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REPORT TO THE
COMMITTEE ON FINANCE 73-0434
UNITED STATES SENATE

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The International Coffee Agreement
And The Price Of Coffee B-175530

BY THE COMPTROLLER GENERAL
OF THE UNITED STATES

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APRIL 30, 1973



COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

B-175530

C/ The Honorable Russell B. Long
Chairman, Committee on Finance
R United States Senate

Dear Mr. Chairman:

In response to your request dated March 14, 1972, that we participate in a comprehensive study of the International Coffee Agreement, we have completed two of the four assignments which we agreed to undertake.

Our reports on those segments are attached, as appendixes to this letter:

Appendix I - The International Coffee Agreement and Its Impact on Coffee Prices

Appendix II - The Ability of the International Coffee Agreement to Deal With Unforeseen Supply and Demand Conditions.

Our main conclusions are that the International Coffee Agreement raised coffee prices during the 1963 to 1972 period, and that the Agreement enhanced the price rises following the 1963 and 1969 Brazilian frosts and the so-called Geneva Agreement in 1972.

1 On December 11, 1972, the International Coffee Council ²⁰¹⁵⁹⁵ ended its special session without agreement on quotas for coffee exports from member coffee-producing countries for the remainder of the 1972-73 coffee year. The coffee year ends on September 30, 1973, which is the expiration date of the present International Coffee Agreement.

However, the controls system for insuring compliance with quotas on exports from member coffee-producing countries will continue in force, although there are no

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longer any Agreement-sanctioned quotas on exports from member coffee-producing countries, and quotas for imports from nonmember countries will also continue in force.

We briefed your staff on these developments, but we did not discuss them in the appendixes because it is too early to evaluate them. More recently, there have been reports that the U.S., Brazil, and other major coffee consuming and producing countries have agreed to recommend a 1-year extension of the International Coffee Agreement.

In view of the interest in the Committee in receiving the reports as soon as possible, no formal written comments on the reports were obtained but drafts were informally discussed with officials of the Departments of State, Commerce, and Agriculture. We wish to note the cooperation our staff received from these agencies.

C2 We believe that these reports would be of interest to other committees and Members of Congress as well as to the Departments of State, Commerce, and Agriculture, and others. However, we will not release the report unless you agree or publicly announce their contents.

Our work is continuing on the remaining two assignments and we expect to be able to report the results to fit in with your overall plans for completion of the Committee's final report around June 1.

Sincerely yours,



Comptroller General
of the United States

UNITED STATESGENERAL ACCOUNTING OFFICE STUDY OFTHE INTERNATIONAL COFFEE AGREEMENTAND ITS IMPACT ON COFFEE PRICESMARCH 1973INTRODUCTION

Since 1963 the bulk of coffee exports has been regulated by the International Coffee Agreement (ICA). The first (1962) agreement, which expired in 1968, was renewed in modified form in 1968 and will expire in 1973.

The objectives of ICA are:

- (1) to achieve a reasonable balance between supply and demand on a basis which will assure adequate supplies of coffee to consumers and markets for coffee to producers at equitable prices and which will bring about long-term equilibrium between production and consumption;
- (2) to alleviate the serious hardship caused by burdensome surpluses and excessive fluctuations in the prices of coffee which are harmful both to producers and to consumers;
- (3) to contribute to the development of productive resources and to the promotion and maintenance of employment and income in the Member countries, thereby helping to bring about fair wages, higher living standards, and better working conditions;
- (4) to assist in increasing the purchasing power of coffee-exporting countries by keeping prices at equitable levels and by increasing consumption;
- (5) to encourage the consumption of coffee by every possible means; and

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

The United States has stressed two major interests in participating in ICA--protection for American consumers and economic development of coffee-producing countries. The President stressed these points in his 1971 annual report to the Congress on the ICA.

It is accordingly appropriate that we join in a collective effort which serves to protect the American consumer from the extremely high prices which prevail in times of a coffee shortage. Moreover, we have an equal interest in stabilizing the export earnings of coffee producing countries, whose economic development programs we have supported, and most of which are important customers for American export products.

More recently, Mr. Charles A. Meyer, Assistant Secretary of State for Inter-American Affairs, said: "We look forward to continuing our cooperation within the Agreement to ensure that prices remain beneficial to producers and fair to consumers."

This GAO study was made to determine whether ICA in its impact on coffee prices has protected the American consumer. The focus is on prices of green coffee (unroasted coffee beans), because most of the coffee imported by the United States is in this form and these prices are under the direct influence of ICA.¹ The basic question is whether ICA has brought about higher prices than would have occurred without an agreement. A related question is whether ICA has moderated high prices.

¹We agree with the view expressed in the President's Report on the International Coffee Agreement (1971, p. 10) that wholesale and retail prices reflect not only the price of green coffee but also such elements as the cost of labor, packaging, transportation, etc., which are beyond the influence of ICA.

PRICES IN THE AGREEMENT AND
IN THE PRE-AGREEMENT PERIODS

The following chart shows the prices of green coffee from 1947 through 1972.

No satisfactory comparison can be made between prices in the period since the establishment of ICA and those for some previous relevant period. Prices moved up in the early post-World War II period, reached a peak in the mid-1950s, and then declined until ICA was established. Since ICA prices have moved upwards.

In view of the large annual coffee surpluses in the 1963-72 period (see the following section), the potential for increased output of diversified coffee types in Africa at fairly low costs, and the history of long, cyclical downswings, it is unlikely that there would have been any significant cyclical upturns in prices without an ICA, especially one encompassing a peaking of prices. Hence, one cannot compare average prices in the pre-ICA, post-World War II period with average prices in the ICA period.

Perhaps it is best to compare prices in the ICA period with those in 1962, the year before ICA went into effect because 1962 is the only year specifically mentioned in both the 1962 and 1968 coffee agreements relating to price objectives. The agreements state that prices should not decline below those in 1962. As shown in table 1, prices in 1964-72 have been significantly above those in 1962. Furthermore, in no year since ICA went into effect have prices dropped below their 1962 level.

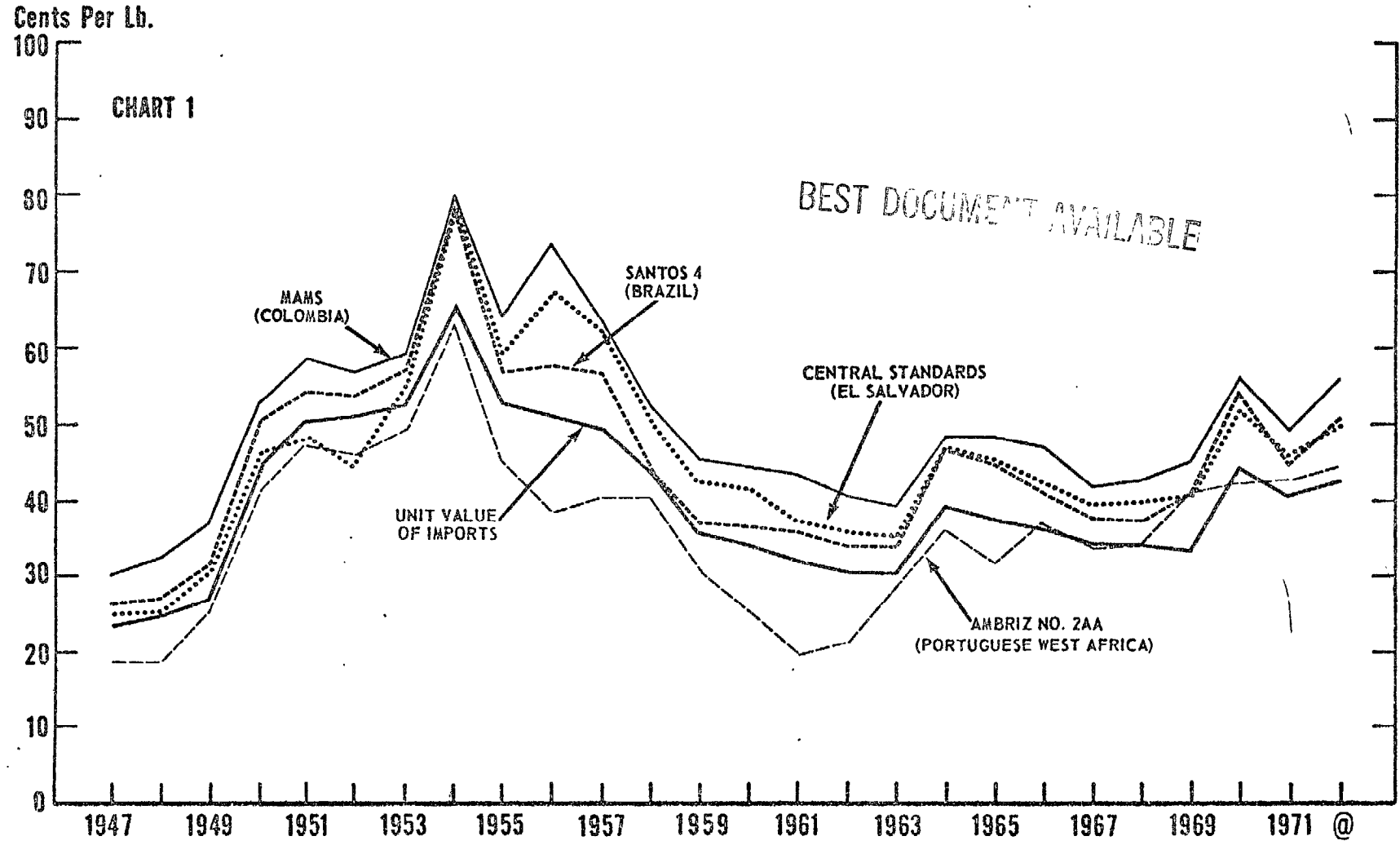
TABLE 1
COMPARISON OF AVERAGE LEVEL
OF PRICES IN 1964-72 WITH THOSE IN 1962

	1962	Average of 1964-72 (note a)
	(cents per pound)	
Santos 4	34.0	44.3
Mams	40.8	48.9
Ambriz 2AA	21.6	37.0
Central Standards	35.9	44.6
Average unit value of U.S. imports	30.4	38.1

^aAverage of 1964-71 and first 11 months of 1972.

Source: Pan-American Coffee Bureau and Department of Commerce. The prices of Santos 4, Mams, Ambriz 2AA, and Central Standards are New York spot prices representing each of the four major types of coffee. The unit value of imports is the dollar value of U.S. imports of green coffee divided by the corresponding volume of green coffee imports. The year 1963 is omitted because the 1962 ICA did not become operative until October of that year.

COFFEE PRICES* 1947-72



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SOURCE: PAN-AMERICAN COFFEE BUREAU EXCEPT 1954 PRICE OF CENTRAL STANDARDS FROM SPRAGUE & RHODES COMMODITY CORP.
 * THE PRICES OF MAMS, SANTOS 4, AMBRIZ NO. 2AA AND CENTRAL STANDARDS ARE NEW YORK SPOT PRICES REPRESENTING EACH OF THE 4 MAJOR TYPES OF COFFEE. THE UNIT VALUE OF IMPORTS IS THE DOLLAR VALUE OF ANNUAL U.S. IMPORTS OF GREEN COFFEE DIVIDED BY THE CORRESPONDING VOLUME OF GREEN COFFEE IMPORTS.
 @ 1972 BASED ON 11 MONTH AVERAGE

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With dissimilar cyclical patterns, it would be pointless to compare annual price fluctuations in the pre-ICA, post-World War II period with those in the ICA period. However, it is possible to compare price rises accompanying major frosts in Brazil, a recurring and significant cause of price rises in the pre-ICA and ICA periods.¹ See Appendix II where this is done and we conclude that prices on the average appear to have gone up as sharply in the ICA period as before.

¹The occurrence of a major frost is likely to overshadow underlying cyclical movements. Thus, the United States Department of Agriculture (U.S.D.A.) points out that the 1953 and 1955 frosts significantly modified the underlying cyclical pattern. Foreign Agricultural Circular, December 18, 1956, pp. 3-4.

APPENDIX I

IMPACT OF ICA ON AVERAGE PRICES

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It is impossible to know definitively what the prices would have been without ICA. Only a judgment based upon the available evidence can be made about this. In our view the available evidence suggests that prices generally would have been lower in the 1963-72 period in the absence of ICA.

A major indication that ICA has raised prices is that there have been large annual coffee surpluses and a rising price trend during the period of ICA. Although there were significant surpluses in the period before ICA, these were associated with declining prices.

As shown in table 2 the supply of coffee (production plus inventories minus consumption in producing countries) generally has greatly exceeded coffee exports during the ICA period. Most of the U.S. coffee trade (importers and roasters) and representatives of coffee producing and consuming countries we interviewed agreed that on the average coffee has been in excess supply during the ICA period.

Table 2 also shows that surpluses have not been confined to Brazil, the major coffee-producing country. Although the Brazilian surplus has declined, the surpluses of other countries have increased. In 1971-72 surpluses of other countries were 22 million bags, about half of the total. Before ICA surpluses were virtually confined to Brazil (primarily) and Colombia. While Brazil, and to some extent Colombia, tried to maintain prices and consequently accumulated inventories, other countries sold their crops.

Most of the U.S. coffee trade we interviewed felt that ICA had not influenced the production of coffee. On the other hand, all the representatives of member coffee-producing countries interviewed felt that ICA had restrained production. If the representatives are right, the downward pressures on prices which would have occurred in the absence of ICA are understated by the data on actual surpluses shown in table 2.

Table 2
Supply and Exports of Coffee (note a)
(in millions of bags)

	<u>Supply</u>	<u>Exports</u>	<u>Difference</u>
ALL COUNTRIES:			
1963-64	120.3	51.2	69.1
64-65	110.0	41.6	68.4
65-66	136.3	47.4	89.0
66-67	131.4	47.8	83.6
67-68	132.0	54.0	77.9
68-69	122.2	52.8	69.4
69-70	112.9	53.9	59.0
70-71	98.5	49.9	48.6
^b 71-72	100.0	^c 57.5	42.5
BRAZIL:			
1963-64	81.5	19.8	61.7
64-65	70.0	12.9	57.1
65-66	89.2	15.3	73.9
66-67	84.4	16.3	68.1
67-68	81.4	18.2	63.2
68-69	71.9	19.3	52.6
69-70	58.5	19.0	39.5
70-71	41.0	15.6	25.3
^b 71-72	40.2	^c 19.5	20.7
ALL OTHERS:			
1963-64	38.8	31.4	7.4
64-65	40.1	28.7	11.3
65-66	47.1	32.1	15.0
66-67	47.0	31.5	15.5
67-68	50.6	35.9	14.7
68-69	50.3	33.6	16.7
69-70	54.4	34.9	19.5
70-71	57.6	34.2	23.3
^b 71-72	59.9	^c 38.1	21.8

^aThe data is for producing countries which are currently members of the International Coffee Organization (ICO). Coffee shipments of member coffee-producing countries accounted for 99 percent of world net coffee imports in 1970-71. Totals may not add due to rounding.

^bPreliminary.

^c1971-72 not comparable to other years. 1971-72 exports refer to the ICO coffee year, whereas figures for other years, as well as for other series, refer to crop years of member countries.

Source: ICO, except that supply for 1971-72 is partially based upon USDA data.

A second indication of the price-raising effects of ICA is that restrictions on exports of member coffee-producing countries (quotas), imposed under the Agreement, have been continuously in force since ICA became operative. Coffee shipments from member coffee-producing countries subject to quotas amounted to 93 percent of the world's net imports of coffee from all sources in 1970-71.¹ In addition, since 1967 nonmember country coffee shipments subject to restrictions amounted to 1 percent of the world's net imports of coffee in 1970-71.

Despite enforcement problems which were most severe during its early years, ICA has been able to control the volume of coffee exports. On the basis of information compiled by ICO, we estimate that above-quota shipments of coffee were 9 percent of annual quotas in 1965-66 and may have been as high as 8 percent in 1966-67 but since have declined significantly. Even in these years ICA restrained exports because coffee supplies exceeded quotas plus above-quota shipments.²

As shown in table 3, quotas have been kept well below the supply. Although quotas have at times been increased, they have never been suspended or increased to a level which could absorb all the supply. Quota increases which fall short of freeing all the supply should lead to some increase in exports, which, in turn, should temper a price rise, but the effect upon price will be much less than a suspension of quotas which frees all the supply.

The effectiveness of quota increases in tempering price rises has also been limited because a significant proportion has gone to countries which follow price

¹In 1963-64 coffee shipments from member coffee-producing countries subject to quotas amounted to 90 percent of the world's net imports of coffee from all sources.

²Exclusion of Brazil still leaves an excess of supply over quotas plus above-quota shipments.

maintenance policies; such countries are more likely to undership their quotas.¹ Thus, in 1969-70, when prices rose 22 percent, quotas were increased 6 million bags but undershipments of quotas amounted to 2.5 million bags; Brazil, which historically has followed its own price maintenance policies, received 37 percent of total quota increases (the single largest share) and its undershipments were 75 percent. In 1971-72 when prices rose 25 percent, quotas were increased 10.7 million bags but undershipments of quotas were 4.2 million bags; the so-called Geneva producers group, which agreed not to ship additions to quotas beyond the level it thought desirable (see the following section), received 85 percent of total quota increases and its undershipments were 92 percent.

Moreover, quotas are increased only when the International Coffee Council votes to do so, or, more recently, when prices advance to predetermined levels. In view of the large coffee surpluses during the 1963-72 period, it is likely that producing countries would have been able and willing to sell more coffee before quotas were increased. Additional evidence on this point, in the context of an analysis of the 1963-64 and 1969-70 price rises, is shown on the following page.

Yet another indication that ICA has raised prices is the existence of substantially lower coffee prices in the "new market" countries which are not subject to ICA quota limitations. For Japan, the major unregulated coffee market, in 1971 the average unit value of green coffee imports from Brazil was 25 cents and for the United States was 41 cents and the average unit value of green coffee imports from Uganda was 18 cents and for the United States

¹Under ICA producing countries are not required to export the amount of their quotas. As ICA restricts the exports of individual countries, as well as total exports, individual countries can undership their quotas without fear of sizable losses of market shares.

APPENDIX I

Table 3

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Quotas and Coffee Supplies (note a)
(in millions of bags)

	<u>Supply</u>	<u>Quotas</u>	<u>Difference</u>
ALL COUNTRIES:			
1963-64	116.6	46.6	69.9
64-65	108.5	43.1	65.4
65-66	134.6	44.1	90.5
66-67	131.2	45.5	85.7
67-68	132.0	49.8	82.2
68-69	122.2	48.5	73.7
69-70	112.9	52.0	60.9
70-71	98.5	49.6	48.9
71-72	^b 100.0	57.7	42.4
BRAZIL:			
1963-64	81.5	18.7	62.9
64-65	70.0	16.8	53.1
65-66	89.2	17.0	72.2
66-67	84.4	16.9	67.4
67-68	81.4	17.7	63.7
68-69	71.9	18.5	53.4
69-70	58.5	19.3	39.1
70-71	41.0	18.0	23.0
71-72	^b 40.2	21.1	19.1
ALL OTHERS:			
1963-64	35.0	27.9	7.1
64-65	38.5	26.2	12.3
65-66	45.4	27.1	18.2
66-67	46.9	28.6	18.3
67-68	50.6	32.1	18.5
68-69	50.3	29.9	20.4
69-70	54.4	32.7	21.7
70-71	57.5	31.6	25.9
71-72	^b 59.9	36.6	23.3

^aTotals may not add due to rounding.

^bPreliminary.

Source: Table 2 and ICO supply data from table 2 and quotas have been adjusted to include only members in each year.

was 38 cents.¹ The fact that producing countries are willing to sell coffee at lower prices in unregulated markets means that prices in ICA-controlled markets are too high.

Most of those we interviewed, including representatives of the producing countries, thought that ICA raised the average prices. The representative of one producing country stated: "The International Coffee Agreement is a gift from consumers."

¹The figures for Japan are cost, insurance, and freight(c.i.f.) and those for the United States are free on board (f.o.b.).

APPENDIX I

IMPACT OF ICA ON HIGH PRICES

During the ICA period, prices reached highs in 1964, 1970, and 1972. The 1964 and 1970 highs were the culmination of price rises induced by major frosts in Brazil. The 1972 high resulted from a combination of frost in Brazil and actions by the so-called Geneva producers group not to ship additions to quotas beyond levels it thought desirable.

We believe that, if there had been no ICA, the price increases in 1963-64 and in 1969-70, accompanying major frosts in Brazil, would have been more moderate. In both periods there were producing countries which were able to sell more coffee than permitted by ICA quotas and which would have been willing to make additional coffee available sooner than permitted by ICA quota adjustments.

For 1963-64 this may be inferred from the fact that a majority of producing countries in November 1963 voted in favor of a proposal, which was defeated, to expand the annual quota and that quotas for countries other than Portugal and the Other Mild producers, which opposed the November 1963 proposal, were 69.4 million bags below the supply of coffee. Similarly for 1969-70 this may be inferred from the fact that African and some Central American producing countries were willing to support enlarged quotas at the time of the unsuccessful February and March 1970 Executive Board and Council deliberations and that quotas for producing countries other than Brazil and Colombia, which blocked the proposal, were 15.9 million bags under the supply of coffee. (See app. II.)

We believe also that the price increases in 1972 would have been more moderate without an ICA. The so-called Geneva Agreement contributed to an increase in prices which was greatly accelerated by a frost in Brazil. (See app. II.)

The existence of ICA facilitated the Geneva Agreement in several ways. Because of ICA controls on exports, the Geneva group did not have to worry about its own members' or other ICA members' selling coffee in unrestricted quantities. The Geneva group was thus free to concern itself only with how to achieve the reductions in quotas it desired. Because of ICA, the Geneva group had access to reasonably prompt and accurate data on coffee shipments which could be

used to monitor compliance with the group's targets. ICA provided producing countries with a convenient forum for organizing their own group. ICO, through its Executive Director and staff, functions continuously, and its Executive Board, composed of representatives of eight producing countries and eight importing countries, meets frequently. Many of the countries have representatives stationed in London, where ICO is headquartered.

UNITED STATES
GENERAL ACCOUNTING OFFICE STUDY OF
THE ABILITY OF THE INTERNATIONAL
COFFEE AGREEMENT TO DEAL WITH
UNFORESEEN SUPPLY AND DEMAND CONDITIONS
MARCH 1973

The most important unforeseen situations which ICA has had to deal with are the price rises following major frosts in 1963 and 1969 in Brazil and those following the so-called Geneva Agreement in 1972.

THE 1963 AND 1969 BRAZILIAN FROSTS

Frosts in Brazil during its winter months are far from being strange phenomena. But they do not occur with regularity; nor is it known with any degree of accuracy until some time after occurrence how severe the impact on next year's crop will be.

The International Coffee Council ignored the 1963 frost when it met in August 1963 and established a global annual quota for 1963-64 at 99 percent of the basic quotas. However, at the time of the Council's deliberations, it was too early to tell whether the frost would have a major impact on production or prices. Furthermore, views may have been bearish because of the years of large surpluses and declining prices.

The International Coffee Council met again in November 1963 and considered action to expand the annual quota to mitigate the weather-induced price rise. By November the spot price of Santos 4 had risen 8 percent from the pre-frost level. The Council rejected a proposal to expand the annual quota by 2.25 percent, although all consuming nations and a majority of producing countries voted in favor of the proposal.

The continued price rise prompted consuming countries to call for a special session of the Council in February 1964. By February the price of Santos 4 had advanced 36 percent from its pre-frost level. This time the Council approved a quota expansion of 1.4 million bags and quota waivers (exemptions to quota obligations granted to individual member countries) totaling 948,000 bags. The price of

Santos 4 began to decline in April. In May the International Coffee Council also voted to redistribute 725,000 bags of shortfalls (indications by member countries of insufficient coffee to meet quotas), although prices had already begun to decline.

By the time of the 1969 frost, ICO had already adopted two semiautomatic systems for adjusting initial quotas in response to price movements. Under the prorata system individual producing-countries' quotas are adjusted within agreed limits and by agreed rules in proportion to their basic quotas when ICO's composite indicator price is at, above, or below previously agreed to price floors and ceilings. Under the selective system quotas of members of a group producing one of each of four different types of coffee are adjusted within agreed limits and by agreed rules if the price of coffee of that group is above or below the agreed ceiling or floor. Both adjustment methods are reviewed and modified annually by the International Coffee Council.

By the end of September 1969, coffee prices had risen 22 percent from the prefrost level, although there were selective and prorata increases of 1.3 million bags at the end of August and September to the 1968-69 quota. The impact of these increases may have been limited, because there was uncertainty as to whether a temporary cut in quotas of 1.2 million bags for July through September would be restored and because the increases occurred late in the coffee year, when the quotas soon would be superseded by a lower annual quota.

The annual quota for 1969-70 (which began on October 1, 1969) was set by the International Coffee Council at 46 million bags, a 2.5 million-bag reduction from the final annual quota for 1968-69. The Council did provide for prorata and selective adjustments which could add as much as 5.8 million bags to the annual quota, but for the first time since introducing selectivity, a ceiling was put on its increases. Moreover, the prices adopted by the Council for triggering the selective and prorata increases were well above the prefrost level. Although it was too early in August to assess the impact of the frost, the experience with the frost of 1963 should have made the Council more wary.

APPENDIX II

Coffee prices apparently continued to rise with brief respites through early October 1970, although there were selective and prorata increases of 5.8 million bags. The limited effectiveness of the quota increases may have been due to undershipping--especially by Brazil, the chief recipient of the quota increases--and to terminating selective and prorata adjustments in January and April 1970, respectively.

The United States and other consuming countries were unsuccessful in attempts before ICO's Executive Board in February and before its Council in March to remove the ceilings on the selective adjustment system, although African producers and some Central American countries were willing to have quotas increased. In August 1970 the Council adopted an enlarged initial annual quota of 54 million bags (effective as of October 1, 1970), a reserve of an additional 4 million bags for prorata increases and a selectivity system with unlimited upward adjustments.

On the basis of table 1, price performance following frosts in the ICA period appears to have been no better and may have been somewhat worse than it was in the post-World War II period preceding ICA. This does not necessarily mean that the price performance in 1963-64 or 1969-70 would have been different without an ICA.

Although the price rise following the 1953 frost was sharper than those following the 1963 and 1969 frosts, the price rise following the 1955 frost was significantly smaller than either that following the 1963 frost or the 1969 frost. Moreover, the price rise in 1969-70 was longer than that of the other frost-affected periods. (See table 1.) Although production declined more in 1964-65 and 1970-71 than in 1954-55 and 1956-57, the years most affected by the 1953, 1955, 1963, and 1969 frosts, supply as a whole (including inventories in producing countries) was more ample relating to exports in 1964-65 and 1970-71 than in 1954-55 and 1956-57.

Table 1 BEST DOCUMENT AVAILABLE

Percentage Increases in
Coffee Prices Following Frosts (note a)

	<u>Santos 4</u>	<u>Central Standards</u>	<u>Mams</u>	<u>Ambriz 2AA</u>	<u>Average unit value of U.S. coffee imports</u>
1953 Frost-- Duration of upswing, 10 months	60	61	61	55	32
1955 Frost-- Duration of upswing, 8 months	14	(b)	23	24	8
1963 Frost-- Duration of upswing, 8 months	48	43	26	50	27
1969 Frost-- Duration of upswing, 16 months	55	39	38	45	41

^aThe increase is calculated from the month before the frost to the peak month for Santos 4. In the case of the 1955 frost the initial month is January 1956 as no net upward movement in prices is discernible until early 1956.

^bNot applicable.

Source: Price data from the Pan American Coffee Bureau, Sprague & Rhodes, and Census Bureau.

We believe that, if there had been no ICA, the price increases in 1963-64 and in 1969-70 would have been more moderate. In both periods there were producing countries which were able to sell more coffee than permitted by ICA

APPENDIX II

quotas and would have been willing to make additional coffee available sooner than permitted by ICA quota adjustments. For 1963-64 this may be inferred from the fact that a majority of producing countries in November 1963 voted in favor of a proposal, which was defeated, to expand the annual quota and that quotas for countries other than Portugal and the Other Mild producers, which opposed the November 1963 proposal, were 69.4 million bags below the supply of coffee. Similarly for 1969-70, this may be inferred from the fact that African and some Central American producing countries were willing to support enlarged quotas at the time of the unsuccessful February and March 1970 Executive Board and Council deliberations and that quotas for producing countries other than Brazil and Colombia, which blocked the proposals, were 15.9 million bags under the supply of coffee.:

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THE GENEVA AGREEMENT

After failure to get the Executive Board of ICO to increase the 1971-72 selectivity price ranges to offset the U.S. devaluation, the Geneva group, which accounted for the bulk of coffee exports, met in Geneva in April 1972 and decided to refrain from shipping any increases in quota beyond the level it thought desirable to achieve price increases.

At the time of the April meeting, the prevailing annual quota was 49.9 million bags. The Geneva group initially sought to maintain a quota level of 48.4 million bags. This target was relaxed somewhat to accommodate individual members of the group over the next few months.

Coffee prices rose 6 percent between early April and early July 1972 and the annual quota had increased to 54.7 million bags, primarily as a result of selectivity and prorata adjustments. In the April-June 1972 period, coffee shipments were 5.9 million bags under the available quotas. On July 9, 1972, a frost occurred in Brazil. This greatly accelerated the price rise.

By early August prices had increased 26 percent from their pre-Geneva level. In view of the large increase in prices stemming from its own retention efforts and enhanced by the frost in Brazil, the Geneva group released its members from any obligation to withhold quota increases before the August 1972 annual meetings of the International Coffee Council without disbanding the group. For the coffee year 1971-72 as a whole, the annual quota had increased to 57.7 million bags and quota undershipments were 4.2 million bags, primarily accounted for by the members of the Geneva group which also received the bulk of the quota increase.

Prices were lower at the end of November than in August but were well above the 4-cent-per-pound increase previously sought by producing countries to offset the U.S. devaluation.

Because of the divisiveness over the Geneva Agreement, the International Coffee Council, meeting in August and September 1972, failed to agree on quotas for the full year

APPENDIX II

1972-73. The Council agreed only to quotas for the first quarter of the year with the proviso that this decision would lapse unless there was agreement to extend the first quarter arrangements or to adopt alternative arrangements by December 10, 1972.

On the basis of previous experience, it is not unlikely that the July 1972 frost in Brazil would have increased prices. It is also possible that something like the Geneva Agreement might have occurred without ICA. However, we believe that the existence of the Geneva group was facilitated by ICA; hence, it is likely that ICA enhanced the price increases in 1972.

The existence of ICA facilitated the Geneva Agreement in several ways. Because of ICA controls on exports, the Geneva group did not have to worry about its members' or other ICA members' selling coffee in unrestricted quantities. The Geneva group was thus free to concern itself only with how to achieve the reductions in quotas it desired. Because of ICA, the Geneva group had access to reasonably prompt and accurate data on coffee shipments which could be used to monitor compliance with the group's targets. ICA provided producing countries with a convenient forum for organizing their own group. ICO, through its Executive Director and staff, functions continuously, and its Executive Board, composed of representatives of eight producing countries and eight importing countries, meets frequently. Many of the countries have representatives stationed in London, where ICO is headquartered.

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YOM VAIL, CHIEF COUNSEL

United States Senate

COMMITTEE ON FINANCE
 WASHINGTON, D.C. 20510

March 14, 1972

The Honorable
 Elmer B. Staats
 Comptroller General
 of the United States
 General Accounting Office
 Washington, D. C.

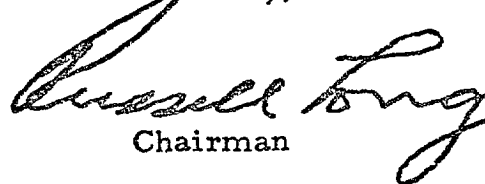
Dear Mr. Staats:

When the Committee on Finance acted to extend United States participation in the International Coffee Agreement it directed its staff, with the cooperation of the Comptroller General, United States Tariff Commission, and the Federal Trade Commission, to commence a comprehensive study on this Agreement. The staff has already held a meeting with Messrs. Dziadek and Brady of your staff to discuss the perimeters of the study and how best each agency can make a contribution.

I sincerely hope and expect that this study will prove helpful to the Committee when it deals with this issue again, and your cooperation to that end will be gratefully appreciated. I am enclosing a copy of the Committee report which discusses this study in greater detail.

With every good wish, I am

Sincerely,


 Chairman

Enclosure