

AN EVALUATION OF THE 1962 INTERNATIONAL COFFEE
AGREEMENT

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PREFACE

International commodity agreements have been adopted for several commodities involved in world trade. The most notable are the tin, wheat, sugar, cocoa, tea, and coffee schemes. Because of the variety of characteristics associated with the trade of each product, each scheme differs.

However, commodity agreements share many common traits. Nearly always the agreements are some form of stabilization scheme. And since the existence of a commodity agreement by definition infers that artificial forces are used to supplant the usual operation of the market, these agreements have many common problems. Experience indicates that compliance and coordination of price policies between economic requirements and equity considerations are two issues prone to lead to difficulties.

On the basis of the similarity noted above, a group of problems commonly associated with commodity agreements in general has been selected. The study then undertakes to evaluate the scope and provisions of the International Coffee Agreement of 1962 in the framework of these general problems.

Indebtedness is acknowledged to Dr. Rudolph Trenton for his guidance and assistance in this study. His suggestions improved greatly both the substance and the form of the thesis.

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CHAPTER I

INTRODUCTION

The Setting of the Coffee Problem

Coffee commands a position that is significant both in world trade and in the aspirations of over a dozen Latin American and African nations with respect to their capability to achieve economic growth and development. The proportion of the value of world coffee exports to world output of coffee is among the highest of all agricultural commodities involved in international trade. Moreover, the production of coffee is of predominant importance in the national economies of a number of countries as a source of foreign exchange. Brazil, Columbia, El Salvador, Ethiopia, and Guatemala are dependent upon coffee exports for one-half to two-thirds of their foreign exchange. Consequently, to the extent that these and other coffee producing countries have to depend upon imports for the execution of their plans for economic development, the role of coffee in world trade is important.

For the greater part of this century, the coffee trade has undergone numerous crises. Prices have fluctuated violently causing problems for consumers and producers alike. The brunt of these fluctuations has been particularly troublesome for producers. Drops in earnings have carried disastrous effects to those producer countries that depend heavily on

coffee as a source of income and foreign exchange.

In the past, producers have tried numerous schemes to alleviate the hardships and disruptions caused by violent price fluctuations. The success of these schemes has been varied. Recently efforts to remedy the coffee problem have been undertaken in the form of international agreements to control coffee exports in an attempt to stabilize and maintain coffee prices. The latest of these agreements was the International Coffee Agreement which was provisionally adopted in the United Nations Conference of 1962 and became effective in 1963. It is the task of this study to evaluate that Agreement in terms of its effect on the coffee trade and its chances for successful long-term operation.

Objectives of the Study

The International Coffee Agreement is a complex, multipurpose arrangement. Thus it did not conveniently lend itself to evaluation on the basis of a singular criterion. The Agreement could, for example, (and is by certain parties) be viewed primarily as a device enabling the producer countries to deal with their foreign exchange problems. Some see the International Coffee Agreement and other related commodity agreements as instrumental in correcting alleged unfavorable and unjustified terms of trade imposed upon underdeveloped countries relying on only one or a few primary commodities as their main exports. Or it may be that the Agreement is viewed as a convenient device for extracting funds from the developed consumer nations to aid the less fortunate underdeveloped coffee producing countries.¹

¹The term convenient is used because, particularly in the instance of the United States, the donating consumers would be less aware of the amount

However, this study did not attempt to evaluate the International Coffee Agreement in terms of these broader issues. Rather the subject was confined to considering the Agreement as a possible corrective device to ameliorate the problems of a commodity trade plagued by imbalance and unstable prices. It has been argued that inherent supply and demand conditions of the coffee trade make inevitable a degree of price instability. It was an underlying assumption of the study that greater price stability would be desirable. The study proceeded to assess the scope and provisions of the International Coffee Agreement, and the manner in which these have been employed. An attempt was made to determine if the Agreement has and will continue to bring about greater price and output stability in the world coffee market.

Organization of the Study

The study of the International Coffee Agreement and the world coffee market covers two phases. The first part of the study deals with the behavior of the coffee trade and examines such basic economic factors in the trade as supply and demand conditions.

The second part of the paper is devoted to an evaluation of the scope and operation of the International Coffee Agreement. The experience of past schemes has been examined for lessons that may be relevant to the Agreement. Following this the nature and provisions of the Agreement are summarized. Then the Agreement is assessed from the standpoint of problems commonly associated with such commodity schemes. Most of the discussion of the Agreement centers around its principal objective--price

involved where it is hidden in the price of coffee than if the cost were publicized in an appropriation from the tax proceeds of their government, and thus there is less danger of them objecting.

stabilization. The varied auxiliary aims of the Agreement are treated mainly to the extent that they relate to the issue of price stabilization.

Definitions

Consumption

It was impossible to find adequate data for total final consumption on a world market basis. Subsequently, exports are used in the following discussion as an indication of consumption.

Production

For purposes of making comparisons between consumption and production, exportable production is the most desirable figure to quote. Exportable production represents total production minus consumption in the producer countries. Unfortunately, data for total production are used for the period before 1940 because exportable production is not available.

Prices

The price data quoted in following discussions refer to spot quotations per pound of coffee in the New York Market for green coffee unless otherwise specified. It is customary in the trade to make reference to general coffee price trends by citing spot prices for Brazil Santos No. 4 coffee. However, due to the variety of classifications and origins of the major commercial coffees, it is not always satisfactory to refer to a world price trend in this manner. Where divergent patterns necessitate attention, Santos No. 4, Columbian Manizales, and native Uganda No. 10 prices will be used to represent the relative prices of Brazils, Milds, and Robustas respectively.

In discussions concerning the effect of prices on production, it must

be cautioned that growers' prices do not necessarily correspond with trends in world market prices. Disparities might arise because typically producer nations pay their growers prices that do not correspond to market prices.

Time Periods

Besides the calendar year, two other years are referred to in the text of this study--the "marketing year" and the "coffee year". The "marketing year" runs from July 1 of one year to June 30 of the next. For example, the crop harvested in 1965 is marketed between July 1, 1965, and June 30, 1966. In comparing production in the "marketing year" 1965-66 with exports which are listed by calendar year, exports for 1966 are used. The "coffee year" is the official year adopted by the International Coffee Council and runs from October 1 through September 30 of the next calendar year. This period is referred to in discussions concerning quota and other actions taken by the International Coffee Council.

CHAPTER II

THE FRAMEWORK OF THE WORLD COFFEE TRADE

This chapter focuses on material concerning the nature of the world coffee trade. First the geography of coffee production and the major classifications of commercial coffee are sketched. Market factors with supply, demand, and price data plus an examination of causal factors shaping the coffee trade will follow.

Location and Importance of Producers

Since coffee first became a popular beverage in seventeenth-century Europe, the center of coffee production has shifted several times. First Arabia, then the West Indies, and later Java took their respective turns as the principal world producers. In our own century Brazil has consistently been the largest coffee producing nation, and together with the rest of Latin America, the bulk of coffee production has been concentrated in the Western Hemisphere. Africa and Asia constitute the coffee growing areas in the Eastern Hemisphere, and Africa is by far the more important of the two continents.

Brazil's output has on occasion reached three quarters of aggregate world production in this century. In more recent years, however, three-fifths to two-fifths would be a more accurate statement of Brazil's relative share of total production. Over a long run period of thirty-five years,

Brazil has shown a relative decline as a world producer. Part of this has been accounted for by increases elsewhere in the Western Hemisphere. However, more recently there seems to be a general tendency for the Eastern Hemisphere, and in particular Africa, to increase its relative share of coffee output. In the past decade, for example, the coffee producing countries of the Western Hemisphere increased their exportable crop by 29 percent, while those of the Eastern Hemisphere increased theirs by 136 percent. For Africa alone the growth rate was 124 percent.² The relative share of the two hemispheres was 78-22 percent in the first year of the period (1954-1964) and 66-34 in the last year. This comparison indicates a considerable change in relative shares, but it obscures the operation of wide fluctuations in the intervening years. As an example, the coffee producing countries of the Western Hemisphere accounted for almost 80 percent of the world total in 1959-1960.

Classification and Characteristics of the Major Commercial Coffees

The genus coffea can be broken down into some forty species, but only three are of commercial importance: arabica, robusta, and liberica. Historically arabicas have accounted for the greater part of world production, but recently the demand for robustas has increased as they are particularly adaptable for blending in soluble coffee.

It is a common practice in the trade to speak of coffee as falling

²Pan American Coffee Bureau, Annual Coffee Statistics, 1963: No. 27 (New York, 1964), p. 16.

into two broad categories, Brazils and Milds. This classification can cause considerable confusion as it overlaps the species. Brazils are all varieties of coffee produced in Brazil and are of the arabica species. Milds are all other coffees grown outside of Brazil and thus include arabicas, robustas, and liberica. Traders generally regard Brazils as "price" coffees and Milds as the "quality grades".³ That is to say Milds commonly offer Brazilian coffee competition in terms of quality not price. However, this is not by any means categorical. For instance, African robustas are generally classed inferior to Brazil's in terms of flavor and typically sell for less.

Coffee is further divided for commercial purposes into a myriad of kinds and grades. For instance, Brazil coffees are classified into five groups, which are named after the ports from which they are shipped: Santos, Rio, Victoria, Bahia, and Paranagria.⁴ These groups are further subdivided according to their bean characteristics and districts in which they are grown. Then the different types as to species, variety, and origin are graded as naturals, unwashed, soft, and hard.

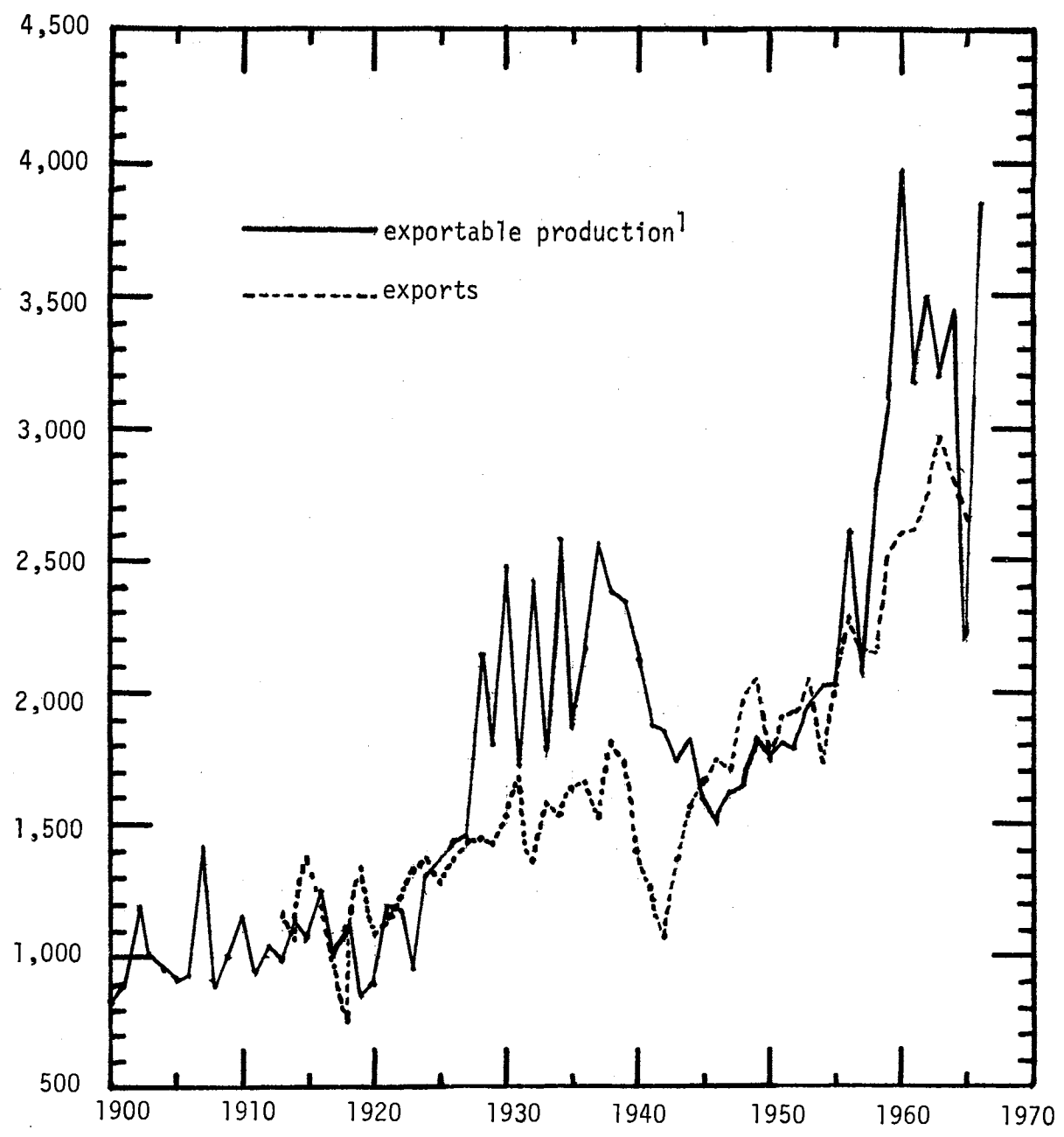
Historical Trends in the World Coffee Market

Figures 1 and 2 provide a composite picture of factors in the world coffee trade since 1900. Total world exportable production and exports are shown in Figure 1 and in Appendix A. Exports are shown rather than actual final consumption because the latter was not available. However,

³William H. Ukers, All About Coffee (New York, 1935), p. 198.

⁴Ibid.

FIGURE 1
EXPORTABLE PRODUCTION AND EXPORTS
(Thousand Metric Tons)

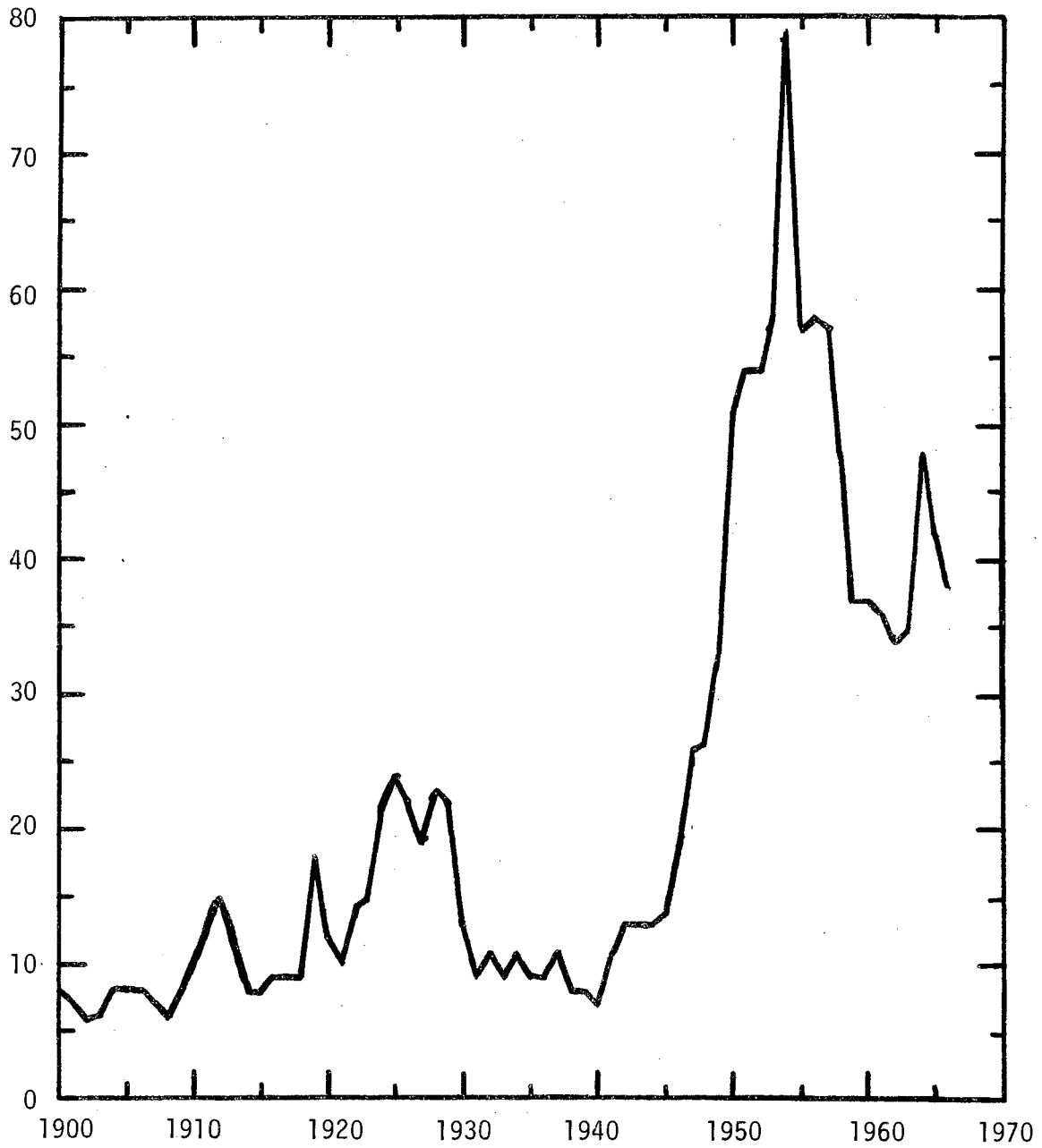


¹Total production data are used before 1946.

FIGURE 2

COFFEE PRICES SINCE 1900

(Santos No. 4, N.Y.)



this may be just as well because this study is interested in the immediate factors that bear on the international aspects of the coffee trade. Three sets of prices represent the three major classifications of coffee in the trade as quoted in New York. Santos represents the Brazilian variety of arabica and Manizales the mild varieties of arabica. Native Uganda price data are used to represent the African robusta coffees. Since the three prices show a common historical trend (see Appendix C-I), reference is made to Santos prices as the average world coffee price in Figure 2. The most notable aspects of the period are the historical fluctuations in coffee production, the frequent and serious periods of surpluses, and the erratic behavior of coffee prices.

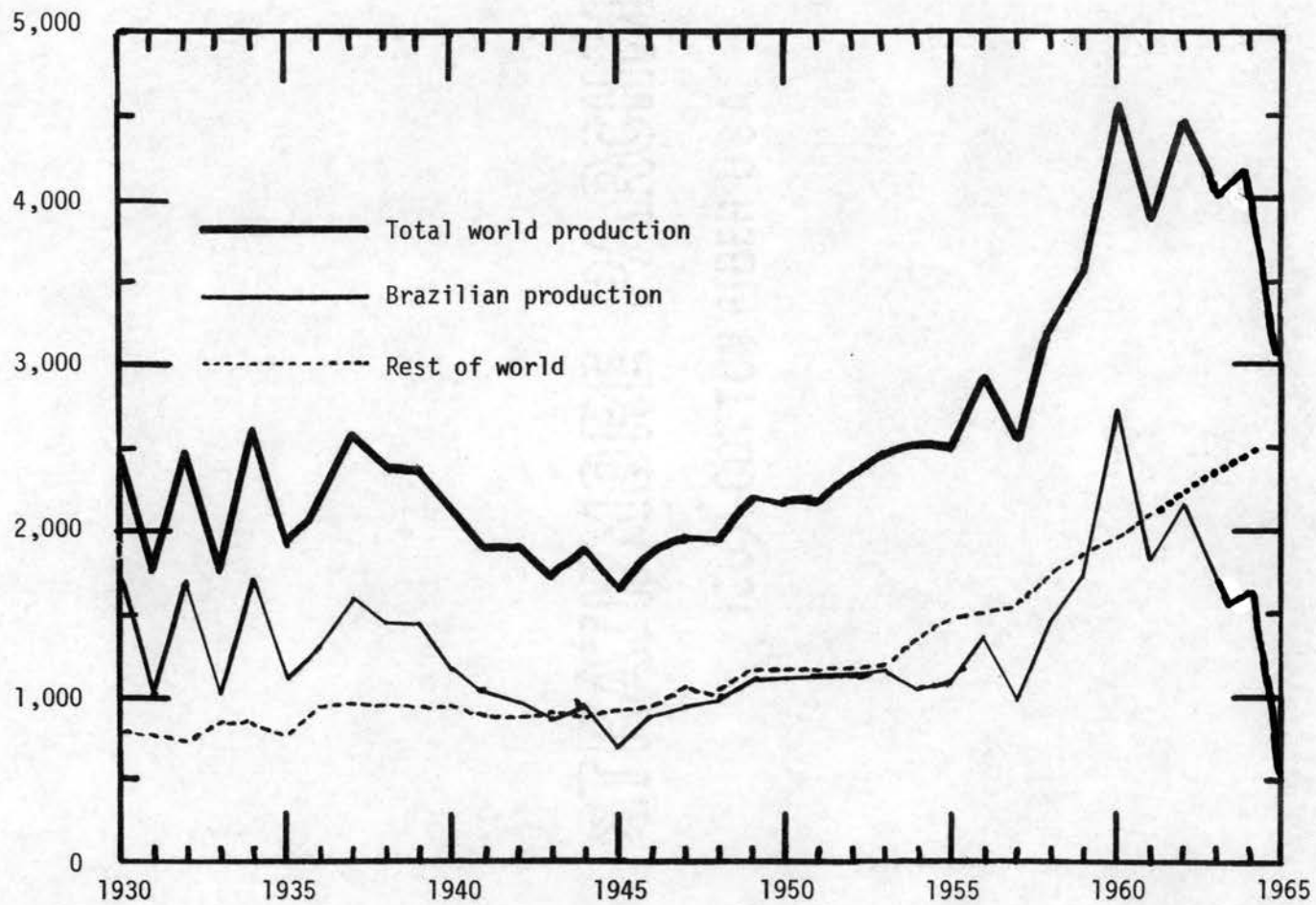
The data in Figures 1 and 2 along with Appendixes A, B, and C will also be referred to in the remainder of the chapter which deals in detail with the factors noted above.

An Economic Appraisal of Coffee Production

Coffee production is subject to numerous erratic influences. Due to the botanical nature of the coffee tree, it is natural for crop yields to vary from one year to the next. The vagaries of the weather and the geographical structure of the coffee producing industry also present underlying tendencies towards instability. These factors explain the extremely volatile nature of coffee output which led V. D. Wickizer to make the following statement: "Unquestionably the characteristic of greatest significance throughout the modern economic history of coffee has been the variability of supply."⁵ The extreme variations in coffee supplies

⁵V. D. Wickizer, The World Coffee Economy With Special Reference To Control Schemes (Stanford, 1943), p. 109.

FIGURE 3
THE ROLE OF BRAZIL IN WORLD COFFEE OUTPUT
(Thousand Metric Tons)



are important because of the implication for world coffee prices.

World output of coffee is subject to extreme and continued fluctuations. The truth of this statement is vividly portrayed in the graphs in Figures 1 and 3. It is further evident from Figure 3 that the source of much of the instability in world coffee production stems from Brazil. Not only does Brazil represent a large portion of world production, but it also is most vulnerable to weather influences. A great share of its output comes from Sao Paulo which is in a temperate zone where frosts and droughts occur even more frequently than in the tropical climates of other producing areas.

Generally speaking, two discernible cycles seem to manifest the variable behavior of coffee output. An examination of these cycles will shed further light upon the behavior of coffee production, and in addition, reveal some of the basic factors that account for this behavior.

The first cycle is referred to simply as the "two year" cycle (see Figure 3). This cycle could be described as an intrinsic factor in the variable behavior of coffee production as it stems from the physiological nature of the coffee tree. The occurrence of the "two year" cycle, a good year following a bad year and a bad year following a good year, is common to other tree crops as well as coffee. Wickizer attributes this cycle "...mainly to the fact that a heavy yield so depletes the yielding power of the tree...that even very favorable weather conditions fail to offset this, until a light crop has enabled the tree to replenish its reserves."⁶

In a study undertaken by the Federal Trade Commission in 1954 pertaining to the "two year" cycle in Brazil the following results were

⁶Wickizer, p. 112.

found.⁷ Between 1882-83 and 1940-41 production had 58 opportunities to either continue its same direction or reverse its course as compared with the previous year. Production changed its direction on 38 occasions or nearly two-thirds of the total. The existence of the cycle was also observed in other areas. Exceptions to the two year span of the cycle were found to have been usually of short duration and were explained as occurring because of the vagaries of the weather which caused poor crops to be harvested in more than one successive year. In recent years the cycle is manifested most clearly in the 1954-55 and 1960-61 upturns in Brazil's production (see Figure 3).

As a consequence of the "two year" production cycle, it is common for the price of coffee to increase one year and decline the next (see Figure 2).

However, the ramifications of the "two year" production cycle on coffee growers is not as serious as the other cycle which will now be treated. For convenience this production cycle will be referred to as the "long term" cycle because it is longer in duration.⁸

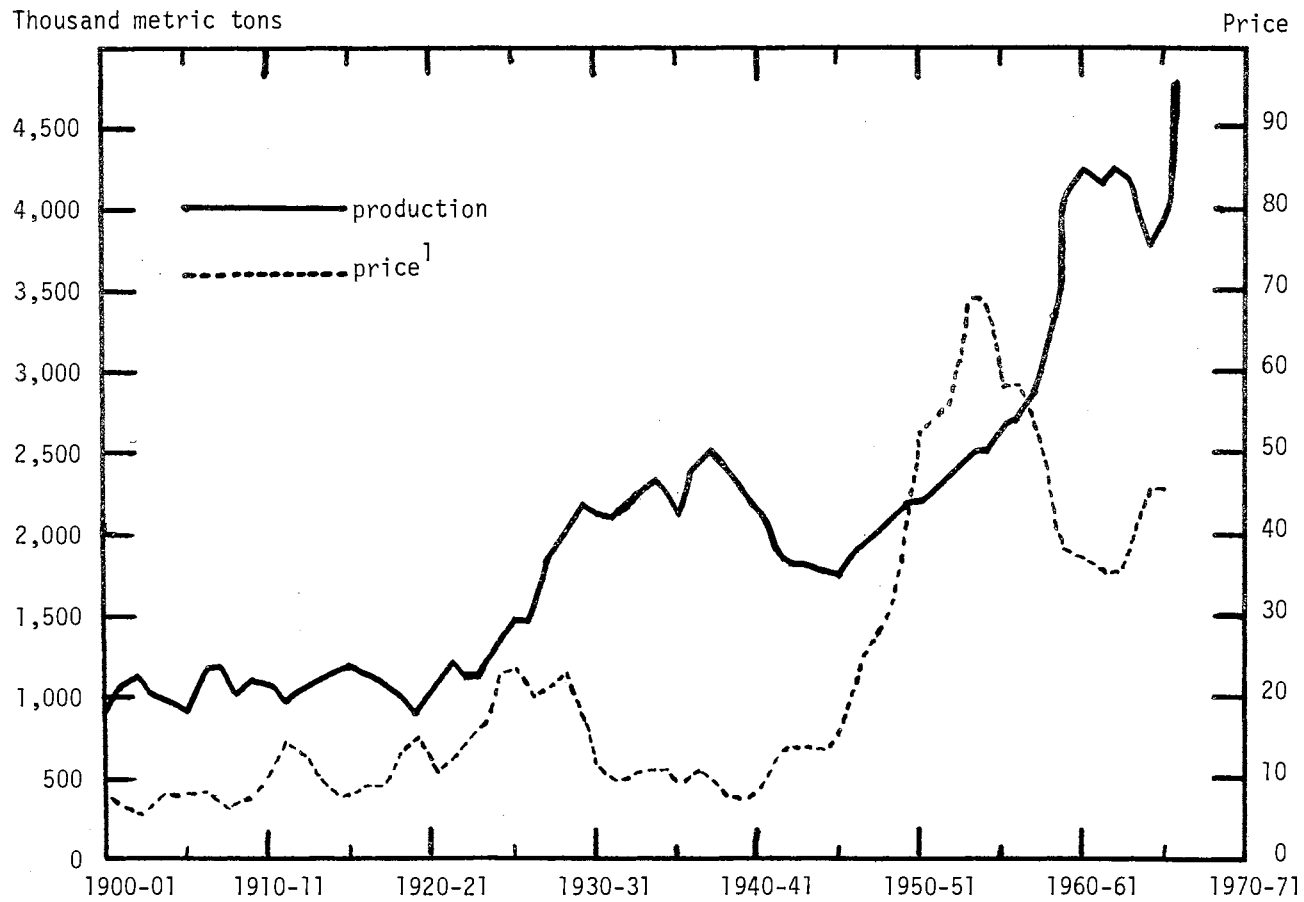
Figure 4 which shows production and prices will be referred to in order to portray the "long term" cycle. The data have been plotted from two year moving averages to eliminate the "two year" cycle described above and clarify the "long term" cycle. Price is shown on a two year average basis because the interaction of the two is important.

Two long term cycles can be observed in Figure 4. The first

⁷Federal Trade Commission, Economic Report of the Investigation of Coffee Prices (Washington, 1954), p. 21.

⁸On the same FTC study referred to above, mention was made of a "periodic" cycle which usually lasted about seven years. However, such a cycle does not seem readily apparent since World War II (see Chart IV) and therefore is not discussed.

FIGURE 4
THE RELATIONSHIP BETWEEN PRICE AND OUTPUT
(Two Year Moving Averages)



¹ as indicated by Santos No. 4, N.Y.

started in the early twenties and began to taper off at the end of the thirties. The second cycle that will be referred to is the one that began in the late forties and apparently is still in continuation.

It is important to notice the behavior of prices during the course of these production cycles. In both instances substantial price increases occurred at the beginning of the cycle. The chart seems to suggest that price plays a major role in precipitating the "long term" cycle. It is also notable that substantial lags occur between the bulk of the price hike and much of the expansion in output. In addition, production has in both instances continued to expand long after prices have dropped off drastically.

A study of the time lag between price increases and production was undertaken by Henry Hopp on the basis of Brazil's experience from 1872 to 1953.⁹ He found that the lag varied in length from 2 years to 10 years. Although a mean lag of 4.7 years was computed, it does not lend itself to generalization because there is so much variation in the lag.

The reaction of production to price will vary in time and extent because many other factors enter into the picture. It was pointed out in the same study noted above that:

Increased prices can have a fairly quick effect on production when run-down plantations are rejuvenated; the effect will be much slower when increased prices stimulate planting activity. Furthermore, planters' judgment as to continuation of favorable business conditions must certainly affect the lag period. In addition, irregularity in bearing makes it difficult to estimate the lag accurately; yield increases may come several

⁹Henry Hopp, "Supply and Demand in Relation to the Price of Coffee", Foreign Agriculture Circular, F.C.B. 30-54 (16 Dec., 1954) U.S. Department of Agriculture, Washington, D.C., pp. 13-17.

years sooner or later than would be expected purely from the effect of price rises on the response of planters.¹⁰

Factors shaping the reaction of production to price declines include the alternative uses and profitability of land and capital resources in conjunction with various factors affecting the costs of continued cultivation and harvesting of the coffee trees.¹¹ Reaction also, in part, could depend upon the business conditions existent in consuming countries. The combined effect of increasing income and declining prices could plausibly stimulate purchases sufficiently to keep continued cultivation profitable. Finally, government efforts to subsidize producers' incomes through various programs will bear on the reaction of production to a decline in world prices for coffee.

Much of the behavior of production and prices above can again be traced to the nature of the coffee tree. Generally speaking, trees begin to yield fruit 2 to 4 years if planted as seedlings, and 4 to 5 years if planted from seeds. Moreover, yields become heavier as the trees mature. Usually the increase in yield continues for roughly 10 years out of a 15 to 30 year productive life span. This would appear to go a long way in explaining why production continues to increase even after prices have fallen off.

The behavior of prices following increased production (see Figure 4) and the surplus of exportable production over requirements (see Figure 1) during the two "long term" cycles noted seem to justify the statement that producers overreact to initial price increases. Explanations for this

¹⁰Henry Hopp, p. 15.

¹¹Ibid., p. 15.

phenomenon are implied in the discussion above. The time lag between planting and yielding makes it difficult for producers to anticipate the proper reaction to prices. The fact that prices are allowed to climb for some time before increased output is realized may mean there is a natural tendency for planters to overplant. On top of this there are large numbers of planters, and in such an atomistic structure each planter will typically fail to anticipate the effect of his increased plantings on future prices.

Thus the factors shaping the output of coffee seem to point to an inherent tendency for coffee production to promote instability in the coffee trade.

An Economic Appraisal of Coffee Consumption

The Past Behavior of Coffee Consumption

It has been noted in the preceding section that coffee production has historically been subject to tremendous irregularity. Figure 1 indicates that total world consumption¹² has followed a much more stable course from year to year. The largest fluctuation in production from one year to the next (1930-31) to ever occur amounted to about 30% of the previous year's output. On the other hand the largest peacetime fluctuation in consumption ever recorded (1931-32) was 19% of the previous year's consumption. In the past decade production and consumption both experienced their largest fluctuation from 1958-1960 (see Figure 1). The

¹²Total world consumption is indicated by exports here and thus fails to include domestic consumption. Consequently, the years beginning in 1946 lend themselves to comparison better than earlier years because the production figures in this period are adjusted to production available for export.

magnitude of increase in output represented roughly 31% over a two year span as compared to an 18% increase in consumption. It is also significant that while a gradual growth in consumption has occurred in the long run with few interruptions, production has grown much more rapidly. This behavior is central in explaining the volatile movement of prices in past years as it points to the source of imbalance in the coffee trade.

Consumer Reaction to Price Changes

It is commonly observed that moderate changes in the price of coffee produce slight changes in consumption in the short run. While this statement may be less true for trade demand than consumer demand the latter eventually circumscribes the former in shaping coffee prices. This is primarily the case because, in light of the expense of storing coffee, roasters cannot afford to hold large stocks of coffee indefinitely. Empirical studies on the subject have generally corroborated the notion that consumption typically responds to price changes in a very limited manner.¹³ While the demand for coffee seems to be relatively inelastic in response to price fluctuations caused by crop variations, the statement must be qualified. If price trends continue for some time, consumption eventually becomes more responsive to price changes. Moreover, consumption appears to be more responsive to price changes at high levels than at low levels. This was particularly the case during the mid-fifties.

Many factors can be presented to explain why coffee consumption is relatively inelastic with respect to price in the short run. The most frequently cited explanation is that coffee drinking is generally a habit

¹³F.A.O., The World Coffee Economy, Commodity Bulletin, Series No. 33 (Rome, 1961), p. 30.

and it takes time for habits to change.¹⁴ The habit may partially be derived from the drink's distinctive taste and certain of its ingredients that give it a stimulative property. Two other factors that lend tenacity to the coffee drinking habit are social custom and a lack of reasonably close substitutes. Particularly this is true in the United States where direct substitutes are a negligible factor on the level of coffee consumption. However, in continental Europe chicory, malted cereals, and dried figs are frequently used as substitutes for coffee.¹⁵ Thus the price elasticity of coffee may be expected to be somewhat greater in that area. Tea, and to a lesser extent, other drinks may also be considered as substitutes. However, the coffee habit greatly restricts movements to these alternatives. Water, in a sense, is a substitute for coffee as its proportion can be varied. It would seem plausible that at high prices the practice of diluting coffee with water may be especially significant. However, this statement is merely conjectural for no studies on the subject have been found.

In summary, the evidence seems to point towards the conclusion that coffee consumption is relatively inelastic with respect to price. This, however, is a general statement, and it may be important that modifications be made for areas where per capita consumption of coffee is low. Also this statement appears to be more evident in the short run than over longer run periods in which time habits have had an opportunity to change.

¹⁴V. D. Wickizer, The World Coffee Economy, pp. 46-63.

¹⁵F.A.O., The World Coffee Economy, p. 33.

The Behavior of Coffee Prices and Earnings

In the preceding pages the major theme that seems to develop is that the basic coffee problem can be derived directly from the fundamental nature of the supply and demand for coffee. In the eyes of the producer countries, the most direct evidence of this problem is the behavior of prices and total earnings received from coffee.

In the absence of any effective control scheme, coffee prices have historically been subject to fluctuations of considerable amplitude. For example, prices in 1955 were over four times as high as those in 1945. Five years later prices had descended to about half their 1954-55 peak (see Figure 2).

In tracing the coffee cycle it has been noted that an initial price increase tends to be very stimulative with respect to production. However, due to a time lag involved, before the full force of increased production is realized prices have already begun to fall. As the trees reach maturity the yield continues to increase and depress prices further. Moreover, since historically the consumption of coffee does not increase appreciably when a price decrease occurs, little outlet for the pressure upon prices can be expected from that side of the market.

By examining Table I the implications and magnitude of a drop in price following increased output can be understood more fully. Table I lists total exports and total earnings of the world's coffee producers during the period from 1957 to 1962 when increasing production and falling prices were witnessed. With the exception of 1958, exports of coffee expanded during this period, but not enough to prevent a decline in the total value of earnings to the world coffee producers. With minor

exceptions this trend is representative of most of the individual producers' experience as well. It is not difficult to see why producers

Table I

WORLD COFFEE EXPORT EARNINGS, 1957-62

Year	Price Per M.T. U.S.\$	Total Exports 1,000 M.T.	Computed Value Million U.S.\$
1957	1033	2239	2313
1958	916-	2194	2010-
1959	750	2600	1950
1960	700	2632	1842
1961	678	2716	1841
1962	663	2773	1839

Source: F.A.O., Trade Yearbook, Vols. XI-XVII, Rome, 1957-63.

become alarmed when production rises.

The set of circumstances thus described has frequently occurred in the history of coffee and has in particular been the main feature of the postwar years that has led to the recent International Coffee Agreement. But while imbalance in the coffee trade is typically characterized by excess supplies and falling prices, there have been times when shortages of coffee have led to equally extreme upward trends in prices such as in the 1953-55 period.

In conclusion, this chapter has illustrated that instability in the coffee trade is due largely to the inherent nature of the supply and demand for the product. Therefore, it is not difficult to understand why producer countries look towards artificial controls as a means of stabilizing the price of coffee.

CHAPTER III

HISTORY OF COFFEE CONTROL SCHEMES TO 1962

In Chapter II it became clear that, due to the inherent nature of the supply and demand for coffee and the location and concentration of coffee production geographically, instability is the expected norm for the coffee trade. The subject next turns to the general issue of whether or not artificial controls¹⁶ can ameliorate this condition. A review of the coffee trade's past experience in control is valuable from the standpoint that further perspective on the question is obtained.

The coffee trade has been subject to artificial controls for a longer period than any other commodity of world importance.¹⁷ Controls of many types have been exercised by the producing countries since about 1905. They include production controls, controls over the movement of coffee to and from ports, credit controls, export price controls, and controls over the foreign exchange derived from coffee sales.

This past and present use of a multitude of unilateral controls adds to the complex nature of evaluating the effect of an international control

¹⁶In the body of this paper artificial controls, or simply controls, will be used as a general expression encompassing any attempt to affect the natural course of market conditions. This includes any scheme organized or authorized by a governmental unit of any level but not private cartel efforts.

¹⁷Wickizer, The World Coffee Economy, p. 136.

scheme on production and prices. For example, a producer country can pursue independent pricing programs. Thus, it is difficult to establish directly that an international scheme that succeeds in increasing prices excessively will ultimately bring its own house down because production will over-respond. The individual producer governments may be paying lower prices to their growers so that the domestic prices will not overstimulate production. Or conversely internal price supports may conceivably lead to excessive production even if world prices are quite low.

To go into detail about the development of coffee controls is too large a task here. Subsequently, the discussion is confined to a summary of cases and types of controls which are felt to have particular relevance to issues that pertain to the International Coffee Agreement.

Brazilian Control Schemes

Prior to World War I, the principal control schemes over coffee were initiated in Brazil. During the years 1905-1909 a policy of purchasing coffee for storage in conjunction with restricting new plantings was instituted to maintain coffee prices. This was Brazil's first valorization program in a series of three such schemes which were in operation at various phases of time from 1905-1923.

A study undertaken by the Brookings Institution concluded that:

The first valorization and the restrictive measures which accompanied it prevented a severe fall in prices in 1906-07 and enabled the Committee conducting the operations to maintain an artificial price during the years 1910, 1911, and 1912 higher than that which the 'statistical position'¹⁸ of

¹⁸By working surplus supplies of coffee off gradually from 1905-1918 prices climbed somewhat in spite of the excess supplies accumulated from 1905-1909.

coffee seemed to justify.¹⁹

Similar programs were followed in 1915-18 and 1920-21. While these two valorization schemes proved less able to maintain prices, they at least appeared to be somewhat successful in moderating extreme price fluctuations.²⁰

Up to this time controls had been envisioned as temporary measures for emergency situations. However, a permanent coffee defense policy was adopted in 1922. Essentially the program consisted of setting up public warehouses, regulating the movement of coffee from the interior to seaports and regulating the release of coffee for export. Coffee prices held a healthy level until 1925, but, according to Virgil Salera, several problems were incurred too. "Consumption expanded more slowly, high coffee earnings tended to overencourage production, and non-Brazilian output got a big boost."²¹ The depression of 1930 added to the complications and caused the collapse of the plan.

After 1930 the main feature of Brazil's program was the systematic destruction of coffee and the levying of prohibitions on new plantings. During the 1930's Brazil destroyed nearly 100 million bags of coffee.

In order to evaluate the results of Brazil's control schemes from 1905-1939 Santos 4 prices in Figure 2 (see page 10) are referred to. During the twenties prices were successfully raised above the level of prices before. But after that period prices plummeted in spite of the

¹⁹The Brookings Institution, International Control of Raw Materials (Washington D. C., 1930), p. 144.

²⁰Ibid., p. 147.

²¹Virgil Salera, "The New Coffee Agreement--Facts and Issues," Inter-American Economic Affairs, XV Spring, 1962, p. 51.

Brazilian schemes to buttress prices. Moreover, prices were never stabilized for any length of time except during the 1930's, and then only at low levels.

This situation should not necessarily be interpreted to mean that artificial controls can never be expected to stabilize prices. But the period did illustrate that Brazil was unable to control the world's coffee market single handedly. Although she was by far the greatest coffee-producing country, Brazil found that she did not hold a large enough share of the market to exercise what in effect would be a monopolistic role. Her efforts to support prices allowed outside areas to expand their production and enjoy high prices for a

TABLE II

BRAZIL'S RELATIVE SHARE OF WORLD
EXPORTS 1920-1940

Year	Brazilian Share of World Exports (percent)	Year	Brazilian Share of World Exports (percent)
1920	64	1930	59
1921	63	1931	64
1922	62	1932	53
1923	66	1933	59
1924	62	1934	56
1925	62	1935	56
1926	60	1936	52
1927	62	1937	58
1928	57	1938	57
1929	60	1939	57

Source: See Appendix B.

time without assuming any of the burdens incident to control. A similar

fate would probably be expected for any unilateral effort to stabilize prices at high levels. Thus it would seem that a prerequisite for any successful control scheme would be the creation of an international group which includes all producers. In this particular case Brazil became the residual supplier of the world's coffee and ended up with a smaller share of the market in the end (see Table II).

The picture painted by artificial control schemes during the discussed period may not be entirely gloomy, however. The Brookings Institution study group mentioned earlier concluded that while it would be too much to say that prices were stabilized, it did seem safe to say that extreme price fluctuations were moderated in light of the magnitude of output irregularities during the period.²² The magnitude of production variations can be observed in Figure 3 (see page 12).

The case is even less clear when viewed from the standpoint of the consumer. There was criticism about the high prices imposed upon consumers during the early 1920's. However, it could also be argued that if prices had not been halted from their downward trend in 1919, planters would have been forced out of operation and thus prices would have risen even further later on from the pressures of contracted production. It will never be known how much weight should be given to this argument in this particular instance since this situation was not allowed to occur.

Along with stable prices, one of the main objectives stated both in the valorization and defense programs was a more diversified agriculture. However, diversification of agriculture appeared to have been checked rather

²²Brookings Institution, p. 169.

than promoted by these policies.²³ Although direct restrictions were placed upon new plantings, they were not effectively enforced. At the same time, rising prices following the first control efforts encouraged rather than checked expansion of the coffee industry in Brazil.

International Control Schemes

After Brazil witnessed a decline in her relative share of the market in the 1930's, it became obvious to her that she could not unilaterally support the coffee price. As early as 1931 Brazil promoted attempts to reach some type of international agreement to control coffee. However, as long as Brazilian growers were unwilling to let their prices seek competitive levels, the other producers were able to find a demand for their entire output at profitable prices. Accordingly, they were not interested in binding themselves under any agreement at the time.

In 1940, the Latin American countries found common cause for a multilateral agreement when the blockade of European ports, shortage of shipping, and general currency difficulties effectively closed the European market. An appeal was made to the United States to participate in an agreement so as to provide effective control. The invitation received a sympathetic reply as the United States was anxious to have the solid support of these countries at a time when she might be engulfed in the war in Europe.

Thus the first international agreement to control coffee was signed in Washington, and was to run three years beginning October 1, 1940. Entitled the Inter-American Coffee Agreement, the pact consisted of 14 Latin

²³Brookings Institution, p. 163.

American signatories and the United States. The Agreement embodies an export-quota scheme, but its most unique feature at the time grew out of the participation of a consumer country in a dominant role.

Administration of the Agreement, including the adjustment of quotas, was vested in an Inter-American Coffee Board, composed of delegates of the participating governments. Of a total of 36 votes, the United States had 12, Brazil 9, Columbia 3, and each of the other countries 1. The United States had the power to increase her quota without limit in the event that a shortage of supplies appeared imminent. But any reduction of her quota in excess of 5 percent at a time required a unanimous vote. It was also the delegated duty of the Board to study the problem of coffee surpluses and to work out methods of financing and storing accumulated supplies.

Since the Agreement was instituted to lessen the burden imposed by the loss of the European market to Latin American producers, export quotas to the United States were not always assigned on a historical basis. Producers that had formerly sent most of their output to Europe were allowed shipments beyond their pre-war amounts. Obviously, from the standpoint of the United States, the underlying political objective of the Agreement was to prevent the complete economic collapse of the Latin American members. In more technical terms the Agreement sought to provide effective measures for bringing the supply of coffee in international markets more nearly in line with the existing demand at prices "reasonable to both producers and consumers."²⁴

No criteria of fairness or statement of specific price objectives

²⁴Wickizer, p. 180.

were ever made public. But it was tacitly assumed by all members, including the United States, that prices would rise somewhat above the level in existence when the Agreement first became effective.

In evaluating the operation of the Inter-American Agreement the center of interest turns to the issue of "prices". The immediate result of the news of an agreement was to set off a wave of speculative activity that drove prices upward.²⁵ By late 1940, prices were approximately 100 percent higher than the months before the Agreement was signed. While the provisions of the Agreement had equipped the United States with authority to raise her quota, she was reluctant to halt the upward trend of prices out of fear of intimidating the producing countries at such a critical time. However, the United States was unwilling to accept unlimited price increases; and in October, 1941, the Inter-American Coffee Board increased the United States' quota. The action of the Board was effective in checking a further price advance.

But the all-important question of whether or not quota adjustments could, over a period of time, be effective in stabilizing prices at levels considered satisfactory to producers, the trade, and to consumers was never permitted a clear answer. With the entrance of the United States into the War, prices were frozen, and the administration of prices in effect shifted under the authority of the Office of Price Administration.

The Inter-American Coffee Agreement was reviewed yearly on a standby basis until September, 1948. But it has already been noted that after the first year the Agreement exercised little effective influence

²⁵The question may be raised whether the price increase was simply due to the standard rise in food prices during war periods. Considering the amount of supplies on hand that were blocked from European ports this does not seem likely.

upon the trends in the coffee industry.

However, certain relevant issues for international control may have been suggested while the Agreement was in operation. For one thing the weight of political considerations was demonstrated, particularly with respect to the administration of prices. The possibility of the producer nations being able to exploit their image as underdogs and pressure the consumer countries to accept unwarranted price increases may be as central an issue now as when the United States (which at that time represented the consuming sector) was faced with the threat of the Axis Powers. Another point worth noting is that while, from the standpoint of the producers, the Agreement was very beneficial in the short run, there is the possibility that it contributed to long-standing difficulties, such as over-production and falling prices in the late fifties. Certainly the Agreement did nothing to eliminate the fundamental difficulties facing the coffee industry as became quite apparent later.

With supplies once again modest in relation to demand by 1948, the Latin Americans opposed continuation of the Agreement. In the next ten year span the more important controls affecting the flow of coffee were those sponsored by Brazil and Columbia. These countries pursued separate control schemes, but they contained similar features. Extensive use of credit and price support techniques characterized both countries' policies. The multifaceted aspects of these policies, however, makes it impossible to summarize them effectively, so the subject will be restricted to few short observations of their effects.

One of the more notable features of national control schemes in Columbia and Brazil was the technique of establishing minimum prices for producers. In Columbia this level was below the actual export price and

thus had no practical effect.²⁶ In the case of Brazil, however, there is no unanimous consensus about whether she was able to manipulate domestic prices by fixing a minimum price paid to growers above the world market level. On the basis of a Federal Trade Commission study it appears that the domestic minimum price was nearly as much as the market price during 1954. But the evidence did not justify a statement that prices were actually manipulated above the market level.²⁷

With respect to loan policies, the only time that any effect upon the market seemed to be in evidence was in 1953-54 when loans in Brazil enabled the producers to hold their coffee back in anticipation of higher prices. How substantial this factor was in stimulating the 1954 price spiral cannot be ascertained since so many other factors also stood behind the movement.

When coffee prices began a steep downward decline it once more became evident that national control efforts could not support the market. In 1957, coffee was again placed under international control. The 14 Latin American producing nations founded the Latin American Coffee Agreement for the purpose of restricting exports. For the next five years International Coffee Agreements were negotiated on a yearly basis. The only notable change in these from that of 1957 came in 1959 when the principal African producers joined the schemes.

What effect these Agreements had is difficult to say. The decline in coffee prices did not continue to be so rapid but still it continued to slip, from 45 cents for Santos No. 4 in 1958 to a 31-37 cent range in 1961.

²⁶F.T.C., p.104.

²⁷Ibid., p.109

Over-supply remained a problem. The carryover at the end of the 1960-61 crop year amounted to a staggering 64 million bags, mostly in Brazil. At the same time annual world use had only been 43 million bags.²⁸

One lesson that stood out very clearly while these schemes were in operation was that they were in fact extremely difficult to maintain. Outside producers were able to expand their output and export at the expense of the members. In addition, it became more and more attractive to the individual insider to exceed his quota limit. Thus a need for more effective control became evident. Implementation of this goal was sought by including importing countries in the proposed coffee agreement of 1962.

In conclusion of the chapter analyzing the past history of coffee controls, there is no precedent that artificial controls can bring greater stability to the coffee trade on a permanent basis. Earlier schemes have been able to temporarily halt and reverse downward price trends. Moreover, inventories seem to modify seasonal and annual fluctuations in prices. But where ambitious efforts have succeeded in pushing prices to high levels the result has been to over-stimulate production and cause a disastrous fall in prices later.

²⁸Foreign Agriculture Circular, Dec. 1961, p. 1.

CHAPTER IV

THE INTERNATIONAL COFFEE AGREEMENT, 1962

The Agreement Provisions and Objectives

The provisions of the Agreement and their origin will now be summarized.

Fifty-eight producing and consuming countries negotiated a new "long term" agreement in 1962 to replace the previous "short term" coffee agreement participated in solely by producers. The "short term" agreements helped to slow down, but did not halt, the decline in coffee prices. The inclusion of consumers in the '62 Agreement was necessary to strengthen the pact. It is also significant that the designation "long term" was prefixed to the Agreement. This indicated a shift in the orientation of the Agreement in the direction of "seeking adjustments of a fundamental nature, rather than acting solely as a stop-gap against price debacle."²⁹

The main features of the International Coffee Agreement of 1962 are summarized under the following headings in their respective order: Agreement objectives, organization and administration, voting, quotas, prices, and control of production.

²⁹ Irwin Shishko, "The Coffee Outlook Under a 'Model' International Agreement," Commodity Year Book, 1964, p. 23.

Agreement Objectives

The objectives of the Agreement set forth in Article I are placed in Appendix D for reference purposes. In essence the six goals outlined in Article I are variations of one theme, viz, "to assist in increasing the purchasing power of exporting countries by keeping prices at equitable levels and by increasing consumption." Also, "long term equilibrium between production and consumption" is hoped to be achieved. And the Agreement should alleviate "the serious hardships caused by burdensome surpluses and excessive fluctuations in the prices of coffee to the detriment of the interests of both producers and consumers." These three objectives contain the main purpose of the Agreement.

Exporting members naturally look towards point four calling for an increase in the purchasing power of coffee-exporting countries as the raison d'etre of the Agreement. The importers' position, on the other hand, is less clear. This is particularly true with regard to the official position of the United States. Congress evidently envisioned the main goal of the Agreement as one of simply halting the drastic downward trend in prices and ameliorating price fluctuations thereafter.³⁰ On the other hand, the Administration, as represented by the Department of State, seems to favor the objective of raising prices above their 1962 level. Indeed, this position is implied in the fact that since the Agreement came into operation, prices have been allowed to rise through

³⁰See Simon G. Hanson, "The Experience with the International Coffee Agreement," Inter American Economic Affairs, V. XIX: No. 3 (Winter, 1965) pp. 27-65. Also see United States Senate Committee on Finance, Hearing on the Coffee Agreement, S. 701 (January 27, 1965), pp. 9-10.

export restrictions without meeting any significant opposition from the United States.

Organization and Administration

The provisions of the Agreement are administered by the International Coffee Organization which is seated in London. The structure of the Organization includes the International Coffee Council, its Executive Board, its Executive director and its Staff.

The International Coffee Council is the highest authority of the Organization and consists of one representative from each member nation. An Executive Board made up of seven each of importing and exporting members is elected by the Council. The Council appoints the Executive Director and Staff, upon recommendation of the Board.

Voting

Article 12 of the Agreement defines the number and distribution of votes. Exporting and importing members each hold a total of 1,000 votes divided in the following manner. Five basic votes are assured to each individual member as long as the total number of basic votes does not exceed 150 for either categories of Agreement members. The remaining votes are divided among the members of each category or in proportion to their respective basic export or import quotas as long as no one member holds in excess of 400 votes. The distribution of votes for the 34 exporting members and 21 importing members is listed in Appendix E.³¹

³¹ During the period the I.C.A. has been in existence, there have been several redistributions of votes as countries have acceded to the

Each exporting or importing member has one representative sitting on the Council, and his vote carries the weight of the relative number of votes distributed as explained on the preceding page.³²

Regulation of Exports and Imports

Like its short-term predecessors, the 1962 Agreement relies upon export quotas as the main instrument through which it achieves its aims. Total annual quotas are established by the Council on the basis of estimated world import requirements for the coming year (Article 30). For the coffee years 1962-65 Appendix F lists the basic export quotas for the producing member countries.³³ The Council is vested with authority to review basic quotas each year, and the quotas may be revised by a distributed two-thirds majority vote (Article 28, paragraph 2).³⁴ Each year's requirements are estimated by the Council. For example, in 1962, total quotas were set at 99% of the basic export quota. In the light of these requirements, the Council assigns annual

Agreement and as certain countries have, temporarily at least, lost their voting rights for non-payment of administrative assessments.

³²Unless specified otherwise in the Agreement all decisions of the Council are taken by a distributed simple majority vote (Article 13). "Distributed simple majority vote" is defined in the Agreement as a majority of votes cast both by exporting members and importing members present and voting, counted separately. If a distributed two-thirds majority is required before a proposal can be adopted and if it is not obtained, the proposal may be resubmitted a second and third time if a majority of the Council members so desire. In a third vote, if a distributed two-thirds majority is not obtained because of the dissenting vote of either one importing or one exporting member, the proposal is considered adopted (Article 14).

³³The "coffee year" is defined as the period of one year, from October 1 through September 30.

³⁴"Distributed" means that importing and exporting member's votes are counted separately.

export quotas to the members on the same relative basis as their percentage share of the basic export quota.

Quarterly export quotas for each exporting member are also fixed by the Council for the purpose of keeping supply in reasonable balance with estimated demand throughout the coffee year. These are to be set "as nearly as possible at 25 percent of the annual export quota of each member during the coffee year" (Article 31, paragraph 2).³⁵

Several provisions are included in the text of the Agreement to allow for adjustments of quotas during the coffee year when conditions seem to necessitate such action. When the Agreement was originally set up, if market conditions so required, the Council could review the quota situation and vary its percentage of the basic export quotas (Article 32). If marked price rises or falls occurred within brief periods, members could request a meeting of the Council to revise the total level of export quotas in effect by a distributed simple majority vote (Article 34).

On March 19, 1965, the Council approved a resolution which provided more specific and rapid means for adjusting quotas through the year. Essentially the resolution consists of a device which ties quotas to a specified price range. The resolution provides an indicator price range from 38 to 44 cents.

In order to calculate an average price for comparison with the indicator price range, the following arrangements are set forth. Coffees of all origins are assigned to one of three categories of coffees--mild

³⁵The Agreement stipulates that "no member shall be allowed to export more than 30 percent in the first quarter, 60 percent in the first two quarters, and 80 percent in the first three quarters of the coffee year."

or washed arabicas, unwashed arabicas, and robustas. Then, using New York ex-dock prices for prompt shipment, the arithmetic mean of the prices of the three categories of coffees are determined. These in turn are averaged together to obtain the average price which is compared to the indicator price range.

If the average price falls below the floor indicator price (38¢) or rises above the ceiling price (44¢) for any 15 day period, the Executive Board meets to consider adjusting quotas upwards or downwards as the case might be. If the Board decides that the cause of the price trend is not due to temporary factors it may lower pro rata the annual export quotas when prices fall below the range or vice versa.³⁶

In addition to the above provisions for adjustments in total quotas, Article 60 provides a "waiver clause". This clause permits a member to be relieved of its obligation provided a case of extreme hardship or inequitable treatment can be demonstrated and a distributed two-thirds majority in the Council concurs with its appeal.

One of the most striking differences between the 1962 Agreement and the earlier agreements is the active role assumed by importing members in enforcing the export quotas established by the Council. Importing members have agreed to require that "certificates of origin or re-export" accompany all shipments of coffee into their ports from member countries. (Article 44).³⁷

³⁶The Board's decision to adjust quotas are limited to 6.0 percent of the annual quotas in the first quarter and 4.5 percent, 3.0 percent, and 1.5 percent, respectively in the remaining quarters of the year.

³⁷The effective date for exporting members to prohibit exports unless accompanied by certificates of origin or re-export and on which importing members were to prohibit imports from the members not

The certificate establishes that coffee has been produced in a given country and thus provides information on the international movement of coffee. Importing members are obligated to prohibit entry of coffee from any member when such coffee is not accompanied by a certificate. This way the Council is informed if export quotas are not being adhered to by members.

In the event that an exporting member exceeds the quota allocated to it, the Council shall deduct from its future quotas double the amount of the excess. If the member still fails to comply to its quota, the Council may require its removal from the organization in accordance with Article 69.

Also, the Agreement contains measures to prevent non-member exporting countries from increasing their share of exports at the expense of exporting members. Article 45 of the Agreement addresses itself to this particular problem with a provision to regulate imports. If non-members represent more than 5 percent of world coffee exports in the calendar year of 1961, each importing member is obligated to restrict its imports from these non-member exporters to the average taken during the three years prior to the activation of the Agreement.³⁸

accompanied by the certificates was initially set for April, 1964. The date was later changed to October 1, 1964, because of legislative problems in certain member countries. Even at the delayed date the United States Congress had not passed legislation authorizing collection of the certificates. This made for a very peculiar situation for the United States. The Government had ratified the Agreement, but it was not empowered to apply one of the main provisions mandatory in the Agreement. A special procedure was adopted for using the certificates on a voluntary basis. Legislation was finally enacted, and on May 24, 1965, the President of the United States signed the bill authorizing the requirement of certificates of origin on imports into the country.

³⁸In order to facilitate the expansion of coffee consumption,

Prices

The price objectives to be pursued under the Agreement are alluded to in numerous places throughout its text. Equitable price levels is a phrase that permeates the context of the Agreement time and again. But just what constitutes an equitable level was not defined clearly in the Agreement. The most explicit statement contained in the Agreement itself was found in Article 27, paragraphs 2 and 3--"The members agree on the necessity of assuring that the general level of coffee prices does not decline below the level of such prices in 1962. 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."³⁹

According to Irwin Shishko, the main reason for a specific price zone not being included in the document was the:

danger of inviting an open collision in price viewpoints at a time when a collision could have endangered successful negotiation of the Agreement. Inevitably, producer and consumer price viewpoints were somewhat divergent. To some producers, the Agreement was the means of bringing about a major price-revival. Ambitious price goals were openly voiced by some producer representatives. On the other hand, most consuming countries viewed the Agreement as a mechanism for price support rather than price elevation. Indeed a number of these governments justified joining the Agreement by telling their citizens that membership by consuming

shipments to certain countries having a low per capita consumption of coffee are not charged to the quotas of exporting members. To prevent re-export of coffee from these countries, the Council is empowered to require special markings for coffee going to these areas and importing members may be required not to accept coffee with such marking.

³⁹Average price Santos 4 was 34.0¢ ex dock New York in 1962.

countries would exert a moderating influence (on price).⁴⁰

Since that time, however, the price objectives of the Agreement have become more specific. The already mentioned tying of quotas to an indicator price range provided a definite pricing policy in the Agreement. Considering that the floor of the range (38c) is well above the level of 1962 prices, one further point is evident. Those interests which wanted to use the Agreement as a device for increasing prices clearly have carried the day.

Control of Production

Chapter XI, Articles 48 and 49, concerns production control. Production goals are to be recommended to members, but each producing member is entirely responsible for the policies and procedures it selects to achieve these aims. By a distributed two-thirds majority vote the Council may determine that any individual member has not adopted a program to adjust its production to the goals recommended by the Council. In such an event that party will be denied any quota increase that might be realized. Aid to countries adopting controls is promised through various forms of assistance from the importing countries.

This is one of the more crucial issues to the success of the long term agreement. One of the chronic problems in the coffee industry, as it was pointed out in Chapter II, is that of a persistent excess production in relation to the demand for coffee.

⁴⁰Irwin Shisako, p. 24.

Operation of the 1962 Agreement

In the four years the Coffee Agreement has been in effect over a dozen significant quota actions have been taken (see Appendix G). The Coffee Council has also been active in other areas. The adoption of the automatic quota adjusting mechanism mentioned earlier is perhaps one of the most important actions under the Agreement. Also numerous studies concerning production control have been initiated by the Council. It would require excessive space to discuss the details of actions instituted under the Agreement. Thus in the interest of brevity the more important actions of the Board are listed chronologically in Appendix G for reference.

CHAPTER V

EVALUATION OF THE 1962 COFFEE AGREEMENT

Criticisms

Evaluation of the scope and operation of the Coffee Agreement in this chapter will use as a point of departure the following criticisms commonly applied to such commodity arrangements:⁴¹

(1) Agreements have a reputation for meeting eventual failure. Their effectiveness is riddled when enforcement is weakened by non-compliance, resignations, and by expansion of supplies in non-member areas. Their existence is further endangered because they are inevitably complicated and expensive to operate.

(2) Agreements are clothed in the language of stabilization, but political pressures originating from high cost producers and countries seeking funds for industrialization invariably push for higher prices.

(3) Subsequently, it becomes impossible to stabilize prices at moderate levels and consideration of consumer interests becomes neglected.

(4) A further result is that artificially high price levels lead to consumption being retarded and overproduction being encouraged.

⁴¹Irwin Shishko, p. 22. United Nations Conference on Trade and Development, "Stabilization of International Commodity Markets". Commodity Trade, pp. 81-112. V. D. Wickizer, pp. 164-165.

(5) Permanent controls of production accompanied by diversification programs are unlikely to forestall excessive production because of the failure to make adequate provision in the Agreement for regulation of additions to productive capacity.

(6) The resultant accumulation of stocks may prove to be excessive and enhance the dangers of the Agreement breaking down on the producer's side.

Let us see how these criticisms apply to the Coffee Agreement.

Problems of Compliance and Enforcement

Agreements have a reputation for meeting eventual failure.

Their effectiveness is riddled when supplies in non-member areas expand and when enforcement is weakened by non-compliance and resignations.

The review of the experience of control in the coffee industry in Chapter III well illustrates that earlier schemes have been wrecked by expansion of production and exports by non-members. This was true for the Brazilian price support schemes in the thirties in particular.

Moreover, the danger cannot be ignored that compliance with a pact, organized on an international basis, may be difficult to maintain. This possibility has been born out by similar agreements in other commodity areas. The International Wheat Agreement, for instance, became impotent when some of its members refused to meet their obligations to supply and purchase stipulated quantities of wheat regardless of the market price for wheat.

Similar dangers confront the 1962 International Coffee Agreement. The current Agreement, however, started with certain precautions. The fact that members represent over 95 percent of the world production of coffee

greatly reduces the danger that the Agreement will be wrecked by non-members expanding their production and trade.

What is even more significant is the fact that the Agreement, unlike its short term predecessors, includes the world's major consumers. This is important because they have agreed to prevent an expansion of exports from non-member producers.

The Certificates of Origin required by consumers and turned over to the coffee organization discourages non-compliance with quotas on the part of exporter members. This practice informs the Coffee Organization about compliance and thus enables it to threaten expulsion of violators from the Agreement. This would be undesirable from the standpoint of the producer concerned because its exports would then be subject to the same restrictions as the non-member exporters.

Thus the Agreement seems to contain strong provisions of enforcement as compared to its predecessors. However, its main guarantee against non-compliance depends upon the willingness of consumers to comply with their end of the Agreement. If prices rise too much, the importer members would no longer be willing to police their quota restrictions. Subsequently, the Agreement would be placed in mortal danger of disintegration. The Agreement may already have had some very pointed warning along these lines. Following the rapid and large increase of prices in 1963 and 1964 the weakening of prices experienced in 1965 and 1966 was partially explained as being brought about by the appearance of significant supplies of coffee from unknown or doubtful origins.⁴² According to

⁴²See Wall Street Journal, "A Sharp Rebound in World Coffee Output Threatens Producing Nations' Economies," April 18, 1966, p. 24.

the Wall Street Journal, one method of smuggling involved the movement of coffee from producer member countries through non-member countries to mysteriously lose its identity and later appear in sales to a consumer member country. Of course, the very fact that the merchandise was smuggled makes it impossible to give figures as to how much coffee has been illegally traded. The New York Coffee Roasters Association estimated that in 1966 smuggled coffee shipped to the United States valued "well in excess of \$50 million."⁴³ Limited supplies coupled with high prices would predictably encourage import traders to seek ways to circumvent the quota restrictions on coffee. Under such conditions their governments may be hesitant or lax in enforcing the Agreement, especially if the level of prices is considered excessive.

It is often observed that commodity agreement failures can frequently be attributed to their inability to meet inordinately large expense requirements. Of course, it is a difficult task for an international body to find ways to meet expenses.

The drafters of the Agreement apparently recognized the need to minimize the expenses required by the Agreement in view of the difficulties involved in financing them. Thus the obligation to meet expenses incurred from production controls and the storage and disposal of stocks has been left with the producers. The absence of any buffer stock arrangement is further attributed to a desire to minimize the need for funds. It might prove to be shortsighted, however, to argue that the Agreement is thus not endangered by the expenses of these activities.

⁴³Ibid., "Smugglers Find Profit in the Coffee Business," Vol. XLVI, No. 93, February 23, 1966, p. 1.

The costs must still be shouldered, and they may prove more than the producer countries themselves can meet. Thus it is yet to be seen whether or not prohibitive expenses will prove inimical to the continued existence of the Coffee Agreement.

Operational Difficulties

Commodity Agreements are frequently declared to be doomed to failure because they are overwhelmingly complicated to operate.

Whether or not the Coffee Agreement will prove to be too complicated to operate effectively cannot yet be seen. To date the Agreement continues to operate, not because it has not been beset by difficulties, but in spite of them. Only time will tell if this will continue to be the case. However, it may be instructive to point to the nature of some of the complicating factors inherently built into the Agreement.

Most of the complications that test the sinews of the Agreement derive directly or indirectly from establishing price levels and quota assignments. These two issues will be discussed together as they are irrevocably linked. Manipulation of quotas automatically manipulates prices.

The job of agreeing upon total export quotas and then distributing the quotas is an arduous task in itself. Since quota setting influences prices, impersonal market forces are no longer directing and reconciling production and consumption decisions. The welfare objectives of fair and equitable prices become imperfect; they do not lend themselves to permanent settlement. The Coffee Agreement requires that a compromise be reached on a fair price range that will at the same time be consistent with economic facts. At the same time it is questionable that a consensus

could ever be found to identify such a range.⁴⁴ Therefore, some sort of historical basis will probably be the basis for price settlements. Since the Agreement deals with a commodity traded internationally, it is probably safe to say (current discussion verifies this statement) that prices will be influenced according to some definition of a terms of trade relationship between coffee exporters and importers. Whether agreement can be reached on a proper ratio is questionable. It may even be more uncertain whether or not this manner of setting price ranges can at the same time prevent chaos from ultimately developing in the coffee industry and trade.

Thus far the problem of reaching agreement on settling quotas and prices has proved to be manageable. The most notable evidence of this is the semi-automatic price-quota formula enacted in 1965. Of course, this scheme does not in itself present a complete solution. It is yet to be seen whether the established prices will live up to future production needs. If production surpluses continue or shortages should develop, the task of setting a new range will become necessary. Moreover, it was noted earlier that quota adjustments triggered by the price mechanism occur on a pro rata basis. Thus the dynamics of the trade which calls for shifting patterns of production from time to time still presents complications because friction is bound to develop over who gets what share of quota allotments.

It must also be noted that, in fact, the concept of "a coffee price" is deceiving for there are many prices reflecting the variety of types

⁴⁴See the Brookings Institution, International Control of Raw Materials (Washington D.C., 1930), p. 284.

and grades of coffee used in the world trade. These price differentials and variations serve to bring adequate supplies of desired grades and types of coffee to the coffee roasters. Under the present arrangement, however, if a shortage of say Brazils occurs their increase in price must be sufficient to raise the overall price average of all varieties of coffee to a level above the ceiling before the quota of Brazils can be revised upwards. The relative movement of prices might thus be expected to be quite large. Moreover, the change in the availability of all coffees could plausibly cause considerable disruption to world trade in certain instances. To illustrate the point it will further be supposed that the available amounts of Robustas as determined by the market are excessive. This being the case, Brazils' prices would have to rise even more in order to exert enough pressure on the average price indicator to increase quotas and release larger supplies of Brazils. But a pro rata increase in quotas would cause the excess of Robustas to become even greater and drive their prices down further. However, it should not be forgotten that a limit exists as to how much relative prices can fluctuate. In this case it would be expected that the downward direction pursued by Brazils would eventually lead to their being substituted in place of Robustas. It follows then that the pressure on Robustas could eventually be relieved. However, Robusta is apparently not very suitable, because of its distinct flavor, for use in regular coffee which absorbs over 80 percent of the total green coffee roasted.⁴⁵ Therefore, the possibility of substituting Robusta for Brazilian coffee

⁴⁵Gertrud Lovasy and Loutle Boissoneault, "The International Coffee Market," International Monetary Fund Staff Papers, XI (Nov., 1964), pp. 378-384.

to offset deficiencies in the latter is limited.⁴⁶

Cooperation can only be realized if the desirability of stabilized coffee prices is recognized and pursued. Otherwise it would be too much to expect consumer members to continue meeting their end of the Agreement. This leads to the next issue. Will prices be stabilized under the Coffee Agreement?

Stabilization or Price Hiking

A major criticism listed against commodity agreements contends that higher prices rather than stabilized prices are the true motives of such schemes. Statements made by spokesmen of the producer countries leave considerable room for suspecting that indeed this feature applies to the International Coffee Agreement. Moreover, these producer elements have substantial implicit support, apparently, from the representatives of certain of the importing members, though it is questionable that the consumers represented would knowingly concur with such designs. Admittedly, in view of the low trough met by prices at the time the Agreement came into effect, it was probably reasonable to expect prices to rise somewhat. However, the average increase in prices occurred rapidly and ended substantially above the 1962 levels. For instance, from 1963 to 1964 the annual average of Brazils increased nearly 39 percent from 34.5 cents to 47.9 cents a pound. (see Appendix C)

In the face of producer efforts to increase prices, the question

⁴⁶On the other hand Mild coffees and Brazils are widely interchangeable and thus their elasticity of substitution is much greater; subsequently, a smaller relative movement of prices would be expected if these two were used in the illustration above.

arises--do consumer members of the Agreement possess adequate safeguards to protect them from excessive price hikes? If not, the Agreement would properly be labeled a producers' cartel.

Proponents of the 1962 Coffee Agreement proudly call attention to the fact that the Agreement represents importing as well as exporting countries and that all interests are protected by the Agreement's provisions. Inclusion of importers in the Agreement is obviously a necessary condition if consumers are to have a voice. The nature of their role in the Agreement provisions must be considered more fully.

It will be recalled that before annual or quarterly quotas can be established or adjusted by the Council a two-thirds majority of producer and consumer members alike is required. From a superficial glance one would be tempted to assume that the consumer's interest could not be endangered by restrictive quotas that would result in excessive prices.

However, the matter is more complex as it soon became apparent following Brazil's unexpected reduction in production in 1963. Ironically, the two-thirds distributed majority became the instrument that blocked consumer demands for increased quotas in the face of sharply rising prices. Since the annual quotas had already been established for a period, a two-thirds distributed majority was required before the quotas could be adjusted upwards. But the increase in quotas was opposed by a group of producers who had been unable to export their assigned quotas. By resisting the effort to free supplies elsewhere they became the benefactors of increasing prices. Consequently, even though the consumer members voted unanimously for the increase to halt the price hike, their effort was blocked. However, the problem of adjusting quotas to meet unexpected price movements has since become an automatic process

under the quota-price adjusting formula.

Nevertheless, another potential danger still exists. This lies in the possibility of individual exporting countries implementing independent price supports by refusing to release supplies to meet their quotas. This sort of action has been taken by the Brazilian Coffee Institute⁴⁷ and Uganda. In addition, the Inter-African Coffee Agreement has operated towards the same ends. The existence of the International Coffee Agreement enhances the chances for success for these schemes. The quota restrictions limit the possibility of consumers circumventing such independent action because they can no longer shift to other sources of supply. If such action is pursued without moderation and results in substantially higher prices, resistance on the part of consumers might develop until they are no longer willing to participate in the Agreement.

If prices are pushed to artificial and excessive heights by a commodity agreement, consumption will be retarded and overproduction encouraged. Thus it is essential to look at the behavior of production and consumption under the Agreement.

Since 1963 the annual world trade in coffee has been declining (see Chart I). In 1963 total world exports amounted to 2,938 thousand tons. By 1965 exports had fallen 300 thousand tons to 2,640 thousand tons. Roastings in importing countries also declined. In the United States total roastings fell in 1965 to 1.30 million tons as against 1.34 million tons in 1965 and 1.37 in 1963.⁴⁸

These declines in trade were partially explained by the restrictive

⁴⁷Conjuntura Economica, Jan., 1964 XI (1) p. 4.

⁴⁸F.A.O., Commodity Review 1966, pp. 112-113.

quota policies of the Agreement (see Appendix G). Nevertheless, there is increasing evidence that the 1963-64 increase in prices has also begun to affect consumption. While in previous years reduced exports had meant higher export earnings, this ceased to be the case in 1965. Export earnings in that year were 2120 million dollars as compared to 2312 million a year earlier. Thus reducing exports in 1965 did not bring sufficient force on the market to halt a decline in the price of coffee which apparently was caused by reduced demand. It seems very plausible that the increase in prices in 1963-64 may have been instrumental in setting off this reduction.

It is more difficult to discern the effect of world market prices on coffee production than consumption. There is not a direct and unbroken chain in the world market price of coffee and the price received by coffee growers. Rather each producer government has the power to change prices received by growers with some independence from the world market price.⁴⁹ For example, Brazil has in effect been confiscating a part of the foreign exchange earned from coffee for many years. Nearly all producer governments follow a similar path of setting the price received by their growers. Notwithstanding this fact it has been suggested that probably the producer governments would be prone to allow their growers a larger return in the face of relatively strong prices than if world market prices were weak. Unfortunately, this is a conjectural statement as the prices paid to growers by their respective governments are not available here to be compared to the world's market prices. In any case the trend of excessive production has been unabated since the agreement has been brought into force. The near world record

⁴⁹Shishko, p. 23.

level of production in 1964-1966 illustrates that production has not successfully been reduced to date.

Control of Production

The International Coffee Agreement is a scheme designed to maintain coffee prices in the face of excess production by manipulating or supplanting the regular operation of market forces. This necessitates the use of artificial production controls to stem surpluses. We shall now try to determine if the Agreement has made adequate provision to regulate additions to productive capacity.

The wording of the Agreement repeatedly refers to the necessity of bringing production into a more reasonable balance with consumption. Moreover, diversification programs are strongly espoused in the draft. However, at present its own active role in this matter is restricted to recommendations on proper techniques and goals for production control and diversification programs. The actual job of setting up and implementing such programs is left to the governments of the producing countries.

To date these schemes have failed to prove to be effective in reducing total production. Brazil did succeed in reducing her number of new plantings. However, the adoption of higher yielding varieties of trees has pretty well offset the effect of smaller plantings to date. It remains to be seen if Brazil's action to reorientate her program on the basis of actual production will reduce output.

While most of the producer members are initiating permanent controls of one kind or another, it is difficult to be overly optimistic about their chances for success. For one thing it is questionable that these countries have the available resources to support such schemes. Moreover,

small countries may not recognize the need to restrict production to the degree that a producer the size of Brazil does. Individually they will not notice directly the influence of their production on prices and will thus be less urgent in their efforts to cut back production. These and many other considerations serve notice that many complications may beset efforts to control production. However, the higher world prices are, the greater is the likelihood that the difficulties of control will be increased. It was suggested earlier that high prices may compound political pressures internally in the countries to allow production to expand.

The Agreement probably makes it somewhat easier for individual producer governments to institute production and diversification programs because they do not have to worry so much about other producers benefiting at their expense. However, if prices are going to be maintained at relatively high levels, it would seem that more definite measures may be needed to be applied by the Agreement before excessive production will be eliminated. It is particularly notable that to date the Agreement has no specific sanctions for countries that fail to take adequate action to reduce their excessive production. The problem of over-production is under study by the Council and, hopefully, some fruitful decision will be made in the near future.

The Role of the United States

One of the strongest elements acting in favor of the Coffee Agreement is the determination of the United States to make the Agreement a success. The United States is actively concerned with promoting measures that will

facilitate economic development in the coffee growing countries of Latin America and Africa.

The Kennedy Administration was concerned that declining foreign exchange earnings of the Latin American countries would block the United States' designs to aid these countries in developing their economies. The drop in export prices from 1957 through 1962 cost the fifteen Latin American coffee producing countries an average of nearly \$600,000,000 a year over the five year period.⁵⁰ During the first year of the Alliance for Progress Program, aggregate United States economic assistance to the Latin American coffee countries amounted to \$707,500,000. Thus coffee losses nearly matched United States aid. The Johnson Administration has continued to show an attitude that the Coffee Agreement is a necessary supplementary instrument to our aid program.

Since the United States consumes approximately 50 percent of the world's coffee, her support has been invaluable at times when the Agreement has been in jeopardy. This support will quite likely continue to be one of the (if not the) most important factors contributing to the future success of the 1962 Coffee Agreement.

⁵⁰Pan American Coffee Bureau, Impact of Coffee on the U.S. Economy (New York, 1964), p. 13.

CHAPTER VI

SUMMARY AND CONCLUSIONS

With respect to the question of whether market conditions in the coffee trade necessitate or warrant an attempt to correct the situation by managing the market the following observations were made. The trade has been confronted with violent price fluctuations through most of this century. At the time that the International Coffee Agreement of 1962 was being proposed the main stress was on the low level reached by prices. However, since the proposal called for a long term solution to the problem, it seems more apt in the author's opinion to refer to price gyrations both in the "bust" and "boom" stages. These extremely volatile price movements have been in a sense both a result of and cause of imbalance occurring between the world's available coffee supplies and needs. At any rate coffee prices have proved to be undesirably unstable from both the consumer and producer countries' standpoint, particularly the latter.

It was concluded in Chapter II that, due to the inherent nature of supply and demand characteristics of coffee, prices will irrevocably continue to be unstable if left solely to the forces of an unregulated market. Thus at least a preliminary case seems to exist for managing the price of coffee by some scheme other than the unregulated forces of supply and demand.

In view of the fact that past unilateral control efforts have consistently been rendered ineffective by expansion of supplies from outside, it seems that an international approach would be more sensible and likely to achieve its objectives. In addition, consumer inclusion in the Agreement is praised on the basis that this is a pre-condition if the scheme is to be more than an international producers' cartel. It was also argued in Chapters IV and V that consumer membership fortifies the stamina of control schemes greatly when their agreement to help police its enforcement is obtained. On each of these counts the International Coffee Agreement ranks favorably because they are included in its scope.

However, it is recognized and stressed that the future success of the Agreement is by no means guaranteed simply because it has broad support and is in many respects equipped with recommended provisions. The nature of the task which the Agreement undertakes is very complex as is always the case when an effort is made to supplant the regular operation of the market. It is by no means settled that the Agreement will be able to solve the problems inherent to the coffee trade. For the time being, admittedly, prices have been relatively stabilized, apparently as a result of the operation of the Coffee Agreement. However, the long standing problem of over-production and excess supplies remains as acute now as ever.

To date no totally acceptable means has been found for managing price levels and quotas so that they will be considered fair by all parties. At the same time no method has been adopted that satisfactorily eliminates the necessity of prices playing an active part in organizing production and consumption decisions and promoting economic efficiency in the world coffee industry. Subsequently, the problem remains that the nature of the

Agreement may lead to a situation where prices must be managed to meet two ends that may not always be compatible.

While the Agreement has been able to secure agreement and compliance on quota and price decisions so far with some success, this has been achieved mainly because of a willingness by both exporter and importer members to co-operate. Continued surpluses could undermine this willingness on the part of producers. Failure to bring production in line with consumption at current prices gives ammunition to dissident importer countries to insist on lower prices.

When stabilized prices become high prices, the probable reaction of importer members will be a reduced willingness to comply with the Agreement. Enforcement of the quota system of the Agreement leans heavily on the support of the importer countries. For this reason a healthy environment for the operation of this Agreement recognizes that consumer and producer members have a mutual interest in stable prices--prices that do not fluctuate in excess either upwards or downwards. Unfortunately, producer members of the Agreement have evinced little evidence of authentically trying to recognize that prices may also be excessively high.

So, while the immediate collapse of the Agreement doesn't seem to be in the offing, it must also be recognized that its continued long term success will depend on its ability to overcome a number of difficulties that haven't been overcome to date.

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APPENDIX A-I

WORLD PRODUCTION OF COFFEE,
ANNUALLY, 1900-1966

(Thousand Metric Tons)

Marketing Year	Brazil	Other Countries	World Total
1899-1900 ¹	564	264	828
1900-1901	678	228	906
1901-1902	966	216	1188
1902-1903	774	222	1002
1903-1904	666	294	960
1904-1905	630	234	864
1905-1906	648	234	888
1906-1907	1212	216	1428
1907-1908	660	234	894
1908-1909	774	240	1014
1909-1910	918	228	1146
1910-1911	648	222	870
1911-1912	780	258	1044
1912-1913	726	258	984
1913-1914	870	306	1176
1914-1915	810	264	1074
1915-1916	960	288	1248
1916-1917	762	240	1002
1917-1918	948	180	1128
1918-1919	582	270	852
1919-1920	450	462	912
1920-1921	870	348	1218
1921-1922	774	414	1188
1922-1923	612	342	954
1923-1924	894	414	1302
1924-1925	NA	NA	NA
1925-1926	928	513	1441
1926-1927	951	499	1450
1927-1928	1627	545	2172
1928-1929	1418	399	1817

APPENDIX A-I (Continued)

Marketing Year	Brazil	Other Countries	World Total
1929-1930 ²	1736	736	2472
1930-1931	994	739	1733
1931-1932	1712	723	2435
1932-1933	993	801	1795
1933-1934	1778	806	2584
1934-1935	1089	793	1882
1935-1936	1225	939	2165
1936-1937	1736	825	2561
1937-1938	1414	972	2386
1938-1939	1398	945	2343
1939-1940	1157	969	2126
1940-1941	1002	879	1881
1941-1942	961	895	1856
1942-1943	839	886	1745
1943-1944	921	914	1835
1944-1945	686	938	1614
1945-1946	834	967	1801
1946-1947	917	1001	1918
1947-1948	947	978	1925
1948-1949	1037	1115	2152
1949-1950	1068	1070	2138
1950-1951	1071	1075	2146
1951-1952	1080	1226	2306
1952-1953	1125	1288	2413
1953-1954	1110	1356	2466
1954-1955	1037	1426	2463
1955-1956	1370	1471	2841
1956-1957	979	1534	2513
1957-1958	1407	1746	3153
1958-1959	1695	1804	3499
1959-1960	2646	1932	4578
1960-1961	1800	2056	3856
1961-1962	2152	2262	4414
1962-1963	1620	2380	4000
1963-1964	1692	2530	4220
1964-1965	600	2540	3140
1965-1966	2100	2638	4728

Source:

¹V. D. Wickizer, The World Coffee Economy With Special Reference to Control Schemes (Stanford, 1953), pp. 240-241.

²F.A.O., The World Coffee Economy: Commodity Bulletin No. 33 (Rome, 1961), pp. 53-55.

APPENDIX B-I

ANNUAL WORLD EXPORTS AND
EXPORTABLE PRODUCTION¹

1913-1965

(Thousand Metric Tons)

Calendar Year	Brazilian Exports	World Exports	Marketing Year	World Exportable Production
1913 ²	796.08	1159.98		
1914	676.20	1060.08		
1915	1023.66	1389.12		
1916	782.34	1145.70		
1917	636.36	965.74		
1918	445.98	747.90		
1919	777.78	1339.32		
1920	691.50	1085.22		
1921	742.14	1195.86		
1922	760.38	1225.14		
1923	867.96	1322.28		
1924	853.56	1361.10		
1925	808.92	1281.66		
1926	825.06	1358.82		
1927	906.90	1443.60		
1928	832.96	1449.40		
1929	856.9	1435.3		
1930	917.3	1545.3		
1931	1071.1	1674.6		
1932	716.1	1357.4		
1933	927.6	1584.8		
1934	843.8	1517.8		
1935	919.7	1629.9		
1936	851.2	1661.1		
1937	727.4	1521.4		
1938	1026.8	1805.3		

APPENDIX B-I (Continued)

Calendar Year	Brazilian Exports	World Exports	Marketing Year	World Exportable Production
1939 ³	989.9	1742.4		
1940 ³	722.7	1403.4		
1941	663.1	1268.1	1940-1944 av.	1502
1942	436.8	1093.2		
1943	606.7	1365.9		
1944	813.3	1566.2		
1945	850.3	1657.7		
1946	830.3	1748.2	1945-1946	1494
1947	889.9	1715.5	1946-1947	1624
1948	1049.5	1936.8	1947-1948	1646
1949	1162.1	2049.8	1948-1949	1838
1950	890.1	1750.2	1949-1950	1759
1951	981.5	1911.2	1950-1951	1817
1952	949.3	1937.0	1951-1952	1789
1953	933.5	2069.5	1952-1953	1958
1954 ⁴	657.0	1739.1	1953-1954	2028
1955 ⁴	821.7	2030.7	1954-1955	2024
1956	1008.3	2282.5	1955-1956	2616
1957	859.2	2159.8	1956-1957	2076
1958	772.9	2146.2	1957-1958	2772
1959	1046.2	2516.3	1958-1959	3120
1960	1009.1	2593.0	1959-1960	3984
1961	1018	2626	1960-1961	3174
1962	982	2757	1961-1962	3498
1963	1171	2938	1962-1963	3204
1964	897	2789	1963-1964	3414
1965	839	2640	1964-1965	2226
1966			1965-1966	3884

¹Exportable Production represents total production minus domestic consumption.

²V. D. Wickizer, The World Coffee Economy With Special Reference to Control Schemes. (Stanford, 1943), pp. 247.

³1940-54 Commodity Year Book, 1955, p. 109.

⁴1955-66 Commodity Year Book, 1966, p. 104.

APPENDIX B-II

EXPORTS OF COFFEE BY SELECTED COUNTRIES OR
CONTINENTS, ANNUALLY, 1929-30 to 1965-66

Continent or Country	1929 ¹	1930	1931	1932	1933	1934	1935	1936	1937	1938	1939
North and Central America											
TOTAL	192.7	229.2	194.4	170.9	237.8	220.4	200.0	237.3	241.7	223.7	234.6
South America											
Brazil	856.9	917.3	1071.1	716.1	927.6	843.8	919.7	851.2	727.4	1026.8	989.9
Columbia	170.2	190.4	182.0	191.1	199.6	185.1	226.1	236.5	250.7	256.4	226.4
TOTAL	1102.0	1167.9	1322.4	970.5	1173.0	1101.3	1218.7	1170.2	1039.3	1338.1	1262.5
Africa											
TOTAL	45.6	65.1	71.1	86.1	86.8	98.9	112.6	137.2	128.1	158.4	161.6
Asia and Ocenia											
TOTAL	95.0	83.1	86.7	129.9	87.0	97.2	97.6	116.4	112.3	85.1	83.7
WORLD TOTAL	1435.3	1545.3	1674.6	1357.4	1584.8	1517.8	1629.9	1661.1	1521.4	1805.3	1742.4

Source: ¹F.A.O., The World Coffee Economy, Commodity Bulletin Series No. 33 (Rome, 1961), pp. 56-57.

APPENDIX B-II (Continued)

Continent or Country	1940	1941	1942	1943	1944	1945	1946	1947	1948	1949	1950
North and Central America											
TOTAL	194.3	190.2	200.4	223.2	224.8	235.2	199.4	217.4	217.2	258.6	253.0
South America											
Brazil	722.7	663.1	436.8	606.7	813.3	850.3	830.3	889.8	1049.5	1162.1	890.1
Columbia	266.4	174.1	258.6	315.1	295.4	309.0	339.7	320.3	335.3	324.6	268.3
TOTAL	1034.8	898.4	739.1	964.2	1145.4	1201.3	1320.0	1252.5	1441.4	1520.4	1198.3
Africa											
TOTAL	126.7	146.1	137.4	160.9	185.1	209.3	214.1	234.2	259.8	251.7	270.5
Asia and Oceania											
TOTAL	47.6	33.4	16.3	17.6	10.9	11.9	14.7	11.4	18.4	19.1	28.4
WORLD TOTAL	1403.4	1268.1	1093.2	1365.9	1566.2	1657.7	1748.2	1715.5	1936.8	2049.8	1750.2

APPENDIX B-II (Continued)

Continent or Country	1951	1952	1953	1954	1955	1956	1957	1958	1959	1960	1961 ²
North and Central America											
TOTAL	252.1	289.1	299.7	285.9	326.1	334.7	351.4	380.7	367.5	415.0	
South America											
Brazil	981.5	949.3	933.5	657.0	821.7	1008.3	859.2	772.9	1046.2	1009.1	1018
Columbia	287.6	301.9	397.9	345.2	352.0	304.2	289.4	326.4	384.8	356.3	339
TOTAL	1307.2	1304.4	1398.8	1054.1	1234.9	1368.2	1218.1	1183.8	1505.4	1450.0	1357
Africa											
TOTAL	316.3	310.7	324.8	339.4	431.4	503.8	514.0	532.7	581.1	665.0	683
Asia and Oceania											
TOTAL	35.6	32.8	45.2	59.7	38.3	75.8	76.3	49.0	62.3	62.0	109
WORLD TOTAL	1911.2	1937.0	2069.5	1739.1	2030.7	2282.5	2159.8	2146.2	2516.3	2592.0	2626

² FAO Commodity Review, 1966, Food and Agriculture Organization of the United Nations, p. 111.

APPENDIX B-II (Continued)

Continent or Country	1962	1963	1964	1965
North and Central America				
TOTAL				
South America				
Brazil	982	1171	897	839
Columbia	394	368	385	350
TOTAL	1736	1539	1282	1189
Africa				
TOTAL	749	760	857	830
Asia and Ocenia				
TOTAL	90	116	109	100
WORLD TOTAL	2757	2938	2789	2640

APPENDIX C-I

PRICES (Cents Per Pound)

Calendar Year	SPOT PRICES (N.Y.) Average Annual		
	Brazils ²	Milds ³	Robustas ⁴
1890	17.9		
1891	16.7		
1892	14.3		
1893	17.2		
1894	16.5		
1895	15.9		
1896	12.3		
1897	7.9		
1898	6.3		
1899	6.0		
1900	8.2		
1901	6.5		
1902	5.9		
1903	5.6		
1904	7.8		
1905	8.3		
1906	8.1		
1907	6.6		
1908	6.3		
1909	7.8		
1910	9.5		
1911	13.4		
1912	14.6		
1913	11.1		
1914	8.2		
1915	7.5		
1916	9.2		
1917	9.3		
1918	9.4		
1919	17.9		
1920	12.0 ^a	21.5	
1921	10.1	15.6	
1922	14.1	17.4	
1923	14.5	18.8	
1924	20.9	25.5	
1925	24.2	27.9	
1926	22.1	28.5	
1927	18.5	25.1	
1928	23.2	27.3	
1929	22.1	22.8	

APPENDIX C-I (Continued)

Calendar Year	SPOT PRICES (N.Y.) Average Annual		
	Brazils	Milds	Robustas
1930	13.2	18.0	
1931	8.8	16.3	
1932	10.7	11.9	
1933	9.2	10.8	
1934	11.2	14.3	
1935	8.9	10.7	
1936	9.3	11.0	
1937	11.1	12.0	
1938	7.8	11.0	
1939	7.5	11.6	
1940	7.2	8.3	
1941	11.4	15.0	
1942	13.4	15.9	
1943	13.4	15.9	
1944	13.4	15.9	
1945	13.6	15.9	
1946	18.7	21.0	
1947	26.4	30.1	
1948	27.1	32.5	17.8
1949	32.8	37.4	18.9
1950	50.5	53.2	40.1
1951	54.2	58.7	46.8
1952	54.0	57.0	44.0
1953	57.9	60.2	47.6
1954	78.7	80.0	57.9
1955	57.1	64.6	38.4
1956	58.1	74.0	33.6
1957	56.9	63.9	34.6
1958	48.4	52.3	37.6
1959	37.0	45.2	28.7
1960	36.6 ^b	44.9 ^a	20.2
1961	36.3	43.6	18.5
1962	34.4	40.9	20.6
1963	34.5	39.6	27.9
1964	47.9	48.8 ^b	35.6 ^b
1965	42.0		
1966	38.0		

¹ Spot quotations are the cash prices offered per pound of coffee in the New York market for green coffee.

APPENDIX C-I (Continued)

^{2a}B10 No. 7 (1890-1920); from Wickizer, p. 240; ^bSantos No. 4 (1920-1966); from F.A.O. #33, p. 73 (1921-1960); from Commodity Year Book 1965: (1961-64).

^{3a}Columbian Manizales (1921-1960 from F.A.O. #33, p. 73; ^b(1961-64); from Commodity Year Book, 1965, p. 107.

^{4a}Native Uganda No. 10 (1948-1960); from F.A.O. #33, p. 73; ^b(1961-64); from Commodity Year Book, 1965, p. 106.

^{5a}Retail washed (1920-41); from Wickizer, p. 249.

⁶From Annual Coffee Statistics, 1964, p. 104.

COFFEE PRICES UNDER THE 62 AGREEMENT

Year and Month	Santos No. 4 Spot Price New York (cents/lb.)	Columbian Manizales Spot Price New York (cents/lb.)	Ivory Coast Robusta Le Havre (F. francs/kg.)
1962	34.0	40.8	3.37
1963	34.1	39.6	3.08
1963 VII	33.6	39.6	3.04
VIII	32.7	39.5	3.02
IX	33.0	39.4	3.08
X	35.0	39.5	3.09
XI	36.6	39.6	3.12
XII	37.4	39.3	3.22
1964 I	44.8	45.0	3.46
II	46.3	45.7	3.56
III	49.8	50.0	3.85
IV	48.6	48.6	4.03
V	47.4	49.3	4.09
VI	46.9	48.6	4.18
VII	46.6	49.3	4.04
VIII	45.8	50.6	4.04
IX	45.0	50.0	3.90
X	46.6	50.1	3.82
XI	46.9	49.9	3.89
XII	45.2	48.6	3.77
1965 I	45.2	48.9	3.54
II			3.38
III			3.29

Source: F.A.O. Monthly Bulletin of Agricultural Economics and Statistics, Vols. 13 (12), 14 (5).
p. 51 and 42.

APPENDIX D

AGREEMENT OBJECTIVES

- (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 cooperation in connection with world coffee problems.

APPENDIX E

INTERNATIONAL COFFEE AGREEMENT: MEMBERSHIP AND DISTRIBUTION OF VOTES¹

<u>34 Exporting Members</u>	<u>Votes</u>	<u>21 Importing Members</u>	<u>Votes</u>
Brazil	356	Argentina	--
Burundi	8	Australia	11
Colombia	122	Austria	12
Congo (Leopoldville)	19	Belgium	33
Costa Rica	24	Canada	42
Cuba	9	Denmark	29
Dominican Republic	13	Federal Republic of Germany	120
Ecuador	16	Finland	25
El Salvador	33	France	118
Ethiopia	28	Japan	13
Ghana	6	Luxembourg	6
Guatemala	31	Netherlands	40
India	12	New Zealand	7
Indonesia	38	Norway	20
Mexico	34	Spain	20
Nicaragua	13	Sweden	47
Nigeria ²	--	Switzerland ⁴	--
OAMCAF ³	89	Tunisia	--
Panama	6	United Kingdom	39
Peru	16	United States	400
Portugal	48	U.S.S.R.	18
Rwanda	8		
Sierra Leona	6		
Tanzania	13		
Trinidad & Tobago	6		
Uganda	42		
Venezuela	14		
TOTAL	1,000	TOTAL	1,000

¹Senate Committee on Finance, Coffee (Senate Report No. 53. Washington D.C.: 89th Congress 1st Session), p. 11.

²Nigeria, an exporting member, and Argentina and Tunisia, as importing members, have lost their votes for nonpayment of dues.

³OAMCAF members are Cameron; Central African Republic; Congo (Brazzaville); Dahomey; Gabon; Ivory Coast; Madagascar, and Togo.

⁴Switzerland has just joined the Agreement.

APPENDIX F

BASIC EXPORT QUOTAS
(60-Kilogramme Bags)

Brazil	18,000,000
Colombia	6,011,280
Costa Rica	950,000
Cuba	200,000
Dominican Republic	425,000
Ecuador	552,000
El Salvador	1,429,500
Guatemala	1,344,500
Haiti	420,000
Honduras	285,000
Mexico	1,509,000
Nicaragua	419,000
Panama	26,000
Peru	580,000
Venzuela	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	2,188,737
Congo (Leopoldville)	700,000
Ethiopia	850,000
India	360,000
Indonesia	1,176,000
Nigeria	18,000
Rwanda and Burundi	340,000
Sierra Leone	65,000
Trinidad	44,000
Yemen	77,000
GRAND TOTAL	45,587,183

APPENDIX G

QUOTA ACTIONS OF THE INTERNATIONAL COFFEE COUNCIL

1962-63 Coffee Year¹

1. October, 1962: Annual quotas set at 99 percent of the basic quotas for the first two quarters of the coffee year as stipulated in the terms of the Agreement draft.
2. March, 1963: Quotas for the remaining two quarters of the coffee year set according to each member's residual for the year as determined by the 99 percent formula.

1963-64 Coffee Year²

3. August, 1963: Annual quota for 1963-64 set at 45.7 million bags which continued to represent 99 percent of the basic quotas set forth in Annex A of the Agreement.
4. November, 1963: Proposal to increase annual quota by 2.25 percent (101.25 percent of the basic quotas) defeated.³ No waivers were granted.
5. February, 1964: Annual quota increased pro rata by 5% to 47.2 million bags or 102.15 percent of the basic quotas. The total of exports was further increased when waivers to seven countries⁴ were granted adding 942,000 bags total to their quota allotments. The combined increases raised the new global total to 48.1 million bags from the previous 45.7 million bags allotted.
6. May, 1964: Adjustments in Ethiopia's and El Salvador's quotas raised quotas by 0.355 million bags.⁵ Thus the final total for quotas in 1963-64 was 48.4 million bags.
7. June, 1964: Shortfalls totaling 725,000 bags redistributed.⁶

1964-65 Coffee Year

8. August, 1964: Annual export quotas set at 47.5 million bags

APPENDIX G (Continued)

(102.67 percent of basic quotas) with provisions for two supplemental increases of 0.5 million bags each on January 8, 1965, and again before April 30, 1965, depending on the condition of the market. Quarterly quotas were distributed as 24.7, 27.3, 24.0 and 24 percent.

9. December, 1964: Provision to increase quotas in January cancelled.
10. January, 1965: Producing members call for a 5 percent reduction in quota.
11. February, 1965: Council approved a 4 percent reduction in the annual quota bringing it down by 1.9 million bags to 45.6 million bags.
12. March, 1965: Council granted waivers totaling 307,000 bags (offset by a pro rata reduction of all quotas). Also a semi-automatic device tying quotas to a specified price range was adopted.
13. May, 1965: Quotas further reduced 4.5 percent of the yearly total for the remaining period of the 1964-65 crop year by the Executive Board. This action reduced the yearly total of quotas to 43.7 million bags.

1965-66 Coffee Year

14. August, 1965: Annual quota for 1965-66 set at 43.7 million bags. It was also decided to effect no change in the indicator price range adopted in March, 1965, to set prices by.

¹Quotas for the first coffee year were specified in the draft of the Agreement to be fixed at 99 percent of the basic export quotas assigned to exporting members. The International Coffee Council had not yet set up so it was left to the Board of the precursor short term International Coffee Agreement to carry out the above quota actions as established in paragraph 2 of Article 30 of the Agreement.

²The first Session of the Council was held in London from July 29 through August 24, 1963. Fifty-five countries, of which 36 were exporters, were represented.

³Because of increases in coffee prices that had occurred (see Appendix C), importing members and some accommodating exporting members, notably

APPENDIX G (Continued)

Brazil, wanted an increase in quotas. A resolution was submitted to the Council calling for a pro rata increase in quotas from 99 percent of the basic quotas to 101.25 percent. This increase would have raised the global total from 45,732,622 to 46,771,663 bags. The resolution failed to gain the two-thirds distributed majority vote required to adjust quotas.

⁴Guatemala, Honduras, African and Malagasy Coffee Organization (OAMCAF), Peru, Portugal, Trinidad and Tobago, and Uganda.

⁵The Council increased Ethiopia's basic quota by 155,000 bags on condition that it ratify the Agreement by June 30, 1964 and granted a waiver to El Salvador raising that country's quota for 1963-64 by 200,000 bags.

⁶"Shortfalls" are the amounts of quotas that members lack available supplies to fill. The countries are required by Article 33 to report these shortfalls to the Council by the end of May. The Council then redistributes pro rata these amounts among the other members.

VITA

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