 million, $500 million. Now, somebody is going to get that.

Mr. MANN. Well, coffee, of course, is the biggest single export item in Latin America, throughout—as we said yesterday—14 or 15 Latin American countries. It is their biggest export, and it is therefore particularly important to them. But, Senator, in the long run, I had rather see a healthy trade on fair terms between the United States and Latin America than to try to do this entirely through aid, and we have been slipping, as I said earlier, the terms of trade have been slipping, moving in our favor constantly over a period of long years now. And I think it would be healthy and good for this country in the long term if we could combine our aid program with a healthy two-way trade.

Most of these dollars that Latin America gets come back here in any case. We are the biggest exporter to Latin America, far and away. So we don't lose all of these dollars permanently. Our trade with Mexico; for example, 70 percent of all the things they buy abroad they buy here in the States.

Senator CARLSON. As I say, I have not opposed voting funds for the improvement of economic conditions and trade in Latin America. I do get concerned when we try to shift the load, and I think we try to do it in a way to cover up some of the foreign aid expenditures. And we have been reducing foreign aid expenditures, but we do make great contributions in the way of grants. We have great extensive loan programs in Latin America. And here is another item of $400 or $500 million that places this burden on the consumers of coffee in this Nation. That is the point I think we should stress.

Mr. MANN. Well, Senator, if I may say so, this price increase in coffee was not by design, and it was not deliberate on anybody's part. It came about as it always has in the coffee trade and in trade with certain other commodities by accidents of nature, acts of nature. And we believe, Senator, if we hadn't had this agreement, the price rise might have been much larger than it has been.

Senator CARLSON. I shall not argue that point, Mr. Secretary, but you know, we have a surplus crop in the United States. We have two or three of them, but we have wheat particularly. We grow wheat in Kansas, not coffee. But it is interesting what we do with our wheat surpluses. It just happens to be that I have a clipping that was taken from the Kansas City Star, October 23, 1963, and this is also a part of our foreign aid program. It is a very interesting article, and I shall not read it, but I do want to put it in the record. This is São Paulo, Brazil, December 23:

The United States is selling wheat to Brazil below world prices and on terms especially favorable to the Brazilians. Without this help Brazilians admit they would be short of bread. The U.S. Government has supplied Brazil with $480 million worth of wheat since 1955. As Brazil spends no dollars for this wheat, this represents an enormous dollar saving for the dollar-hungry Brazil. Last year the United States furnished $102 million worth of wheat in amounts worth the equivalent of Brazil's dollar earnings from its sales of cotton, which is the country's second largest export.

I mention that because we have some surplus problems. We don't ship a bushel of wheat abroad that is not subsidized by the Federal Government, and here is another phase that we sometimes forget in this international program. It is not just Brazil. I mentioned Brazil. But we do that with other countries. We have great school lunch programs in Latin America. I am for them. I think it is a fine way to get food out to people.

I just wanted to have this little discussion because I think sometimes we think we are not doing much or not doing enough for some of these people.

So I ask, Mr. Chairman, that this be made a part of the record.

The Chairman. Without objection.

(The document referred to follows:)

Dear Senator: I felt you might find the enclosed clipping from the Kansas City Star of interest and in particular the underlined paragraph relating to terms (40-year loan) and interest rate (1 percent per annum in cruzeiros).

Thanking you again for your intervention.

Respectively yours,

L. E. Haughey, Jr.

[From the Kansas City Star, Oct. 23, 1963]

WHEAT "GIFTS" BOOST BRAZIL—WITHOUT UNITED STATES SALES ON ESPECIALLY GOOD TERMS, BREAD WOULD BE SHORT

Big Bargain to Them—But Few in the Latin Nation Know About This American Help

São Paulo, Brazil.—The United States is selling wheat to Brazil below world prices and on terms especially favorable to the Brazilians. Without this help, Brazilians admit, they would be short of bread.

The U.S. Government has supplied Brazil with $480 million worth of wheat since 1955. As Brazil spends no dollars for this wheat, this represents an enormous dollar saving for dollar-hungry Brazil.

SHIPPED IN 1962

Last year the United States furnished $102 million worth of wheat, an amount worth the equivalent to Brazil's dollar earnings from its sales of cotton, the country's second largest export.

The fifth wheat agreement, recently signed, will guarantee Brazil in the next 12 months 1,300,000 tons of American wheat which, at prevailing world prices, amounts to $94,400,000. This wheat will be furnished on the following terms:

Entire payment is in cruzeiros with the rate of exchange calculated at approximately Cr$500 to the dollar. Today's actual cruzeiro rate on the "free" market is around 1,200 to the dollar. Brazil is thus able to acquire American wheat at a tremendous bargain.

The United States gives Brazil 40 years in which to pay for the wheat, with the first 3 years free of payments. Interest charged, also payable in cruzeiros is 1 percent per annum. No provision is made for the continuous depreciation of the cruzeiro, which in the last year amounted to more than 80 percent. If this rate continues, it might almost be said that the United States is giving away its wheat.

According to the agreement, the Brazilian Government, which sells this wheat immediately on its arrival to the Brazilian millers, must apply 60 percent of the proceeds for internal development projects, through its National Bank of Economic Development. However, the United States has no voice in these projects.

Twenty percent of the proceeds the U.S. Government donates to the Brazilian Government, without strings attached, to be used for the improvement of living conditions of the Brazilian people.

Only the remaining 20 percent of the cruzeiro proceeds go to the American Government to be used solely to cover expenses for the maintenance of the American Embassy and consulates, as well as various cultural and educational institutions that the United States sponsors in Brazil.

Few Brazilians know anything about this agreement.

PRODUCTION HELD DOWN

Brazil could produce not only all the wheat it needs but become a large wheat exporter, but it produces only about 500,000 tons per year against a consumption of between 2½ and 3 million tons.

Even with the American aid of 1,300,000 tons, Brazil will have to import this year close to 1 million tons more, probably from Argentina.

Brazil produces so little wheat because its farmers lack fertilizer, seeds immune to wheat rust, credits, and other essentials.

The only source where the growers could obtain the necessary credits is the Brazilian Government.

However, large wheat importers and millers, who form a powerful political clique, have been able to keep the Government from extending the necessary assistance for large-scale wheat production.

Senator CARLSON. That is all, Mr. Chairman.

The CHAIRMAN. Any further questions?

Senator TALMADGE. Mr. Secretary, how many nations belong to the International Coffee Agreement?

Mr. JACOBSON. Senator, approximately—I think right now approximately 55.

Senator TALMADGE. In other words, approximately half the world's nations, a little less.

Mr. JACOBSON. That is right, sir.

Senator TALMADGE. How many of them are producing nations, and how many of them are consuming nations?

Mr. JACOBSON. If I am correct in my total figure of 55 or nearly so, it is about 30 exporting countries, producing exporting countries, perhaps 32. It is 31, I am told. And the balance would be importing countries.

Senator TALMADGE. What do Americans now spend annually for coffee based on present prices?

Mr. JACOBSON. Well, based on present prices—I would have to give you the import value and then ask somebody to convert it into a retail value—but at import value it would be approximately $1.2 to $1.3 billion a year.

Senator TALMADGE. That is a little over 50 percent of the world's supply of coffee.

Mr. JACOBSON. It is about 52 percent of world imports, that is right.

Senator TALMADGE. So whatever hapens to coffee, the American consumer ultimately will share over 50 percent of the world's burden.

Mr. JACOBSON. That is right.

Senator TALMADGE. It seems to me, then, this agreement places the burden largely on American consumers to support the price in the event of surpluses and absorb the price in the event of catastrophes. Is that correct?

Mr. JACOBSON. Well, Senator, you are quite right because of our preponderant role in world affairs. What happens to coffee affects us inordinately, I quite agree, but, sir, we do not support the price. That is the point I want to make. We have no commitment to buy certain quantities or support any given price. Our only price obligation, if I may say this, is to help the exporters undertake regulations to keep prices from going below the low levels prevailing in 1962.

Senator TALMADGE. I assume the whole thing is designed as a price support scheme, is it not?

Mr. JACOBSON. Well, yes, in principle that is correct.

Senator TALMADGE. So if there is a surplus of coffee, the American consumers will continue to support the price, will they not?

Mr. JACOBSON. We don't fix the price, but we agree to help support it, and, as I said, at the low levels of 1962, which is the year when the agreement was negotiated. And our other obligation is to help to assure that prices don't rise in too exaggerated a manner or fall in too exaggerated a manner.

Senator TALMADGE. Then if there is a shortage of coffee, the American consumers of course will have to pay inordinately high prices.

Mr. JACOBSON. If there is a shortage, if supply and demand just forces prices up, we will be paying more for coffee, that is right. And I think that our trade will tell you that anything that we can do to keep the prices from rising too high will be in the interests of the trade itself. They will remember 1954 when we had no agreements, none whatsoever, there was a crop shortage in Brazil, concurrent shortages elsewhere, and prices went sky high. As a consequence, in the year following, per capita consumption in the United States, pardon me, gross consumption in the United States dropped 20 percent in 1 year. That was extremely bad for our industry. And, in fact, per capita consumption in the United States has never recovered from the drop from the 1954 level—a function of the high prices in 1954. What we hope for through this agreement is that we can moderate this great price increase which is occurring because of natural factors.

Senator TALMADGE. In view of that fact, then, if the American consumers would have to help support the price in the event of a surplus and absorb the additional high cost, in the event of a catastrophe, what benefit, if any, will the people of the United States get out of this agreement except the political benefit that may be in it?

Mr. JACOBSON. Well, I think I can answer that question in this way, Senator. If prices were permitted to collapse, and I mean utterly collapse, go well below the levels of August 1962, we would be breeding for ourselves an extreme shortage of coffee later on. If prices went down below the long-term equilibrium price, we would find ourselves with insufficient production over the long term. The producers would not go on growing. They would live off the stocks, wouldn't take care of their trees, wouldn't put in new plantings, and in a few years there simply would not be enough coffee production and prices would be zooming. If we could bring about the stability we are seeking through this agreement, we would over the long term—and I emphasize the long term because in this field one can't look at developments from one month and then another—over the long term we will be doing what is good for the producers, I agree, but we will also be protecting the U.S. consumer against rapid runups in price which are harmful to the pocketbook of the average American taxpayer.

Senator TALMADGE. Your conclusion is over the long pull you will have the effect of stabilizing the quantity of coffee necessary for world consumption and prevent prices from going either too high or too low?

Mr. JACOBSON. That is correct, sir. I think this is a fundamental purpose of this agreement, and I think this is why we should be in it. Yes, sir.

Senator TALMADGE. I have no further questions, Mr. Chairman.

The CHAIRMAN. Senator Bennett?

Senator BENNETT. No.

The CHAIRMAN. Senator Douglas?

Senator DOUGLAS. I asked questions yesterday. So I shouldn't interfere.

The CHAIRMAN. Senator McCarthy?

Senator MCCARTHY. Most of these countries are largely one-crop exporting countries, are they not? I say most of these countries——

Mr. JACOBSON. Yes, they are. Coffee is the largest or second largest exporting commodity for them.

Senator MCCARTHY. Consequently, price stabilization, stabilization of income of the country, is that much more important on this particular crop?

Mr. JACOBSON. That is right.

Senator MCCARTHY. Some of these countries are also sugar exporters. I find something of a contradiction between the position of the State Department on coffee and the position they took on sugar a few years back. I was not in agreement with them on sugar, and my question is, why the concern over stabilizing income and prices on coffee at this time whereas 2 years ago the argument made here was that we ought to buy sugar at world prices? We were told at that time that that would be good for everybody. The sugar program may not be your program, but I try to keep the departments consistent from year to year as much as I can.

Mr. JACOBSON. Well, Senator, I think—I know I am treading on dangerous ground here, but I would like to volunteer an answer if I may.

I think that the global quota to which you refer was intended to help assure that we got our supplies at economic prices. As it turns out in the volatile, very erratic sugar markets of the past couple of years, the reasons for which I think we are all aware, it turns out that the global quota has been of some advantage to us because it did enable us to shift our buying to those countries which had sugar to make readily available to us. I really don't find any fundamental——

Senator MCCARTHY. Well, the alternative was to have a relatively firm commitment from the countries to provide us sugar at reasonable prices. The decision was made to abandon that approach and purchase our sugar in the world market under what was called a global quota. You are talking about a global quota here with reference to coffee, really, though you don't use the same term.

I am not going to press you on it. I just want to ask if there is any disposition to reexamine the sugar program in view of what happened.

Mr. JACOBSON. I would like to make two observations if I may. First, the global sugar quota, as you know, represents only about one-sixth of our total supplies. But I can say that since the foreign portion of the Sugar Act of 1961 comes up for reexamination this year, I can say there is a disposition to reexamine the entire manner in which the act has operated, and if I may, sir, I would like not to say more about sugar at this stage if I can possibly avoid it.

Senator MCCARTHY. I would like to reexamine that program.

Senator DOUGLAS. Will the Senator yield?

Senator MCCARTHY. Yes; I yield to the Senator from Illinois.

Senator DOUGLAS. This feud between the Senator and myself—for many years the price which the United States paid was approximately 2 cents above the world price; $40 a ton constituted a subsidy to foreign sugar producers of $150 to $200 million a year paid for by the American consumer.

Now, it is true that within the last couple of years, due to Castro that the world price of sugar has risen very markedly and world price is not below the domestic production cost. But the Senator from Minnesota and I will renew this later.

Senator BENNETT. Does the Senator from Illinois want Castro to come back?

Senator MCCARTHY. There was the hurricane and one or two other natural factors.

Senator DOUGLAS. No. I do not want that, no. I am merely saying that we want to be very careful about having either the Treasury or the consumers subsidize foreign sugar producers. I would much prefer to have any difference from a low world price as compared to a higher domestic pricing go to the Treasury for the relief of the American taxpayers than be paid as a subsidy for groups overseas.

Now, I know Mr. Mann probably feels very much like the Senator from Minnesota, and the Senator from Minnesota in his characteristically subtle and gentle way was laying the basis for a change in the Sugar Act; I merely say I think any such change should be carefully scrutinized.

Senator MCCARTHY. I expect it will be carefully scrutinized. I think so far as the circumstantial evidence is concerned, that the changes in the Sugar Act have not proven completely successful. There may be other factors that bear upon those developments. This is really not your responsibility either, but I am always a little worried about being charged with imposing a tax upon consumption.

I proposed in the Agriculture Committee the other day a change in the law which would have resulted in a slight increase in prices paid for feed grains and principally for wheat in much the same way as you are proposing to raise the prices here. The Department of Agriculture spokesman accused me of trying to put a tax on bread. I don't expect you people to take on the Department of Agriculture which has become a kind of consumer's department, I think, but I do hope that you would be prepared to defend this in the name of foreign policy or international relations if we do proceed to give support to this particular proposition.

I have a question that gets to the matter here somewhat more directly. In your briefing paper, you refer to returns to growers in producing countries. The explanation makes reference to a number of funds and allocations of the money which is received for the coffee. In the case of Brazil, a part of it goes to the coffee defense fund. What is the coffee defense fund, and who controls the coffee defense fund?

Mr. JACOBSON. If I have the matter in mind—somebody here will have to check me on it—if I have the right matter in mind, sir, this was or this is the fund which the Brazilian Government created some years ago for the specific purpose of financing growers who desire to get out of uneconomic production of coffee and into crops of which Brazil had a more urgent need either for domestic consumption or for exports.

This fund was created during the days of very large and ever-growing overabundant production in Brazil. I hark back to just 4 years, to 1959-60, when Brazil produced 44 million bags of coffee and exported only 18 million bags. And the Government, I think wisely at that time, decided that it was just not prudent to continue producing coffee which the world simply couldn't take. And so they set about to create a fund for the purpose of helping farmers convert from coffee production into production of other products.

I believe this is the coffee defense fund.

Senator MCCARTHY. How is the defense fund controlled? Is it really subject to Government control or is it one of those kinds——

Mr. JACOBSON. I believe the fund is made up of both industry and Government representatives.

Senator MCCARTHY. Is it one of those quasi-feudal groups that develop in Latin America which is almost independent of government control?

Mr. JACOBSON. I simply don't know enough about the workings of the fund to know whether this is an apt description, but I do know there is no matter affecting coffee in Brazil with which the Government does not have a very direct influence and control. So I would say in general that nothing goes on in and through that fund of which the Government disapproved.

Senator MCCARTHY. A further statement is that it is understood that the coffee defense fund is considered as an anti-inflationary device in Brazil. If this is the case, I would like to know how. If it has operated so, it must be operating independently of the Central Government in some way, because certainly that has not been their policy.

Mr. JACOBSON. What happens, sir, is that this fund is financed by part of the export proceeds from coffee. This means that the growers receive a lower price for their coffee. The foreign exchange, part of the foreign exchange earned from coffee is turned over to the Government, and the Govrenment uses this to finance vital imports and in that sense these imports tend to check inflationary tendencies in Brazil.

Senator MCCARTHY. This is not out of the coffee defense fund itself. This is another operation which is part of——

Mr. JACOBSON. The Government siphons off part of the foreign exchange and makes parts of it available to the coffee defense fund in the form of local currency, but all the foreign exchange is maintained by the Government, retained by the Government for the purpose of financing imports of vital goods.

Senator McCarthy. This is in the coffee exchange receipts.

Mr. Jacobson. That is correct, to which Secretary Mann referred a few moments ago.

Senator McCarthy. What I was concerned about was really the operation of the coffee defense fund. Is this a sort of a quasi-private institution which is more or less independent of the Government? I understand most of the coffee holders are rather large in Brazil. If this is really a private fund, we would be making a special contribution to it. My concern is over the way in which it is used and the way in which it is controlled. We can't change that now, I know, but I tihnk it would, if it operates as I suspect it does, somewhat weaken the case for this International Coffee Agreement.

Mr. Jacobson. Well, as I said before, sir, from all that we have seen, nothing affecting coffee in Brazil goes on without the Government's hands being ever present.

Senator McCarthy. I know that there is nothing in the agreement, nothing we can do in this enabling legislation to provide for a reserve against a shortage such as that which you are experiencing this year. What discussion of this has taken place? Is there any assurance or are there any indications?

Mr. Jacobson. Well, I am the U.S. represetative to the International Coffee Organization, the council of the organization. And as I indicated yesterday, when I was in London recently, I had very frank "hair down" talks with producing countries, and I stated categorically—I reminded them that they had sought our help in bringing an agreement into being during the days when coffee prices were declining and reaching newer and newer lows day after day. I said we undertook to assume an obligation to help you defend coffee prices in the period of overabundant production and surpluses. Now you have a responsibility to protect us against inordinate price rises. If you fail to do that, you would not be carrying out your obligations under this agreement, and if you did not carry out your obligations, you could not expect our continued support for it. I might add that every single importing nation made exactly the same kind of statement. I was very encouraged by the rapport which existed between ourselves and the producers. The producers themselves know that in the long term, high prices, particularly prices which rise so rapidly, breed trouble for the future. It is this very fact which encourages overproduction and which lets the situation get out of hand. Then we have trouble in the future with surpluses and gluts.

Senator McCarthy. Throughout the years, whenever coffee prices have been low it has been with reference to large stocks keeping prices low. In this case the large stock seems to have very little bearing upon it. The prices were increasing very, very rapidly following the previous year's crop.

Mr. Jacobson. Senator, if I may, I would like to explain that. Brazil's current production of exportable quality for the years coming up, the next couple of years, is estimated at a low figure of roughly 8 million and a high figure of 13 million. Her normal exports were between 19 million and 20 million bags per year. She will have to dig and dig heavily into these stocks in order to meet her normal export requirements, obligations, or opportunities, however you want to describe them.

Now, she has stated categorically that she intended to do so. I think that we have had the price rise recently in the face of the crop disaster because buyers have a natural tendency to prefer fresh coffee instead of coffee which comes out of stock. That is the real answer for it.

Senator McCARTHY. Well, I am concerned about the production. In 1954 the production dropped, the crop dropped but it very quickly recovered. It is your estimate that it will take 2 or 3 years for the recovery this time.

Mr. JACOBSON. Yes.

Senator McCARTHY. Is there a difference this time?

Mr. JACOBSON. Yes, there is, Senator. In 1954, as I understand the situation, they had only one natural calamity: frost.

This year we had drought, we had frost followed by a fire and followed again by a drought which is still continuing. And I am told by people of our trade who have offices in Brazil and who go around scouring the countryside, that the extent of the damage is very, very considerable and they estimate that it may be 2 or 3 years at the minimum before the trees bounce back and recover their vitality.

There is a difference in kind, you see, Senator, the kind of damage, as well as the degree of damage.

Senator McCARTHY. I am concerned about this. You are asking for an extension of 2 years. Now, if it is your estimate that it will be 2 years of this same situation in the area of production, then a 2 year's extension would not be enough to assess the program; would it?

Mr. JACOBSON. I think your observation is valid, Senator, but it will offer us opportunity to see whether in these next couple of years of shortages the producers conduct their exporting policies in a manner which tries to take care of the vital interests of the consumer. And if they fail to do so then they would in effect be scuttling the agreement to which they attach such importance.

Senator McCARTHY. Now, you have said in effect that if the prices go higher as a result of the agreement——

Mr. JACOBSON. That is right.

Senator McCARTHY. On the other hand, if the prices stabilize, that may not be due to the agreement itself but to the market situation?

Mr. JACOBSON. That is right.

Senator McCARTHY. The question then is whether to extend for 2 years or just wait 2 years and see what happens to the market.

Mr. JACOBSON. I think it is in the wisdom of this committee to decide what it wishes to do, but——

Senator McCARTHY. Well, my point is this, I think there is some real question as to whether anything much can be proved over a 2-year period, considering the supply-and-demand situation.

Mr. JACOBSON. Well, I think the question is legitimate but I really believe in the circumstances facing us that we will learn a lot. We will learn a great deal as to what the producers really believe their commitments to consumers should be in a tight market circumstance.

Senator McCARTHY. You are saying that you will have a chance to observe them, their good faith, and so on.

Mr. JACOBSON. That is right. Suppose, for example, Brazil refuses to sell her stock. She has not done so, in fact she is exporting at a record rate right now. But suppose she refuses to sell her stock.

We would naturally be concerned with that, the same as we would be concerned if others held back stock. This is a matter of how they behave themselves, and it is of great importance.

Senator MCCARTHY. Thank you. I have no further questions.

The CHAIRMAN. Senator Ribicoff?

Senator RIBICOFF. What is the price of coffee in countries that are members of this agreement?

Mr. JACOBSON. Virtually the same as in the coffee-producing countries that are not members, because coffee prices are set in a highly competitive world market.

Senator RIBICOFF. Now, what did you do in your council toward getting prices down?

Mr. JACOBSON. Well, in a market such as we have today, the first thing we did, Senator, was to ask the producers to agree, and they did agree, to raise export quotas so as to assure that the quotas in no way contributed to the price increases.

The second thing we did is that to which I made reference in my colloquy with Senator McCarthy. We said to them, "You have a particular responsibility to us in a very tight market. Please make your supplies available. Make sure that you fulfill your quotas and try to so conduct your policy as to protect our consumers."

And so far there is evidence that they are doing that.

We have a forum, a formal intergovernmental forum in which to carry on a dialog of this kind. And we have an international agreement, so to speak, which binds the exporters to protect the interests of consumers, and not only of their own producers.

Senator RIBICOFF. This agreement has been in effect since 1940?

Mr. JACOBSON. No, Senator.

Senator RIBICOFF. I mean the preceding agreement.

Mr. JACOBSON. No, sir; the preceding agreement, the agreement of 1940 was an emergency agreement involving only the United States and all the Latin American producers. It went into effect——

Senator RIBICOFF. How many years has this particular agreement been in effect?

Mr. JACOBSON. It has actually been in effect since July of this year, but not in effect with respect to the powers that we are seeking under this bill pending before this committee.

Senator RIBICOFF. In your discussions, did you ever talk to them about increasing their production? You talked about taking production off the market, but what have you done about increasing their production?

Mr. JACOBSON. Well, under the production goals article of the agreement we will be talking to them immediately. As a matter of fact, the issue of production controls is on the agenda of the organization. We will have to discuss with them whether the phenomenon we see now of a crop shortage is only a temporary matter or whether, instead, it is a permanent one. If, in fact, it is a permanent one, we would be encouraging them to increase their production.

Senator RIBICOFF. Last fall, and I am speaking of Colombia, practically everyone that I talked to in government and out of government indicated that if the price of coffee were 5 percent more, they would not need an Alliance for Progress, they could handle their own problems. Now, do you think that if their position is correct that they won't need any more money from the United States?

Mr. JACOBSON. May I confer with the Secretary a minute?

Senator RIBICOFF. Of course.

Mr. MANN. Senator, the Colombians that I have heard speak have said every cent drop in the price of coffee reduces their total income and if the fall is great, it cancels out the benefits of foreign aid. I have not heard any Colombian say that he did not think that the Alliance for Progress should not operate because of a temporary rise in the price of coffe.

Senator RIBICOFF. You understand, I am not talking about official circles. I mean just talking with people in business and labor and banking, exporters and importers, various Colombians, and talking to representatives at a conference of all South American countries, and they publicly and privately seemed to ind'cate that there was not anything that would solve the problems of Latin America more than getting an increased price for the products that they export. And coffee being the chief crop, the indication was there that if the price of coffee went up 5 percent, they would not need any Alliance for Progress, and would be able to handle their own problems.

Mr. MANN. Senator, I have not heard any Colombian, official or private, and I speak to them quite often, say that they did not think that they needed the Alliance for Progress program.

On the contrary, the Minister of Finance in Colombia, Santa Maria, has recently indicated that he will resign his position to assume the chairmanship of this new CIAP Committee in order to give more vigor and more life to the Alliance for Progress. But the Alliance for Progress includes trade as well as aid, and it is true that Latin Americans are deeply concerned and have been a long time with regard to what they call an imbalance of trade.

That is to say, they pay more continually year by year for the products that we export, whereas the price of the products that they export has tended to go down over the years. So that the gap between their export earnings and what they are able to import is greater, the gap between our earnings and theirs is greater, the gap between the increase in our living standards, per capita income, and gross national product, and so on, and theirs is increasing.

This is one of the great problems, I think, between the developing and underdeveloped parts of the world. And how to increase their income so that they can import the capital goods that they need to grow, especially at a time when their population is doubling every 25 years, is a very serious problem.

Senator RIBICOFF. I don't understand how the increase in coffee prices contributes to a higher South American economy. I ask that because apparently the price of coffee does not determine the wages or the return that the farmers get who are working on the coffee plantations. They probably get very low rates and those would be the same irrespective of the price of coffee. So, how does the increased price of coffee help the general economy of South America?

Mr. MANN. Well, it helps them in many ways, Senator. It increases their foreign exchange earnings, their balance-of-payments position and enables them, therefore, to import and pay for more goods, capital goods, to increase their production.

Senator RIBICOFF. Yesterday in the testimony it was indicated that much of these earnings find their way to Switzerland instead of finding their way into the general exchange or the treasuries of the South American countries——

Mr. MANN. No, sir; I think that a small percentage of money is held out by these countries but $9 out of every $10 invested for economic development in the private sector are domestic dollars, not foreign dollars, so that the private sector in Latin America is carrying a very heavy load of the development and they are investing their money and have done so for a period of years.

Now, this does not mean that some of them don't keep accounts outside the country. They do. But increased coffee prices mean more tax revenues in addition to more foreign exchange earnings. It means to the Government, more help in their budgets. It certainly helps the producer and the exporter, and it helps everybody, in the same way that trade helps all countries.

Senator RIBICOFF. Do I understand you to say that you believe that private sector in South America is doing its fair share in furthering the development and growth down there?

Mr. MANN. No, sir; I think it is more complex than that. What I said was that over the past, $9 out of every $10 of risk capital, private capital, that goes into economic development has traditionally come from local sources rather than private foreign sources, and this indicates that they are doing something.

Now, I would hope that they would do more, Senator. I think in some cases the fact that they don't do more is perhaps their fault and perhaps in some cases it is lack of confidence in the attitude of the Government toward private property rights, and that sort of matter.

And in some cases they hesitate to invest because of galloping inflation. Brazil this year is having an inflation at the rate of about 80 percent.

It is a very complex problem—all these matters that bear on whether a capitalist considers that it is wise to make an investment, and I would like to see a better climate, we would like to see a better climate for domestic private investment and we would like to see a better climate for foreign private investment in Latin America.

And we would like to see less nationalism, more confidence, a higher rate of investment and reinvestment of earnings, and these are some of the things that we work for through the Alliance.

Senator RIBICOFF. The coffee that is grown down there, how is it generally grown? Does it come from small farms or large plantations?

Mr. MANN. Well, as a result of Senator Douglas' request we got together some figures that I can read you on this. This is all we have at the moment.

In Costa Rica according to our information, 42 percent of the coffee acreage is in farms of less than 50 acres; 72 percent of the coffee acreage is on farms of less than 250 acres in size. In Salvador, 55 percent of the acreage is on farms of less than 125 acres. In Guatemala, 40 percent of the acreage in coffee is on farms of less than 125 acres. In Honduras, 60 percent of the coffee grown is on farms of less than 12.5 acres and 75 percent of the coffee grown is on farms and units less than 25 acres. Nicaragua, 50 percent of the area planted to coffee was on 1,300 plantations, averaging 250 acres in size. In Colombia, our figures show that there are 250,000 farms, and of this total 86.3 percent are on less than 2.5 acres; 58 percent are between 2.5 and 25 acres and 5.5 percent are between 25 and 125 acres in size, and only two-tenths of 1 percent comes from tracts larger than 125 acres. In Mexico our figures show that there are 80,000 producers—I suppose that means coffee farmers—with an averge holding of land of 4 hectares—that would be about 9 acres.

Now, this do not mean that there are not large coffee farms. My information is that in Brazil there are some large farms. There are some in Salvador that I know about.

But in the case of Brazil, through revised exchange regulations, all of what might be called increased profits resulting from increased prices in the last few months have been siphoned off by the Government and away from the producers.

Senator DOUGLAS. Would the Senator yield?

Senator RIBICOFF. Yes.

Senator DOUGLAS. Your figures show farms. But, of course, many of these farms are in countries where 1 man will own a number of farms—12 or 15 or 20 separate farms. And so if I understood you correctly your figures on the percentages grown on farms—your figures do not show what percentage is grown on farms owned by what percentage of the growers. Do you have figures on that point?

Mr. MANN. No; we do not, Senator, but I think in some countries such as Salvador this is certainly true, that one man may own more than one farm, and certainly does.

Senator DOUGLAS. It is true; isn't it?

Mr. MANN. I think this is less true in many other countries, Colombia, for example, and Mexico——

Senator DOUGLAS. Well, Mexico is not a very large coffee producer, is it?

Mr. MANN. Yes, sir; it is one of the largest.

Senator DOUGLAS. What about Brazil? Brazil certainly is the biggest. What percentage of the coffee in Brazil is grown by what percent of the landowners? Let us put it that way.

Mr. MANN. Senator, we looked hard for that and we simply don't have it. I think it would take some time to do a study on a country that large.

Senator DOUGLAS. I think that it is a fact, Mr. Mann, that the governments in these countries prefer to operate in terms of farms rather than ownership and it is going to be very hard for American representatives to get the facts out. What I do want to get is the actual fact, measured on the basis of ownership rather than measured in terms of separate farms, because you do have multiple farms that are under the ownership of one owner.

Mr. MANN. Well, Senator, I frankly don't know. I have never served in Brazil. I don't know about Brazil but we will certainly try to find out. I have already asked that it be done but it will take some time.

In the second largest producer, Colombia, I am reasonably clear that this multiple ownership of farms is not common. And, in Mexico, which broke up large estates, I am certain that it is not common. They are very small farms in Mexico, and in Colombia, and I think this is generally true. I think it is more generally true than the opposite. I would not want to say that there are no multiple ownership situations. There are. But I really don't think that it is as deep a factor as you may sometimes think.

Senator DOUGLAS. Thank you.

Senator RIBICOFF. What do you think would be the results if the agreement were not extended?

Mr. MANN. Well, I think there would be a number of results. I think first that we would lose the only instrument that we have for protecting the consumer. You would open the gates wide to manipulation of markets and general speculation. This is the only way, the only forum we have of sitting down with producers, with an agreement which binds them to act reasonably. That is from the economic point of view.

From the political point of view I testified yesterday——

Senator RIBICOFF. Well, if you testified to that point yesterday, I do not want you to repeat it. There is no need for repetition in the record.

Now, would you say that in 1954 when the price of coffee went up, would you say that we lost a certain number of people as coffee consumers, people who thought that the price of coffee was too high and therefore began to drink more milk or more tea or something else as a beverage rather than coffee. Now, if the price of coffee goes too high, what would be the result as far as the American consumer is concerned?

Mr. MANN. Well, I would imagine that if coffee prices go back up to that high level again, around the 60's, that we would see the same thing repeated; that is, we would see consumer resistance and turning to substitutes such as tea—they would not be drinking as much coffee.

Senator RIBICOFF. Would that not be a pretty good sanction in South American countries against trying to manipulate the price upward if they knew that there would be this consumer resistance in this country?

Mr. MANN. Well, I think the producers are as anxious as we are to prevent prices from rising for that reason.

Senator RIBICOFF. Thank you, Mr. Chairman.

The CHAIRMAN. Senator Dirksen?

Senator DIRKSEN. Mr. Jacobson, I suppose that you attended with the delegation at the London conference.

Mr. JACOBSON. Yes, sir.

Senator DIRKSEN. Did you at that time make any kind of an effort in behalf of increased quotas to make sure that we had an adequate coffee supply?

Mr. JACOBSON. I certainly did, Senator Dirksen. I was part of a consumer group completely in agreement on the need for a quota increase. We expressed to our producer counterparts our conviction that this was in our interest as well as in theirs, and after 3 days of debate in London they agreed to increase quotas by 2.8 million bags of coffee.

Senator DIRKSEN. Now, you made a speech at the National Coffee Association?

Mr. JACOBSON. That is right.

Senator DIRKSEN. On January 20 with regard to quotas?

Mr. JACOBSON. That is right, sir.

Senator DIRKSEN. Well, what happened to the quota?

Mr. JACOBSON. The Council voted virtually unanimously, that is, both the exporters and the importers separately, that quotas should be increased and I believe it was just 2 weeks ago today in the late hours of the day that the Council voted an increase of a little over 5 percent in quotas, roughly 2.3 million bags of coffee, and we are persuaded that at this time quotas are large enough to insure that the quota mechanism itself will in no way contribute to the price increase.

If I may add one point here, Senator, we also said at the time that if we were ever persuaded that quotas were contributing to the price movement we would be back, and we would be back in a hurry asking for quotas increases. And the producers all said to me that they would agree in principle that this was the proper step, if in fact it were clear that quotas were in any way contributing to price increases.

Senator DIRKSEN. I am advised by the Department of Agriculture that in 1952 there was a 10 percent increase in the price of coffee on an aggregate to the consumer and I am advised that also on the basis of estimates in 1963 there would be an 8 cents a pound increase, $239 million. And I see here a statement by Jose Figueres of Costa Rica, the former President, and I quote, "an additional 10 cents must be exacted per pound," and that would be another $300 million. Now, if this is so and if it comes out finally to an increase of $750 million, can you tell me how you are going to sell this to the consumer?

Mr. JACOBSON. Well, Senator, if I can work backward, I say that if prices continue to go up less coffee will be sold to the American consumer. I think that is one of the genuine fears of the producer.

If I may comment on the figures, I think that these figures refer and quite properly to the added cost of coffee that will be incurred this year compared with the average price of last year.

I think, and here I will be adding to the comments made by Secretary Mann, that we are at a danger point. By that I mean that coffee prices have gone up considerably and if they go up more there is just bound to be a reaction. The American housewife will simply switch to other beverages as she did in 1954, and that means that in the long term the coffee producers of the world will see their market shrink instead of expand.

This is really, when one gets down to it, a basic sanction which hangs over the head of coffee producers everywhere.

Senator DIRKSEN. I am advised that in 1949 the coffee consumption was per capita 8.8 in this country and 1962, and these are Department of Agriculture figures, it had risen to 15.8. What reason is there to believe that if the prices are manipulated upward that the consumer will not hold off consuming coffee again?

Mr. JACOBSON. I must agree, Senator, that the producers will be defeating their own interests if they permit prices to soar, and this is why they have said to me—and I believe them, because nobody would work against the interests of his own industry—that is why they said to me, "we are going to do our darndest"—and they used more forceful language, I might say, I won't use it here, "we are going to do our darndest to try to check the price increase. We are going to sell our stock, we are going to try to handle our policy in such a manner as to keep the price rise from becoming too exaggerated."

Senator DIRKSEN. Now, you and Mr. Mann and Ambassador Harriman made a great deal of the damage to the production of coffee in Brazil. But last month the Department of Agriculture said that the fires which swept Brazil shortly after the frost failed to hit most of the coffee producers, principal coffee producers. What about that?

Mr. JACOBSON. The principal damage was done by drought which started early in 1963 and then by the heavy frost which hit Parana and São Paulo, but I believe principally the Parana district, the principal producing area, and then the drought, which is still continuing—I have seen private reports prepared by representatives of our leading importing countries, private reports prepared for them in Brazil on crop prospects, because it is vital for them to know what the prospects are for production. These private reports indicate categorically that extreme damage has been done by the frost and the continuing drought and that the estimates of production which had been put out by the Government of Brazil are more or less within the ballfield.

Senator DIRKSEN. Well, this statement was made by the Department of Agriculture last month and I think it is fair to assume that they are on the job and this could be a little better estimate——

Mr. JACOBSON. Yes, sir, and I have seen the report from Agriculture which assess the damage by fire as exaggerated, but the reports of damage done by the other factors, that is, by frost and drought, these reports tend to confirm, do confirm that which we have been saying to this committee as representing a basic cause of the price increase—the major crop failure in Brazil.

(The following letter regarding the effects of fire on the 1964–65 Brazilian coffee crop, was subsequently submitted for the record.)

U.S. DEPARTMENT OF AGRICULTURE,
FOREIGN AGRICULTURAL SERVICE,
Washington, D.C., February 28, 1964.

HON. EVERETT MCKINLEY DIRKSEN,
U.S. Senate.

DEAR SENATOR DIRKSEN: Referring to H.R. 8864, I note that USDA report, FCOF 4–63, was cited at the Wednesday hearings at the Senate Finance Committee, in discussing the effects of fires on the 1964–65 Brazilian coffee crop. The statement cited still reflects the Department's best judgment on this point.

Although losses from fires are expected to be small, the Department does except heavy losses from frosts in Parana and drought in São Paulo. These are the major coffee producing areas in Brazil. Drought is continuing in São Paulo.

The Department makes its first official world production estimate for the 1964–65 crop, including Brazil, in June. However, information coming out of Brazil, including that from our agricultural attaché who is watching developments closely, continue to indicate a substantial reduction in the next crop, as stated in the testimony presented by several witnesses at the hearings. The harvest of the next crop begins in late May.

It occurred to me that these comments regarding Agriculture's views about the 1964–65 Brazilian crop prospect might be useful to you in assessing the Brazilian coffee situation.

We are forwarding a copy of this letter to the Clerk of the Senate Finance Committee with a request that it be inserted in the records of the hearings if there is no objection to doing this.

Sincerely yours,

RAYMOND A. IOANES, *Administrator.*

Senator DIRKSEN. Do you regard increases in the price of coffee as a type of aid to these countries in Latin America?

Mr. JACOBSON. A dribbling increase?

Senator DIRKSEN. Well, if it will come up, and I think everybody assumes that there is going to be an increase in the coffee price.

Mr. JACOBSON. Well, starting from where we are, if coffee prices should go higher, I can state that categorically——

Senator DIRKSEN. Let me interrupt you—I gave you the statement from the President of Costa Rica who said that they have got to have another 10 cents a pound——

Mr. JACOBSON. Well——

Senator DIRKSEN. You know, he is not talking into the air and he is down in the coffee country.

Mr. JACOBSON. Well, I find it a little awkward to comment on a statement by ex-President Figueres. I can only repeat my own view, which I know many producers in the producing countries to share, that we are at the point where it is dangerous for prices to continue to rise.

Senator DIRKSEN. Well, is this a type of aid to those countries?

Mr. JACOBSON. This is trade, this is not aid, in any sense that it was a deliberate effort either on their part or on our part to force prices up to where they are today. In that sense it is absolutely not aid. It is true that they benefit from a higher price but I wouldn't say it is aid.

Senator DIRKSEN. Well, it has meant $750 million out of the pockets of the American consumer for the coffee producing countries. Wouldn't that constitute aid?

Mr. JACOBSON. Well, as I said, I have no doubt that they benefit from this. The point I was trying to make, Senator, is that this was not a planned, designed deliberate effort either on their part or on our part to bring about these added revenues to them.

Had we not had the crop disaster, prices would be today where they were 6 months ago and the prices then were at the low point for about 15 years.

Senator DIRKSEN. To what extent is the coffee market cartelized? Is there a cartel in coffee?

Mr. JACOBSON. Well, I think——

Senator DIRKSEN. What I am trying to get at, as you well know, is how deep is the speculative interest and what are the growers going to get out of all this?

Mr. JACOBSON. Well, I—not as a member of the trade, but as a Government representative who has seen other representatives of the producing countries sit around a table and discuss their problems—I can say that there is intense competition among the coffee producing and exporting countries in a normal market, intense competition.

In fact, it was the intense competition in the recent atmosphere of overabundance which in fact forced prices down, down, down, over the years.

Senator DIRKSEN. I guess we could probably take notice of the fact that this last year we had quite a squabble about foreign aid and particularly about the Alliance for Progress. Now, if this increase could be interpreted as aid, what would be the matter with a provision in this bill to the effect that the President is directed to estimate what this aid will be and subtract it from the available funds for the Alliance for Progress?

Mr. JACOBSON. Well——

Senator DIRKSEN. Mr. Mann, you can answer that.

Mr. MANN. Thank you, Senator. If you are asking me, I would not recommend that you mix up trade and aid. Latin America is doubling its population every 25 years. This means that in the next 25 years, Senator, they are going to have to approximately double the number of jobs and food production and everything that civilized man requires.

Their biggest need is capital. Now, if we look at the prices of coffee today and compare them with not the last 5 years but the 5 years before the last 5 years, they are still well below the average. But looking at the last 10 years, this is not a price which is unusual or abnormal and I think would not be adequate justification for cutting out our Alliance for Progress program to Latin America.

I think that it is in our interest to keep political stability if we can in that area, to encourage them to trade more and at the same time, of course, avoid these things that we are concerned about. There should be no price rigging, there should be no cartelization of trade of any kind, it should be on a competitive basis.

Senator DIRKSEN. When the Alliance was born, do you remember all of the optimistic predictions, where it was anticipated that an average of $300 million a year of American money would go into Latin America. The fact of the matter is that more money is coming out of Latin America than is going in and the disbursements have been dropping month after month, meaning more instability in the basic situation. Now, that does not command the confidence of American investors, and even the funds of the Latins themselves are finding their way into other places, finding safe havens in New York or in banks, and in Switzerland and Sweden.

Now, maybe you know that when the coffee agreement was before the Senate I was at the White House when the late President was pinning a medal on the last astronaut and he called me in and I said, "Your treaty is in trouble. You better get a letter over to the Congress, to the Senate in the next 2 hours."

And in the next 2 hours there was a letter. And I would have to say that it is one of the first and few letters that I have seen that really was intelligible and understandable so that all the Senators could understand and it was on the basis of that that we secured approval of the coffee agreement. I think five members of this committee voted against the agreement.

Now, we have got to have an argument, and I want to be helpful. And in considering it we also have got to think in terms of what we are going to saddle on the American people. Frankly, I don't think you have given us a great deal of argument because of these conflicting reports from your shop and from Agriculture and from Commerce and elsewhere. What we need is an argument that is logical and not with conflicts in it.

Mr. MANN. Well, Senator, I don't think there is any disagreement between the departments of Government on the position here. The extent of the damage caused by the frost, the drop in production from 1959 and 1960 in Brazil when they were producing around 35 million bags of exportable coffee and where we think as a result of these calamities they are going to produce between 8.5 and 13 million bags this year, that is a tremendous drop.

I think it is clear that the price rise is not due to the agreement but that on the contrary the agreement is the best chance we have of keeping the price rise below the point that it reached only a short time ago. We went from 1953 to 1957 with an average of about 61 cents, and we are trying to avoid that.

And if we did not have the agreement, Senator, we would have no reason to go to the producers and talk about orderly marketing, which is supply and demand, the kind of thing which controls price.

Senator DIRKSEN. I found considerable comfort in Mr. Jacobson's statement where he said that it is estimated that Brazilian exportable production of 19 million bags is 1 million bags over the quota—I am reading from your statement, Mr. Jacobson——

Mr. JACOBSON. Yes; Senator, I am sorry if I am responsible for any confusion on that point. The figure of 19 million to which——

Senator DIRKSEN. You are not confused. I am confused.

Mr. JACOBSON. Well, I would like to clarify that, Senator. The 19 million figure, sir, refers to production in this year. When Secretary Mann spoke about the crop failure bringing production down, exportable production to somewhere between 8 and 13 million, he was talking about production in the next couple of years, and this is what the buyers are most concerned about. They are concerned that they will not be able to get fresh coffee supplies in the next couple of coffee years and it is for that reason that the futures prices are substantially more than the spot prices.

Senator DIRKSEN. Mr. Chairman, there are other things that I could touch upon, but the Senate is about ready to vote on the tax bill.

The CHAIRMAN. Are you suggesting we recess now?

Senator DOUGLAS. Pardon me, Mr. Chairman, if the other members of the committee have finished questioning, I would like to ask some.

The CHAIRMAN. Senator Dirksen has indicated he has not concluded his questioning; and Senator Morton is here.

Senator DIRKSEN. Oh, I defer to the Senator.

Senator MORTON. I will yield.

Senator DOUGLAS. Thank you. There are a few questions that I might ask.

The CHAIRMAN. You have about a half hour.

Senator DOUGLAS. I would like to ask the witness this question. They have described the changes in exportable production as being apparently due exclusively to changes in the weather and changes in the volume produced. I would like to ask if historically there is any record that Brazil has limited (*a*) plantings and (*b*) exports to given quantities?

Mr. JACOBSON. As to production——

Senator DOUGLAS. I am asking about historically.

Mr. JACOBSON. Yes; I understand.

Senator DOUGLAS. Is there any record that Brazil has fixed quotas on the amount which can be produced prior to the International Coffee Agreement?

Mr. JACOBSON. I am not aware of limits on production.

Senator DOUGLAS. Limits on exportable quantities.

Mr. JACOBSON. Prior to this agreement?

Senator DOUGLAS. Prior to the agreement.

Mr. JACOBSON. There was in effect an agreement exclusively among exporting nations, an agreement which set export quotas.

Senator DOUGLAS. For how long did that continue?

Mr. JACOBSON. Well, it began in late 1957 and it has been in effect ever since.

Senator DOUGLAS. Did it exist during the period in which coffee prices skyrocketed?

Mr. JACOBSON. Oh, no. To my knowledge; no, sir.

Senator DOUGLAS. Were there any regulations by Brazil itself limiting the amount of coffee which could be exported from Brazil prior to 1958?

Mr. JACOBSON. There may very well have been, sir, but I don't know for a fact. I would be glad to try to get the information.

Senator DOUGLAS. Well, isn't that so, that there were such regulations by Brazil?

Mr. JACOBSON. Well, I——

Senator DOUGLAS. Is it not a fact that Brazil has attempted in times past to regulate the price of coffee through limitation upon the amounts which can be exported?

Mr. JACOBSON. Well, I know that—I know that in the past 5 years she has observed export quotas in an effort to brake, to stem the price decline. I know that for a fact.

Senator DOUGLAS. In other words, they have only used quotas to prevent prices from falling. Have they ever used quotas to get prices to increase?

Mr. JACOBSON. Well, in the period of my knowledge, which is the past 5 years, prices have been steadily declining.

Senator DOUGLAS. I know, but prior to this time—are you going to say that Brazil has not attempted in the history of coffee to restrict exports in order to raise prices?

Mr. JACOBSON. I have no doubt this may have happened, but I just don't know——

Senator DOUGLAS. Would you submit a statement for the record on that?

Mr. JACOBSON. Yes; I will.

(The following was later received for the record:)

CONTROL OF EXPORTS BY BRAZIL

Controls on the export of coffee from Brazil were exercised throughout the years of the Second World War by the National Coffee Department, which was superseded in 1946 by the Division of Coffee Economy of the Ministry of Finance (DNC) and in turn 1952 by the Brazilian Coffee Institute. Each of these in turn had responsibility for permitting the movement of coffee from interior storage to the ports, for verification of export prices to facilitate operation of foreign exchange practices and for establishing standards of quality. For several years after 1946 the coffee market was largely free of governmental intervention and restriction. The Government did, however, continue to control movements to port.

When the war ended the DNC had sizable stocks, which were gradually liquidated until supplies were exhausted in 1949. Late in 1949 the Brazilian Government informed the public that the last of its holdings had been placed under contract for delivery, and advised that the coffee trade would be left free, but not abandoned in case of need. The President of the DNC stated that the Government would stand ready to intervene, when necessary, to prohibit any speculative movement of coffee; to lend its support to producers in financing their crops; to assist in acquiring fertilizers; and to help improve tillage practices.

In 1951 a new statement of coffee policy was issued outlining the steps the Government would take to improve the coffee economy. Regulations were issued, designed to prevent competition between ports by regulating the movement to port to correspond to warehouse and shipping availability, and also to assure orderly marketing throughout the year. Port quotas were established; export quotas were also established for areas or countries of destination. These quotas by area of destination were withdrawn within a year because of complaints from importers. There is divided opinion regarding the intent of the Government in establishing port quotas. They helped to maintain the quality of Brazilian coffee, by retaining stocks in the dry interior until near time of shipment. They helped to even out seasonal price fluctuations. They may have had some effect on the level of prices. However, minimum price regulations were probably of more importance in this connection.

MINIMUM EXPORT PRICES

In March 1951, the Brazilian Government announced that it expected to support and stimulate prices, and as a means to this end, would refuse to register declarations of coffee sales abroad at prices which did not correspond to the real value of the coffee.

The Federal Trade Commission reported, in its "Economic Report on the Investigation of Coffee Prices in 1954," that "although enacted for the purpose of raising or supporting the price of coffee, minimum export prices apparently were ineffective in achieving the desired end." The program was abolished, but later reinstated, at times under a flexible system where the price was established each day, based on prices in principal markets on the previous day, and at times under a fixed-price system, with the minimums at each port changed as occasion required. At times the minimum price was appreciably higher than quotations in consuming countries, and hampered importers in obtaining supplies of the types of coffee they desired. However, the FTC report of 1954 states "in contrast to the above, there are those who say that * * * the Brazilian Government has made no apparent effort to manipulate prices by fixing a minimum export price higher than the actual market" and concludes "In order to determine the true situation the FTC would need to have available more information about Brazilian prices and how they are determined than it now has."

Minimum export prices were also in effect in Colombia during much of the period prior to the negotiation of the International Coffee Agreement.

In 1958 the principal coffee producing countries of this hemisphere negotiated a coffee agreement which established export quotas. As members of this agreement both Brazil and Colombia were committed to limit their exports to their assigned quotas; minimum export prices have been maintained by both countries, primarily to facilitate control over foreign exchange receipts from coffee exports.

Senator DOUGLAS. As to the past policy of Brazil. Now, is it true that at times other countries have joined with Brazil in restricting exports and that at other times the high prices which Brazil had set, the umbrella, so to speak, which they have raised over coffee prices, have induced these countries to break away and increase their exports?

Mr. JACOBSON. Oh, I think it is absolutely correct that because Brazil restrained her exports in an effort to support prices, this afforded others the opportunity to take advantage of that.

Senator DOUGLAS. And this was prior to 1958?

Mr. JACOBSON. That again I would have to provide for the record because I am not aware of it myself.

Senator DOUGLAS. Now, this is a curious thing. I am a mere amateur in this, and here you are, the greatest expert in the United States on this subject and you say you have no knowledge of it. I would like to have the record made on this issue so we can see whether the pro is right and whether the ignorant amateur is wrong. Now, may I add——

Senator MORTON. Would the Senator yield?

Senator DOUGLAS. Certainly.

Senator MORTON. I was in the State Department then. Yes, I think there was a positive effort made to restrict exports to raise prices and this was reflected onto all the coffee exporting countries, so we saw the terrific prices in the early 1950's as a result of that. Thank goodness that did not happen this time because we had the quota system and they were able to increase the quotas and increase their exports. And that was a very salutory thing this year.

Senator DOUGLAS. Regardless of what we may say about the present quotas, is it a fact, do you agree with me, that in the past there were restrictions upon exports, as a result of which there were increases in price?

Senator MORTON. The Senator is absolutely correct, and one of the reasons for this agreement is to prevent that happening in the future.

Senator DOUGLAS. Now, if I may pursue my line of inquiry, I notice in the statistics that you point out that the world exportable production in 1956 to 1960 exceeded the actual exports by 9,345,000 bags per year over a period of 5 years, which would be the equivalent of 46 million bags. For the 3 years 1960, 1961, and 1962, the sum total of excess of exportable production over actual exports was 44 million bags, and I ask you, what happened to these 93 million bags which I counted as exportable production but which were not exported? Where are they? What happened to them?

Mr. JACOBSON. Well, my knowledge is that approximately 50 million or so bags of coffee existed in Brazil until recently, with perhaps 4 million or 5 million bags or so in Colombia and perhaps scattered around here and there.

Senator DOUGLAS. Well, where are they?

Mr. JACOBSON. Well, as we understand the situation, a good deal of that coffee is very old coffee and it is no longer of a quality that we would consume here.

Senator DOUGLAS. Is it not old coffee because Brazil would not allow it to be exported?

Mr. JACOBSON. Well, yes; had she——

Senator DOUGLAS. Exactly so, and then that proves that Brazil was restricting the export of coffee, over export of surplus production, so that it was not going overseas but was accumulating in Brazil?

Mr. JACOBSON. This was during the period of the quotas, that is right.

Senator DOUGLAS. And prior to 1958?

Mr. MANN. Senator, I would like to say if I may, that you are right, that Brazil has had a stockpile of coffee going back for many years.

Senator DOUGLAS. I am surprised to hear Mr. Jacobson pleading lack of knowledge on this subject. I am surprised because this is known to everybody and I am surprised that he even makes a pretense of lack of knowledge.

Now, is it not true that in times past the Brazilians have actually dumped their coffee into the sea or into the rivers rather than export it?

Mr. JACOBSON. That is right.

Senator DOUGLAS. What?

Mr. JACOBSON. That is right.

Senator DOUGLAS. And even this, I think, is not all. Exportable production is not the same as production, is it?

Mr. JACOBSON. That is right.

Senator DOUGLAS. That is, there is some coffee produced which is not counted as exportable coffee, is there not?

Mr. JACOBSON. That is right.

Senator DOUGLAS. And it is consumed at home, isn't that true?

Mr. JACOBSON. That is right.

Senator DOUGLAS. So the actual surplus is in excess of the 90 million-some bags—well, 46 million excess were surplus from the years 1956 to 1960—and the surplus for 1963 is not stated, but there have been roughly 90 million bags not accounted for plus domestic production for domestic consumption which is not included as exportable production. This is being held back, is it not true, Brazil holds this coffee back away from the seaports?

Mr. JACOBSON. Senator, I have one problem with this. I am having difficulty with the figures because according to the table that I have, the total of the world surplus production which embraces Brazil, as well, was 65 million in the period from 1951 through 1962.

Senator DOUGLAS. Well, I am simply giving you your own statistics. You did not number your pages, but if you will turn—I think it is the third page from the cover, there you have for 1956–60, the annual average——

Mr. JACOBSON. That is quite right.

Senator DOUGLAS. There you have for the period from 1956 to 1960, the annual average on the world exportable production, being shown as 48,552,000 the world export figure is 39,207,000 and the surplus, 9,345,000 bags. Now, that is 5 years, and multiplying by five, that is the equivalent of 466.6 million bags. Isn't that true?

Mr. JACOBSON. Yes, sir. I made a mistake in failing to multiply the average by five. You are quite right.

Senator DOUGLAS. All right, and if you take 1960, 1961, and 1962, this comes to 44.6 million, or you get a total roughly of 91.2 million bags, not counting 1963, of surplus in excess of exports.

Now, my query is, What is happening to these missing 91 million bags? You say that is in stock in Brazil and it is too old. Well, it is too old because they did not export it. Isn't that right?

(The following was later received for the record:)

CLARIFICATION OF STOCK POSITION

The table under discussion appears below:

Coffee—World exportable production; exports; surplus, 1951–62

[Thousand bags of 60 kilos]

Year	World exportable production	World export	Surplus
1951–55 annual average	32,558	32,266	322
1956–60 annual average	48,552	39,207	9,345
1960	66,421	42,491	23,930
1961	52,839	43,725	9,114
1962	57,985	46,290	11,605
1963 (estimated)	51,729		

Source: International Coffee Organization.

The figures shown in column 3 of the table above were used as the basis for the computation. Note that the year 1960 is included twice in the table, once in the 5-year average 1956-60 and again as a separate figure. The proper computation is as follows:

	Thousand bags
Multiply 1956-60 average (9,345) by 5	46,725
1961	9,114
1962	11,605
Derived surplus Dec. 31, 1962	67,444

Mr. JACOBSON. Well, the—not all of these—these are of inferior qualities——

Senator DOUGLAS. Is it not true that Brazil is holding back a large part of its production and not allowing it to be exported in order to maintain the price?

Mr. JACOBSON. Well, today, but if they exported everything today, we would be in terrible trouble tomorrow.

Senator DOUGLAS. I understand. And I can't understand why you don't seem to want to answer the question. Let me repeat it. Is it not true that Brazil is now and has been for some years holding back a large part of its exportable production and not allowing it to be exported?

Mr. JACOBSON. That is right.

Senator DOUGLAS. Well, that is what I have been trying to get you to say for some time. Now, what surety is there that they won't do this in the future?

Mr. JACOBSON. We have no surety except the agreement.

Senator DOUGLAS. I notice in this agreement that unless the coffee is accompanied by a certificate of origin or a certificate of reexport the President is given the power to refuse to permit it to come into the United States. Therefore, do we not become the enforcing agent for the Brazilian restriction of exports and restriction of exports by those in the International Coffee Organization?

Mr. JACOBSON. Well, I think we have to assume that Brazil wants to export and that therefore she——

Senator DOUGLAS. Well, what about the demand for coffee? Is not the demand for coffee inelastic? That is, if you increase the price by 20 percent, let us say, the demand for coffee will not decrease by 20 percent but by a much smaller fraction, isn't that right?

Mr. JACOBSON. That is correct.

Senator DOUGLAS. Have you made any estimates of what the U.S. demand for coffee is——

Mr. JACOBSON. We have as many estimates as there are economists, unfortunately.

Senator DOUGLAS. Well now, wait a minute. It is not entirely a matter of guessing. What is the consensus of the statistical studies?

Mr. JACOBSON. Well, I would say that for every 6- or 7-cent increase in coffee price there is roughly a 1-percent decrease in consumption.

Senator DOUGLAS. You say 6 percent increase?

Mr. JACOBSON. 6 cents, Senator.

Senator DOUGLAS. 6 cents. Well, that would be more than 6 percent, that would be around 12 percent.

In other words, for every 12 percent increase in price there is a decrease of only 1 percent in the quantity demanded.

Mr. JACOBSON. Roughly.

Senator DOUGLAS. Therefore, if you raise the price by 24 percent, you only lose 2 percent in the quantity demanded, and your total gross income increases by over 20 percent.

Now, what inducement is there to expand output if by restricting output and raising prices you only cut your consumption by a relatively small fraction? That is the problem. There it is.

Mr. MANN. I would say, Senator, you are making a very good argument for the agreement.

Senator DOUGLAS. Well, I cannot see that at all. And I do not want to get into personalities, but you may be making a very good argument as far as Brazil is concerned, so they can get a higher gross income, and you may be making a good argument for the coffee planters, but are you making a good argument for the American consumer?

I think what is revealed here is that the incentive not to spoil the market, as it is called, is relatively slight compared with the gains that the coffe producers and the exporters can make by restricting output.

I am not too much impressed with your concession that they may increase exports by 5 percent—for how long a period is that?

Mr. JACOBSON. That is for the year.

Senator DOUGLAS. For the year?

Mr. JACOBSON. Yes.

Senator DOUGLAS. Well, what is the annual increase in consumption?

Mr. JACOBSON. Well, it is roughly——

Senator DOUGLAS. I had three cups of coffee this morning.

Mr. JACOBSON (continuing). Roughly 3 to 3½ percent per annum.

Senator DOUGLAS. So, next year—isn't this a bait, so to speak, to get us in a plastic mood, so to speak?

Mr. JACOBSON. Well, this is just pure guesswork, and I am quite prepared to admit this, but I have no doubt at all in my own mind that quotas will be higher next year than this year.

Senator DOUGLAS. Yes, but how much?

Mr. JACOBSON. That I cannot tell. The quota deliberations will not start—the usual ones—will not start until August, but I dare say, Senator, we will be talking about larger quotas between now and August.

Senator DOUGLAS. Thank you, Mr. Chairman.

The CHAIRMAN. Senator Morton?

Senator MORTON. How much time do we have?

The CHAIRMAN. Ten minutes. Would you rather begin tomorrow?

Senator MORTON. Well, I think that I can do it in 10 minutes, Mr. Chairman.

The CHAIRMAN. Very well.

Senator MORTON. Mr. Jacobson, on the figure of the 1 percent, that is correlated to 6 cents per pound, that is the current retail level, is it not?

Mr. JACOBSON. Yes, sir. I would ask that you ask the members of the trade who will be testifying later whether they would confirm this. That is my general impression.

Senator MORTON. My point is, when you get coffee up in the retail area to about a dollar a pound——

Mr. JACOBSON. There is much greater response.

Senator MORTON. The fact is that in the early fifties coffee consumption in this country per capita did go down nearly 20 percent?

Mr. JACOBSON. Nearly 20 percent, that is right.

Senator MORTON. Now, the price of Santos No. 4, for the last 11 years averaged somewhere in the neighborhood of 48 cents a pound?

Mr. JACOBSON. That is about right, I believe.

Senator MORTON. About what it is today, is it not?

Mr. JACOBSON. That is about right, sir.

Senator MORTON. Now, is it not true that it is not the total supply but the surplus, the marketable surplus of any commodity that really makes the market?

Mr. JACOBSON. I think that is quite right. With a heavy surplus prices are bound to be depressed.

Senator MORTON. We can raise 1 billion bushels of wheat in this country and maintain a high price if we had no surplus, but with a surplus, on a half a billion bushels of wheat we get a depression of price?

Mr. JACOBSON. That is quite right.

Senator MORTON. This is a fundamental economic law and it applies just as well to coffee as it applies to wheat or any other commodity?

Mr. JACOBSON. You are quite right, Senator.

Senator MORTON. I can remember in the 1930's buying several million bushels of wheat at less than 50 cents a bushel or in the area of 50 cents a bushel. Today it is $2. We have seen a continuing decline in the consumption of wheat products in this country. I don't know how much of it is due to price, or how much of it is due to the fact that the protein intake of our people has changed, to a degree.

But this relates to a fundamental law of economics.

Now, you have taken the largest producer of coffee, and with the frost and with the drought, you have seen a potential production, which was up in the 40 millions of bags, down to, for exportable purposes, down to between 8½ million and 13 million.

Now, this is bound to have an effect on the price of coffee regardless of what we do in the ratification or implementation of a treaty?

Mr. JACOBSON. That is right, Senator. We have simply switched from a buyer's market to a seller's market because the basic circumstances of supply have been fundamentally altered, that is right, sir.

Senator MORTON. Now, the Members of Congress were very vocal in 1954, 1955, and 1953, in making speeches about the high price of coffee and at that time it was far higher than it is now. What caused the high price of coffee then? Was there a crop failure?

Mr. JACOBSON. There was a severe frost in Brazil which came on top of—if I can make an important point—the crop failure came on top of what had been a very tight supply situation. There were no heavy stocks at that time. There was nothing to relieve the then crop shortage.

Senator MORTON. Is it not true that the other coffee suppliers of the world, in view of what happened in Brazil, and the damage was primarily in Brazil at that time, just held their coffee off the market, thinking that, "If we wait another 2 months we will get another 10 cents"?

Mr. JACOBSON. I have very little doubt that some of that did occur.

Senator MORTON. And is it not true that when this situation developed this year, because we at least have the treaty, not the implementing agreement, but the treaty, that the consuming countries were able to get the producers together and say, "Now, look, you can hold your coffee off the market if you want to, but that is the wrong thing for you to do unless you want another 20 percent drop in the coffee consumption in the United States"?

Mr. JACOBSON. You are absolutely right, Senator. They agreed with us and it was for this reason that they voted the 2.3 million increase in quotas and indicated privately to me that if the market required a further increase in quotas, they would consider that favorably, too, in the future. You are absolutely right in describing the situation.

Senator MORTON. Isn't it true that during the years that Brazil accumulated this surplus, the 5 years that you mentioned here where there was a world surplus of 9 million bags each year, that at that time coffee was, those last few years, coffee was in the area of 33 or 34 cents a pound?

Mr. JACOBSON. That is right, sir. In fact, I meant to make the statement to Senator Douglas.

Brazil was not deliberately holding coffee off the market. Brazil was unable to sell her coffee. The buyers did not want it and it was this that forced her to hold her coffee back.

She would have been delighted to sell at a decent price, all of the coffee, but she simply couldn't.

Senator MORTON. If Brazil had let it all go to this country, the price may well have gone below 33 cents a pound—but we couldn't have taken much more?

Mr. JACOBSON. No. If all of that coffee had been offered I have no doubt that prices might have been down to 5 cents or 4 cents. And what we have seen in other countries—disastrous political movements—could have easily occurred in many coffee-producing countries, if prices had fallen to that disastrous level.

Senator MORTON. Was not the implementation or the motivation on the part of our Government and the Department of State and the other departments affected, through this agreement to stabilize the price of coffee so that we would not have these violent fluctuations up or down?

Mr. JACOBSON. That was by far the principal motivation of this agreement.

Senator MORTON. And isn't that also the principal motivation behind the world wheat agreement?

Mr. JACOBSON. Yes, sir.

Senator MORTON. Of course, we happen to be an exporter of wheat and an importer of coffee. I must say that I cannot see too much difference. I think it is good for world trade, I think it is good for our relations with other countries, I think it is good for the free world, that we stabilize these prices.

Mr. JACOBSON. I must agree with you, Senator, absolutely must.

Senator MORTON. Thank you.

Senator McCARTHY (presiding). I have no further questions. Thank you very much. Is Mr. Behrman here?

Mr. BEHRMAN. Yes, sir.

Senator McCARTHY. Do you wish to submit a statement for the record?

Mr. BEHRMAN. I would be very glad to.

Senator McCARTHY. We will be glad to accept that. The only question is this: After the members have read your statement, if they wish to question you, could we call you back?

Mr. BEHRMAN. I will be glad to come back.

Senator McCARTHY. All right, we will accept your statement for inclusion in the record.

(Statement referred to is as follows:)

STATEMENT OF JACK N. BEHRMAN, ASSISTANT SECRETARY OF COMMERCE FOR DOMESTIC AND INTERNATIONAL BUSINESS

I welcome the opportunity to appear before this committee in support of H.R. 8864, a bill to implement our responsibilities under the International Coffee Agreement.

THE INTERNATIONAL COFFEE AGREEMENT

As you know, ratification of the International Coffee Agreement was approved by the Senate last May 21. The objective of the agreement is to moderate or eliminate the boom-or-bust cycles which in the past have characterized the world coffee market. The purpose is to do so in a manner which will help to assure an adequate supply of coffee, reasonable price stability, and an expanding market.

I think we are all aware of the importance of coffee to the consumer. The United States alone consumes approximately half of the world's coffee.

But coffee is also of great importance to the coffee-producing and aid-extending countries. World coffee exports originate almost entirely in the developing countries of Latin America, Africa, and Asia, and are second only to petroleum as a source of the foreign-exchange earnings which are essential to the development of these countries. Wide changes in the price of coffee or a decline in coffee consumption interfere drastically with the ability of these countries to carry forward their economic development. On the other hand, more stable coffee prices, increased efficiency in production and increased consumption permit better husbanding of foreign exchange and an acceleration of economic growth at no increase in aid costs.

The agreement is already having practical effects in the area of increased coffee consumption. For example, the European Economic Community has agreed to reduce the common external tariff on coffee. The United States has been active in urging the reduction or elimination of tariffs and internal taxes on coffee.

THE BILL

The major responsibilities under the agreement fall upon the coffee-exporting countries. It will be their responsibility to adjust production, to carry stocks, and to pay for coffee-promotion expenditures under the agreement, in order to bring coffee production and consumption into better balance in the short run and the long run. The primary obligation of the United States and other importing countries is to assist in the implementation of the quota provisions and to reduce, progressively, obstacles to consumption such as tariffs and internal taxes.

The main operating mechanism of the agreement is a limitation upon exports by the exporting members in order to help bring coffee supply and demand into closer balance. The obligation of the United States and other importing members in this regard is simply to help implement the export quotas by requiring the use of certificates of origin for imports of coffee and for exports and reexports. The agreement also provides that importing members may be required to limit their imports of coffee from nonmembers under certain circumstances, in order to prevent nonmembers from obtaining an advantage at the expense of members. However, countries which account for more than 95 percent of world coffee exports have joined or are negotiating to join the agreement, and it is highly unlikely that any limitation on imports will be called for during the life of this legislation.

Thus H.R. 8864 authorizes the President to limit imports of coffee from nonmember countries, to require the keeping of records necessary to fulfill our obligations under the agreement, and to require the appropriate certificates for imports or exports. Data will be compiled from the certificates by the Coffee Council, established under the agreement, enabling it to see that producing countries are exporting within their quotas.

SAFEGUARDS

Membership in the agreement does not obligate U.S. purchasers to buy coffee from any particular country, to buy any specific amount of coffee, or to pay any specific price for coffee. Coffee traders will be free to continue their established practices and patterns of trade, competing as before with buyers in other consuming countries.

The interests of the United States are protected by the fact that it will hold a minimum of 400 votes out of the total of 1,000 consumer votes in the International Coffee Council, the governing body of the agreement, and will also be a member of the executive board. Since practically all important decisions, such as adoption of the budget, establishment of the quotas, or the production control program, require a two-thirds vote of the consumers and producers voting separately, the United States holds sufficient votes to prevent actions which might be considered adverse to our policy interests, to our business community, or to the American consumer.

The President is required to submit to the Congress an annual report on the operations of the agreement, including full information with regard to the level of prices. Also the legislation will expire on October 1, 1965. Thus Congress will have repeated early opportunities to review the operation of the agreement and its advantages or disadvantages to the United States. The United States may withdraw from the agreement at any time, upon 90 days' notice.

EFFECT ON CONSUMERS

What will be the effect of the agreement on American consumers? Over the long run, it should help to assure adequate supplies of coffee and greater stability in prices for consumers.

The importance given to this aspect of the agreement is demonstrated by article 41, for example, which reads as follows:

ASSURANCE OF SUPPLIES

"In addition to insuring that the total supplies of coffee are in accordance with estimated world imports, the Council shall seek to insure that supplies of the types of coffee that consumers require are available to them."

It is true that the price of coffee has risen substantially in recent months. However, we are satisfied that this price rise reflects primarily the natural disasters which have occurred, and trader reaction to these disasters, rather than the export quotas established under the agreement. Just to make sure, however, the Coffee Council has also acted to raise the quantity of coffee which may be exported during the current year by approximately 5 percent. While the United States strongly supported this increase, the increase will not necessarily reverse the price trend.

The agreement cannot make coffee grow where crops are killed by frost, or fire, and it cannot prevent traders from taking into account the possibility that shortages may develop as a result. But it can, I think, do much to lessen the occasions for speculating, by smoothing out the flow of coffee to market, and within the limits of what nature will permit, equating supply with demand.

The International Coffee Agreement does not contemplate any changes in the traditional relationships between the traders, the roasters, and the retailers. Coffee is a high volume, staple food product. Coffee price and quality are subject to keen competition in retail outlets in the United States. This means that the benefits of success in promoting low-cost efficient production, or in stabilizing the price cannot be withheld from the consumer.

EFFECT ON THE BUSINESS COMMUNITY

Now, what of the effect on the American business community? How will the agreement affect not only the coffee trade but international trade in general?

The U.S. coffee trade placed itself on record as being in favor of the agreement during the hearings before the Senate Foreign Relations Committee in

March 1963, with regard to ratification of the agreement. The trade has also cooperated fully with the Department of Commerce and the Bureau of Customs in developing the forms and procedures that will be employed to implement the agreement. Additional paperwork will be kept to a minimum, and based on the consultations and discussions that we have held with representatives of the trade, we are confident that implementation of the agreement will not cause difficulties to our coffee roasters, traders, or shippers.

With regard to American business in general, we anticipate that more stable or increased earnings of foreign exchange by the coffee-producing countries, resulting from increased consumption and more efficient production, will tend to increase the market for American products in those countries. We are of course traditionally large suppliers to Latin America, but it has not been an expanding market for us. We hope to increase our sales to Latin America and to other coffee-producing countries in Africa and Asia.

SUMMARY

Properly implemented, the International Coffee Agreement can be of substantial benefit to all participating countries. It can reduce the wide fluctuations of coffee prices which have, in the past, troubled both producers and consumers. It can increase the efficiency of coffee production. And it can help the coffee exporting countries to diversify their economies, raise the standard of living of their people, and increase their ability to trade with the United States and other industrial countries.

Mr. Chairman, for these reasons, we support U.S. participation in the International Coffee Agreement through enactment of H.R. 8864.

Senator McCarthy. We have three other witnesses listed for today. The members of the committee have to be on the floor at 12:30 to vote. If any of you wish to submit your statements for the record now, we will accept them but if you prefer to make an oral presentation, we will have to ask you to return tomorrow.

Now, Mrs. Peterson is listed as the first witness for tomorrow.

Mr. McKiernan, do you want to have your printed statement inserted in the record or come back tomorrow and deliver it in person?

Mr. McKiernan. I would rather come back.

Senator McCarthy. Mr. Daly?

Mr. Daly. I would prefer to come back, also.

Senator McCarthy. Mr. Rollason?

Mr. Rollason. I appreciate your problem, sir, but I cannot return tomorrow.

Senator McCarthy. Very well, Mr. Rollason, you may read your statement now.

STATEMENT OF WENDELL N. ROLLASON, DIRECTOR, INTER-AMERICAN AFFAIRS COMMISSION OF MIAMI

Mr. Rollason. Thank you, Senator McCarthy.

INTRODUCTION

The Inter-American Affairs Commission of Miami was formed in 1959 as a private organization of persons concerned with the problems of democracy in the Greater Miami area, which for the past 10 years has been undergoing development as a bilingual and bicultural metropolitan area.

The advent of communism in Cuba and its direct effect upon our community has catapulted Miami into an international role of prime importance to the United States. Every citizen, every business, and every organization in south Florida has been directly affected by the Communist conquest of Cuba.

The IAAC is no exception. Today we are deeply involved in the struggle of democracy to survive in the Americas. That is why we are appearing before this committee today and are presuming to offer our advice to you gentlemen of the Senate in support of the International Coffee Agreement.

We have no economists on our staff to offer you expert advice. We have no compilation of statistics to present. We have no knowledge in depth of coffee growing on coffee marketing to expound upon at length.

However, we submit that over the past few years our work in support of democratic action groups in the Caribbean periphery, our participation in the rescue of Cuban underground fighters, and our working closely with student groups combating Communist-led university gangs has given us a view of the differing problems of the different Latin nations of this hemisphere which is privileged to few Americans.

We have come to know the peoples of the alleys, the fields, the fishing boats, the hovels, as well as the governments, the professions, the universities, and the estates.

Each of these countries differs from its neighbors historically, culturally, and even linguistically in many instances. Yet stripped of these differences, some of which run deep into the past centuries, the fight for democracy has a common denominator among all these peoples. They seek something better. They seek a piece of land, a steady job, a full belly, a child's education. Speak not to these people of freedom of speech, freedom of religion, freedom of the press, or freedom of elections. Talk of food. Talk of land. Talk of medicine. Talk of a child's future.

Democracy must win on these practical economic levels or democracy will lose. Communism need only promise. Democracy must produce. For democracy, as represented by the United States, has dominated the hemisphere for as long as any Latin can remember, or his father, or his grandfather, or his great-grandfather. And few of them have ever had anything. The United States has everything. Communism is new, asking to be tried, promising land, food, education, a good job—promising a change. It seems awfully inviting. The bait is tantalizing. The trap is well concealed.

Democracy must solve the economic ills of this hemisphere; certainly communism will not. Communism is working for economic chaos in the Americas. This means the United States must lead the way. True, we have asked Germany, France, Italy, and Japan to assist as the job is too great for us alone. These countries currently seem disposed to respond favorably. This is good. But it does not alter the fact that the prime responsibility is ours.

It is going to be us or the Russians. It's just that simple.

PRICE STABILIZATION

The idea of price stabilization for basic commodities of the Americas is not new. It certainly is no cure-all. It unquestionably creates its own problems. Yet, in the opinion of our commission there has been no foreign assistance yet devised that can accomplish as much as

1 additional penny from one American housewife for 1 pound of coffee. Before you jump to the side of the American housewife and her budget you must acknowledge that the English housewife will pay this penny, too, and the French, and the German, and the Italian.

Furthermore, it is time we Americans acquired a more realistic comprehension of the dangers our Nation faces from the worldwide revolt of the have-nots. We must get across to the American housewife and her husband that their pennies can do more for their children's future than all foreign aid possible from Washington.

A penny or two more for each pound of coffee, sugar, rice, bananas, or cocoa guaranteed by international agreements can build a firm floor for democracy which presently does not exist in most areas south of us.

Price stabilization provides a type of economic support that is not encumbered with the adverse psychological factors of the "handout" foreign aid. It permits a small country to maintain its legitimate national pride in dealing with the great powers.

INITIAL BENEFITS

Will the plantation worker benefit from the American housewife's penny? Initially, no. And "initially" is going to be quite a few years, too.

Our trouble with the Alliance for Progress has not been its 10 years' concept but the 30-day miracle ballyhoo approach of the 30-day wonder "experts" who were given the task of promoting it.

The IAAC is convinced that the social revolution concept of the Alliance must first provide the financial oligarchies of Latin America with a secure base upon which they can establish a modern, socially minded capitalism, abandon their 18th-century concepts of wanting to control every man, woman, child, and animal, and join with the workers of their countries to build strong democracies. We must acknowledge that in each of these countries there are men of wealth who know this and are working hard to convince their colleagues that the handwriting is truly on the wall. Until this minority convinces the majority the initial benefit of any price stabilization will be to the wealthy.

AN EXAMINATION OF THE CARIBBEAN AREA

As our experience and remarks are keyed to the Caribbean area let's look at these countries and their current relationships to the United States.

Venezuela: This country's chief "crop" is oil. This, of course, comes in conflict with our own production. But if any people have earned the support of our country it is the wonderful Venezuelans. They have rendered international communism its greatest defeat in the Americas. Under the fighting leadership of Romulo Betancourt they turned out en masse to vote, for the first time, for the successor to an elected president despite the threats of the Communist murder gangs to shoot them down in the streets.

Colombia: This country's chief crop is coffee and, thus, of direct concern to the problem before you today. Many Colombians have a close affection for the United States. Colombians generally have a better grasp of the true goals of the Alliance for Progress. As individuals they are struggling hard to improve their country. Their financial giants seem to better see the "light" of modern capitalism's more moderate aims for itself. To favorably stabilize the coffee market could literally mean the difference between life or death for these fine people who are emerging from a tragic history of violent civil strife.

Panama: It is not too popular to defend this little country today. But her President and most of her people are close friends of the United States. Her major "crop" is the Canal. Our commission agrees with the firmness of President Johnson but we point out that the recent tragic events are a classic example of the dangers of a single crop economy and well illustrate international communism's ability to exploit any breach between our country and our friends.

Costa Rica: This jewel of genuine democracy is surely our truest ally in the Americas. Costa Ricans are the type of friends to whom you instinctively turn when in need of moral strength. Their major crop is coffee—over 50 percent of their exports, of their economic lifeblood, is coffee. Crop stabilization will put a firm base to their own bootstrap efforts to establish the Central American Common Market in joint action with her neighbors. Costa Rica deserves no less from us.

El Salvador: This little country has a long way to go on the road to economic reform. Unquestionably it will not give in to the 20th century very easily. Yet her leadership is seriously trying to better the country which depends almost 60 percent on coffee exports. To give the few persons who dominate the finance of this country the opportunity to project their economic future with a degree of certainty will aid those amongst them who realize that reforms are badly needed.

Honduras: Here the banana is the major export to the United States, although cotton exceeds this in dollar trade with other countries. We have our own cotton problems. But the banana offers us no competition. It could be a means to help this tragically poor country.

Guatemala: This country also depends almost 60 percent on the export of coffee for its foreign exchange. The Guatemalans had one close brush with communism in government and now bend over backward to see it does not happen again. These stolid people have a high respect for the United States and deserve our support in this stabilization effort.

Mexico: One of the giants of Latin America, Mexico possesses the strongest economic base of them all. Mexico today stands as one of the best things that ever has happened to the United States. Her complete independence of foreign policy, her economic diversification, her mastery of her own destiny—all are good for the United States. We can all hope that the social revolutions in other parts of the Americas will be achieved with far less violence than Mexico's which began in 1910. But no one could ask for a more successful one.

Mexico well illustrates that we should not seek subservience from these countries but a responsible independence within a democratic framework.

Yes, Mexico's economy will benefit from this coffee stabilization measure. The wonderful Mexicans deserve it.

Dominican Republic: Here sugar is the major crop. The faith in this island country was shaken in much of Washington because of the overthrow of its first elected government following a generation under the Trujillo dictatorship. Despite our high regard for President Juan Bosch as an individual, this commission is convinced that the Communists within the government were maneuvering to take control. The overthrow saved the island from becoming a second Cuba.

The new government needs more than the reluctant relationship the United States has with it now. Price stabilization of coffee, which is 10 percent of the island's exports, would provide merited assistance.

Haiti: The economy of these wretched people almost defies solution. But what little they have is based 40 percent in coffee. To have less means virtual starvation.

CONCLUSIONS

The Inter-American Affairs Commission is cautiously optimistic about the future of Latin America if the United States will move with more determination. President Johnson seems to wield a firmer hand. He has appointed one of the country's top experts, Mr. Thomas Mann, as his Assistant Secretary of State for Latin American Affairs. More important, he has made it clear to everyone that Mr. Mann is the boss. This has given renewed pride of job to the career man in the Department of State. Our commission has a wholesome respect for the career personnel of State.

The severance of foreign aid to those countries trafficking with Cuba and the spectacular cutting of the Guantanamo pipeline by our hard-boiled admiral in command are two little signs that the United States is beginning to stand its ground.

Our commission advocates a three-point program to help turn the tide in Latin America:

First, we must eliminate communism in Cuba.

Second, we must see that the major products of each country have a reasonable guaranteed price floor for the next 10 years.

Third, we must rework the Alliance for Progress as an instrument of peaceful social revolution, which was its original concept.

We respectfully urge your support of the administration's recommendations on the International Coffee Agreement.

Thank you.

Senator McCARTHY. Thank you, Mr. Pollason.

The committee will meet again at 10 o'clock tomorrow morning.

(By direction of the chairman, the following is made a part of the record:)

Nation	New quota	Waivers	Allowable October/March distribution		
			Quotas	Waiver	Total
Brazil	18,387,000		9,193,500		9,193,500
Colombia	6,140,523		3,070,262		3,070,262
Portugal	2,235,704	120,000	1,229,637	45,600	1,275,237
Mexico	1,641,444		847,794		847,794
Uganda	1,928,323	300,000	1,010,373	126,000	1,666,373

The Council rapidly closed the sharp differences of opinion which had characterized the quota question for many months. Conference delegates were, for the most part, pleased with the decision and confident the agreement had passed with flying colors the most rigorous test of its short life. In rapid order the image of the Organization in the eyes of consuming nations has been vastly improved and the concept has been reinforced that the coffee agreement is not a tool for unilateral use by producers. On the other hand, some producers are happy because of the relatively small increase in export quotas now thought to be practically in harmony with recent demand levels. The fears of substantial price depression formerly so ardently advanced by certain producers appear to have vanished. The coffee market will be dominated by statistical and weather developments for some time to come. It now appears that the elevated quotas may have little effect for the time being of altering sparse offerings from Brazil. While reduced crops is a prominent reason, for small offerings the willingness of planters to hold beans as a hedge against rapid inflation should not be ignored. The London Robusta market is still experiencing strength, despite the fact that Africa is a world coffee producing segment which does not face sharp curtailment of crops. This strength only serves to emphasize the leadership of Brazilian prices and crop developments in the world coffee market picture.

[From the New York Times, Feb. 20, 1964]

COFFEE

A firm green coffee market here helped lift futures prices 24 to 44 points in light trading. Dealers said the outlook for tighter world coffee supplies because of crop damage in Brazil still outweighted the recent rise in export quotas of coffee-producing nations. Volume came to 74 lots of 32,500 pounds each on the New Cork Coffee and Sugar Exchange.

[From the Journal of Commerce, Feb. 18, 1964]

In point of fact, the increase cannot go far in alleviating the current upward pressure on prices. The latter is the direct result of crop losses in Brazil, which have inspired consumers to stock up in a hurry against the possibility of an acute shortage next year. Under the Brazilian umbrella, coffees from Africa to Indonesia are commanding over 30 percent more than last fall.

[From the Journal of Commerce, Feb. 4, 1964]

HIGH PRICES

Current high prices are attributed mainly to Brazilian crop damage from frost and last summer's bush fires and drought, and reduced Brazilian quality stock. The present working of the quota system, only a month old, is thought to have contributed little. The London trade believes high prices will persist largely on statistical factors.

[From the Financial Times (London), Feb. 15, 1964]

Moreover, Brazil, which normally exports about 40 percent of world supplies, will have the most influence on future trends. Although a crop of over 19 million bags is expected this season, the latest forecast for 1964–65 is closer to 8 million bags, with no improvement anticipated for the following year.

Since Brazil's quota is 19 million bags, it will have to draw on a stockpile of perhaps 22 million bags to maintain exports. However, much of this stock is believed to be of doubtful freshness, and many dealers will be reluctant to buy.

(Whereupon, at 12:30 p.m., the committee recessed, to reconvene at 10:30 a.m., Thursday, February 27, 1964.)

COFFEE

THURSDAY, FEBRUARY 27, 1964

U.S. SENATE,
COMMITTEE ON FINANCE,
Washington, D.C.

The committee met, pursuant to recess, at 10:30 a.m., in room 2221, New Senate Office Building, Senator Harry F. Byrd (chairman) presiding.

Present: Senators Byrd, Long, Douglas, Gore, Talmadge, Fulbright, Ribicoff, Wililams, Carlson, and Bennett.

Also present: Elizabeth B. Springer, chief clerk.

The CHAIRMAN. The committee will come to order. Our first witness this morning is the Honorable Ester Peterson, Special Assistant to the President on Consumer Affairs. Will you take your seat, Mrs. Peterson, and go forward with any statement you care to make?

STATEMENT OF MRS. ESTHER PETERSON, SPECIAL ASSISTANT TO THE PRESIDENT ON CONSUMER AFFAIRS

Mrs. PETERSON. Thank you, Senator Byrd. I am honored to come before you this morning. I feel that I am an expert in one way. I am an expert consumer of coffee, and I think I am an expert brewer of coffee. I hope that I have a chance to make you a good cup of coffee sometime. And I think Senator Carlson will agree with me on this; the Scandanavians have a great reputation in this area.

Senator CARLSON. Mr. Chairman, I don't know of anyone who makes more coffee and better coffee than the Scandanavian people.

Mrs. PETERSON. So I think that I can qualify. I think we ought to have good coffee, we Americans, and I think we ought to have good coffee at a good price. No question about that. But I know that you have asked me to testify not on brewing coffee, but on the price of coffee and how the price is affected by the International Coffee Agreement.

As every housewife knows, the price of coffee has advanced rather sharply in the past few months. I have heard women wonder about this—wonder out loud while standing at the coffee counters in the supermarket. Moreover, much of the mail I receive as Special Assistant to President Johnson for Consumer Affairs, mentions and protests the rise in food prices, in general—and coffee prices, in particular.

The question before us today is to what extent, if any, the international coffee agreement has contributed to the rise in coffee prices. As a spokesman for consumers, and as the President's adviser on consumer issues I am anxious to help you in any way that I can to reach a determination.

But, I want to make it very clear that I am not an expert in this field, and have had little time to look into the detailed operations of the International Coffee Agreement since I received your request to testify.

I had to fulfill a commitment in Miami yesterday. It was not until I returned late last night that I began working on my testimony. Based on the briefing I have had, I have come to the conclusion that H.R. 8864, the implementing legislation for the International Coffee Agreement should be enacted.

I believe this for two reasons: I am not convinced that the agreement is responsible for the current rise in coffee prices; and I fear that termination of the agreement would have an adverse effect on the economies of the coffee-producing nations of Latin America and of Africa.

Coffee prices, however, have gone up, and, frankly, this bothers me. It would seem to me that such rises would be the result of a shortage of coffee in the United States. Yet, I am told that we have more coffee on hand in the United States right now than at any time since 1945. The original quota set by the International Coffee Council last year reflected just about the normal anticipated consumption of coffee. Then, along came the news of a series of natural disasters in Brazil, and the indication that Brazil's future harvests would be adversely affected. Apparently, this caused coffee traders to build their inventories because of the possibility of future shortages. This, in turn, resulted in the abnormally high stocks we now have on hand in the United States.

This buying above and beyond normal requirements, it seems to me, resulted in higher prices for green coffee, and, therefore, higher retail prices.

I realize that this has been triggered by the effects of the natural disasters in Brazil, and that this did cause a fear of a shortage of supplies.

However, the coffee traders in this country undoubtedly would have acted on this assumption whether there was an international agreement or not. Abandoning our participation in the agreement would not and could not change this development.

The new quota established this month by the International Coffee Council increased the volume of coffee which can be sold by the exporting countries during the current year. If, however, the trade were to continue to buy up coffee beyond current needs, then no quotas—no matter how large—could be adequate.

Frankly, Senators, if that is the situation we face, then we must start now to consider ways whereby we can protect the American consumer from the consequences of possible artificial restraints here in this country on sales and prices. I do not believe, however, that our situation is that serious as yet—not when we have more coffee on hand, as the figures show, than at any time since 1945.

I want to make one point very clear: The American consumer wants and deserves fair prices for the goods and services he buys. But the American consumer has no desire for prices that are so low that they damage the economies of other countries.

The vast majority of American shoppers are willing to pay a price for coffee which will reflect a fair return to the producers and the workers in the coffee trade. This is the purpose of the International Coffee Agreement.

Our Government is convinced that this agreement can work effectively and that we have sufficient powers under the agreement to protect ourselves and our consumers.

I might add one more very important point: The coffee trade learned in 1954 that when it participates in, or condones, efforts to gouge the American consumer, the short-range financial gains are overwhelmingly reversed by strong and effective consumer retaliatory action. As the result of coffee price inflation 10 years ago, American housewives quickly learned how to use less coffee to brew the same number of cups. The result: A long and dismal price decline. The coffee trade is well aware of this fact, I am sure, and is concerned about it.

I intend to do a great deal of talking among consumers on this job, and I can assure you that one of the subjects I intend to discuss is the price of coffee and the avenues open to consumers to combat unjustifiable increases in the price of coffee. The surge in the use of instant coffee is a good warning, it seems to me, of how tastes can change when the consumer finds it economically worthwhile to make a change.

I strongly support the administration's position in behalf of H.R. 8864. I promise that I will keep a strong and consistent eye on the fluctuations in coffee prices, and, if at any time I am convinced that we are poorly served as consumers by our membership in the international agreement, I will personally bring the matter to the attention of the President.

Thank you.

The CHAIRMAN. Thank you very much, Mrs. Peterson.

Senator Talmadge?

Senator TALMADGE. No questions.

The CHAIRMAN. Senator Williams?

Senator WILLIAMS. None.

The CHAIRMAN. Senator Carlson?

Senator CARLSON. Thank you, Mr. Chairman.

Mrs. Peterson, what is the position that you occupy at the present time in regard to consumer affairs, the Consumer Council?

Mrs. PETERSON. I am an adviser appointed by the President as Special Assistant to the President for Consumer Affairs and Chairman of the Advisory Committee on Consumer Interests.

This was set up by President Johnson. It is a body composed of representatives of the Federal agencies concerned with consumer affairs, plus the Consumers Advisory Council which is made up of private citizens. I am happy to say that the Consumer's Advisory Council is meeting for the first time today. They are in session now, and I will return to them as soon as I have concluded here.

Senator CARLSON. This could be a very auspicious beginning for your meeting this morning, then.

Mrs. PETERSON. I think it is, and when I go back, this is a matter that I want to bring to their attention. I do not feel that I can speak for them because I have not brought this matter yet to their attention, and in all fairness I think that they should have chance to consider the International Coffee Agreement as they see it, as it affects consumers. And this is something that I intend to do.

We have this instrument now in Government. We have an awareness on the part of all of you in the Congress of the importance of protecting the consumer and, as the President said, "The consumer now has a voice loud and clear in the halls of Government." I am very pleased with the support that we have had for this program from both sides of the aisle—because, after all, you are the real representatives of the consumer of this country. You are the elected representatives of the people. All I can do is to supplement your work.

Senator CARLSON. Mrs. Peterson, what other agencies of the Federal Government are in this organization which you have mentioned, besides the private groups?

Mrs. PETERSON. There are two levels, Senator. First, Assistant Secretaries—or their equivalent—of the following agencies are members: Interior, HEW, Federal Trade Commission, Commerce, Council of Economic Advisers, Agriculture, Post Office, Labor, Justice, and HHFA.

In addition, there are other agencies concerned with consumer affairs and each of these agencies has appointed a consumer adviser representative to work with the Committee. In all, there are 22 agencies concerned with consumer affairs.

Senator CARLSON. What are the functions, really, of your organization? Do you have legal authority? Do you have any punitive powers?

Mrs. PETERSON. We have none. We can influence, and we function under the authority of the President, asking us to advise him on these matters.

The authority to legislate belongs to Congress; the authority to administrate belongs to the appropriate agencies. We can advise them in the field of consumer affairs—we are the appraisers, I guess you could say.

Senator CARLSON. We had a 50-percent rise in the coffee price in 12 months. Now, did you mention that to the President, President Johnson?

Mrs. PETERSON. We have mentioned this and this is one of the questions he has asked me to bring before the Council, which I am doing today.

Senator CARLSON. I assume that you will bring it before the Council today; but assuming that you do, what can you do about it?

Mrs. PETERSON. I think that there are a number of things that we can do, Senator Carlson. One, we can certainly bring an awareness on the part of the public to this. If the public is aware of price rises in coffee, it will act on its own. Housewives will quickly learn how to get more cups from a pound of coffee, or switch to other beverages, or use different grades of coffee. Tastes change, Senator, sometimes under pressure.

Then, we can use the services of the experts in the agencies, and also from the citizens on the Citizen's Advisory Council. These are some of the best economists in our country, they are experts whom we can ask—what the Government should do to combat unjustifiable price increases.

We can look and see what is going on, and what authority there is to protect the interests of the consumers.

We do have authority for many products. But I do not feel that I have the knowledge yet, Senator, to say exactly what we should do about those consumer commodities or products that are not regulated.

Senator CARLSON. Do you think, when you go down to your Consumers Council this morning, that you will be well received when you tell them that the Congress is about to give the control of the sales, processing, and distribution of production of coffee to a board?

Mrs. PETERSON. To what?

Senator CARLSON. To a board.

Mrs. PETERSON. Oh, a board.

Senator CARLSON. A board of 14 members, on which the United States has 1 representative.

Mrs. PETERSON. Senator, as I read this bill, the United States has a representative who has great power, who will have legal power——

Senator CARLSON. Did you say equal power?

Mrs. PETERSON. Legal power. And although I am not an expert on this, I have read this bill, I read it last night carefully, and it seems to me that in this bill there is already built into it many safeguards for us.

Look at this paragraph here, just the part about keeping records. We will have the ability to look into things and see the reports relating to imports, distribution, prices, everything about coffee, from time to time, you see. We are not blindly saying to the consumers that we are going to hand this over. We are going to retain our control, and at the same time we feel we will be having the opportunity of helping to try to stabilize the economies of the coffee-producing countries.

Yesterday I appeared before the coat and suit industry in Atlanta. I come from the garment industry. I remember the days of the seasonal fluctuation in that industry—an up-and-down, boom-and-bust situation. Both the workers and manufacturers suffered. My experience in that industry indicates that when industries get together, with their workers, then boom and bust can be eliminated and stabilization achieved. Although I am not an expert in this, it looks to me like the same principle should apply to the nations which import and export coffee.

I do not feel, Senator, that we are giving anything away. I think that we have adequate control, and I can assure you that I would notify the President immediately—"loud and clear"—if I thought the consumer's position were in any way compromised by this agreement.

Senator CARLSON. In other words, you don't think, and I am reading your statement here, that a 50-percent increase in the price of coffee is of concern——

Mrs. PETERSON. Excuse me. Of course it is of concern. It is of tremendous concern. I am not sure about the figures on this, but I know myself in buying coffee that it has gone up. I know what I paid last Saturday and I know what I paid before, and I am aware that there has been an increase in the price of coffee. So, this is——

Senator CARLSON. Well, for the record, let us get the coffee prices in the record. I do not happen to have the Wall Street Journal for today, but I would say it was 33.2 or 33.3 a year ago, and it is 49 something as of yesterday——

Mrs. PETERSON. Well, you are talking about green beans—I am talking about what I buy over the counter. I don't know what they pay for green beans in the bags, but I know what I paid Saturday. I know that I paid $1.99 for a 3-pound bag of coffee. We use a lot of coffee, and I buy it in 3-pound lots.

I have noticed over the last year, I think, about an 8-cent difference, and I also know that if I buy in bigger quantities, I get a better buy than if I buy by the pound.

But what I am getting to is this: I cannot see that this agreement is the cause of this price increase. That is what I am trying to say. I think that we have to separate these things. I don't think that you can say that the cause and effect is as clear as that.

Senator CARLSON. You do not believe the fact that where the board controls the movement of all coffee puts us in a position where we cannot go out in the open market and buy coffee——

Mrs. PETERSON. We are a participator in this, and we have the right to say, we have the right to disagree, we have the right to bring this before them.

Senator CARLSON. But do you realize that in December we tried to raise the quota in this board and the board in London refused to increase the quota?

Mrs. PETERSON. I also know, Senator, that more recently the quota was increased at our request—last November, I believe it was.

Senator CARLSON. Well, I don't want to get you into something that you have not studied either. But it happens to be that I have read the agreement. But you found a statement in this agreement that states—you said that you read it—that the purpose of the agreement is to increase the price of coffee, is that right?

Mrs. PETERSON. Let me read from this—if you look at the prices of coffee from BLS index, then the coffee prices have not gone up proportionate to some of the other items.

Now, they are high. Yes, they are high, and I don't want you to get me wrong. I think they are too high. I am buying coffee and I know that the prices are too high. But I am not going on to say that the cause and effect is—that the agreement has caused the price rise.

Senator CARLSON. You are concerned, of course, about the consumer prices. How much would consumer prices have to go up to completely wipe out the effect of the tax bill that the President has just signed, how many percent?

Mrs. PETERSON. I am not a mathematician. I don't know. But again, I think that it is extremely important that we attempt to find the answer to your question. Business has a tremendous responsibility, not to use natural disasters wherever they may occur as a way of moving prices up—if this happens, then I think we have to raise our voice.

Senator CARLSON. How much have consumer prices gone up—1959, 1960, 1961, 1962, 1963?

Mrs. PETERSON. They have gone up. I don't have those statistics. But if you want me to get them, I will supply them for you.

Senator CARLSON. Now, you are the head of this group——

Mrs. PETERSON. Well, Senator, do you know how long I have been with this? I have been on this for a matter of about 2 weeks and therefore I am not—I feel very definitely that I have to get my homework done, and I intend to do it.

Senator CARLSON. I know you are going to do it because we Scandinavians do that.

Mrs. PETERSON. That is right, Senator, and you also know that we Scandinavians don't want to get into something where we don't know what we are talking about.

Senator CARLSON. That is right.

Mrs. PETERSON. And you also know that we believe in standing firmly on principles that we believe in.

Senator CARLSON. And I have no doubt about that, and I agree. But I am concerned about your position, because I gather from your testimony here today you are not going to be too concerned about whether these prices go up.

Mrs. PETERSON. I don't see how you can come to that conclusion. I say it quite firmly, I have said it, and I will state it again, that the watching of the prices on these articles is a major concern. And I do have the ear of the President.

And, also, Senator, do not forget I can come before you, I hope I can come here before you, if we feel that this is causing any damage to the American consumer.

Senator CARLSON. If I state that we had testimony in the Finance Committee that a 2-percent increase across the board in consumer prices would wipe out the effects of the tax bill that we passed—do you agree with that?

Mrs. PETERSON. Well, I would have to look at it, because you said "if," and that is a pretty big "if."

Senator CARLSON. Well, we had testimony that there is great danger. Now, we are talking about coffee this morning. Are you familiar with other price increases? What would you say if shoes went up 40 percent?

Mrs. PETERSON. I would protest it loudly and vigorously.

Senator CARLSON. All right, and you have that opportunity.

Mrs. PETERSON. I hope that I can raise my voice on that.

Senator CARLSON. I don't know if you are familiar with it. We have been following prices a little bit up here. Now, this is in the Wall Street Journal of February 25, 1964, and that is not very long ago——

Mrs. PETERSON. I know the Wall Street Journal and I read it daily.

Senator CARLSON. I am sure you do. And here is an interesting thing, if I may read it to you, because I am concerned about your position. I am fearful that you are not greatly concerned about this. I am speaking now from the Wall Street Journal.

> International Shoe Co. may increase wholesale prices on fall shoe lines, Maurice R. Chambers, president, told the annual meeting in St. Louis.
>
> The executive said increased wage costs and a switch to more expensive shoe materials are prompting the price rise. In addition, he said, the company believes there is a need to give "the retailers a little bigger markup." Retailers can usually increase their profit margin with each increase in the wholesale base price.
>
> In other words, a shoe currently wholesaling for $3 will retail for $5, a 40-percent markup. When the wholesale price is raised to $3.35, the retail price becomes $5.95, a 44-percent markup.

My only concern, Mrs. Peterson, that those of us who have been working on this committee on this tax bill are concerned about the economy, and we are fearful, and I say that with the greatest respect for you, that you, as you state in your statement this very morning, that you don't believe the situation is serious with respect to coffee. Now, what will you say with shoes, what would you say about furniture, and——

Mrs. PETERSON. Senator, I recognize, and I want you to know that I appreciate it, and I want you to know that my concern is equal to yours, too, and I am sure you understand that. Now, I am not saying, and I have not said, that I think the prices are not out of line. The opposite is true. I have, however, stated that I am not convinced that the rise in coffee prices is because of the international agreement. I think this is where we have to separate this. And, when you talk about shoes, you have to look at the facts about that and see what goes into it. These are terribly complicated questions. I need not say that to you, and I cannot make any categorical statement, but I do say to you very strongly, though, that these are the very issues that the President has asked that I look at.

Now, all I can do is give you my most sincere assurance that these things will be watched—and I think there is a responsibility on the part of business, there is a responsibility on the part of Government, and on the part of private citizens too, to raise their voices.

Senator CARLSON. Do you think that Congress should give you some authority to deal with this problem?

Mrs. PETERSON. If it is necessary—again, I am not quite ready to speak about this, but I would hope that this would be done voluntarily, if possible. I don't believe that we need to have laws for everything, and I am hoping we can get a fine degree of cooperation and support on these questions. But I think that if we cannot, and if our American consumer is not being treated rightly, then I hope I can come before you and ask for authority.

Senator CARLSON. Thank you, Mr. Chairman, I believe that is all the questions I have.

The CHAIRMAN. Senator Gore?

Senator GORE. No.

The CHAIRMAN. Senator Talmadge?

Senator TALMADGE. No questions.

The CHAIRMAN. Senator Fulbright?

Senator FULBRIGHT. Thank you, Mr. Chairman.

Mrs. Peterson, I am sorry I was not here when you made your original statement. But you did not stress the point that I think is very important; that the fact that prices have gone up has not been due to this agreement, and, in fact, the agreement is not finally in effect and will not be effective until we pass this enabling legislation.

Mrs. PETERSON. Exactly, Senator, and this is a point that I had hoped to make clear in my testimony.

Senator FULBRIGHT. And the situation is because of coincidence, of the speculation arising out of the disastrous physical difficulties that have afflicted the Brazilian coffee industry. They had a severe drought, they had fires, they had freezes, and production has gone down from about 45 million bags to about 19 million bags since 1960.

Mrs. PETERSON. Senator, that is the evidence that I heard.

Senator FULBRIGHT. And speculation always follows a drought or a crop disaster in any commodity—that is usual, is it not?

Mrs. PETERSON. That is my view.

Senator FULBRIGHT. Now we have the sugar agreement. Nevertheless, the price of sugar went up, not because of the agreement, and it is far beyond whatever the agreement would have provided for. It has gone up from about 2½ or 3 cents to 10 cents in the last 18 months. Short crops in Europe and Cuba has caused these extreme fluctuations.

The point was made a moment ago, I believe, that the Council refused to raise the quota in December, but they raised it only a couple of weeks ago——

Mrs. PETERSON. I believe I remember that.

Senator FULBRIGHT. I believe it ran to about 2⅓ million bags. So, they are not trying to be arbitrary about it.

Now, I believe that you have already stated that the objective is not just to keep putting the price up, but to bring some stability into the economics of these countries——

Mrs. PETERSON. Exactly.

Senator FULBRIGHT. And in some degree to put a stop to these extremely fluctuating prices which have caused undue disruption of the economics of a great many countries.

And I believe that even after taking into consideration the fact that prices reached nearly 80 cents a pound in 1954 and dropped to 33 cents last year, you will probably find out that it worked out to an average with much less disruption to orderly business and some degree of stability—which, of course, is the purpose of this, is it not?

Mrs. PETERSON. Exactly, you have said it more clearly than I, Senator, and I thank you for clarifying this for me.

Senator FULBRIGHT. I do not believe I care to ask any more questions, Mr. Chairman.

The CHAIRMAN. Thank you very much.

Mrs. PETERSON. Thank you very much, Senator Byrd.

The CHAIRMAN. Senator Douglas has just come in. Did you have any questions?

Senator DOUGLAS. No.

(The following statement by the Consumers Advisory Council on the International Coffee Agreement with accompanying list of members, was subsequently submitted by Mrs. Peterson for inclusion in the record.)

STATEMENT BY THE CONSUMERS ADVISORY COUNCIL ON THE INTERNATIONAL COFFEE AGREEMENT

The CAC emphasizes the continuing need to bring the consumer interest effectively to bear in the development of American policy with respect to any international commodity arrangements.

With respect to H.R. 8864, to implement the International Coffee Agreement already signed and ratified by the President and the Senate, the CAC has taken special notice of the consumer safeguards provided in the bill, particularly in provision 3 which authorizes the President "To require the keeping of such records, statistics, and other information and the rendering of such reports relating to the importation, distribution, prices, and consumption of coffee as he may from time to time prescribe." These data will be available to the President's Special Assistant on Consumer Affairs through her to CAC which is charged to "advise the Government on issues of broad economic policy of immediate concern to consumers * * *."

The safeguards provided in H.R. 8864 are additional to those included in the agreement itself, unique of their kind and designed to force out supplies which may be improperly withheld in producer countries. Together these safeguards will make it possible to discover abuses of this international effort to bring reasonable stability into the coffee situation, particularly abuses by speculative interests abroad and in the United States, to the detriment of the American consumer. These safeguards should be kept in a highly visible status.

MEMBERS OF THE PRESIDENT'S COMMITTEE ON CONSUMER INTERESTS

GOVERNMENT

Mr. John A. Carver, Jr., Assistant Secretary of Interior, Department of Interior, Washington, D.C.
Mr. Wilbur J. Cohen, Assistant Secretary for Legislation, Department of Health, Education, and Welfare, Washington, D.C.
Mr. Paul Rand Dixon, Chairman, Federal Trade Commission, Washington, D.C.
Dr. Richard H. Holton, Assistant Secretary for Economic Affairs, Department of Commerce, Washington, D.C.
Mr. John P. Lewis, Member, Council of Economic Advisers, Executive Office Building, Washington, D.C.
Mr. George Mehren, Assistant Secretary of Agriculture, Department of Agriculture, Washington, D.C.
Mr. Henry Montague, Chief Postal Inspector, Post Office Department, Washington, D.C.
Mr. Daniel Patrick Moynihan, Assistant Secretary of Labor, Department of Labor, Washington, D.C.
Mr. William H. Orrick, Jr., Assistant Attorney General of the Antitrust Division, Department of Justice, Washington, D.C.
Mr. Morton J. Schussheim, Assistant Administrator for Program Policy, Housing and Home Finance Agency, Washington, D.C.

NONGOVERNMENT

Mrs. John G. Lee, chairman, Consumer Advisory Council, Farmington, Conn.
Dr. Helen G. Canoyer, dean, New York State College of Home Economics, Cornell University, Ithaca, N.Y.
Mr. David W. Angevine, public relations director, Cooperative League of the U.S.A., Washington, D.C.
Dr. Persia Campbell, professor and chairman, economics department, Queens College of City University, Flushing, N.Y.
Mr. Stephen M. Du Brul, Jr., partner, Lehman Bros., New York, N.Y.
Dr. Edward S. Lewis, executive director, Urban League of Greater New York, New York, N.Y.
Hon. Walter F. Mondale, attorney general, State of Minnesota, St. Paul, Minn.
Dr. Richard L. D. Morse, professor and head, department of family economics, Kansas State University, Manhattan, Kans.
Mrs. Helen E. Nelson, California consumer counsel, Governor's Office, Sacramento, Calif.
Dr. Caroline Ware, consultant, Vienna, Va.
Dr. Colston E. Warne, president, Consumers Union of M.S., Inc., professor of economics, Amherst College, Amherst, Mass.

The CHAIRMAN. Our next witness is John F. McKiernan of the National Coffee Association of the United States of America.

Would you come up, please, Mr. McKiernan, and make any statement you care to make?

STATEMENT OF JOHN F. McKIERNAN, PRESIDENT, NATIONAL COFFEE ASSOCIATION OF THE UNITED STATES OF AMERICA

Mr. McKIERNAN. Gentlemen, my name is John McKiernan, and I am president of the National Coffee Association of the United States of America which maintains offices in New York City. I would like to express to this committee the appreciation of myself, my fellow officers, and the association's board of directors for this opportunity to record the National Coffee Association's views on the enactment of H.R. 8864.

Mr. Chairman, I regret that the gentlemen who were with me the last 2 days were unable to be with me today. One of them is Mr. George McEvoy, who is the chairman of the National Coffee Association, and the other is Mr. Charles W. Duncan, Jr., our vice chairman of the National Coffee Association. These two gentlemen had accompanied me at the specific request of the association's advisory committee.

The National Coffee Association is a nonprofit trade association whose principal constituents are companies engaged in the importing, roasting, and distributing of coffee. The association is now in its 53d year of service to the U.S. coffee industry. Our members represent about 85 percent of the total tonnage of coffee consumed in this country. In 1963, that total figure was nearly 24 million bags valued at approximately $1 billion.

The objectives and purpose of the association are set forth in its constitution and bylaws, a copy of which I will submit as an appendix to my statement.

(The constitution and bylaws and membership directory of the National Coffee Association submitted by Mr. McKiernan were made a part of the official committee files.)

The National Coffee Association is on record as supporting the International Coffee Agreement. Last March 12, when I represented the National Coffee Association in testimony before the Senate Foreign Relations Committee—which was then holding hearings on the agreement—I recommended that the committee refer the document favorably to the Senate for its advice and consent to ratification by the President. At that time, I said that the association took this position because we felt that the agreement, if meticulously administered and religiously honored by all members, would be of invaluable assistance in stabilizing the economies of the coffee-producing nations of Latin America, Africa, and Asia.

Gentlemen, the National Coffee Association still believes that the coffee agreement, properly and fairly administered, can serve a useful purpose for consuming as well as producing members by bringing stability to the world coffee market. It can accomplish this by preventing drastic price fluctuations which are generally attributable to cycles of bumper crops and short crops. For example, while there is an anticipated shortage of good quality Brazil coffees today, it is within the realm of possibility that there will be another world surplus.

We have already expressed our position with respect to the International Coffee Agreement itself. Our position is based upon sound and strong convictions and we have not altered it during the months that have followed activation of the pact last October. But the continued participation of the United States in the agreement cannot be assured unless H.R. 8864 is enacted. We are here today, therefore, respectfully to submit the recommendation that this committee refer it favorably to the Senate at large for passage and enactment.

At this time, I would like to emphasize for the record that the National Coffee Association is opposed to inordinate increases in green coffee prices. In the daily conduct of its business, the association operates to protect the interests of the U.S. coffee trade. Since the trade's interests depend directly upon the interests of the consumers whom it serves, we are vitally concerned with their welfare. Our industry has experienced a bitter lesson on how consumers react to uncontrolled coffee prices. When retail prices reached their all-time peak, in 1954, U.S. imports of green coffee plummeted by 4 million bags—or by nearly 19 percent.

Our position, as I have said, is a matter of record—including the Congressional Record. On October 3, 1962, Assistant Secretary of State Frederick Dutton wrote a letter to Congresswoman Leonor Sullivan which included the following statement:

> The advisory committee appointed by the National Coffee Association to work with the State Department during the negotiations for the coffee agreement has, of course, always maintained that the U.S. consumer must be protected in any coffee agreement.

There is a very specific reason why the National Coffee Association wishes to see H.R. 8864 enacted. The reason is that the United States must have this enabling legislation in order to fulfill its obligations as a member of the International Coffee Agreement. And the reasons why we are convinced that the United States should continue as a member of the pact are (1) to assure adequate supplies of coffee; (2) to be in a position to monitor export quotas which can affect prices; and (3) to prevent inequitable practices in the world coffee trade. By accomplishing these objectives and thereby bringing greater stability to the coffee market, the interests of the U.S. consumers—the world's largest coffee market—will be protected.

As everyone knows, the price of green coffee has experienced an increase over the past 4 months. It might be asked with justification, therefore, whether this price movement has changed the association's opinion about the usefulness of the coffee agreement in protecting consumers' interests.

On last November 11, about 6 weeks after green coffee prices had begun their upward movement, the executive board of the International Coffee Organization convened in London. On November 12, as president of the National Coffee Association, I issued a press statement from London to reaffirm that the association's principal concern with respect to the coffee agreement was that the U.S. consumers be protected against unjustifiably high prices. Both before and during the November session of the International Coffee Organization the industry advisers to the U.S. delegation very strongly recommended that export quotas be increased. This was done because we knew at the time that there had been a drastic change in the statistical position of coffee which was caused principally by drought, frost, and fire damage to crops in Brazil, the major producing country.

(Mr. McKiernan subsequently submitted for the record various copies of newspaper, magazine, and trade publication articles about frost, drought, and fire damage to the 1964–65 Brazilian crop. However, these articles were not received at the time the hearings were printed. They are made a part of the committee files.)

As this damage by natural and accidental disasters was confirmed, the inevitable and perfectly normal result was that importers and roasters the world over bought raw coffee on a protective basis. This activity in the market, of course, was a contributing factor to the movement which saw prices in November rise from a 14-year low to the highest since 1958.

A resolution to enlarge export quotas was adopted by the Executive Board of the International Coffee Organization at its November session. But that resolution was defeated by the International Coffee Council which is the only body authorized to adjust quotas. A two-thirds distributed majority was required for this resolution to be adopted—that is two-thirds of the consuming members' votes and two-thirds of the producing members' votes. While the consuming nations voted unanimously in favor of the quota enlargements, the producing members cast only 623 votes in favor—or 25 votes short of the 648 votes required for a majority.

On January 10 of this year, the National Coffee Association issued another press release in which we said that we had proposed to the U.S. Government that it take swift action to obtain substantial increases in export quotas.

The Executive Board of the International Coffee Organization convened again on January 27. On Saturday, February 1, and at the instigation of the U.S. delegation, the Board agreed to convene a special emergency session of the Council on February 10—which was barely 9 days' notice. And on February 12, an agreement was reached to make available approximately 2,300,000 more bags of coffee to the world market.

The accelerated action, convoking as it did delegates from nearly 50 member nations from all over the world, provided solid evidence that the coffee agreement can be useful to consuming nations during a period of price firmness. Even with a tight statistical situation, consuming nations can still seek remedial action under the provisions of the pact. I submit, gentlemen, that in a period when, for example, prices might be rising on the world market due to crop shortages in certain countries, it is better to have an international coffee agreement than not to have one. With an agreement, we have a common meeting ground and a formal instrument for the negotiation of measures to alleviate the upward pressure on prices. This is a part of the proper functioning of an international commodity agreement. Without an agreement, we have no recourse to relief nor any protection against a price spiral.

In conclusion, gentlemen, I would like to make one final point clear. While the National Coffee Association would like to see the economies of the producing countries develop at a faster pace; while we feel that they are entitled to receive a fair return for their coffee; and while we wish them Godspeed in their quest for a better standard of living—our own responsibility begin here at home—to the coffee trade and coffee consumers of the United States.

And we are convinced, gentlemen, that the enactment of H.R. 8864, which will enable the United States to fulfill its obligations as a member of the international coffee agreement, will also make it possible for us, the U.S. coffee industry, more efficiently to fulfill our responsibilities and our obligations to the U.S. consumers. If the agreement is not effective, we will most certainly be the first to take action urging revisions to protect the best interests of the U.S. coffee consumers and the U.S. trade.

I thank you sincerely for your courtesy in permitting me to testify at this hearing for your patience in hearing this statement.

The CHAIRMAN. Thank you very much, Mr. McKiernan. You said on page 2 of your statement that one of the purposes of the statute is to assure an adequate supply of coffee. How can you tell that being a member of the international coffee agreement program would guarantee such assurance?

Mr. McKIERNAN. Mr. Chairman, we, through our voting position—and assuming there was coffee in the world available, we can and we have, as was indicated in the last month, increase quotas and put more coffee on the market, and make it available for the consuming nations.

The CHAIRMAN. Now Brazil, at different times, has had shortages of coffee; has it not?

Mr. McKIERNAN. Yes.

The CHAIRMAN. What machinery have you got—supposing Brazil were to say, "We are going to furnish a quota of so much every year." What machinery have you got to compel the Brazilians to do that?

Mr. McKIERNAN. Well, may I enlarge on that a little bit, sir?

The CHAIRMAN. Yes.

Mr. McKIERNAN. One, the nations usually fight very vigorously to increase their quotas. Two, if a nation prevents, forbids, or resists the export of coffee that they have agreed to supply, we have a provision enabling us to go back and demand release of these coffees or allocate it elsewhere. They are obliged to release the coffee, so much per quarter. It is broken down.

But they agree to release this coffee. Now, if they do not, or if they cannot, then the Council has the right to allocate this coffee elsewhere, and so we can come back, as we did last month, and ask for more coffee, or reallocate their quota.

The CHAIRMAN. You have no real enforcement power to compel a member of the pact to ship the quota that they have had assessed?

Mr. McKIERNAN. No, sir. But, Senator Byrd, we can turn that coffee over to another nation to supply, or another group of nations.

The CHAIRMAN. Thank you.

Senator Douglas?

Senator DOUGLAS. Thank you, Mr. Chairman.

Mr. McKiernan, I was much interested in your statement that the Executive Board of the International Coffee Organization recommended an increase in the quotas, last November. I wonder if you could tell us what the percentage increase was that the Board recommended?

Mr. McKIERNAN. It was, sir, slightly over 1 million bags; in round numbers it was 1 million.

Senator DOUGLAS. And that was 20 percent?

Mr. McKIERNAN. Approximately, yes.

Senator DOUGLAS. And you say that that was defeated in the Coffee Council?

Mr. McKIERNAN. Yes, sir.

Senator DOUGLAS. And you said that all of the consuming nations voted for it?

Mr. McKIERNAN. Yes, sir.

Senator DOUGLAS. But only 623 votes were cast for it amongst the producing nations.

Mr. McKIERNAN. Yes.

Senator DOUGLAS. And you say that that was not a majority. Now, how many votes do the producing nations cast?

Mr. McKIERNAN. The producers have 1,000 votes.

Senator DOUGLAS. So, it was not two-thirds, then?

Mr. McKIERNAN. Yes, sir; but there were some absent.

Senator DOUGLAS. In other words, the two-thirds, as you stated in that sentence, a two-thirds vote of both the consumers and producers is required to increase the quota?

Mr. McKIERNAN. No, sir.

Mr. DOUGLAS. Well——

Mr. McKIERNAN. Two-thirds of each group.

Senator DOUGLAS. Yes; exactly, two-thirds of the producers——

Mr. McKIERNAN. Yes, and——

Senator DOUGLAS. Not two-thirds of the group combined?

Mr. McKIERNAN. No, sir.

Senator DOUGLAS. But two-thirds of each group?

Mr. McKIERNAN. Yes, sir.

Senator DOUGLAS. Of each panel?

Mr. McKIERNAN. Yes, sir.

Senator DOUGLAS. And this proposal to increase the quota by 1 million bags was defeated because the producing nations did not cast the two-thirds vote necessary. I wonder if you could tell us how Brazil voted?

Mr. McKIERNAN. Brazil voted for the increase in quotas.

Senator DOUGLAS. For the increase?

Mr. McKIERNAN. Yes, sir.

Senator DOUGLAS. How did Colombia vote?

Mr. McKIERNAN. Colombia voted against the increase.

Senator DOUGLAS. How did Costa Rica vote?

Mr. McKIERNAN. I believe Costa Rica voted against.

Senator DOUGLAS. How did Guatemala vote?

Mr. McKIERNAN. Against.

Senator DOUGLAS. How did El Salvador vote?

Mr. McKIERNAN. Against.

Senator DOUGLAS. How did Honduras vote?

Mr. McKIERNAN. Against.

Senator DOUGLAS. How did Mexico vote?

Mr. McKIERNAN. For.

Senator DOUGLAS. The Central American countries, the northern South American countries and Central American voted against?

Mr. McKIERNAN. Yes, sir. Except Mexico.

Senator DOUGLAS. Now, you say that in February they reversed themselves and proposed an increase of 2,300,000 bags?

Mr. McKIERNAN. Yes, sir.

Senator DOUGLAS. A greater increase than that which they had rejected in November. How do you account for this change of heart?

Mr. McKIERNAN. Well, it was very self-evident to all concerned that there is trouble in Brazil——

Senator DOUGLAS. What?

Mr. McKIERNAN. That there is crop trouble in Brazil. I mean, there were crop problems in Brazil and it was very self-evident, many of us, most of us, were aware of it in November, and there was some concern on the part of some of the nations, but in February all nations were cognizant of it and within 3 days after the convening of the Council with the members coming in from all over the world, it was reviewed and——

Senator DOUGLAS. Now, I am going to ask you a very intimate question. Is it possible that the fact that this agreement had not yet been approved by the Senate and might face opposition in this committee and face opposition on the floor, that induced the two-thirds vote lest the refusal to increase the quotas might make certain Senators less enthusiastic in support of the agreement?

Mr. MCKIERNAN. No, sir; I do not.

Senator DOUGLAS. You don't think that?

Mr. MCKIERNAN. I can assure you that——

Senator DOUGLAS. I am sure that did not enter into the official record, but was it mentioned in the lobby?

Mr. MCKIERNAN. It certainly was.

Senator DOUGLAS. It was mentioned in the lobby?

Mr. MCKIERNAN. Yes, indeed.

Senator DOUGLAS. And therefore was that not an intangible inference playing upon the decision?

Mr. MCKIERNAN. Well, the same situation prevailed in November, Senator.

Senator DOUGLAS. Yes; but the opposition of the Senators was not as evident then.

Mr. MCKIERNAN. Well, I wouldn't know that, whether it was or not in November or in February, for that matter, but——

Senator DOUGLAS. In February it was evident and had an influence upon the decision to increase the quotas?

Mr. MCKIERNAN. I would be inclined to think that it was.

Senator DOUGLAS. That is a very honest answer and I want to congratulate you, Mr. McKiernan, for that reply. It is a type of frankness which we do not often receive from advocates of measures that come before us, and I want to compliment you sincerely on that.

Mr. MCKIERNAN. Thank you, Senator.

Senator DOUGLAS. Now, to increase the quota in the future, you would have to try to get a two-thirds vote of the producing nations—that would be necessary, would it not?

Mr. MCKIERNAN. Yes. However——

Senator DOUGLAS. If I may, let us confine ourselves to yes or no answers for the time being. In order to increase quotas in the future, it will be necessary to get two-thirds, a two-thirds vote of the producing nations; will it not?

Mr. MCKIERNAN. And the consuming nations.

Senator DOUGLAS. And once this implementing legislation has been approved by Congress and signed by the President, they will not have the Senate to fear; isn't that true?

Mr. MCKIERNAN. No, it is not, Senator; and——

Senator DOUGLAS. That fear will be removed?

Mr. MCKIERNAN. No, sir; that is not true.

Senator DOUGLAS. Well, it will have passed out of our hands.

Mr. MCKIERNAN. Senator Douglas, you are overlooking the fact that the President must report back to you in 18 months.

Senator DOUGLAS. Oh?

Mr. MCKIERNAN. And these gentlemen who are members of this agreement are well aware of that.

Senator DOUGLAS. Well, they know that we have many things on our minds, and our attention necessarily is intermittent and sporadic and we cannot be expected to scrutinize this matter constantly, and apprehensions which are intense at one moment can be lulled to sleep under the narcotizing influence of the State Department and the Latin American lobby. [Laughter.] Isn't that true?

I mean once this implementing agreement has been approved, then it will require a two-thirds vote of both producing and consuming nations to increase the quotas in the future. Now, the demand for coffee increases. We had an estimate yesterday from Mr. Jacobson that it is increasing at the rate of 3½ percent a year, or roughly 1,750,000 bags a year. So, if this goes on for 2 or 3 years, the demand will be increasing, and the nations can refuse to increase their quotas, the producing nations can refuse so to increase their quotas, and the prices will go up—not by a reduction, but by a failure to increase quantities exported to the degree that the demand increases.

Mr. McKIERNAN. But, Senator, you are overlooking one fact. We can walk out of this agreement in 90 days.

Senator DOUGLAS. Oh, but you know it is very difficult for us to walk out of——

Mr. McKIERNAN. Senator, I would be the very first one to come in and——

Senator DOUGLAS. If we were to do that, we would be pilloried all around the earth, especially in Latin America. We would be held up as a nation that does not live up to its obligations. They will say that we are pulling the plug out from under their economies and their prices, and——

Mr. McKIERNAN. They might charge us with that now, Senator, but I don't think they will do it later.

Senator DOUGLAS. And I can already hear the State Department coming down here frantically saying that the United States will be charged with the responsibility for the collapse of the Western Alliance and the Alliance for Progress, and we will be told that we are endangering the national security and——

Mr. McKIERNAN. Senator——

Senator DOUGLAS. The columnists will continue their drumfire in the same direction——

Mr. McKIERNAN. Senator, may I comment?

Senator DOUGLAS. Yes, indeed.

Mr. McKIERNAN. I would just like to make——

Senator DOUGLAS. I have been indulging in rhetoric, and you are entitled to your share.

Mr. McKIERNAN. Well, Senator, I am not in the same league. But I would like to make the point that the national association, which has been in business for 53 years, is opposed to governmental restrictions, all governmental restrictions, governmental participation, and intervention in the coffee trade.

However, after mature consideration, we believe this is better for the coffee industry and better for the American consumer.

Senator DOUGLAS. You have said that very eloquently. But I am trying to examine the fine print.

Now, you will notice in section 2 of this bill, H.R. 8864, that the President is given the power, he is authorized, which, in a sense, is something more than a mere discretion, he is authorized to prevent the importation into this country of any coffee coming from countries outside the coffee organization or from inside those countries if the shipment is not accompanied by a certificate of origin or a certificate of reexport.

Therefore, we become the enforcing agent, in a sense, for the coffee agreement by the refusal to permit the goods to come within our border.

Mr. McKIERNAN. Contrariwise, sir, we would become the enforcing agent for about one-half of 1 percent of the producing nations because over 99 percent are members, and they will honor the certificate of orgin provision.

Senator DOUGLAS. But we consume half the coffee consumed, do we not?

Mr. McKIERNAN. Yes, and 99 percent or more of the coffee comes from the members of the agreement.

Senator DOUGLAS. Well, all right. Now I think that subparagraph (b) is more important than subparagraph (a), and if you will look at that. It is on page 2. Will someone give Mr. McKiernan a copy of H.R. 8864?

Mr. McKIERNAN. I have one, Senator Douglas.

Senator DOUGLAS. In other words, we deny entrance to any shipment from any member of the International Coffee Association which is not accompanied by a certificate of origin or a certificate of reexport issued by a qualified agency in the form required under the agreement; which means, in effect, that the exporting countries have the power to determine what amounts of coffee go into the United States.

Now, suppose, therefore, that they go along for 3 or 4 years and then the coffee organization refuses to approve an increase in quotas for export. The demand rises in the United States, the demand in the United States and in West Germany and in the Scandanavian countries the demand increases—then we become the enforcing agent. And if we were not the enforcing agent, there would be a temptation for some of the countries to break away from the International Coffee Organization—and I am going to call this a cartel—break away from the coffee cartel, or from producers inside these countries, to bootleg coffee in the United States——

Mr. McKIERNAN. Senator, may I give you an example?

Senator DOUGLAS. Yes.

Mr. McKIERNAN. Let us say that the coffee is exported from a given producing agent; for example, Brazil, and that is went to, let us say, Russia. Now if there was no certificate of origin, that coffee could be reexported from Russia and sold for hard currency, let us say, in this country. The result is that coffee would go into Russia and be reexported in terms of hard currency, and Brazil would probably get some Russian nuts and bolts in trade. This is one thing that is prevented.

Senator DOUGLAS. You mean this agreement prevents the Russians from becoming coffee drinkers?

Mr. McKIERNAN. Well, I wish they would drink something——

Senator DOUGLAS. You know, I am not acquainted with the drinking habits of the Russians, but I always understood that their beverage was tea.

Mr. McKIERNAN. Well; yes, sir.

Senator DOUGLAS. Isn't that so?

Mr. McKIERNAN. Well—I hear that vodka is more important.

Senator DOUGLAS. Well, it may be more stimulating. And I believe that it was an English poet—was it Gray—who said, "The cup that cheers, but does not inebriate," and he was referring to tea.

No, but seriously, Mr. McKiernan, isn't there real danger that we are putting our head in the noose by approving this agreement? We become the enforcing agency for the International Coffee Organization and the quotas cannot be increased in the future even though we wish to have them if one vote more than one-third of the producing nations is opposed to the increase.

Mr. McKIERNAN. Well, Senator——

Senator DOUGLAS. And therefore, while this is not a curtailment of existing quantities, it can provide for a dampening down of future increases with a consequent increase in prices as the demand swells?

Mr. McKIERNAN. I am sorry, I cannot agree with that, Senator Douglas. I did not have the opportunity to stress the point, but each year there is an annual review and reallocation of quotas.

Senator DOUGLAS. Yes, but it requires a two-thirds vote of the panel of producing nations alone—that is what you said.

Mr. McKIERNAN. But, Senator Douglas, Brazil, for example, would be worse off not exporting and holding it.

Senator DOUGLAS. No, you know, the demand for coffee is inelastic. You know that. You increase the price of coffee by 10 percent and the demand will not fall off by 10 percent, it will probably fall off 1 or 2 percent. It is, unfortunately, a habit. And, as a habit, people drink it largely irrespective of the price of it——

Mr. McKIERNAN. No, they don't.

Senator DOULAS. And this is why Brazil in the past has dumped coffee into the sea, dumped coffee into the river, and is now holding back—what is it, 50 million bags of coffee?

Mr. McKIERNAN. Senator Douglas, you said that yesterday and if you will permit me to answer, they are not holding back, they cannot sell it.

Senator DOUGLAS. Well, you mean they won't grant certificates of export?

Mr. McKIERNAN. Sure they will.

Senator DOUGLAS. What?

Mr. McKIERNAN. Sure they will. They will grant certificates of export up to their quota of 18 million bags.

Senator DOUGLAS. Exactly the point.

Mr. McKIERNAN. They could not dishonor that.

Senator DOUGLAS. You say they won't hold them up, but they have got 50 million bags down there which they will not certify for export, isn't that true?

Mr. McKIERNAN. Well, they cannot be members of this agreement and certify 50 million bags.

Senator DOUGLAS. That is exactly the point. This is not a national cartel, this is an international cartel, governmentally sponsored, governmentally controlled.

Mr. McKIERNAN. Somebody has got to observe the rules of the treaty or there won't be any——

Senator DOUGLAS. I can see very strong political arguments which my good friend from Askansas has advanced, and I can understand the importance of coffee to the economy of these countries. I would like to help these countries. I voted against the wishes of my constituents for the proposals of my good friend from Arkansas—the Alliance for Progress, the International Development Association, all the other measures, I voted for them.

But now this is a proposal which may take it out of the pocketbooks of the American housewife and family—and we have a duty to consider them as well as to consider the people of other countries.

Mr. McKIERNAN. Senator Douglas, may I make one point which I don't think I made clear enough?

Senator DOUGLAS. Yes.

Mr. McKIERNAN. I want to reiterate that the United States can veto a quota which we consider insufficient.

Senator DOUGLAS. How so?

Mr. McKIERNAN. Just by voting down an inadequate quota.

Senator DOUGLAS. What?

Mr. McKIERNAN. Voting it out. We have the veto power.

Senator DOUGLAS. But you know that is very difficult to exercise, and we were told by the very able gentleman from the State of Arkansas when we ratified this treaty last fall, that the treaty will be ineffective unless we agree to the implementing arrangements, and that that would come up later, and we are legally free to turn this down.

But already the moral pressure is upon us to approve this. That pressure is very heavy, and we heard the distinguished Under Secretary of State say that it would be unthinkable for us to back away from the treaty—incidentally, the treaty was deposited under peculiar circumstances, I should say that, without the approval of this committee or of the Senate——

Mr. McKIERNAN. Senator Douglas——

Senator DOUGLAS. Without our approval. Now, if we ratify the treaty, if we approve the implementing agreement—you said we can always withdraw from it—well, if we did that, we would be charged with contributing to the ruin of Latin America——

Mr. McKIERNAN. Senator Douglas, my interest is not international politics. My interest is furthering the best interests of the coffee trade of the United States.

Senator DOUGLAS. Yes.

Mr. McKIERNAN. And the consumers of the United States. And incidentally and indirectly the agreement would help the producing nations—but that is not my business.

Senator DOUGLAS. Well, I think your heart is pure. I don't question the purity of your motives at all. It is just a question of whether we are not putting our necks into a noose.

Mr. McKIERNAN. If I may complete my observation.

Senator DOUGLAS. Yes, indeed.

Mr. McKIERNAN. We buy about $1 billion worth of coffee a year.

Senator DOUGLAS. Are you talking about the import or the retail value?

Mr. McKIERNAN. That is the import value.

Senator DOUGLAS. The import value, and what would that be in retail value?

Mr. McKIERNAN. I could not tell you, frankly. But——

Senator DOUGLAS. It would be twice that?

Mr. McKIERNAN. At least, I would think, yes, sir.

Senator DOUGLAS. And so the total amount spent on coffee by American families would come to within $2 or $3 billion?

Mr. McKIERNAN. I would think that that would be a fair assumption.

Senator DOUGLAS. And so a price increase therefore of 1 cent means about $35 million out of the American consumer?

Mr. McKIERNAN. I cannot work that fast mathematically. I don't know.

Senator DOUGLAS. Well, I think that is right. It is $1 billion, and the average price, I think you said, was around 35 cents last year——

Mr. McKIERNAN. That is the imported.

Senator DOUGLAS. I understand, but assuming that the markup is just to the same degree, the same number of cents, not percentage but cents, I think that you will find that 1 cent is around $30 or $35 million.

Now, this is serious. That is no inconsiderable sum. Now, suppose this were to result in an increase in the price of 10 cents. And I believe that my good friend Jose Figueres, who I think is a great statesman and one of my personal friends——

Mr. McKIERNAN. He is a friend of mine, too, Senator.

Senator DOUGLAS. He said that he will want a 10-cent increase and that will be $350 million out of the pockets of the American consumer.

Mr. McKIERNAN. Senator, Jose Figueres is a gentleman. He is a friend of mine. He is a statesman and a patriot. He is not a coffee official.

Senator DOUGLAS. Oh, well, he probably produces coffee——

Mr. McKIERNAN. He is a grower of coffee.

Senator DOUGLAS. Yes; well, Costa Rica voted against the increase in quotas?

Mr. McKIERNAN. In November.

Senator DOUGLAS. Yes.

Mr. McKIERNAN. But not in February.

Senator DOUGLAS. In February, with the shadow of adverse action by the U.S. Senate hanging over the conference.

Mr. McKIERNAN. Senator, it still hangs over everybody.

Senator DOUGLAS. Well, there are some who are trying to——

Mr. McKIERNAN. There is no change, Senator.

Senator DOUGLAS. What?

Mr. McKIERNAN. There is no change.

Senator DOUGLAS. Oh, but once we pass this legislation, then there will be nothing to fear, they will be free.

Mr. McKIERNAN. The point I did want to reiterate, sir, is that we are anxious to protect the coffee world and we are opposed to these alarming fluctuations, these alternate peaks and valleys that do nobody any good. And when prices are high, and with more coffee being grown in the producing countries, tremendous surpluses accumulate. Then prices become depressed and——

Senator DOUGLAS. Well, that is characteristic of commodities produced everywhere, these fluctuations in the prices, and we understand that.

But I think the chairman asked a very profound question, whether, if the aim is to stabilize prices, it is to stabilize them at a higher level.

Mr. McKIERNAN. Is that a question?

Senator DOUGLAS. Well, it is a declaration of faith in our chairman, and, if you want to comment——

Mr. MCKIERNAN. No, sir; but I would like—as you know, I come here without guile, seriously——

Senator DOUGLAS. Without guile?

Mr. MCKIERNAN. Yes, sir.

Senator DOUGLAS. I would think that is true.

Mr. MCKIERNAN. We naturally oppose inordinate prices, because we sell more coffee when prices are reasonable.

Senator DOUGLAS. Not much more.

Mr. MCKIERNAN. Well, when you get below the prices which prevailed before the recent price spiral, I agree you are not going to sell much more. So, therefore, we do not want the prices too high. But, frankly, I wish that somebody could tell us how to prevent prices from going higher when we do not have enough of the commodity. This is our problem. And the reason we think this agreement is practical and useful is because we have a forum, we have a unanimity of agreement among all of the consuming nations to protect our interests which we would not have if we did not have a treaty.

Senator DOUGLAS. What is the answer about West Germany?

Mr. MCKIERNAN. They are completely united with us.

Senator DOUGLAS. What?

Mr. MCKIERNAN. Completely united with us.

Senator DOUGLAS. And the Scandanavian countries?

Mr. MCKIERNAN. Same thing.

Senator DOUGLAS. But this is ineffective unless two-thirds of the producing nations agree to increase the quotas. You have brought out this very interesting point which I was not previously aware of, that at the November meeting the consuming nations voted unanimously for an increase in quotas, but you failed to get two-thirds of the vote among the producing nations. And I want to commend you for that statement. The Department of State did not include that in their analysis.

Mr. MCKIERNAN. But in retrospect, looking back, I must admit that I was very disturbed about it last November, but in retrospect I can seen where some nations questioned the advisability of increasing the quotas, because if you had sufficient coffees available, if you did increase the quotas, you could precipitate a plunge, and I honestly believe that Colombia, for example, questioned whether this was right or not. Now, in February they had no doubt. The question was: How much of a quota increase?

Senator DOUGLAS. And isn't it also true that in the intervening period prices have gone up some more?

Mr. MCKIERNAN. Yes, sir.

Senator DOUGLAS. And they were really putting the squeeze on us and they were afraid that in view of the increase in prices the American Senate would not vote to implement the legislation—the implementing legislation——

Mr. MCKIERNAN. Senator, the most important point of discussion, I think, in the meetings in the United Nations, or in London, or elsewhere, was the U.S. Senate.

The CHAIRMAN. Anything more, Senator?

Senator DOUGLAS. Well, Mr. Chairman, I think I have asked enough, taken up enough time.

The CHAIRMAN. Senator Carlson?

Senator CARLSON. Well, Senator Douglas has done very well.

Mr. McKiernan, I want to compliment you for appearing before this committee. It is very encouraging to have someone come up before the committee who really knows the problem we are concerned with.

I was most pleased to note that in your statement you said that our own responsibility begins here at home, the coffee trade and to the coffee consumers of the United States.

I have been a little bit concerned after several days of testimony here and last year, that some people in this country were more concerned about our international politics than they were about the people of the United States. Now, we know that we do have problems in Latin America and we do have some interest in those countries. But we should have an interest in our own country as well.

I was interested in just one or two things in your statement. For example, you say that while there is an anticipated shortage of good quality Brazil coffee today, it is within the realm of possibility that there will be another world surplus.

Now, that word "anticipated" shortage—when is that to take place? Is it now or is it coming next year, or when?

Mr. McKIERNAN. Shortage?

Senator CARLSON. Yes, sir; you say anticipated shortage.

Mr. McKIERNAN. Senator Carlson, right now the coffee crop that came in, the 1963–64 coffee crop, is about 19 million bags, and Brazil exports 18 million, or slightly more. Therefore, theoretically, you understand, there is no new fresh green coffee in Brazil, until the 1964–65 crop. I want to make that clear, because they export 18 million, or slightly more bags and that is all, under the agreement.

This year because of frost and drought, which was very dreadful down there, it is estimated that they will produce about 9 million bags in the 1964–65 crop year. Now, they do have, they have had 50 million bags or more of old coffee. In many cases it is being destroyed because it is inferior quality. I talked with the president of the Brazilian Government department on coffee matters recently and he estimates that they have 22 million bags, exportable, of which he estimates about only 4 million bags would be of prime quality that we prefer and desire and use in this country.

Now, I want to hasten to point out, Senator Carlson, that we also use other grades of Brazilian coffee. We don't always demand the best. But we do prefer the good coffee, the greenish fresh coffee, and there are only about 4 million bags available.

Now, then, you have 9 million more coming in this year. You will then have about 13 million of the type of coffee we require, you see, and in a time of shortage everybody seems to want to buy more coffee, and I think we can all understand that. That is not only in this country but all over the consuming world. So you have 13 million bags and everybody is competing for them——

Senator CARLSON. But we do have 13 million bags and we purchased 18 million.

Mr. McKIERNAN. Yes, sir. You have really 22 million plus; about 35 million bags.

Senator CARLSON. What about this surplus down there; won't they use some of that 4 million bags?

Mr. MCKIERNAN. That is included in a total of 22 million, of which 18 million is not of prime quality.

Senator CARLSON. That is what I thought.

Mr. MCKIERNAN. Yes, sir; but that is not prime quality coffee.

Senator CARLSON. That might be quite true, but it is coffee.

Mr. MCKIERNAN. Yes, sir; yes, sir.

Senator CARLSON. Would it be possible for us to buy additional poundage of coffee from other nations if it were not for the International Coffee Agreement?

Mr. MCKIERNAN. Under the International Coffee Agreement we can buy anywhere we like.

Senator CARLSON. You mean we don't have to buy it through the International Coffee Agreement quotas, that we can buy it, buy in addition to that?

Mr. MCKIERNAN. No, no; I must have misunderstood you.

Senator CARLSON. I did not think so. Now, my concern is, as I have indicated, that there really isn't this great shortage. I have no doubt that they had a crop failure, but I still think that there is plenty of coffee in the world, if we can get it to the consumer. But I would appreciate your—anything you tell me today I am going to believe.

Mr. MCKIERNAN. Thank you.

Senator CARLSON. Because you know your subject.

Mr. MCKIERNAN. Thank you.

Senator CARLSON. Now, there is another sentence in your statement that I am going to quote to you:

But the continued participation of the United States in the agreement cannot be assured unless H.R. 8864 is enacted.

Now, are you saying by that statement that this coffee agreement may continue on whether we approve this implementing legislation or not?

Mr. MCKIERNAN. In my opinion, it will die.

Senator CARLSON. Is there any reason why it cannot continue?

Mr. MCKIERNAN. Well, now——

Senator CARLSON. I infer that statement says, "If you gentlemen don't approve this enabling legislation, this thing is going to fall apart."

Mr. MCKIERNAN. It is my opinion, and this is personally personal, that if the United States does not implement this treaty with the necessary directives, it will die.

Senator CARLSON. Well, if we continue appointing our man to the Board and if we continue our contribution of $100,000 a year——

Mr. MCKIERNAN. A little more than that, Senator—not much more, from $130,000 to $160,000.

Senator CARLSON. But anyway, if we keep making our appointment to the Board and we keep continuing our contribution, is there any reason why this Board should not continue functioning without this? I realize the value of the implementation, but is there any reason why they cannot continue?

Mr. MCKIERNAN. Yes, sir, because we have to invoke import controls against nonmember nations that exceed their quotas and we have to set up procedures to accept the certificates of origin, and this cannot be done without directive from the Congress.

Senator CARLSON. Well, isn't it a fact that——

Mr. MCKIERNAN. We would have to pay our bill, too.

Senator CARLSON. Yes. I had that in mind. Now, isn't it a fact that in the articles of agreement there is a provision that the Board itself can be a self-perpetuating Board without coming back to Congress in 5 years even though the treaty says 5 years?

Mr. MCKIERNAN. Senator Carlson, the Congress has ordered the President to come back, as I recall, in 18 months.

Senator CARLSON. Yes. But isn't there language in this agreement that states the Board itself can reach agreement to continue its operation?

Mr. MCKIERNAN. Well, this treaty runs for 5 years and renews itself; yes, sir.

Senator CARLSON. That is what I thought.

Mr. MCKIERNAN. But we, that is, the U.S. Government, must come back to the Congress and report on it at the end of 2 years, as I recall it, which is 18 months from now.

Senator CARLSON. In view of the statement which Senator Douglas made which I may say I thoroughly agree with, concerning the pressures on the Board to increase the quotas, would it be helpful if we made this 2 months instead of 2 years?

Mr. MCKIERNAN. Senator Carlson, I think that would be unfair. I think that it would be like putting a pint of fuel in an automobile to see how the new car is going to run. I think we have got to load it up and start it rolling, under supervision, and see how it goes.

I want to reiterate that we do not think this is the most perfect agreement in the world, and I want to assure you that this agreement affects our business. We are very selfish about this and we want to protect our consumers—you see, if we don't have any consumers, we don't have any business.

Senator CARLSON. Well, one more question and I am through. Is it possible for a nation—I don't know just what term to use—to bypass this International Coffee Agreement, and have there been evidences that Colombia has ducked under this in France and Italy during the past year?

Mr. MCKIERNAN. You mean overshipped the quota?

Senator CARLSON. That is right, or sold coffee at discount rates?

Mr. MCKIERNAN. Well, Senator, there is nothing in the agreement that——

Senator CARLSON. Is there anything to prevent them from going around the quotas that they have already agreed to? For instance, in France and Italy, have they managed to send coffee in there at discount prices?

Mr. MCKIERNAN. The trade practices of companies and countries include discount prices.

Senator CARLSON. Have they done that, in your opinion?

Mr. MCKIERNAN. I would not be surprised if nations have done that. Perhaps I might bring this forth—in addition to the traditional markets, there are what are called new markets, and they include Japan and Russia, and a few other places. There are some small ones, but the princip l ones include Japan and Russia, and pro-

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ducers can ship to such countries as much coffee as they like at any particular price that they want. That is their business.

But that coffee cannot come out of that new market and come into the normal market, or traditional market, and this is where certificates of origin and reexport become very important and effective.

Senator CARLSON. But they do furnish coffee to the consumers inside those countries outside the agreement?

Mr. McKIERNAN. No; it is part of the agreement but not subject to quotas. They are allowed to ship, for example, to Japan. That is a new market and there is no quota limitation on it.

Senator CARLSON. Well, I am not too familiar with that. But I do happen to have in my file a paper on the Green Coffee Association of New York City, Inc. Is there such an organization?

Mr. McKIERNAN. Yes, there is.

Senator CARLSON. Well, their secretary submits a statement in the form of a circular letter which gives evidences of this, and I would like to have it made part of the record, if there is no objection.

The CHAIRMAN. No objection.

(The document follows:)

GREEN COFFEE ASSOCIATION OF NEW YORK CITY, INC.,
New York, N.Y., May 3, 1963.

No. 1734

The Membership, Green Coffee Association of New York City, Inc.

DEAR SIRS: The following communication was received today, from the Committee of European Green Coffee Merchants Association and is quoted in full for your information.

"*CIRCULAR LETTER NO. 8/63*

"*To the Presidents of Our Member-Associations.*

"DEAR SIRS: Herewith we beg to inform you that on the 23d inst. we have sent following letter to the president of the Federacion Nacional de Cafeteros de Colombia:

" 'MR. ARTURO GOMEZ Y JARAMILLO,
" '*President of the Feracion Nacional de Cafeteros de Colombia,*
" '*Bogatá.*

" 'DEAR SIR: Members of our Committee of European Green Coffee Merchants Association have brought to the attention of our board certain marketing practices of your federacion in certain European countries, which sales policies are considered to be fully in conflict with article I, paragraph 4, and article 53, paragraph 2, of the International Coffee Agreement, 1962.

" '(*a*) France reports: In June 1962 the federacion informed the Colombian exporters that on sales of Excelso coffees for consumption in France, the French importers will receive bonuses from the Colombian Government through the Bank of France ranging from 7 percent to 14.5 percent. The discounts to be calculated over the total imports of the individual importers over 1 year (until June 25, 1963) are as follows:

	Percent
Up to 6,999 bags imported	7
From 7,000 to 13,999 bags	11
From 14,000 to 20,999 bags	13
And over 21,000 bags	14½

" '(*b*) Italy reports: The Federacion Nacional de Cafeteros, by letter of Mr. Mario Uribe Uribe, has informed the Comitato Italiano Cafe that the office of the federacion in Rome will pay a premium in liras to the Italian importers of Colombian coffees, purchased from coffee exporters in Colombia until December 31, 1963, for consumption in Italy, and at the following rates:

" 'For purchases totaling up to US$200,000 premium 10 percent.

" 'For purchases totaling up to US$500,000 premium 11 percent.

" 'For purchases surpassing the amount of US$500,000 premium 12 percent.

" 'We consider both discount schemes, introduced by the federacion into the French and Italian markets, most disturbing for the maintenance of a satisfactory price level, which principle has been agreed upon by all countries participating in ICA 1962.

" 'This market policy is especially prejudicious to the FEDECAME countries who, particularly in Italy, lose all possibilities to sell their coffees at a fair price and who may be forced to initiate the same system of turnover premiums. The result will be that a price-war in mild coffees will break out with the corresponding disastrous effects for the economics of all coffee producing countries.

" 'This effect will be far off from the expectations cherished by all countries who assisted at the negotiations in New York in August 1962. Not in the last place by the importing countries who, in order to realize the objectives laid down in article I, have voluntarily imposed upon themselves many restrictions.

" 'We therefore strongly recommend you to have the federacion reconsider her present sales policy and to bring same in line with chapter I of ICA 1962.

" 'We remain, dear sirs, '.

* * * * * * *

"Very truly yours,

"E. PAUL LANGE,
"Secretary, Green Coffee Association of New York City, Inc."

Senator CARLSON. That is all, Mr. Chairman.

Thank you very much, Mr. McKiernan.

The CHAIRMAN. Senator Ribicoff?

Senator RIBICOFF. Thank you, Mr. Chairman.

Following up one of the questions of Senator Carlson, Mr. McKiernan, am I to infer from your answer to Senator Carlson that the price of coffee to the consumer in France and Italy is less than the price of coffee for the American?

Mr. MCKIERNAN. No; I did not say that.

Senator RIBICOFF. I wondered whether you did.

Mr. MCKIERNAN. No, no. Now, there have been, and I know that there always will be, sales to countries by people from Colombia, Brazil, or some of these other producing nations at a special price. This goes on, this is a trade practice which we think is ill-advised and wrong, but we have no control over it, and I would not be at all surprised if coffee is being sold in a given country, consuming country, at a special price.

Senator RIBICOFF. I understand that, sir, where they are using coffee, for example, as a loss leader, but I am talking about the general price of coffee to the consumer. Are they less than the general prices to the consumer of the United States?

Mr. MCKIERNAN. Senator——

Senator RIBICOFF. I don't mean some individual store. I mean the general prices.

Mr. MCKIERNAN. Senator, actually it is quite to the contrary. Today you pay more in Germany for coffee, as an example—I believe so, though I stand to be corrected on this statement, I think they pay as much or even more in Italy than in this country and until a few months ago you paid much more in France, because they had a wall around the former French African nations, and they guarantee them x cents per pound above the prices to other importing nations.

Senator RIBICOFF. Well, I don't know whether this is true or not, but I have been informed that better qualities of coffee go to Germany than to the United States.

Mr. MCKIERNAN. That is true in many instances, Senator Ribicoff.

Senator RIBICOFF. That is what I understood.

Mr. MCKIERNAN. But, you see, the duty is also very high——

Senator RIBICOFF. I am taking the duty into account, but I am talking about the price of producing countries selling to the wholesalers out of Brazil or Colombia and shipping it, how does that compare with the price in the United States?

Mr. MCKIERNAN. Well, I would think it is parallel. You can check these prices on the coffee exchange in London. But I think Senator Carlson was talking about a special deal, Senator, and that sort of thing can happen tomorrow morning, it could have happened 6 months ago—it might happen again, but I can categorically say that as a general rule prices are pretty parallel for what you buy.

Senator RIBICOFF. Well, what is the difference of the price of coffee in Germany and in the United States coming from, say, Colombia?

Mr. MCKIERNAN. Well, of course they buy from all over. They buy a lot of their coffee—for example, they buy from Kenya, which is a very fine quality coffee——

Senator RIBICOFF. How much coffee is produced in Kenya?

Mr. MCKIERNAN. I can give you a rough idea, Senator. I cannot tell you exactly.

Senator RIBICOFF. Well, how long has Kenya been producing coffee?

Mr. MCKIERNAN. Oh, for many years. Since—I would hazard an opinion that it has been since before the First World War.

Senator RIBICOFF. Is Kenya part of this agreement?

Mr. MCKIERNAN. Yes, sir. Kenya has a quota of slightly over one-half million bags, and I would think that probably their production would be 600 million bags, although I don't have the figures, but I can get them.

I have Kenya, Uganda, Tanganyika, so-called east Africa, and that is over 3,200,000 bags, and I see that Tanganyika has a quota of 444,000, Uganda has almost 2,228,000——

Senator RIBICOFF. Do these quotas basically serve as a limitation on the production of coffee?

Mr. MCKIERNAN. Yes, sir, the intent is to regulate future production.

Senator RIBICOFF. For these nations of Africa?

Mr. MCKIERNAN. Senator, what we are striving for is in time to arrive at an equitable production——

Senator RIBICOFF. Well, when you say "equitable production"—suppose that—you say that Kenya produces a very good, high quality coffee.

Mr. MCKIERNAN. Yes, it is one of the very finest qualities.

Senator RIBICOFF. These new emerging nations in Africa start producing coffee, which should be very helpful to their growth and should be a tremendous help to their basic economies, it being one of the few things that they can really produce for the world market. But suddenly they come up against these quotas and this international agreement prevents them from producing a product which they need for their own economic survival.

Mr. MCKIERNAN. Senator, this is one of the hard facts of life. And unfortunately you find that elsewhere, where coffee is being grown around the world, they usually can produce little more than cacao, cotton, sugar—usually, and this is——

Senator RIBICOFF. Well, is there any other product in the world market that is so restricted in its production as coffee, any other product?

Mr. MCKIERNAN. Not to my knowledge, but I am not well versed in that.

Senator RIBICOFF. Here is a product that has gotten international acceptance in every country in the world, and you have got consuming nations and you have got producing nations, and you find these major producing countries doing a disservice to other producing countries, limiting the consumption of their products in countries like this and other nations and——

Mr. MCKIERNAN. Well, that was very carefully considered, and I point out, for example, we have been concerned about Ethiopian problems. Initially she had a quota of 850,000 bags and it was arranged to increase to 1,020,000 bags because she had been producing more coffee. Now, this is not the only criterion. Every nation can produce more coffee than its allowed quota. If——

Senator RIBICOFF. Well, I think that Senator Douglas made some very cogent points. He observed that this is not only a cartel, but an international cartel, with the approval of many countries to back it up, and you are asking the Senate of the United States to give the stamp of approval on it.

Mr. MCKIERNAN. Well, Senator Ribicoff, we have been in wheat agreements and sugar agreements, rubber agreements, and so on, and the economics of commodity agreements are not new. I think that this is probably the largest agreement as a result of the number of nations participating——

Senator RIBICOFF. But this is unique, is it not?

Mr. MCKIERNAN. Well, it is unique because there are so many nations participating. And if it can be made to work, I think it would be very helpful, Senator.

Senator RIBICOFF. Let me ask you, how can you justify this other than from the international aspect, the international political aspect? Is there any justification other than this international political justification for the agreement?

Mr. MCKIERNAN. Yes, Senator; there is. I want you to understand, however, that I am not here to discuss the international political aspects. I am here to protect the American consumer and the interests of the American coffee industry, and I think that this agreement is the only way we can possibly influence the movement of prices——

Senator FULBRIGHT. Would the Senator yield for a moment?

Senator RIBICOFF. Yes.

Senator FULBRIGHT. It is coincidental, this international aspect, and the witness did not bring in the issue.

Senator RIBICOFF. Well, I gather that the major reason for this proposal is the effect it will have on our relations with South America.

Senator FULBRIGHT. No. He does not have the slightest interest in South America. He is representing an American association.

Senator RIBICOFF. But I say Mr. McKiernan is an intelligent individual and probably knows as much about what is involved in this field as many of the Government gentlemen who have been here testifying before us. I think he is a knowledgeable man who is candid and I would like to get his opinion and I am very much interested in his opinion because of his candor and frankness.

Now, would you read my last question, Mr. Reporter?

(The question referred to was read by the reporter.)

Mr. McKIERNAN. My answer, Senator, would be that our interests in this agreement are solely to try to bring some stability to the coffee world and thus protect our industry in the United States and our consumers in the United States.

Senator RIBICOFF. Well, let's look at your interest in the consumers of coffee. You say that Kenya produces coffee and the coffee they produce is of a very high quality. You would like your customers and your members of your association and the people of the United States to be able to bring in good Kenya coffee into the United States. How would you go about getting Kenya coffee into the United States?

Mr. McKIERNAN. Well, Senator, it does not quite work out that way. We in the United States do not drink a specific country's coffee, we drink a blend, we drink X Y Z brand——

Senator FULBRIGHT. If the Senator will yield—there is no restriction whatsoever on where we import coffee from. We can import any coffee we want from anywhere in the world. There is nothing in this that would prevent that.

Mr. McKIERNAN. None whatsoever.

Senator FULBRIGHT. That is right. Importers can buy Kenya coffee if they want Kenya coffee——

Senator DOUGLAS. Now, wait just a minute.

Senator FULBRIGHT. Well, they can.

Senator DOUGLAS. I would like to call your attention to paragraph (B), where they can prohibit the entry of any shipment from any member of the International Coffee Organization, of coffee which is not accompanied by a certificate of origin or a certificate of reexport. And if Kenya is limited to a given quantity, then they just will not give it the certificate of origin and so therefore we can presume that would bar that coffee from being exported.

Mr. McKIERNAN. Well, Senator Douglas, these quotas were worked out on several factors, one of which was the normal export over a period of years, and when Kenya's quota is given, they are not depriving Kenya of any——

Senator RIBICOFF. This is what bothers me. I understand you to say that we buy certain blends of coffee. Now, supposing I visit Kenya and I drink that coffee and I have never before had such good coffee, and I drink their coffee and I think it is the greatest coffee that I have ever had.

So I come back to a group of my friends in the United States and I say, "There is the greatest grade of coffee grown in Kenya and if we could only get Kenya coffee brought over here maybe we could call it the 'Kenya Coffee' brand—boy, we will be able to sell it to every American who wants to drink good coffee, who wants a really good cup of coffee."

And so I come back and form a corporation for the purpose of importing Kenya coffee and we go to Kenya and we say there that we would like to buy, well, let's say, 100,000 bags of Kenya coffee. And so then, we come back to this agreement and we are told, "You want Kenya coffee, but Kenya has been allocated 500,000 bags, and they have already sold 500,000 bags."

Now, how can I get another 100,000 bags of Kenya coffee into the United States?

Mr. McKIERNAN. I do not think that any nation has oversold its quota. I don't have the last minute statistics, but I don't think that any nation has oversold the quota right through the years. There are occasions that I know of where nations have oversold a quarterly quota, but this would be a pressure sale, rather than normal.

Senator RIBICOFF. Let us say that we do buy 100,000 bags of Kenya coffee and it goes like wildfire, everybody likes the taste of Kenya coffee. And so that supply is quickly exhausted, everybody drinks it up. Now, I sell that 100,000 bags. How can I get another 100,000 bags?

Mr. McKIERNAN. Well, there is in the agreement, an article which says in substance, I will not try to quote it verbatim, that countries that are producing a certain type of coffee can if there is a greater demand for that certain type of coffee, request a larger quota.

Senator RIBICOFF. You can?

Mr. McKIERNAN. Well, you have got to prove your point, and if you prove it, then probably you can get it. We are not trying to restrict, put a lid on any country's coffee needs. What we are trying to do is control production so we just don't have coffee coming out of our ears. If you want coffee, if you need coffee, you can get all the coffee that you want. And Ethiopia is an example, they had a greater demand and they got a larger quota.

Senator RIBICOFF. That is all. Thank you.

The CHAIRMAN. Senator Fulbright?

Senator FULBRIGHT. Thank you, Mr. Chairman. As I understand, you have no interest in promoting the foreign policy of this country?

Mr. McKIERNAN. No, sir.

Senator FULBRIGHT. And you have no interest in any coffee farms?

Mr. McKIERNAN. No, sir.

Senator FULBRIGHT. And you have no investments abroad, and really your fundamental interest is in your business in the United States?

Mr. McKIERNAN. That is it, exclusively.

Senator FULBRIGHT. Under this agreement, can quotas be set at the beginning without the agreement of the United States?

Mr. McKIERNAN. No, sir.

Senator FULBRIGHT. A while ago, in your testimony, I am not sure that you made it clear at all that it was only the appeal from quotas that were already set that could be nullified by the two-thirds vote, it was also the original quota; is that right?

Mr. McKIERNAN. Correct.

Senator FULBRIGHT. The mechanics of it is that the United States has voting power which is in accordance roughly with its consumption—isn't that true?

Mr. McKIERNAN. It is based on that.

Senator FULBRIGHT. In effect, quotas could not be fixed without the approval of the United States; is that correct?

Mr. McKIERNAN. Yes, sir.

Senator FULBRIGHT. And the altercation we had last fall was when the quotas were already set and in order to change them it took a two-thirds vote. Isn't that right?

Mr. McKIERNAN. I apologize, Senator, I should have said it, but I did not say it; you said it.

Senator FULBRIGHT. That is right. The whole record is distorted and it has been made to look as if we were at the complete mercy of the producers.

Mr. McKIERNAN. Well, Senator, perhaps it is because I am so close to the situation that probably I have not explained it properly.

Senator FULBRIGHT. Well, your only interest, again, is only in the American consumer, and you are interested in the American housewife, are you not?

Mr. McKIERNAN. Yes.

Senator FULBRIGHT. And your own business?

Mr. McKIERNAN. And I might add, sir, that they will be considering next year's quota in the next few months and——

Senator FULBRIGHT. And that quota cannot be set without the approval of the United States?

Mr. McKIERNAN. We have the veto power.

Senator FULBRIGHT. We have enough votes to prevent it being set at an objectionable level, don't we?

Mr. McKIERNAN. Yes, sir.

Senator FULBRIGHT. That is what you said a moment ago, but the situation became very unclear from your following testimony.

Mr. McKIERNAN. Yes, sir.

Senator FULBRIGHT. And the United States or any other member can withdraw on 90 days' notice, can it not?

Mr. McKIERNAN. Yes, sir.

Senator FULBRIGHT. If the producing countries were arbitrary, or if anybody tried to gouge us, we can withdraw. Is that correct?

Mr. McKIERNAN. Yes, sir.

Senator FULBRIGHT. Now, if there is a sharp or unusual increase or decrease in the level of prices due to artificial manipulation of the coffee market, or by agreement among importers or exporters, can we then take corrective measures and changes the quotas by a majority?

Mr. McKIERNAN. Yes, sir, they can.

Senator FULBRIGHT. Under those circumstances?

Mr. McKIERNAN. Yes, sir.

Senator FULBRIGHT. By a mere majority?

Mr. McKIERNAN. Yes, sir.

Senator FULBRIGHT. And this business of the two-thirds vote is to change the quota, but we can block the initial setting of quotas with our votes?

Mr. McKIERNAN. Yes, sir, and to initiate it.

Senator FULBRIGHT. You said there is no enforcement policy about the quota. You stated a moment ago, or I believe you did, that if a country refuses to supply the quota when it had no good reason for doing so, then the other powers can reallocate that quota, can they not?

Mr. McKIERNAN. Yes, sir. And, Senator Fulbright, if we can prove manipulation or any maneuver of that sort, then we don't need the two-thirds.

Senator FULBRIGHT. That is so.

Mr. McKIERNAN. All we need then is a simple majority.

Senator FULBRIGHT. And that is under section 34, subparagraph 6; is that correct?

Mr. McKIERNAN. Yes, sir.

Senator FULBRIGHT. Now, as to these price fluctuations. What is the economic effect upon business and upon the housewife of these wild fluctuations in the prices of basic commodities? Is this healthy or not?

Mr. McKIERNAN. It is unhealthy.

Senator FULBRIGHT. Would you mind making clear why it is?

Mr. McKIERNAN. Yes, sir. The housewife, as the lovely lady, Mrs. Peterson, who preceded me indicated, is accustomed to paying so much for coffee. And if that price starts to spiral and it keeps on going and it gets up to a fantastically high price, she is going to do something about this. And she, the housewife, controls the market.

We found that out in 1954 and 1955. We know that in those days the American consumer obtained 46 cups from 1 pound of coffee. Within 4 years, to my knowledge, and this would be around 1958 or 1959, the American consumer was getting 64 cups per pound of coffee. In other words, they were using water rather than coffee. And I think out in Minnesota they certainly didn't like that.

Senator CARLSON. You are quite right.

Mr. McKIERNAN. And we still have not corrected that situation. Even now the American housewife is brewing about 60 cups from a pound and before this thing happened—in 1949, for example, the American housewife was getting 46 cups to the pound. And, of course, this has had its financial affect.

Senator FULBRIGHT. And it sort of tends to undermine your industry because of the poor quality of the end product.

Mr. McKIERNAN. Yes, sir.

Senator FULBRIGHT. And also, besides doing that, they take ~~to~~ substitutes, such as drinking tea or Coca-Cola.

Mr. McKIERNAN. And we have even gone to the point, Senator, of establishing what is known as the Coffee Brewing Institute to teach people how to brew coffee.

Senator FULBRIGHT. So it is not in the interest, in your opinion, of our domestic business to have these wild fluctuations in price?

Mr. McKIERNAN. No, sir; it is not.

Senator FULBRIGHT. Have you any estimate at all as to the average cost of production of coffee?

Mr. McKIERNAN. In the producing countries?

Senator FULBRIGHT. Yes. Are there such statistics? Do they vary widely from one country to another?

Mr. McKIERNAN. They do vary, Senator. There are studies. For example, the FAO, I believe, has a study. I have heard of various prices in different countries. I will get some information for you.

Senator FULBRIGHT. Well, I was only coming up to this point. Do you consider that the prices that are now being charged are unreasonably high in accordance with the production costs, if you know it?

If I understand it, the present prices, even after this rise, are no more than, approximately, a median between the high and the low of the last 10 years. Is that correct?

Mr. McKIERNAN. Yes, sir; it is. And if I may, I would like to read some of these average annual prices into your record.

Senator FULBRIGHT. Well, if you have not done that, I would be glad to have you do it.

Mr. McKIERNAN. In 1952, and I will use the Brazil Santos 4's as the standard:

In 1952, 54.4 cents; 1953, 57.93 cents; 1954, 78.71—that is when they had the famous frost.

Senator FULBRIGHT. Seventy-eight?

Mr. McKIERNAN. Yes, sir, 78.71; 1955, 57.09; 1956, 58.1; 1957, 53.43.

Senator FULBRIGHT. All of those are higher than it is today?

Mr. McKIERNAN. Yes, sir. And then it went down. In 1948, 36 cents—and, again, 36 cents, 36 cents. And in 1962 I have them by months here:

From January to December, 34.2, 34.5, 34.8, 34.8, 34.43, 34.73, 34.55, 34.08, 33.4, 33.18, 33.33, 33.40. And this is 1963, it started moving: 33.85, 33.33, 34.37, 33.33, 34.33, 33.58, 32.73, 32.95, 34.98, 36.55, 37.45. And in January it was 44.83, and February 19 it was 46.30.

Senator DOUGLAS. When was that?

Mr. McKIERNAN. February 19.

Senator DOUGLAS. Well, wasn't the price of Santos coffee 49 cents?

Mr. McKIERNAN. I would think that perhaps it was. And I think it is 49½ or even 50 cents today.

Senator FULBRIGHT. Is this approximately the median between the high and the low in the last 10 years?

Mr. McKIERNAN. Yes, sir.

Senator FULBRIGHT. Would you consider this an unreasonable price?

Mr. McKIERNAN. Considering the conditions——

Senator FULBRIGHT. From the point of view of the American housewife, the consumer.

Mr. McKIERNAN. I would hate to see it go any higher. I am reluctant to see prices move up, to a situation that we cannot control—I mean, if coffee is in short supply, if you want it, you have to pay for it.

From the housewife's point of view, in my opinion, it is going to be too high, in short order. Looking at futures prices, I think prices will be higher, I expect them to go up.

Senator FULBRIGHT. Well, would that happen whether or not this agreement were in effect. In other words, suppose that the Senate rejected the implementing bill. Do you think that would then cause the price to drop?

Mr. McKIERNAN. No, sir.

Senator FULBRIGHT. Why not?

Mr. McKIERNAN. Well, there would be nothing to stop them; there would be no control at all.

Senator FULBRIGHT. Well, I have heard the assumption that the treaty would push the prices up, and if we renege on it, then they would go down. Do you believe that?

Mr. McKIERNAN. No, sir; I don't believe it.

Senator FULBRIGHT. You don't believe it?

Mr. McKIERNAN. I do not. I believe quite to the contrary.

Senator FULBRIGHT. Well, will you explain why you believe that?

Mr. McKIERNAN. Well, because with the agreement we have a forum, we have a group to go to. We have about 56 nations, practically all of the producers and consumers——

Senator FULBRIGHT. All the producers?

Mr. McKIERNAN. We have the leading consumers, too, and we could sit down there and by voting control this thing.

Senator FULBRIGHT. Then I gather that you think that consumers are in a better position. That is, if this implementing legislation is passed, it would be to the benefit of the American housewife?

Mr. McKIERNAN. I certainly do, sir.

Senator FULBRIGHT. And you are for the housewife, we don't want to misunderstand that. You are sure that you are for the American housewife.

Mr. McKIERNAN. Yes, sir, I certainly am.

Senator FULBRIGHT. And it is your belief, your best belief that they would be in a better position if this bill were passed? You think there would be better protection of the American housewife, if this bill is approved than if it were rejected?

Mr. McKIERNAN. Yes, sir, I do.

Senator FULBRIGHT. You say that with some knowledge of the coffee business?

Mr. McKIERNAN. And with some humility.

Senator FULBRIGHT. Well, is there anybody around that knows more about it than you?

Mr. McKIERNAN. I think a lot of people do, Senator.

Senator FULBRIGHT. You do? Who? How about Mr. Duncan, does he?

Mr. McKIERNAN. Well, you Senators sitting up there.

Senator FULBRIGHT. Well, I mean outside the Senate. [Laughter.] I am excluding us. I meant your associates.

Mr. McKIERNAN. Well, yes, I will say so, but I think I am well qualified to speak on the subject, if I may say so.

Senator FULBRIGHT. Does Mr. Duncan agree with your view?

Mr. McKIERNAN. Yes, sir.

Senator FULBRIGHT. He does agree?

Mr. McKIERNAN. Completely, yes.

Senator FULBRIGHT. Is he in the room?

Mr. McKIERNAN. No, sir, I regret that he had to leave.

Senator FULBRIGHT. And there was one other gentleman with you——

Mr. McKIERNAN. He had to leave, too. They spent 2 days here.

Senator FULBRIGHT. But you can assure us that they are in agreement with you?

Mr. McKIERNAN. Yes, certainly.

Senator FULBRIGHT. As far as you know there is no substantial difference of opinion on this point between you and these individuals, is that correct?

Mr. McKIERNAN. No, sir, and I am here representing my board of directors and the advisory committee.

Senator FULBRIGHT. And they are in accord with your views?

Mr. McKIERNAN. Yes, sir.

Senator FULBRIGHT. There is nothing in this agreement that requires us to purchase just Brazilian coffee?

Mr. McKIERNAN. No, sir, we can buy any coffee we want.

Senator FULBRIGHT. You can buy anything that you like from among producers who are participants.

Mr. McKIERNAN. Yes, sir.

Senator FULBRIGHT. And what percentage of the total production of coffee do the member countries produce of world production?

Mr. McKIERNAN. Over 99 percent.

Senator FULBRIGHT. Over 99 percent?

Mr. McKIERNAN. Yes.

Senator FULBRIGHT. And over 99 percent of all the producers are represented. And the United States, that is, you on behalf of the American housewife, can buy from any of those producers?

Mr. McKIERNAN. Yes, sir.

Senator DOUGLAS. Just a minute, sir. Just what credentials do you have from the American housewife?

Mr. McKIERNAN. Sir?

Senator DOUGLAS. What are your credentials for speaking for the American housewife? Have the American housewives met in convention assembled and delegated you as their representative here this morning?

Mr. McKIERNAN. No, sir; they have not.

Senator FULBRIGHT. Well, but you have a deep love for the American housewife. [Laughter.]

Senator DOUGLAS. Well, are you a self-appointed spokesman for the American housewife?

Mr. McKIERNAN. I would like to be.

Senator DOUGLAS. But they have not given you any authorization to speak for them?

Mr. McKIERNAN. No.

Senator FULBRIGHT. But your business and your prosperity depends upon the approval of the American housewife, isn't that so?

Mr. McKIERNAN. It certainly does.

Senator FULBRIGHT. And therefore you have a very strong material incentive to court them?

Mr. McKIERNAN. A very selfish incentive, sir.

Senator FULBRIGHT. And that is all you are interested in?

Mr. McKIERNAN. That is correct.

Senator FULBRIGHT. Now, concerning the purchase of coffee, I think the inference could be drawn from one of the previous comments in these hearings that in some mysterious way we are restricted to buying so much Brazilian coffee.

Mr. McKIERNAN. No sir.

Senator FULBRIGHT. That is not so is it?

Mr. McKIERNAN. No Senator.

Senator FULBRIGHT. And the reason that we have not been buying Kenya coffee or Ethiopian coffee or any other coffee, for that matter, is that because the American taste so far has not exhibited any demand for them; is that correct?

Mr. McKIERNAN. Basically.

Senator FULBRIGHT. But if they wanted it they can get it?

Mr. McKIERNAN. Of course; yes. There is no question that you can buy any type of coffee in the world today of any of those nations which are members of the agreement.

Senator FULBRIGHT. Yes. When I was in Costa Rica, I ventured to buy some of the very black local coffee and it was so strong I couldn't use it. I had to give away most of it. Obviously, that was made for blending.

Mr. MCKIERNAN. And they have that kind in New Orleans and——

Senator FULBRIGHT. It is not to my taste, using it alone. I think it was obviously intended for blending or for Turkish-type coffee.

Mr. MCKIERNAN. They have this very heavy, very strong—it is roasting coffee, a dark roasting coffee, that they use in New Orleans, for example.

Senator LONG. Well, if I may interject, if you want strong coffee, I found out how you can make strong coffee. You just take tired coffee and if it is not strong enough, you just put some more in.

[Laughter.]

Senator FULBRIGHT. So any implication, I wanted to make clear, that this is a straitjacket on buying is simply not true. We can have complete freedom to buy wherever and whenever we want to. And if suddenly our demand develops in another direction, such as was touched upon and illustrated just a moment ago in the case of Kenya coffee, where the demand to go toward that coffee, then we can adjust to that unexpected change in demand, could we not?

Mr. MCKIERNAN. Yes.

Senator FULBRIGHT. Of course, you can put a hypothetical; that is, if you suddenly wanted 100,000 or 1 million bags you probably couldn't get it. But that is true whether or not you have an agreement, is it not?

Mr. MCKIERNAN. That is correct, yes, and if you did try to start a business in Kenya coffee, you would have to generate a demand for it and that would not happen in 6 months.

Senator FULBRIGHT. And so the inability to buy would not be because of the agreement but because of trade practices and patterns that have developed, which do not allow for any unexpected enormous increase?

Mr. MCKIERNAN. Well, putting it another way, the world consumes about 47 or 48 million bags of coffee a year. And you can buy out of that 48 million bags, you can have the kind that you like if you want it, that has been worked out before and——

Senator FULBRIGHT. But there are patterns that result from the tastes of various countries. And if Germany perfers Kenya coffee, then they get Kenya coffee, but it would have been available to us and would be available if we develop a taste for that Kenya—and all of that is a matter of taste, isn't it?

Mr. MCKIERNAN. Yes, sir.

Senator FULBRIGHT. And not a restriction because of the agreement?

Mr. MCKIERNAN. No.

Senator FULBRIGHT. I think that is all. Thank you, Mr. Chairman.

Senator DOUGLAS. May I ask? Were you finished?

Senator FULBRIGHT. Yes.

Senator DOUGLAS. The Senator from Arkansas was asking you if you did not speak for the American housewife—you remember that colloquy?

Mr. MCKIERNAN. Yes.

Senator FULBRIGHT. Do you remember the remark that Priscilla made to John Alden when he proposed to her on behalf of Miles Standish?

Mr. MCKIERNAN. No, sir, I do not.

Senator DOUGLAS. "Why don't you speak for yourself, John?"

Mr. MCKIERNAN. Oh, yes.

Senator DOUGLAS. Now, I am a little bit puzzled by this implication that the United States has a veto over (*a*) the fixing and (*b*) the adjustment of the annual quota. Did I understand that we have an absolute veto?

Mr. MCKIERNAN. We have 400 votes.

Senator DOUGLAS. But where does the decision on the fixing and adjustment of these quotas come from, by what route?

Mr. MCKIERNAN. It comes from 1,000 votes of the consumers and 1,000 votes of the producers.

Senator DOUGLAS. Taken together?

Mr. MCKIERNAN. No, sir.

Senator DOUGLAS. That is just the point. Now, may I read to you—do you have a copy of the hearings before the Senate Committee on Foreign Relations on the International Coffee Agreement?

Mr. MCKIERNAN. I have one.

Senator DOUGLAS. All right. Now, would you please look at page 20?

Mr. MCKIERNAN. Yes, Senator.

Senator DOUGLAS. On page 20 you find a reprint of article 35, which is the procedure for adjusting export quotas, and I refer you to subparagraph (3) which reads:

> All decisions by the council on the fixing and adjustment of annual and quarterly export quotas under articles 30, 31, 32, and 34 shall be taken, unless otherwise provided, by a distributed two-thirds majority vote.

What is the meaning of this "distributed two-thirds majority vote"?

Mr. MCKIERNAN. Senator Douglas, there are 1,000 votes among the producers.

Senator DOUGLAS. Yes.

Mr. MCKIERNAN. And 1,000 votes among the consuming nations.

Senator DOUGLAS. All right.

Mr. MCKIERNAN. And you have got to have two-thirds of each.

Senator DOUGLAS. Well, that is just the point. Now, if you will turn to page 8.

Mr. MCKIERNAN. Yes, Senator.

Senator DOUGLAS. There you have stated subparagraph (11). That is on page 8 of the hearings before the Foreign Relations Committee which for the sake of the record I would like to put in. Have you found that?

Mr. MCKIERNAN. Subparagraph what?

Senator DOUGLAS. Eleven. This consists of a definition of "distributed two-thirds majority vote," and it reads there:

> "Distributed two-thirds majority vote" means a two-thirds majority of the votes cast by exporting members present and voting and a two-thirds majority of the votes cast by importing members present and voting, counted separately.

Well, we do not have a veto, do we? Unless you have a majority of two-thirds of the exporting nations, do you agree that the quotas will not be changed?

Mr. MCKIERNAN. Well, if you had 1,000 votes, and then you needed 666 for a two-thirds majority and if you had——

Senator DOUGLAS. Let me interrupt—well, you say we have a veto, but if they have to be counted separately, and they do have to be, and if you have stated that you have to get two-thirds vote not only of the importing countries but of the producers or the exporters, you have got to get the votes of both——

Mr. McKIERNAN. Both of them, that is right, but if I may point out——

Senator DOUGLAS. Now, let me ask you this. How many votes does Brazil have?

Senator FULBRIGHT. If the Senator will yield——

Senator DOUGLAS. My purpose is that——

Senator FULBRIGHT. You say he said we had a veto. Well, he did not say that we had a veto on changing it.

Senator DOUGLAS. He was talking about the veto and——

Senator FULBRIGHT. He did not say that. And I tried to make it very clear and I think that the record will show that, that in setting up the annual program we have a veto.

Senator DOUGLAS. Well, let me read this, then——

Senator FULBRIGHT. But after it has been set up, then, after they have been put in, after the quotas have been set up, the two-thirds applies——

Mr. McKIERNAN. That is correct.

Senator DOUGLAS. Well, let me repeat again subparagraph (3) of article 35:

All decisions by the Council and the fixing and adjustment of annual and quarterly export quotas under articles 30, 31, 32, and 34 shall be taken, unless otherwise provided, by a distributed two-thirds majority vote.

So, that is the fixing of the annual quotas, they have to be approved not merely by two-third of the importing countries but by two-thirds of the exporting countries——

Mr. McKIERNAN. Yes, but as I understand Senator Fulbright's point, if we do not agree, we just don't vote for it.

Senator DOUGLAS. Well now, wait. Is it your understanding that in the November decision, when a unanimous vote was cast by the importing countries to increase quotas but you lost out under the two-thirds majority of the exporting countries, that meant, did it not, there would have been no quotas whatsoever and——

Mr. McKIERNAN. No, sir; Senator. I am sorry, but I have not made that clear. We have these quotas. Now, we can veto—we can go back next year and——

Senator DOUGLAS. That is precisely the point, any increase in the quota can be only carried out with the approval of exporting countries and——

Mr. McKIERNAN. By both.

Senator DOUGLAS. I know, but the importing countries, naturally, would be for the increase but the exporting countries might not be and without their two-thirds vote the quotas could not be increased. Isn't that true; that one point?

Mr. McKIERNAN. That is right.

Senator DOUGLAS. Well, I want to commend you for the integrity you have shown and the way you have been answering these questions.

Mr. McKIERNAN. Thank you, Senator.

Senator DOUGLAS. But I think that the point is clearly established. Now, how many votes does Brazil cast amongst the exporting countries?

Mr. McKIERNAN. I do not have that with me but about 379, as I recall.

Senator DOUGLAS. In other words, it has more than one-third?

Mr. McKIERNAN. Yes, sir; yes, sir.

Senator DOUGLAS. So therefore Brazil can——

Mr. McKIERNAN. If I may interrupt, the more countries that move into it——

Senator DOUGLAS. And let me interrupt, you say that you have 99 percent, over 99 percent already in, so that the 1,000 votes are virtually exhausted now, are they not?

Mr. McKIERNAN. My point is—for example, when you have Ethiopia, then they would get votes and Brazil would lose some of their votes and——

Senator DOUGLAS. Can anybody tell me what the number of votes is that Brazil casts?

Mr. McKIERNAN. I am told that it is 369.

Senator DOUGLAS. All right. Then, if my arithmetic is correct, 369 is more than one-third of 1,000.

Mr. McKIERNAN. By 35 points.

Senator DOUGLAS. Now, by 35⅓ points——

Mr. McKIERNAN. Yes, sir.

Senator DOUGLAS. Therefore, Brazil can veto any attempt to increase the quotas.

Senator FULBRIGHT. Would the Senator yield?

Senator DOUGLAS. Yes.

Senator FULBRIGHT. After quotas have been set on an annual basis that is quite true, but these quotas do not last for year after year. We can prevent any quotas from being set by the exercise of our veto. There is a review on an annual basis and there has to be an agreement. And of course Brazil can veto—but the point is that once quotas are accepted, then are valid during the year by a two-thirds vote they are changed. And so we also have a veto on their changing the quota.

Suppose, for example, that the producers come in and say that the quotas are too high and they want to reduce them. We have a veto, from that point of view we can prevent the change.

Senator DOUGLAS. I think we can prevent a decrease in the quota—but the point that I am trying to make is that Brazil can prevent an increase in the annual quotas because paragraph (3) says that all decisions by the council on the fixing—and I emphasize that word "fixing"—of the annual quarterly export quotas shall be taken by this distributed two-thirds majority vote. And that means two-thirds of each, taken separately.

And coming back to November, even though all of the consuming countries were for it, 379 votes prevented it.

Mr. McKIERNAN. Colombia——

Senator DOUGLAS. And Costa Rica. And Colombia—she is a large producer?

Mr. McKIERNAN. Colombia is the second largest.

Senator DOUGLAS. And there is Honduras and Guatemala and El Salvador—how many votes do they have?

Mr. McKIERNAN. Colombia, 127; Costa Rica, 24; Guatemala, 32; Ecuador, 18; El Salvador, 34; Mexico, 36; Nicaragua, 14, Panama, 5; and Peru, 17. I think I have touched all of the Latin American nations.

Senator DOUGLAS. Well, if my arithmetic is correct and excluding Ecuador these countries have approximately 233 votes and if we include Ecuador, then it is 269—not quite one-third. It may well be but in the fixation of the original quota, the point I am trying to labor is that by the refusal of one country, Brazil, or by a group of countries, you can prevent, or they can prevent quotas from being increased and, with the increase in population and the increase in the demand for quality, then the price can be raised and——

Mr. MCKIERNAN. Senator Douglas, if that happens I would be the first one to come in—Senator, we just would not tolerate it, because they would be trying to force the prices up and we are not going to have that if we can prevent it.

Furthermore, from a purely logical point of view, a producing nation who depends basically upon coffee will not try to hold down its exports.

Senator DOUGLAS. Will not? Well, the record of Brazil in the past has been replete with attempts to control the world price of coffee by restricting exports and restricting plantings and production.

And I might mention here, sir, that the Deputy Assistant Secretary of State pleaded ignorance on the past performance of Brazil, he didn't know what they had done prior to 1958. And of course even a casual student of the subject knows that this has been their policy in the past. And sporadically it has worked to some degree and also, because of this policy of Brazil, because Brazil has held up this umbrella, so to speak, of high prices over coffee, then other countries, Colombia and countries in Central America and others have come in and taken advantage of those prices fixed by Brazil, and I presume that is one of the reasons for the International Coffee Agreement.

Now, in other words, the result is not to create a Brazilian coffee cartel but an international cartel, as the Senator from Connecticut has said, and so they would control the whole works. I don't know whether it is going to work, because there are countries that perhaps may break away, especially countries in Africa. They may break away, but there is every effort being made for them not to break away and we are going to be brought in, as has been pointed out already, as the enforcing agency, to keep them from that.

This is to say that countries outside cannot send coffee in and that exporters from inside countries cannot bootleg coffee into this country or that country. Control is the whole thing, that is the issue and I can see from the standpoint of international policy and from the standpoint of good relations with these countries—and I can see the advantages to wealthy groups in Latin America, I can see the advantages to them because of this, because this is going to pour hundreds of millions of dollars into the pockets of the wealthy planters each year. But is it wise from the standpoint of the American consumer? That is something else again.

Mr. MCKIERNAN. If I may, I would like to talk to the point that you initially made.

Senator RIBICOFF. If the Senator will yield. The distinguished chairman of the Foreign Relations Committee tried to describe you as representing solely the American consumer. Now, frankly, the coffee agreement was almost lost last year on the vote in the Senate. I will be very frank with you, I think it is very doubtful whether this bill does or will help the American consumer, but I mean this, that I was under the impression that the purpose of this was connected with our international relations.

Now, if the chairman of the Foreign Relations Committee now tells me that it has nothing to do with international relationships, I will definitely vote in this committee against it.

Now, sir, what I would like to find out from you, in your relationships with people in the coffee business, and I assume that you have had dealings with people in producing countries as well—is that correct?

Mr. McKIERNAN. Yes, sir.

Senator RIBICOFF. So during those conversations you have probably come to know how they feel, their attitude toward this country. Is that correct?

Mr. McKIERNAN. I think so, Senator.

Senator RIBICOFF. You are in business, and from my experience I find that many of the businessmen who are engaged in international trade are much more aware of and knowledgeable of those things than some people in the State Department. And you are knowledgeable about the reactions of South Americans, of peoples in these countries, the coffee-producing countries on the impact of this on our relations, are you not?

Mr. McKIERNAN. Well, I do know enough producing people and businessmen in Latin America I think to have an opinon, yes, sir.

Senator RIBICOFF. What do you think would be the effect of the failure of the United States to participate in this, from what you know and understand from your connections in South America, on our relationships in South America?

Mr. McKIERNAN. I would be very happy to answer that. But I want to reiterate again that I did not come here to talk international politics.

Senator RIBICOFF. I am not asking you to talk international politics. But I want your opinion. We have had opinions, we have had them from the State Department, we have had them from others, we have had opinions that were handed down from Washington, but I want the attitude of the businessman and so I am asking for your opinion.

Mr. McKIERNAN. My opinion is that this would do a great deal of harm.

Senator RIBICOFF. In other words, you agree with Secretary Harriman when he gave his statement before the committee the other day when he said:

> I cannot overemphasize the importance to our political relations with the developing countries, and with Latin America in particular, of our continued active participation in the International Coffee Agreement.

You agree with that?

Mr. McKIERNAN. Yes, sir.

Senator RIBICOFF. And do you agree when Secretary Harriman said:

> Failure of the United States to continue as an active member of the agreement would be a most damaging blow to our relations with the developing countries, especially of Latin America, and to the Alliance for Progress.

You say you agree with that? Do you?

Mr. McKIERNAN. I certainly do agree, Senator.

Senator RIBICOFF. So you do believe, personally, you agree with Secretary Harriman, that there are international implications in the agreement, beyond that of just the American situation?

Mr. McKIERNAN. Senator, do not forget that coffee is a $1 billion product that comes into the country from those nations and anything that affects a $1 billion business—those countries are materially affected, therefore, that country cannot help but be affected politically and economically and invarious other ways—this, coffee, is the staff of life in those countries.

Senator RIBICOFF. That is all. Thank you.

Senator LONG. (presiding). Well, thank you very much. There are no more questions.

Mr. McKIERNAN. Thank you.

Senator LONG. The next witness is Mr. John T. Daly, representing the Consultants on Latin American Trade, New York City. Mr. Daly, will you come forward?

STATEMENT OF JOHN T. DALY, CHIEF CONSULTANT OF CONSULTANTS ON LATIN AMERICAN TRADE, NEW YORK, N.Y.

Mr. DALY. Senator, I have a statement I would like to deliver.

Senator LONG. Yes, sir.

Mr. DALY. Thank you, Senator.

My name is John T. Daly, chief consultant of Consultants on Latin American Trade, and a coffee broker. I have been in the coffee business for over 30 years in almost every phase of it. I daresay that I am one, if not the best qualified, real top coffee expert before these hearings. To dispel any misconceptions, I am unbiased, independent, and without any ulterior interest in the price of coffee, whether up or down. Of course, nothing would please me more than to see the small, struggling coffee farmers and the humble workers on the large, monolithic plantations, enjoy always a fully satisfactory financial reward based on a fair price including a living profit margin over the actual costs of production. I cannot stomach the extortions and gougings of producers and/or consumers stemming from naive statesmen and greedy, foreign governmental politicians.

I do not sell or trade in speculative futures contracts on the New York Coffee Exchange, although I am technically well versed in, and fully aware of, all the intricate operations and manipulations involved.

I sell actual coffee, the raw, green product. I do not benefit per se from the price, whether it is $1 per pound or 10 cents per pound because I receive a fixed brokerage, not on percentage, but a flat 25 cents per bag of 132 pounds. When I sell 100 bags, I am paid a brokerage of $25.

The object of my testifying before your exalted committee, which will listen to several other citizens, more important than I, is in order that the Senate may approve, disapprove, or modify H.R. 8864. This bill creates, surreptitiously, import quotas to restrict the quantities of coffee to be introduced into the United States for public consumption. The limited quantities, which are to be allowed into this country, will be fixed by the International Coffee Council in London, England, in which the United States only has 40 percent of the "consumers" votes and no voice or vote with the "producers" votes. Any decision must be approved by two-thirds of the total votes—1,000 of the producing countries and 1,000 of the consuming countries.

Senator DOUGLAS. Now, wait; that is not strictly correct, is it—not two-thirds of the total, but two-thirds of each?

Mr. DALY. It must be approved by two-thirds of the total votes. In other words, it is two-thirds of both categories.

Senator DOUGLAS. That is the point.

Mr. DALY. That is right.

Senator DOUGLAS. You have got to get the two-thirds majority vote of them combined. It works out that you have to get two-thirds of each; isn't that true?

Mr. DALY. That is true; yes, sir.

Senator DOUGLAS. Thank you.

Mr. DALY. Our country is helpless. It has surrendered its sovereignty due to the fear of losing "friends" abroad.

If I recall correctly, witnesses here yesterday affirmed that the U.S. 400 votes, together with the votes of only one other consuming country, could veto any decrease in quotas. Clause 12 of the agreement, in my interpretation, contradicts this. The only other consuming country, the Federal Republic of Germany, with the next largest vote of 85 votes, mathematically or otherwise, could not possibly add up to the necessary 667 votes for a two-thirds majority absolutely required.

The executive branch of our Government, inspired by the loftiest ideals of human solidarity, has unwittingly fallen into the most subtle trap of the subtlest of foreign diplomats, if it, that is, our executive branch, insists in blindly pushing for the approval of H.R. 8864 by the Senate, without amendments.

We are not exactly discussing, I am afraid, the technical problems relating to coffee production, distribution, roasting, or brewing. The prominent gentlemen who have been called to speak in favor of the bill, and the Coffee Agreement, are simply diplomats, men interested in pleasing Africa, Latin America, and the rest of the coffee-producing countries. With due respect to them, I have to say that they are not taking—do not take—into consideration or defend the real interests of our American people at large, of all the consumers of coffee.

The current higher retail prices of coffee, and the much higher prices we shall soon see, are exclusively due to the machinations of coffee-producing countries, tolerated and abetted by our State Department. Our importers, our brokers, and our roasters are not to blame at all. They have to pay higher prices and naturally to increase their selling prices in proportion to those higher Government-sponsored prices. Our Government, which boasts of defending consumers, is closely associated with a group of foreign countries in a conspiracy to increase coffee prices. Some of the brainwashed officials of public relations men might now come with the stale story of the magic, mysterious disappearance of the 80 million bags which the producing countries allegedly have stored as surplus from overproduction. These 80 million bags were the tool, the ghost which served to convince our State Department officials that they should sign the agreement.

Now they, our officials and the foreign officials are spreading, with fantastic ability, the legend that the higher and higher prices for coffee are due to droughts, fires, frosts, and so forth, in Brazil. They also say that the damage to crops in Brazil—not in the other countries, because no storms, fires, or frosts castigated any other coffee-producing countries—will reduce the world's available coffee during at least 5 years. All right. Then, if the International Coffee Agreement and its ill-begotten child, the International Coffee Council in London do not affect prices, do not help to stabilize prices, let's eliminate both of them and avoid indefinite entanglements.

Honorable Senators, please, do not be frightened by the fears of reprisals in producing countries or by the bluffs that they will turn left, right, or go in circles, because we want to keep our decisions and our destiny in our own hands. We have survived successfully that way since George Washington created our Nation.

I and my associates are not against sound help to friendly nations. Our Senate and House of Representatives will wisely decide as to how far we should go in giving aid to underdeveloped countries; that is, how much money and credit should be facilitated and under what conditions. The Coffee Agreement, on the other hand, is a surreptitious way for the United States to sign a blank check in favor of a number of African, Asiatic, and Latin American countries, giving them the authority to decide how much money they can physically take from the pockets and purses of our citizens.

We believe that foreign aid should be planned, approved, and furnished openly. The moneys come from the pockets of our people. They are entitled to know about it. By allowing the jacking-up of coffee prices, we are also taking away money from our people, without frankly informing them, without any law which would establish and fix the prices, the amount of such a hidden tax. That is not the American way. It is not honest. It is dangerous. It is unnecessary.

When I said before that our Government officials apparently did not know what they were doing, what they were signing, I did so because I have many proofs. The time is short and your patience cannot be inexhaustible. But I must say something very important:

Under date of May 10, 1963, just before the U.S. Senate gave its provisional approval to the International Coffee Agreement, our Secretary of State, Mr. Dean Rusk, wrote to the Senate minority leader, Mr. Everett McKinley Dirksen, as follows:

> I believe this agreement is essential if the persistent downward trend in coffee prices is to be arrested. * * * Stability in foreign exchange earning is the firm foundation needed for our sustained efforts to help these countries to help themselves. The objective of the new International Coffee Agreement is to stop the long-term decline in revenues from coffee exports by stabilizing prices at a level no lower than the general level of coffee prices in 1962. This price objective is considered to be a modest one, and would not result in penalizing coffee consumers in the United States. Under current supply and demand conditions the new agreement will, in fact, perform very well if it is able to stop the persistent decline in coffee prices. We see no possibility in the immediate future of raising coffee prices by means of the agreement. * * * The provisions of the agreement itself also provide adequate protection to the American consumer against unwarranted price increases. Under the agreement, export quotas are intended to control the amount of coffee that may be made available to the market by producing countries during a given period, and thus they directly influence price.

No matter what elegant casuistry is used, as our Secretary of State Mr. Dean Rusk guaranteed, the facts are that instead of coffee prices having been stabilized at the 1962 levels, these prices began to increase since shortly after the inception of the coffee agreement. I have a chart showing the increases in prices of imported raw coffees between September 27, 1962, and February 21, 1964. We, the American people, are paying over $410 million in excess over the 1962 figure, per year, and the end is not in sight. That was February 21.

The bill H.R. 8864 must be modified or supplemented. It is intended to create floor prices and to open the door for future increases. Therefore, and by elementary considerations, it should also create ceiling prices. In the meantime, for the immediate future, the U.S. Department of Agriculture should be ordered, no matter how reluctantly it would react, to start studying the costs of production in every coffee-producing country, so that after the preliminary period of 1 or perhaps 2 years, the United States and the other coffee-consuming countries would have in hand the basis for fixing or granting prices for coffee, including a reasonably favorable margin of profit for the growers. This crazy idea of blindly increasing prices cannot be tolerated.

In this respect, I have good news from 13 Latin American coffee producing countries whose spokesman is the Federacion Cafetalera de America, Fedecame (Coffee Federation of America), with headquarters in San Salvador, Central America. That Federation is formed by Costa Rica, Republica Dominicana, Ecuador, El Salvador, Mexico, Guatemala, Venezuela, Haiti, Honduras, Nicaragua, Panama, Peru, and Puerto Rico.

In Fedecame's Bulletin No. 613, February 14, 1964, they suggest the following maximum prices for all coffees, after accepting the principle, suggested by me and my associates, of fixing prices once and for all, to avoid constant bickering and also to try to eliminate the worries of our high officials in charge of the African, Latin American, and other coffee-producing areas (imported, green, raw).

African Robustas, they went to 45 cents a pound. In 1962 it was 21 cents.

Brazilians went to 50 cents a pound and it was 33 cents, that was the price in 1962.

Central Americans, etc., Fedecame, they went to 60 cents a pound and it was 30 to 34 cents a pound in 1962.

Colombians went to 65 cents a pound and it was 40 cents in 1962.

This of course would mean an additional drain of several hundreds of millions of dollars which would force roasters to increase retail prices and would weaken our dollar-gold reserves. What I like about the Fedecame suggestion is that it is the first sign of a willingness to stop the unlimited exploitation of our patient, perhaps, too naive, people.

Attached to the original of this, as my substantiating written statement for the record, is the photostatic copy of the statement, dated January 1964, addressed to Chairman Byrd and sent also to each of the other 99 Members of the U.S. Senate.

Thank you, gentlemen.

Senator LONG. Let me ask you this question, Mr. Daly. You mentioned what these people suggested and you showed what the price was in 1962.

Mr. DALY. Yes, Senator.

Senator LONG. Is not that price on the average above what we are presently paying for coffee?

Mr. DALY. These prices here?

Senator LONG. Yes.

Mr. DALY. These prices, yes, they are getting very close to it—Brazil has already hit 50 cents, according to the New York Times this morning, and the Wall Street Journal. So that objective has already been reached.

Central American has not quite reached that level, that delightful level of 60 cents, nor have Colombians gotten up to 65, but I think they are all merrily on their way.

Senator LONG. Well, now, what do you think we might be able to do to protect the price of coffee for the American consumer?

Mr. DALY. The only way that this continual threat of constant price increases can be arrested and protected for the consumer is to establish on the upper side ceiling prices to offset what the agreement establishes in the way of a floor price.

Senator LONG. Well, I would be curious to know what your reaction would be to the possibility of stockpiling coffee in this country so as to discourage some of these speculators and to protect the consumer from price gouging when coffee is in short supply.

Mr. DALY. I would be dead against it, Senator, because that would be against free enterprise and we would be starting other ratholes—I mean, we have enough of our own trouble with stockpiling what we produce ourselves, and we would be adding to and abetting and encouraging foreigners to overproduce and bring the stockpile in here and pour our money into it.

Senator LONG. Well, the only thing that I had in mind was to point out what happened in the sugar field. As you know, we had a bad crop year because of bad weather and so on, and so the sugar prices went up from about 3 to 13 cents on the world market.

Now, the countries that had agreed to sell us sugar had not agreed to sell that sugar at any particular price and as a result, while we were protecting their price in the event there was a surplus on the world market, we had no arrangement whatever for them to sell to us at a reasonable price in the event that sugar was in short supply.

Now, if we had any kind of a stockpile here, we perhaps could have been able to protect ourselves against that. And it seems to me perhaps if this Nation were to embark on a program to try to assure these people of reasonable prices for coffee, we should have some protection in times when coffee is in short supply. Without any such protection, in th event of a short coffee crop, then the producing nations, would be in a position to charge exorbitant prices on coffee, as they have done on some occasions when the prices went above 75 percent—and I take it you are against the charging of exorbitant prices.

The thought in my mind was, that with all of these commodities that we have in surplus, enough wheat for a whole year; for example, perhaps we ought to trade some of our wheat stockpile off for something that might be in short supply, such as coffee, and keep a stockpile on hand so that we could dig into that stockpile in the event that coffee prices went to the ceiling.

Mr. DALY. Senator, you have a splendid point there. But under this agreement, if we get into that straitjacket, we could not stockpile any more than this Council decides should come into this country for a 12-year period by quarters, so you could not stockpile beyond what they would permit us to import.

Senator LONG. Yes. Well, of course, the thought that I had in mind was that since this Nation must import all its coffee, we should have at least some stockpile in coffee. Then we could reach in, as a means of protecting our consumers against high prices. If we had a stockpile that would last for about 3 months, we could dig into that when the price goes to the ceiling. And we could have done that with sugar, too, if we had had that stockpile.

Now it seems to me that if we are going to protect the price, it might be well to have a stockpile over here, enough to carry us along for a few months in the event that things got out of hand. From my point of view, I don't see why we should leave this country at the mercy of speculators and other exploiters in the event of a short supply. And I do not object to protecting their price, but I object to us being gouged after we did protect their price.

Mr. DALY. Well, fundamentally your reasoning is sound, Senator, and so far as sugar is concerned—and having been an adopted son of Louisiana for half of my life and having spent the best part of my life in good old Louisiana, I agree thoroughly with you as to the desirability of any kind of arrangement so as to have a brake on unconscionable speculation by having that supply that would prevent that kind of gouging of consumers.

But what I am pointing out is that if we ratify this agreement without any implementing legislation of such—with what you might call a desirable amendment, then we cannot stockpile the coffee and we are at the mercy of the people who would be manipulating under this agreement.

On the other hand, I would ask you, have you any ideas as to who would finance this so-called stockpile, would it be your suggestion that it should be free enterprise, our merchants importing, with banks, or the U.S. Government?

Senator LONG. Well, if we decided we wanted to do it, there are all kinds of ways to do it. In that capacity, I feel somewhat like the client that I once had who wanted me to draw up a corporation charter when he wanted to start a small airline. When I asked him what classes of voting stock he wanted, he said, "Well, that's why I hired you. What I want to do is do the overall policy. You draw this thing up the way it should be drawn."

And my reaction to that—you can guess what it was.

Now, we have some stockpiles that are greatly excessive as compared to our needs, for example the surplus agricultural commodities that we have on hand, which we produce here. The simple way to do it would be just to trade off, even on a barter basis, although we might want the merchants to do the milling and the handling of it for you, whatever excess we have from one stockpile or another, and use that to acquire something that we might be in short supply of.

For example, we don't have any stockpile of coffee, and we might find ourselves in need of it. So, instead of our having more wheat or corn than we could eat in a whole year stockpiled already, it might be better to trade off some of that for something that we really do not have enough of to last us for 6 months, or something that we do not produce here.

Mr. DALY. Well, may I say that I go along with that thought and that desirability. But I say again this agreement will prevent that, and I would be in favor of bartering provided that the U.S. Government does, with what you might call a necessary evil, if it uses private merchants under the principles of free enterprise to move our domestic surplus products out into foreign countries, and, by the same token, I would like to see such commodities as coffee or sugar, stockpiles built up here, also brought into the United States through private merchants under the principle of free enterprise and not like in the case of certain quasi-governmental organizations in New York—they have titles, they have been doing business here since 1946 without incorporating, without paying any taxes, and eliminating our own American taxpaying merchants, and I will give you the name for the record of one of those amiable and notorious institutions, it is called the National Federation of Columbian Coffee Growers at 120 Wall Street, New York City.

I believe that our executive branch should see to it that that outfit incorporates or registers and pay taxes, because it has been doing business domestically inside the United States.

Senator LONG. Well, I personally feel, Mr. Daly, that one of these days the American people are going to rise in their wrath against officials in the executive branch of this Government who negotiate these heads-you-win, tails-I-lose contracts.

I have no objection at all to protecting the price of coffee for the benefit of friendly countries. I do object to any kind of arrangement whereby America goes out and guarantees that we are going to pay more than the thing sells for on the world market, and then proceeds to leave the contract open on the other end so that when the opportunity comes to gouge us, they can gouge us world without end.

Now, that is what happened under the sugar agreement. We gave these people four and a half cents for sugar that was anticipated to sell at 8 cents on the world market. This is going to make for them hundreds of millions of dollars of income which they could not have derived otherwise. And, as it turned out, sugar become in short supply and we wound up paying 13 cents for something that we were doing somebody a favor to buy at four and a half.

Now, all that we had to do is write into the contract that they had to sell it to us at four and a half and you would have protected the American consumer. But if you don't want to work overtime to protect your client he is simply left unprotected. Of course, down my way we have laws that put lawyers in jail for deliberately drawing contracts that fail to protect the client who is unable to protect himself.

When somebody presumes to speak for the American people and draws up contracts and agreements that protect the other people but fail to protect the people whom they are supposed to represent, it seems to me that falls somewhat in the same category of a lawyer who represents an infant child and proceeds to draw a contract that strips that child of all of his assets. That type of thing I do not approve of and I don't think that most people would.

And, what is wrong with this agreement, in my opinion, is the failure to protect the American people against exorbitant coffee prices. Reasonable coffee prices, this country has no objection at all. Exorbitant prices are something else.

This theory that what is good for the other guy is necessarily good for us is pretty ridiculous. The American people are getting disgusted with that, and I can't blame them.

Mr. DALY. Well, most assuredly, Senator, and may I say that I am entirely and heartily in accord with reasonable fair prices, but, as Socrates would say, "What is truth?"

What is a fair price unless we have experts go into the field and determine the actual cost of production? Then, when we have the actual cost of production, if we can get that from this august body, the Department of Agriculture, and then we can come back and be able to talk intelligently and not go blindly and then decide by open negotiation how much profits do they want over the cost of production to determine a fair, just price.

And then they talk about the unfair balance of trade, or imbalance—I say, "Whatever profit they want on their coffee, if it is 50 percent 100 percent, OK, boys, we will give you that, but you will have to pay the same margin of profit on the commodities that you buy from us." Oh, no, we are naturally generous.

Senator LONG. Well, as far as this Senator is concerned, I would be willing to pay more for a commodity if those people would pay more to those underpaid peons who are working in those fields and on those plantations producing the commodities.

But if all they are going to do is take that additional cash and stash it away in a bank vault or send it over to Switzerland to be put in deposit somewhere, and the Communists take over the country after they get through exploiting both us and their own workers—that, to me, has very little appeal.

So I expect that you and I, that our opinions are pretty much the same on this overall problem.

I have no other questions, but I would like to be sure that your letter, addressed to Senator Byrd, is printed in the record at this point, and I thank you very much.

(The letter referred to is as follows:)

CONSULTANTS ON LATIN AMERICAN TRADE,
New York, N.Y., January —, 1964.

The following is the testimony which the undersigned would have submitted at the hearing, to which he was invited, originally called for on December 16, 1963, but later postponed. Please include the following in your records. When the new date is fixed for the hearing, he shall be glad to submit further testimony.

HON. HARRY FLOOD BYRD,
Chairman, Committee on Finance,
U.S. Senate, Washington, D.C.

THE DANGEROUSLY INCOMPLETE INTERNATIONAL COFFEE AGREEMENT—BLIND SURRENDER OF ESSENTIAL AMERICAN RIGHTS

HELP TO FOREIGN COUNTRIES MUST NOT HURT OUR PEOPLE

DEAR SENATOR BYRD: Your exalted and all-important committee deserves commendation for allowing independent witnesses to testify before voting on H.R. 8864, the implementing legislation proposed for the International Coffee Agreement. This, even though the invitations allow such a short time for the presentation of statements. The subject is of unquestionable urgency for the American people at large, not only because of the amounts of dollars involved (hundreds of millions) but because, unless some changes are made in the enabling bill, our Congress would give carte blanche, a blank, signed check to a group of foreign countries—African, Asiatic, and Latin American—to decide how much coffee we are allowed to import and consume, and at what price.

The International Coffee Agreement was originally and provisionally signed at the United Nations in September 1962. The United States and some other countries signed under the tacit condition and the understanding that the respective governments would have to submit the agreement to their Congresses or parliaments for approval, ratification, and implementation. Some obsessed partisans of the agreement have been maintaining that it could not be modified nor altered in any manner or form, but their viewpoint has been utterly destroyed by the fact that both the U.S. Senate and the House of Representatives decided to reduce the duration of the agreement from 5 to only 2 years.

Other persons favoring the agreement, several of them Government officials, perhaps insufficiently informed as to the real meaning and intention of it, or perhaps docilely following the shrewd and experienced foreign diplomats and their public relations agents, repeatedly stated before the respective Senate and House committees that the United States had enough votes, enough basic power under the agreement, to avoid arbitrary limitations or restrictions on the importation of coffee into the United States. In other words, that the United States could readily force the increase in the import quotas, so as to avoid an artificial scarcity of coffee which would push prices up.

The International Coffee Agreement ordered that its headquarters should be located in London, England, under the title, "International Coffee Council," even though the main coffee trading center of the world is New York.

At its first meeting, the International Coffee Council fixed the world's coffee export-import quotas. The basis of the grand total was the volume of coffee consumption, less 1 percent. In this way an initial scarcity of coffee was created and the results have been increased in the prices, unjustified because there are ample supplies in Brazil, Colombia, and other countries, enough to satisfy any additional demand for a relatively long time. The obstinate, blind friends of the agreement claim that recent drought and fires in Brazil have produced a scarcity and relieved the pressure of excess stocks in the world's markets. This is wrong, or rather false. It is the eternal psychological warfare to deceive the consumers.

When the producing countries wanted to secure the cooperation of the United States and other consuming countries, they propagandized the "tremendous overproduction and backlog" of coffee. Now that they have in their hands the control of the world's coffee market, they claim that, by a fantastic miracle, those enormous stocks have disappeared overnight, and that the American and other consumers must pay higher prices or go without coffee.

The first test of the so-called power of voting or power of veto of the United States came recently, when the United States and other large consuming countries went to the second meeting of the International Coffee Council in London, to propose an increase in the export-import quotas, to take care of the real volume of consumption, and to put a stop to a series of price advances. The United States suffered a complete defeat and it was proved, once and for all, that the agreement has given the coffee-producing countries the complete domination of the trading, of the volume of transactions, and the prices.

Far from our intention it is to fight, deny, or hamper any legitimate, mutually convenient form of help to certain underdeveloped countries. We consider that a sensible stabilization of the commodity prices might be desirable, without hurting the consumers, the principles of free enterprise, or the rights of our great Nation.

However, we very strongly question the soundness of the International Coffee Agreement, unless it is adequately modified or completed by the U.S. Senate. We, the American people and Government, must have the right to say what the maximum price should be, just as the producing countries have the right to say what the minimum price should be.

In this respect, we believe that a special bill, amendment, or resolution should be approved by the U.S. Senate, requiring or demanding that the executive branch, perhaps the Departments of Agriculture and of Commerce, send a mission of experts to the producing countries, to find out and establish what the actual cost of production of coffee is. Once we know this, we, the United States, could decide as to what markup or profit should be graciously allowed on the coffee we buy—worth over $1 billion annually.

The circumstances surrounding this agreement seem to smell of farce or fraud. All the double talk, ambivalence, equivocation, and even perhaps overzealous and enthusiastic prevarication, can be proved by the record. The American people have been befuddled as passengers to fairyland. In their dual role of consumers and taxpayers, they are being taken for a double ride. Let's take a look at the record, as was recommended in other cases by one of our notable, late lamented, hard-boiled statesmen. The Americans, as taxpayers, are shaken down on the costs of direct foreign aid. As consumers, they are pocket-picked indirectly and hiddenly by the price rigging, without limit, of the cartelized coffee agreement. To wit:

The Congressional Record and the reports of Senate and House committees, since March 1963, will reveal and prove all the misstatements and misrepresentations, including the falsities, namely: (1) that the agreement was designed only to "stabilize" prices at the September 1962 levels, (2) that the United States "controlled" the necessary votes to fix the quotas so as to prevent price increases, and (3) that the instrument of ratification of the agreement would not be filed by the United States, with the United Nations, until our Congress had acually enacted the implementing legislation now pending in this hearing before your committee.

There is no effective provision in the agreement to stop unfair and unlawful competition against the American coffee trade; namely, the competition of foreign entities which have been doing business inside this country, making thereon millions of dollars in profits on coffee transactions, without incorporating and without paying any taxes. We refer to one of those entities in the guise of the National Federation of Coffee Growers of Colombia, with offices at 120 Wall Street, New York City, whose own Colombian Appellate Court ruled that it, the federation, is a private organization.

We repeat that there are no safeguards in the agreement to put a halt to such outlaw foreign invasions of our domestic markets. Furthermore, our Departments of State, Treasury, and Justice, as well as the Federal Trade Commission, despite the documentary evidence furnished to them, have been doing nothing for over 5 years to correct these scandalous irregularities.

Very respectfully yours,

JOHN T. DALY, *Chief Consultant.*

(The following Department reports are made a part of the record:)

DEPARTMENT OF AGRICULTURE,
Washington, D.C., December 12, 1963.

Hon. HARRY F. BYRD,
Chairman, Committee on Finance,
U.S. Senate.

DEAR MR. CHAIRMAN: This is in reply to your letter of November 18 requesting our views and recommendation on H.R. 8864, a bill to carry out the obligations of the United States under the International Coffee Agreement, 1962, signed at New York on September 28, 1962, and for other purposes.

The Department of Agriculture supports the bill. We believe it would provide the necessary legislation for implementing the International Coffee Agreement.

Regarding specific sections of the bill, the certificate of origin requirement is necessary to effectively administer the export quota provision. We also recognize the necessity for legal authority to limit imports from nonmember exporters who otherwise could share in the benefits of the agreement without being subjected to the limitations imposed on member exporting countries.

The Department regards the requirement concerning statistical reports by member countries as being necessary for the successful operation of the agreement.

Sections of the bill relating to contributions for budgetary purposes and the repealing of certain obsolete legislation used in the Inter-American Coffee Agreement, which lapsed shortly after World War II, also meet with our approval.

The major role of the Department of Agriculture in implementing the coffee agreement would be the supplying of certain economic and statistical material for the Coffee Council. This would require no additional personnel or appropriations.

The Bureau of the Budget advises that there is no objection to the presentation of this report from the standpoint of the administration's program.

Sincerely yours,

ORVILLE L. FREEMAN.

EXECUTIVE OFFICE OF THE PRESIDENT,
BUREAU OF THE BUDGET,
Washington, D.C., January 28, 1964.

Hon. HARRY F. BYRD,
Chairman, Committee on Finance,
U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: This will acknowledge your letter of November 18, 1963, requesting the views of the Bureau of the Budget regarding H.R. 8864, to carry out the obligations of the United States under the International Coffee Agreement, 1962, signed at New York on September 28, 1962, and for other purposes.

This bill would provide the means to carry out the obligations of the United States under the International Coffee Agreement, 1962, to which the Senate gave its advice and consent May 21, 1963. This legislation was submitted to the Congress by the Secretary of State and was passed by the House of Representatives with amendments which we understand are acceptable to the Department of State.

For the reasons outlined in the Secretary of State's letter of transmittal, in the reports to your committee by the Departments of State, Commerce, Agriculture, and the Treasury, and in President Kennedy's letter of October 21, 1963, to the Honorable Wilbur D. Mills, chairman of the House Ways and Means Committee, the Bureau of the Budget recommends enactment of H.R. 8864.

Sincerely yours,

PHILLIP S. HUGHES,
Assistant Director for Legislative Reference.

DEPARTMENT OF THE INTERIOR,
OFFICE OF THE SECRETARY,
Washington, D.C., January 30, 1964.

Hon. HARRY F. BYRD,
Chairman, Committee on Finance,
U.S. Senate, Washington, D.C.

DEAR SENATOR BYRD: Your committee has requested our views on H.R. 8864, a bill to carry out the obligations of the United States under the International Coffee Agreement, 1962, signed at New York on September 28, 1962, and for other purposes.

We have no objection to enactment of the bill.

The Department of the Interior was not involved in the negotiations leading to the International Coffee Agreement. The bill is intended to permit the United States to discharge its obligations as a signatory to the agreement.

The Bureau of the Budget has advised that there is no objection to the presentation of this report from the standpoint of the administration's program.

Sincerely yours,

STEWART L. UDALL,
Secretary of the Interior.

THE GENERAL COUNCIL OF THE TREASURY,
Washington, January 24, 1964.

Hon. HARRY F. BRYD,
Chairman, Committee on Finance,
U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: Reference is made to your request for the views of this Department on H.R. 8864, to carry out the obligations of the United States under the International Coffee Agreement, 1962, signed at New York on September 28, 1962, and for other purposes.

The proposed legislation would authorize the President to: (1) Regulate the entry for consumption, or withdrawal from warehouse for consumption, of coffee; (2) require that coffee exported or reexported from the United States be accompanied by a certificate of origin or a certificate of reexport issued by a qualified agency of the United States; (3) require the keeping of records and the rendering of reports relating to the importation, distribution, and consumption of coffee as he may from time to time prescribe; and (4) take such other action, and issue and enforce such other rules and regulations, as may be necessary or appropriate to implement the obligations of the United States under the agreement.

If this legislation is enacted, the Bureau of Customs will collect the certificates of origin and certificates of reexport which will be required by article 44 of the agreement to accompany importations of coffee from countries which are members of the agreement, and to forward them to the International Coffee Organization. The Bureau of Customs will also issue certificates of origin for domestic coffee grown in the United States (Hawaii) and exported therefrom, and certificates of reexport for foreign coffee imported into the United States and later exported therefrom and to forward copies to the International Coffee Organization. In the event action is taken under article 45 of the agreement to limit importations of coffee from nonmember countries, it is expected that the Bureau of Customs would administer the quotas which would be established for the nonmember countries.

So long as the Bureau of Customs is responsible only for collecting and issuing certificates of origin and certificates of reexport, the cost of carrying out its obligations is expected to be nominal. If quotas are established the cost of administering such quotas could be expected to be more substantial.

The Department does not anticipate any unusual administrative difficulties under the proposed legislation and has no objection to its enactment.

The Department has been advised by the Bureau of the Budget that there is no objection from the standpoint of the administration's program to the submission of this report to your committee.

Sincerely yours,

G. d'Andelot Belin, *General Counsel.*

Senator Byrd. If there are no further questions, the committee will now adjourn.

(Whereupon, at 1:05 o'clock, the committee adjourned, subject to the call of the Chair.)

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