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INTERNATIONAL COFFEE AGREEMENT

December 30 (legislative day, December 28), 1970.—Ordered to be printed

Mr. Long, from the Committee on Finance, submitted the following

REPORT

[To accompany H.R. 19567]

The Committee on Finance, to which was referred the bill (H.R. 19567) to continue until the close of June 30, 1971, the International Coffee Agreement Act of 1968, having considered the same, reports favorably thereon without amendment( ) and recommends that the bill do pass.

Purpose

The purpose of H.R. 19567 as passed by the House and approved by the Committee on Finance is to continue until July 1, 1970, the authority of the President contained in the International Coffee Agreement Act of 1968, Public Law 90–634, to carry out and enforce certain of the provisions of the International Coffee Agreement, 1968. That agreement, to which the Senate gave its advice and consent to ratification on June 28, 1968, and which the President ratified on July 10, 1968, expires on September 30, 1973, while the current authority of Public Law 90–634 expired on September 30, 1970.

This continuation of the President's authority under the International Coffee Agreement Act was requested by the Secretary of State in a letter to the Congress dated April 2, 1970.

Specifically, the act which H.R. 19567 would extend provides the necessary authority for the United States to require that valid certificates accompany coffee imports from any member of the International Coffee Organization and to limit coffee imports from countries that are not members of the agreement.

The International Coffee Agreement Act also provides the President with authority to impose special fees and other measures to offset discriminatory treatment by other governments in favor of the export or reexport of processed coffee. Such act further authorizes that certificates of origin or reexport for exports of coffee from the United States be required and that certain records, statistics, and other information be maintained. The act provides for an annual report to Congress by the President concerning the operation of the agreement.

The International Coffee Agreement Act also requires that should the President determine that there has been an unwarranted increase in the price of coffee, due in part or in whole to the agreement, he shall request the International Coffee Council and the executive board to take appropriate action. In the event the International Coffee Council fails to take corrective action to remedy the situation within a reasonable time after such request, the President is to submit to the Congress such recommendations as he may consider appropriate to correct the situation. Finally in the event of a complaint by any interested party that an exporting member of the agreement is discriminating against U.S. vessels, the act provides for a prompt investigation by the President followed by appropriate action in accordance with the Merchant Marine Act of 1920.

General Statement

The committee recognizes that consumers as well as producers suffer from the extreme fluctuations in prices which characterized trade in coffee prior to the establishment of the International Coffee Agreement in 1962. Thus, the United States as the world's most important coffee consumption country (currently 40 percent of world exports valued at almost $1 billion) has a substantial interest in fostering international cooperation aimed at assuring a sufficient supply of coffee at reasonable prices and in avoiding the peaks in prices which sometimes caused the retail price of coffee to rise to well over $1 a pound.

Of equal significance in terms of U.S. participation in the agreement is the adverse effect which the instability of foreign exchange earnings from coffee can have on the development efforts of many of the less developed countries which have been the beneficiaries of U.S. assistance. Coffee is by far the largest contributor of foreign exchange to many countries in Lation America, Africa, and Asia. In the early 1960's losses from declining coffee prices offset development aid and frustrated efforts to promote growth and stability in the less developed countries of the world. This situation was particularly apparent with regard to Latin America and African countries. In order to stabilize the price of coffee at a level fair to both producers and consumers, the United States joined with 53 other countries in the International Coffee Agreement of 1962, which was designed to achieve price stability through the establishment of coffee export quotas for the producer countries.

Since the establishment of the International Coffee Agreement the annual earnings of the exporting members have averaged about $500 million above the preagreement level while consumers generally have enjoyed moderate price levels. In 1962 producing members earned about $1.8 billion from the export of coffee; in 1969 their earnings totaled $2,370 million. This expansion of export earnings, so necessary for economic development for the producing countries, was accomplished largely by increasing the consumption of coffee particularly in Europe. As a result of strong competition from other beverages, coffee consumption by the United States has not shared in this growth and in fact has declined somewhat on a per capita basis.

Relatively stable export earnings resulting from the agreement not only permits the producing countries to plan rationally their economic development but also contribute significantly to their ability to import from the industrialized countries, particularly the United States. It has been estimated that in 1968 the coffee producing countries purchased 16.2 percent of U.S. exports valued at $5.5 billion. A collapse of the agreement, which could take place without continued U.S. participation, could result in a serious decline in the export earnings of the less developed countries and a consequent sharp cut in our exports to them.

Fixing of Quotas

Control of the volume of coffee exports through the allotment of quotas to each producing member is the principal means by which the agreement influences prices. The basic quota of each producer was established during the negotiation of the International Coffee Agreement 1968. At least 30 days before the beginning of each coffee year the International Coffee Council, by a two-thirds majority vote of both producing and consuming members, adopts an estimate of total world imports and exports for the following coffee year and an estimate of probable exports from nonmember countries. In the light of these estimates, the council establishes a total annual quota for all producer members, which is then prorated among the producers in proportion to their individual basic quotas. In order to try to insure that consumers will have sufficient supply of the particular types of coffee they need throughout the year, provision has been made for the selective increase in quotas for those types in strong demand as evidenced by price changes.

Protection for the Consumer

The committee is informed that for the most part, the International Coffee Agreement has achieved its primary objective; relative price stability at a level which is equitable to producers and reasonable to consumers. There are limitations on the extent to which the agreement can influence the price of coffee. While it is capable of keeping the flow of existing supplies within reasonable relationship to market demand, it neither produces nor stores coffee itself. There is no provision in the agreement which compels producers to supply a stipulated amount of coffee nor is there a provision which compels consumers to import.

Consuming countries generally have benefited from stable prices with a slightly downward bias during most of the life of the agreement. The composite indicator price of green coffee as measured by the International Coffee Organization declined gradually from 41 cents per pound in September 1965 to 38 cents in September 1969. However, more recently when a natural phenomenon occurred which had a significant impact on the supply and demand situation, this record of stability was disrupted.

In the summer of 1969, the stable and somewhat downward trend in prices was dramatically reversed due to a freeze in Brazil followed by a severe drought. The psychological impact on the coffee trade of a prospective sharp reduction in fresh supplies in 1970 sparked a rise in coffee prices. Prices had climbed to a composite indicator price of 52 cents in the summer of 1970 when the ICO established in London an ample quota and other adequate safeguards for the current coffee year designed to prevent further price increases.

The seriousness of the recent rise in prices should not be underestimated. If it had not been for the efforts by the consumer members within the framework of the ICO to arrest the rise in prices, there is little doubt that prices would have shot up to their preagreement peaks. In the absence of the agreement, importers and roasters may have built up inventories to unreasonable levels as a hedge against real or imagined shortages. It now appears that the approach developed within the ICO will provide adequate coffee supplies scheduled for orderly release during the year.

The cost of green coffee, which is influenced by the International Coffee Agreement, is only one of the elements that go to make up the retail price of coffee. Such factors as production, transportation, and marketing costs are in no way regulated by the agreement, yet have an important bearing on what the ultimate consumer pays. The retail price of coffee, as measured by the Bureau of Labor Statistics Consumer Price Index, was 110 in September 1970 as compared to 137 for all goods and services and 133 for all foods.

Soluble Coffee

Of major concern in considering legislation to extend the International Coffee Agreement Act of 1968 has been the failure of Brazil to comply fully with its obligations under the Coffee Agreement. The Coffee Agreement provides specifically (art. 44) that exporting countries may not discriminate in favor of their exports of processed coffee as compared to their exports of green coffee. Despite this provision, Brazil's tax policy continued to favor its soluble coffee exports. Soluble coffee exports pay a tax of only 13 cents per pound; the equivalent amount of green coffee exports pay a much higher tax.

The principle behind article 44 is fair and reasonable in the context of a commodity agreement and should be adhered to by all members of the Coffee Agreement. What is at issue is the question of access to a raw material on equitable terms. U.S. processors of soluble coffee pay a price for their raw material that incorporates a very stiff (about 50 percent) export tax. The Brazilian soluble coffee manufacturer buys his raw materials at the domestic price, and pays only a token tax when his finished product is exported. In the absence of the Coffee Agreement, the U.S. manufacturer could turn to alternative supplies of cheap green coffee to meet Brazilian competition. The system of export quotas maintained under the ICA denies him this possibility.

The committee on Finance agrees with the Committee on Ways and Means of the House that Brazil should end the discrimination and fulfill its obligations under the International Coffee Agreement. Failing this, the United States should remedy the situation. Section 302(1)(c) of the act, which would be extended by this bill, was written specifically for this purpose. It provides the President with the necessary authority to impose such special fee as he deems appropriate to offset discriminatory treatment by other governments in favor of their exports of soluble coffee.

Should this latter course of action prove necessary, the committee believes a fee should be imposed in an amount sufficient to offset the discrimination resulting from the Brazilian tax policy.

In any event, effective action is necessary if the United States is to continue to participate in the International Coffee Agreement. Therefore, the Committee on Finance agrees with the Committee on Ways and Means in requesting that the President report to the Congress by April 1, 1971, as to whether action has been taken either by Brazil or under his own authority to terminate the impact of discriminatory treatment of soluble coffee imports into the United States from Brazil. In the absence of such action, the committee will not consider further requests to extend the International Coffee Agreement Act of 1968.

In view of the above, the committee has approved H.R. 19567 so that the law authorizing the implementation of the Coffee Agreement will continue until July 1, 1971.

Changes in Existing Law

In compliance with subsection 4 of rule XXIX of the Standing Rules of the Senate, changes in existing law made by the bill, as reported, are shown as follows (existing law proposed to be omitted is enclosed in black brackets; new matter is printed in italic; existing law in which no change is proposed is shown in roman):

SECTION 302 OF THE INTERNATIONAL COFFEE AGREEMENT ACT OF 1968

AUTHORITY FOR IMPLEMENTATION OF AGREEMENT

Sec. 302. On and after the entry into force of the International Coffee Agreement, 1968, and for such period prior to [October 1, 1970] *July 1, 1971*, as the agreement remains in effect, the President is authorized, in order to carry out and enforce the provisions of that agreement—

(1) to regulate the entry of coffee for consumption, or withdrawal of coffee from warehouse for consumption, or any other form of entry or withdrawal of coffee such as for transportation or exportation, including (A) the limitation of entry, or withdrawal from warehouse, of coffee imported from countries which are not members of the International Coffee Organization, (B) the prohibition of entry of any shipment from any member of the International Coffee Organization of coffee which is not accompanied by a valid certificate of origin or a valid certificate of reexport, issued by a qualified agency in such form as required under the agreement, and (C) the imposition of special fees or such other measures as he deems appropriate to offset discriminatory treatment by other governments in favor of the export or reexport of processed coffee;

(2) to require that every export or reexport of coffee from the United States shall be accompanied by a valid certificate of origin or a valid 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; and

(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.

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