THE 1962 INTERNATIONAL COFFEE AGREEMENT:

PAST, PRESENT AND FUTURE

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by

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SCOPE AND CONTENTS:

This thesis (1) considers the need for the 1962 International Coffee Agreement in light of the post-World War II developments in the world coffee market and (2) discusses the usefulness of the agreement since 1962 in attaining its stated goals and coping with the difficulties which have emerged since 1962. The thesis starts with the nature of, and role played by commodity agreements both prior to and after World War II. The changing role of commodity agreements, from that of foreign exchange stabilization to that of upholding the foreign exchange earnings, is also discussed. Post-war difficulties in the coffee market which lead to a series of Latin American producer agreements and eventually to the 1962 Agreement is then illuminated. More recent developments and difficulties faced by the coffee industry are also cited.

The thesis concludes that a diversification from coffee and into other products in the coffee-growing countries of the world can only come about through commodity agreements. Because of the inherent structural problems in these countries, the interplay of free-market forces cannot lend itself to a suitable transformation.

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As is convention with any work of this nature, this thesis is not without those whose help has been indispensable. Grateful acknowledgment of helpful advice and suggestions is due to Dr. W. Scammell, Dr. D. Dawson and Mr. S. Lanfranco. I would further like to thank Dr. Dawson who exhibited the patience necessary for editing a study of this nature.

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CHAPTER I

Commodity Agreements - The Overall Picture

The International Coffee Agreement of 1962 is of particular interest today because it is looked upon as an example of an international agreement and as an instrument for the promotion of economic stability and growth; especially when viewed by the less-developed countries.

Yet, while commodity agreements have had much exposure in the postwar period, this is not to say that they are novel. Control schemes in one form or another have been in effect since the 1920's as fluctuations in the prices of primary commodities have long been a concern of nations. For example, between the two world wars, fluctuations in commodity prices were particularly severe as they were closely associated with the more general fluctuations in trade and employment. The addition of supply and demand inelasticities for primary commodities further amplified these fluctuations in their prices.

In an attempt to create a greater stability in the prices for primary products a number of control schemes were conceived in the 1930's. Having learned a lesson from the dangers of an insufficient degree of monopoly from the various schemes of the 1920's, it was ensured that these schemes covered at least 80 per cent of exportable production. However, it should be noted that these agreements were not like the agreements of the postwar period either in procedure or in

format. While many of these interwar agreements were government schemes in substance, they were not so in form as the government played no direct part in their operation. Rather these agreements were between large producer groups and export associations. With no real provision for consumer representation, these schemes were administered exclusively in the interests of producers and were conducted for their supposed benefit only.[1] While exploitation of the consumers was avoided, the controllers did pursue a policy of making the most they dared of a favorable situation.

The outbreak of war in 1939 caused the abandonment of these control schemes. Yet, as the war years continued, thought once again began to be given to the proper role of commodity control schemes as part of the economic organization of the postwar period. The instability of commodity prices in the interwar period and the belief that the difficulties of the interwar years would reappear as soon as peace was restored instigated a desire for greater international co-operation and the hope that a more systematic approach to commodity problems could be created.

The reception given to the idea of a return to commodity agreements, however, was not overly enthusiastic because of their effect on restricting production during the 1930's. However, it was obvious that some form of control was needed for a greater stability of the prices of primary products if greater stability of the prices of primary

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[1]J. W. F. Rowe, *Primary Commodities in International Trade* (Cambridge: Cambridge University Press, 1965), pp. 137-8.

products was considered a prerequisite for a more stable and expanding economy. The hopes for greater international co-operation and the need for commodity agreements were expressed at the United Nations in 1947-8 and evolved as chapter six of the draft charter for an International Trade Organization.

The Havana Charter[1] permitted the member nations of the World Trade Organization, as an exception to free trade principles, to enter into agreements regulating trade in primary commodities, for it was recognized that:

> ... the conditions under which some commodities are produced, exchanged and consumed are such that international trade in these commodities may be affected by special difficulties such as the tendency toward persistent disequilibrium between production and consumption, the accumulation of burdensome stocks and pronounced fluctuations in prices.[2]

Among the objectives in Chapter VI of the Havana Charter were: (1) the prevention and alleviation of serious economic difficulties which could arise when adjustments between production and consumption could not be effected by normal market forces alone as rapidly as the circumstances required, and (2) the prevention or moderation of fluctuations in the price of primary commodities with a view to achieving a reasonable

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[1] It must be mentioned that the World Trade Organization was not ratified. However, some of its proposed functions, including sponsorship of international agreements, were assumed by the General Agreement on Tariffs and Trade. Also, the Food and Agricultural Organization concluded in 1947 that for many agricultural commodities, I.C.A.'s were probably the best way to assure reasonable price stability. One must remember, however, that even without ratification the Havana Charter is still an important source of guidance in the conduct of commercial policy.

[2] W. E. Havilland, International Commodity Agreements (Montreal: Private Planning Association Press, 1963), p. 29.

degree of stability on a basis of such prices as would be fair to consumers and would also provide a reasonable return to producers, having regard to the desirability of securing long-term equilibrium between the forces of demand and supply.

Unlike the private sector agreements of the interwar years, these postwar public sector agreements were to (a) have no discrimination with regard to the terms of participation, (b) have equal participation by both the importing and exporting countries, and (c) have full publicity. Furthermore, such agreements were to occur only in cases where a burdensome surplus or widespread unemployment was evident, while the governments of the producing countries were to try to adopt diversification programs which would attempt to solve the international commodity problem. Finally, no agreement was to last more than five years.

The outcome, however, has been relatively few agreements, five,[1] to be exact. These five agreements fall into one of three types: (1) the multilateral contract agreement, (2) the international buffer stock and (3) the export restriction agreement.

The multilateral contract agreement is looked upon by many as a form of co-operation between the importing and exporting nations. In such an agreement there is a floor price and a ceiling price. When prices fall below the floor, importing countries (which are a part of the agreement) agree to purchase predetermined amounts of the particular commodity at the floor price. Conversely, if prices tend to rise above

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[1]The five agreements cover olive oil, sugar, tin, wheat and coffee.

the ceiling, the exporting countries in the agreement agree to sell a predetermined amount at the ceiling price. Between these two limits, trade remains free. Meanwhile, trade is also taking place at the free-market price outside of the agreement. One advantage of this type of agreement is the moderating effect on income fluctuations for both the importing and the exporting countries. Thus, in principle, the scheme appears to achieve the moderation of income fluctuations while, at the same time, preserving the notion of a free price. Also, without production quotas, entry to and exit from the market is relatively easy. The only real drawback of this system appears to be the requirement of a fairly homogeneous product, thus limiting the number of commodities for which such a type of agreement would be applicable. For this type of agreement to be relatively effective, it should try to cover as much of the trade in the particular good as possible and to attempt to keep the spread of prices fairly narrow.[1]

The International Wheat Agreement of 1949 is an example of a multilateral contract agreement. However, problems with renegotiation of the ceiling and floor prices have tended to undermine many of the advantages that the wheat agreement possessed. This agreement has gone through four negotiations of the floor and ceiling prices. In the last of these negotiations, no effective price range was agreed upon. Furthermore, the existence of the free market in conjunction with high world wheat prices, manipulation of the market price by the two largest

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[1] G. Blau, "International Commodity Agreements", Agriculture in Economic Development, L. W. Witt and C. Eicher, eds. (New York: McGraw-Hill, 1964), p. 326.

exporters, and exports on concession terms have all reduced the effect of the price of wheat as an adjustment mechanism.[1]

The second type of international commodity agreement is the international buffer stock - the most actively pursued of the three types of agreements in recent years for the stabilization of prices.[2] This scheme stabilizes prices through an obligation of a managing board to purchase stocks whenever the price falls below the floor price and to sell stocks whenever the price rises above the ceiling price. This buying and selling action of the "managing board" is of course an attempt to keep prices within the desired range. Once again the effectiveness of this type of agreement depends on the size of the gap between the ceiling and floor prices and on the ability of the managing board to defend them. This, in turn, depends on an adequate supply of both financial reserves and the stock of the commodity involved. Difficulties which can arise are the need for large amounts of readily available resources (cash and stocks) and therefore the need for a commodity that may be stored over a considerable length of time. Such a scheme, however, cannot be used for a persistent upward or downward trend. The merits of this type of agreement are (1) the minimal interference that is usually required and (2) the freedom of entry and exit from the agreement.[3]

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[1] Ibid., p. 327.

[2] A. I. McBean, Export Instability and Economic Development (Cambridge: Harvard University Press, 1966), p. 269.

[3] Ibid.

The only buffer stock scheme that is covered by an international agreement is the International Tin Agreement of 1956. This International Tin Agreement provides for a buffer stock, with variable export quotas to be used by the member countries to adapt supply to changes in demand. The Tin Council sets upper and lower price limits; within that range the buffer stock manager has discretion over all buffer stock transactions. Formally brought into action in 1956, the Agreement worked well for the first two years but soon ran into trouble when the price of tin fell through the floor for a brief period during the 1958 recession. The price soon recovered and regained its previous level - only to go through the ceiling in 1961. Export quotas were subsequently removed but a strong demand for tin has kept the price high. In recent years tin has been one of the few commodities for which the relationship between production and world consumption has been favorable to producers.

The third type of international commodity agreement is the export restriction scheme. This agreement provides for the retention of supplies and the limitation of exports to the market in order to achieve some degree of price stability.[1] Under this type of agreement exporting countries agree to limit imports from non-member countries to a fixed level, thus giving member countries the benefit of any increase in world consumption. This provision naturally provides an incentive for producing countries to become members, and reduces the likelihood that the agreement would be undermined by an expansion of non-member production. Importing countries also agree to require a certificate of origin on all

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[1] Blau, p. 328.

imports and to keep records of all imports. The importing countries, therefore, perform the essential function of policing the agreement; without such a check on imports there would be no way to enforce the export quotas and the limitation of imports from non-member countries.

This type of agreement provides for no central buffer stock but each producing country is responsible for controlling production and managing the stock of the product within its borders. The real control over supply rests on the export quotas set for member countries. By adjusting these quotas, supply can be adjusted to demand. Therefore, while no upper or lower limits for price were specified, one clear objective was the prevention of any further decline in price. Thus, in reality, the export restriction agreement is really a price-supporting agreement.[1] The best example of an export restriction agreement is the International Coffee Agreement which formally began in 1962.

While the outcome has been five agreements, there has still been considerable opposition to any more agreements and much skepticism about the operation of the existing agreements. The argument put forward against these restriction schemes is based on resource misallocation, the protection of inefficient producers and product restriction. It is agreed that quotas should be reallocated through time with progressively larger quotas going to the more efficient producers and the less efficient producer countries being slowly eased into other products. Yet, it is claimed that quota reallocations are difficult to bring about, as historical market shares are strictly adhered to. As such, the call has been for free-market forces to replace all commodity agreements.

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[1] McBean, p. 273.

CHAPTER II

Commodity Agreements for Developed and Underdeveloped Countries and Their Changing Role Over Time

When discussing the role played by primary products, it must not be forgotten that one-half of the total value of world commercial exports of primary products both originates in and is absorbed by the developed world. Much of this trade consists of temperate-zone agricultural products, most of which is in foodstuffs. These patterns of trade have been highly influenced by domestic agricultural stabilization and support policies of nearly all the importing nations and of the United States. This existence of an extended network of independent national policies of price and output regulation in the developed nations has had important consequences on the role of international commodity agreements. The divorcing of domestic patterns of production of some commodities from the world supply and demand situation resulted in large and increasing surplus stocks in some of the exporting countries in the early 1950's.[1] The emergence of these structural surpluses initiated the appearance of export subsidies, new forms of trade flows on a concessional basis from the developed countries to the less-developed countries, and various forms of import regulation. This resulted in the developed nations looking on international commodity agreements, not as

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[1] Blau, p. 331.

a form of insurance against violent price fluctuations but rather as a way to secure access to markets.[1] The International Wheat Agreement of 1949 was brought about almost solely for the interests of the developed world, with the emphasis initially being on member-importing countries to purchase an agreed quantity at a stipulated maximum price. By 1959 the idea of guaranteed quantities was abandoned. It was agreed, however, that member-importing countries would purchase a minimum percentage of their commercial requirements from the member-exporting countries as long as prices moved within a stipulated range.[2]

When looking at the other half of world commodity trade, which originates from the less-developed countries, the nature of the problem is quite different. Trade in primary products consists mostly of tropical agricultural products and, to some extent, of minerals. Nearly all of these products are exported to the developed countries. Furthermore, this trade in primary products constitutes a much higher percentage of their total exports than in the developed countries. (See Table 1 on the next page.)

In general, the following characteristics apply to all of the less-developed countries who are primary export producers: (1) export receipts and import expenditures constitute a high percentage of national income, (2) these exports are usually highly specialized, with each country normally exporting only one or two commodities and (3) these

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[1] Ibid., p. 33.

[2] Ibid., p. 327.

TABLE 1

AGRICULTURE, TRADE, AND INCOME RATIOS

Country	Agricultural Production	Total Exports	Agricultural Exports as Percentage of Total Exports
	As Percentage of National Income		
	LESS DEVELOPED COUNTRIES		
Costa Rica	36	23	98
Dominican Republic	na	27	89
El Salvador	35	23	91
Honduras	48	22	91
Jamaica	14	29	43
Nicaragua	38	20	93
Panama	27	11	55
Argentina	24	15	95
Brazil	28	8	88
Colombia	38	10	91
Ecuador	40	20	98
Ceylon	49	30	99
Malaya	43	55	61
Ghana	na	19	83
	DEVELOPED COUNTRIES		
Japan	14	12	11
United States	4	5	25
Canada	8	21	36
Austria	13	23	19
Denmark	16	28	60
Finland	22	26	48
France	12	13	19
Germany	7	20	3
Italy	19	15	17
Netherlands	10	42	31
United Kingdom	4	17	8
Sweden	na	20	24

Source: G. S. Tolley and G. D. Gwyer, "International Trade in Agricultural Products in Relation to Economic Development", Agricultural Development and Economic Growth, H. M. Southworth and B. F. Johnston, eds. (Ithaca: Cornell University Press, 1967), pp. 406-7.

exports are nearly always primary agricultural products.[1]

In contrast to the developed countries who are exporters of temperate zone foodstuffs, the less-developed nations who are exporters of tropical products and minerals have not really been faced with a problem of market accessibility. Rather the problem has been one of fluctuations in the price of these products and in the total foreign exchange earnings. What then are the consequences of these fluctuations in prices and earnings?

If export prices tend to fall in any one year (a departure from a trend), the immediate effect would be on the balance of payments of the exporting country. To overcome a possible balance of payments deficit, the exporting country could do one or a combination of three things.[2] First, it could bring about a tighter money supply, making imported goods unattainable for many, while at the same time discouraging investment in new machinery. Second, the country could impose restrictions which would deprive the country of both consumer goods and needed capital goods for domestic economic development. Thirdly, the country could depreciate its currency. One must not, however, really consider this third alternative because of the underlying structural effects and the price elasticities of the exports involved.

The result is a reduction in the standard of living and a

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[1] K. Griffin, Underdevelopment in Spanish America (London: Allen and Unwin, 1969), p. 87.

[2] While fiscal policy is a possible alternative, its applicability is extremely difficult. As such, it is omitted from the discussion.

curtailment in the program of capital investment.[1] Furthermore, while the effect on the entire economy may be severe, certain sectors of the economy, which are responsible for producing the export product, may be faced with even more serious problems.

While a fall in the price of the export product affects the balance of payments, it can also very well affect the level of domestic investment. Being an endogenous variable, investment appears to be mainly determined by both the production and marketing conditions for the export involved and by the capacity to import. As most of the less-developed countries have small domestic capital goods sectors and to some extent are able to produce consumer goods at home, any fall in foreign exchange receipts nearly always causes a contraction in the import of capital goods and in the general level of investment. It has been pointed out by Griffin that in Venezuela, from 1950 to 1958, exports and tourist receipts increased by an annual rate of over 7.5 per cent while domestic investment increased by a corresponding amount. But from 1958 till 1964 exports and tourist receipts increased by only 4.5 per cent per annum. The corresponding investment rate was minus 2 per cent.[2]

Therefore, because these economies are highly vulnerable to price changes, the foreign trade sector looms large in the economies of the less-developed countries collectively. Changes in export earnings

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[1] J. E. Meade, "International Commodity Agreements", Lloyds Bank Review, 73 (July, 1964), p. 29.

[2] Griffin, p. 89.

affect the overall rhythm of economic expansion and contraction in these countries.[1] Dampening these price fluctuations is a necessary prerequisite for sustained economic growth.

With the rise of development consciousness and the recognition that fluctuations in prices and export earnings did not serve any useful purpose, the role of commodity agreements began to move away from the aim of guaranteeing market accessibility to that of moderating price fluctuations around the long-term trend.

What, then, are the advantages of more stable prices (and more stable foreign exchange earnings as long as the quantity exported is kept constant)? Producer countries would gain because of a greater certainty as to the future level of export earnings. This would then permit these countries to make a more intelligent planning of development and would make less likely a need to cut back on development plans because of a shortage of foreign exchange reserves. For the importing countries, it must be realized that a steadying of commodity prices might affect the terms of trade by raising the cost of living. But one must remember that industrialists in developed countries would be able to plan ahead better on the basis of more stable raw material costs.[2] For the underdeveloped countries the steadier stream of export earnings would allow them to increase their import demand from the more-developed countries.

But what evidence is there of fluctuations in the export

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[1] *Ibid.*

[2] An example would be the export of coffee beans for the production of soluble coffee in the United States.

earnings from primary products? Is it generally agreed that such fluctuations do impede economic growth in the less-developed countries?

The basic evidence of fluctuations in prices and in export earnings is shown in Tables 2 and 3. Table 2 indicates average fluctuations for export unit value, export proceeds and export volume over a twelve year period while Table 3 gives the percentage change from year to year for seven commodities over a ten year period. Both tables indicate considerable instability for these primary commodities.[1]

This conclusion, however, has been challenged by Coppock and McBean who have attempted to prove that instability in primary product markets is no worse than in the world markets for manufactures. McBean concluded that while instability of exports earnings could pose difficulties for particular less-developed countries, this phenomenon was not common to all of these less-developed countries and therefore corrective action should take place at the national level. Thus, the less-developed countries should not look toward an international solution to escape from their difficulties. What is to be made of such a conclusion?

Both writers in their studies used year-to-year changes in export earnings which were then used to test, via multivariate analysis, for the

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[1]Chart 1 indicates extreme fluctuations in the price of cocoa. As an example, last October (1970) saw the bottom fall out of the cocoa market and the 1970 price for cocoa fell by a full twenty per cent from the 1969 world price. For Ghana the loss in foreign exchange earnings will in all likelihood cancel out the four million pounds sterling of financial aid from Great Britain. Furthermore, while in 1966 foreign exchange earnings were 244 million dollars, by 1968 they had risen to 308 million dollars as prices spiralled up. With such price fluctuations Ghana has found it extremely difficult to diversify out of cocoa. See "On the See-Saw", Economist, 237 (October 3, 1970), p. 65.

TABLE 2

PERCENTAGE AVERAGE FLUCTUATION OF EXPORTS, 1950-61

	Export Unit Value	Export Volume	Export Proceeds
cocoa	20	10	15
wool	16	11	15
copper metal	13	8	16
cotton	11	10	14
tin metal	10	8	10
coffee	9	7	8
sugar	7	7	9
wheat	5	3	4
bananas	3	5	5
crude petroleum	3	10	9

Source: Griffin, p. 104.

TABLE 3

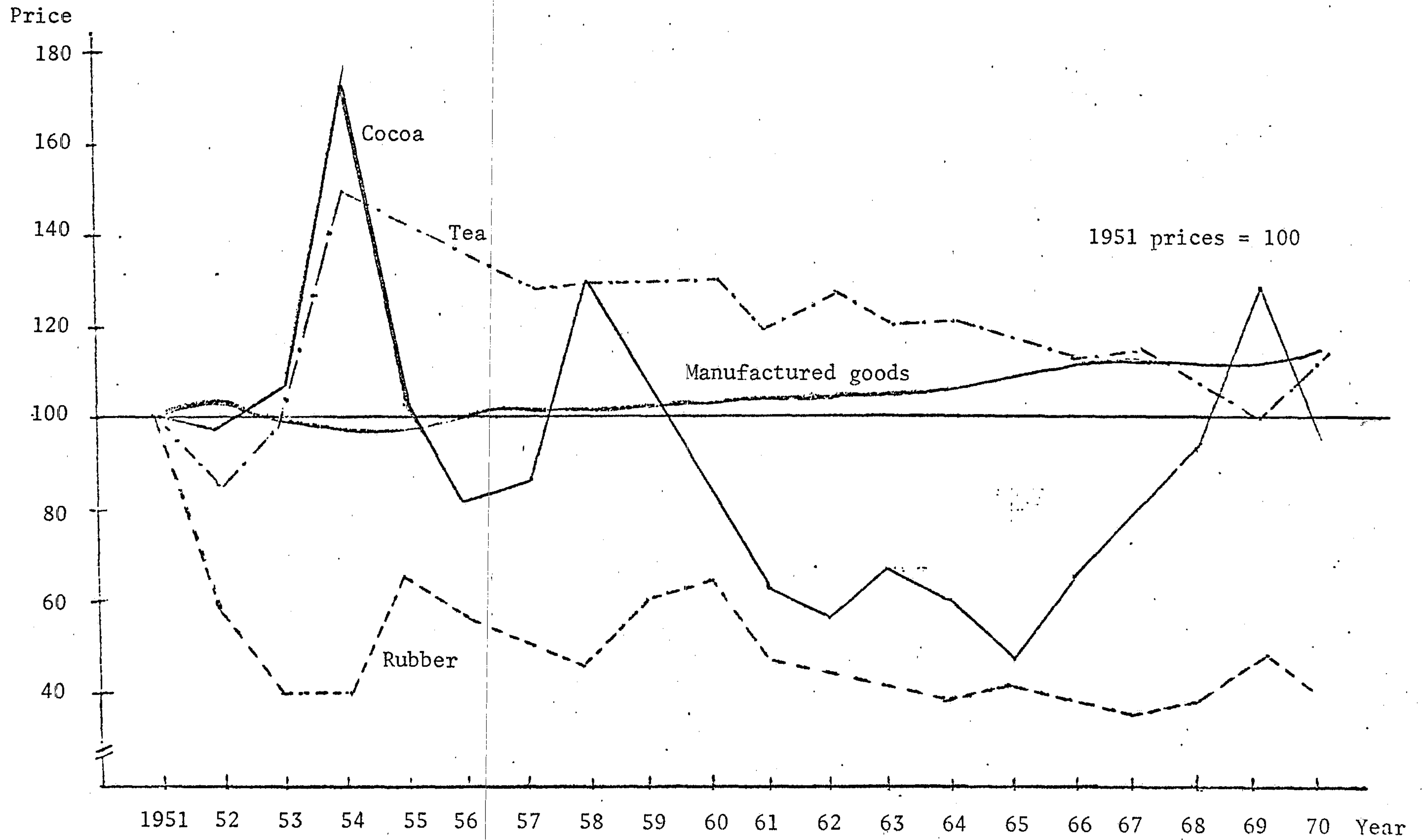
ANNUAL CHANGES IN TOTAL VALUE OF EXPORTS OF SEVEN COMMODITIES; 1949-58 (PERCENTAGE CHANGE FROM THE PREVIOUS YEAR)

	Rice	Sugar	Coffee	Wheat	Cotton	Cocoa	Rubber
1949	-12	-6	+18	-17	+14	-22	-25
1950	+15	+14	+30	-32	+16	+20	-59
1951	+17	+9	+17	+30	+21	+17	+41
1952	+16	-8	+3	-3	-19	-11	-42
1953	-4	+6	+10	-5	-19	+10	-34
1954	-15	-9	+6	-20	+14	+35	-2
1955	-6	+7	-9	+3	-12	-23	+44
1956	+13	+3	+8	+18	+8	-25	-10
1957	-3	+26	-5	-7	+7	-1	-6
1958	-5	-18	-16	-8	-19	+20	-13
Average	10	11	12	14	15	18	28

Source: Havilland, p. 39.

CHART 1

PRICES OF MANUFACTURED GOODS AND SELECTED PRIMARY PRODUCTS, 1951-70



Source: "On the See-Saw", Economist, 237 (October 3, 1970), p. 65.

influence of instability. Coppock, having tested the data for eighty-three countries, found that instability was not peculiar to commodity markets nor was it significantly related to the problems faced by the less-developed countries.[1] Coppock reached the conclusion that "Contrary to widely held views, export proceeds were decidedly more stable for primary goods than for manufactured goods."[2]

When, however, one looks at the period of his study (1946-58) and considers the devaluation of the British pound sterling in 1949, one must conclude that he has used a broken series to measure instability. Not having really taken account of the 1949 devaluation, Coppock went ahead and used dollar values throughout his study. As seen in Chart 2 on the next page, it makes considerable difference in the analysis as to the year one chooses to commence the study.[3] Furthermore, it appears that Coppock has been the victim of misplaced aggregation. While he realized that his estimate of price instability for primary products as a whole was much lower than the weighted average value, he unfortunately did not give it any further thought.[4] The entire analysis can only make one skeptical about the results obtained.

McBean also concluded that instability in commodity markets was

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[1] P. Ady, "International Commodity Policy", Economic Development and Structural Change, I. G. Stewart, ed. (Edinburgh: Edinburgh University Press, 1969), p. 28.

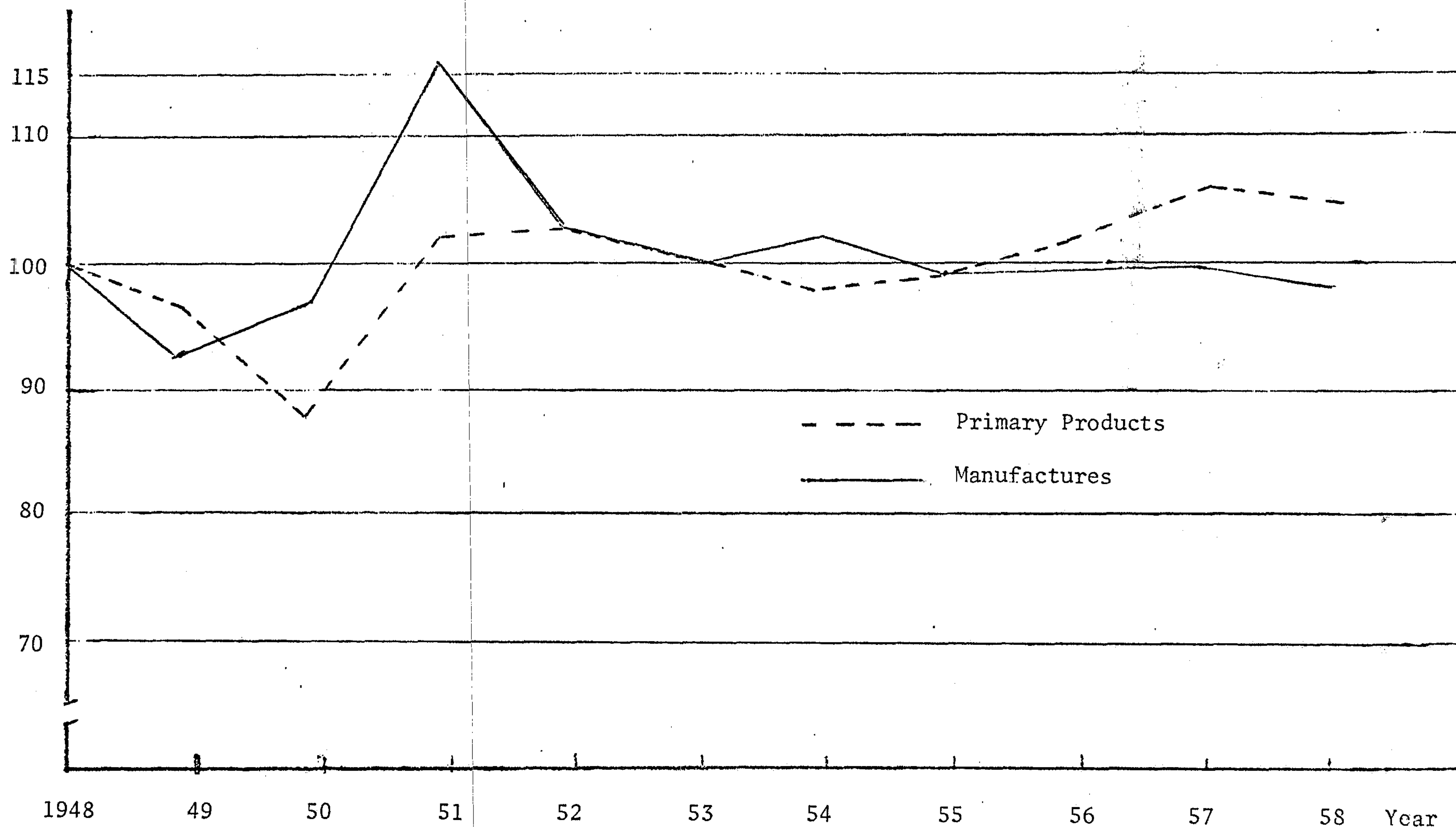
[2] J. D. Coppock, International Economic Instability (New York: McGraw-Hill, 1962), p. 35.

[3] Ady, p. 29.

[4] Ibid., p. 30.

CHART 2

UNIT VALUE INDICES FOR EXPORTS



Source: Coppock, p. 36.

was not a problem for primary product producers. Using the available data for eleven developing countries for the time period 1950-60, McBean's study was based on the relationship between fluctuations in export earnings and fluctuations in gross national product. After making crude adjustments for trend[1] in both the export and income series an analysis of the relationship between the annual changes in the two series was made in two ways: (1) by counting the years in which changes in the two series moved in the same direction and (2) by relating absolute changes in Gross National Product to absolute changes in exports over periods of time in which exports earnings suffered a sharp decline.[2]

From this analysis McBean concluded the following:

> All in all, our search for evidence demonstrating the adverse influence of short-term instability of export earnings on the prospects of growth in underdeveloped countries gives us no grounds for believing that export instability is in fact so harmful. Almost every chain of reasoning leading to the conclusion that serious damage is inflicted by instability has been found wanting ...[3]

Maizels,[4] however, did not find the statistical evidence convincing. First, he felt that neither of McBean's tests are really significant as the deviations approach seems to assume that all changes in either

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[1]McBean's definition of instability as deviations from a five year moving average may have made the error of removing more than the trend, thereby understating the residual instability. See Ady, page 31.

[2]McBean, appendix, pp. 345-8.

[3]*Ibid.*, p. 127.

[4]A. Maizels, *Review of Export Instability and Economic Development* by A. McBean, *American Economic Review*, 56 (June, 1966), pp. 575-80.

direction are of equal importance while the absolute changes approach relates to only one or two years (as such, random factors could distort the relationship).

On the relationship between fluctuations in exports and fluctuations in investment, McBean concluded that there were relationships between export proceeds and imports of capital goods and between capital goods and investment but no real relationship between fluctuations in exports and in investment. Maizels believes that there is some inconsistency here. McBean later tried to explain why G.N.P. should not be sensitive to export fluctuations in the less-developed countries but again Maizels feels that the argument does not have general validity. Furthermore, McBean says that there is no significant relationship between the degree of export fluctuations and the rate of growth in domestic fixed capital formation, but the data appear to be rather weak. By running his own regression with McBean's data, Maizels reaches the conclusion that export instability is likely to be a significant factor in constraining the rate of growth of many of the less-developed countries.

The effects of misplaced aggregation coupled with a lack of relevant, reliable and comparable data makes this study, like that of Coppock's, somewhat suspect. Their argument that instability in export earnings has no real effect on the prospects of growth in less-developed countries, except in isolated cases, is hard to accept.

While price stability for the export products of the less-developed countries has been one of the major objectives of these countries, the early 1960's witnessed a shift in emphasis with concern centred more

on the secular trend of the prices of the primary exports than on the fluctuations in export earnings. The divergence between the movement of primary product prices and the prices of manufactured goods (the latter have remained constant; the former have been falling[1]) appeared to result in an adverse terms of trade for the less-developed countries with respect to the prices of manufactured goods.[2]

This belief in a worsening terms of trade for the exporters of primary products as well as the consequent lagging of export earnings, inadequate reserves and increasing external indebtedness (up to 12 per cent since the end of the second world war[3]) resulted in the frustration of plans for rapid economic development.

The concern over the need for development in this period made the developed countries realize that the commodity problem and the development problem were really the same. The prospect of economic development depended highly on the ability of countries to both maintain and increase their foreign exchange receipts through trade and aid.[4] This realization opened the way for a new approach to international commodity agreements. Rather than considering international commodity

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[1]The downward slide of commodity prices has deprived the less-developed countries of purchasing power over manufactured imports to such an extent that this loss has been greater than the foreign aid they were receiving on a yearly basis.

[2]I. B. Kravis, "International Commodity Agreements to Promote Aid and Efficiency: The Case of Coffee", Canadian Journal of Economics, 1 (1968), p. 297.

[3]"Commodities in Search of Stability", Economist, 206, January 12, 1963, p. 130.

[4]Blau, p. 334.

agreements as a way of improving the functioning of specific markets, these agreements now were viewed as part of a comprehensive approach for economic development with assistance to come from both trade and aid.

This shift of emphasis therefore moved the less-developed countries away from the aim of price stabilization and toward the aim of price support.[1] Nowhere was this aim more strongly voiced than by R. Prebisch at the 1964 United Nations Conference on Trade and Development. A statement in the final act on the functions of commodity agreements said that international commodity agreements should have "a basic objective of stimulating a dynamic and steady growth and ensuring reasonable predictability in the real export earnings of the developing countries so as to provide them with expanding resources for their economic and social development while taking into account the interest of consumers in importing countries, through remunerative, equitable and stable prices for primary commodities ..."[2]

Thus, commodity agreements (the International Coffee Agreement as an example) were to serve the purpose of stabilizing prices at the highest possible level and therefore to fulfil the aim of giving larger and steadier foreign exchange earnings to the less-developed countries.

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[1]While the Havana Charter had not sanctioned this type of agreement in the original draft, the developed countries have gone along with this objective (witness the basic principles of the 1962 International Coffee Agreement) in order to reverse the transfer of income that was flowing to them from the less-developed countries. The objective would be to benefit the national economies of the producing countries rather than the individual producers involved.

[2]T. Killick, "Commodity Agreements as International Aid", Westminister Bank Review (February, 1967), p. 19.

CHAPTER III

The World Coffee Industry

The Importance of Coffee in Coffee Producing Countries

Coffee is of considerable importance to the world economy because so large a share of the production is exported. During the last two decades, coffee was the second most valuable commodity in international trade, representing nearly one-tenth of combined export income[1] or about one and three quarters of a billion dollars per year. While crude petroleum normally outranks it, the years of high prices in the early 1950's made coffee the most valuable export product. In the consuming countries of North America and Europe coffee represents a significant share of total imports. For example, in the United States coffee accounts for 5 per cent or more of all imports and is usually the leading commodity import.[2]

Coffee is produced in some seventy countries in the tropical world. While Latin America is the largest producer, Africa represents the most rapidly growing sector of the coffee industry, a half dozen of these African countries having emerged in recent years as important

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[1] B. Balassa, Trade Prospects for Developing Countries (Homewood, Illinois: R. D. Irwin, 1964), p. 197.

[2] P. Musgrove and J. Grunwald, Natural Resources in Latin American Development (Baltimore: John Hopkins Press, 1970), p. 300.

producers.[1] (See Maps 1 and 2.)

Representing one of the most important products of the Latin American resource sector, coffee ranks fourth over all in production value but plays an even larger role in the share of the region's land and labour resources. In 1960, seven million hectares of land in Latin America were planted to coffee. In area planted, only wheat and maize exceeded coffee. Coffee cultivation provided employment for some 12 million people, either on a full-time or part-time basis. Except for sugar and cotton, no commodity is so widely distributed in both production and exports.[2]

A dozen Latin American countries rely on the export of coffee for most of their export earnings. For the region as a whole, coffee exports represent 15-25 per cent of all foreign exchange earnings. Only petroleum exceeds coffee in this respect.

Thus, it is only natural that coffee is a major focus of economic and political relations between the advanced and the poorer nations. Except for Brazil, most of the countries in which coffee plays an important role are geographically small. Because of the importance of coffee in the trade and incomes of these countries, world exports of coffee and its return in foreign exchange are intimately related to the pace of economic development. The state of the coffee trade is of vital importance to these countries. The effect on their political and economic life can hardly be exaggerated.

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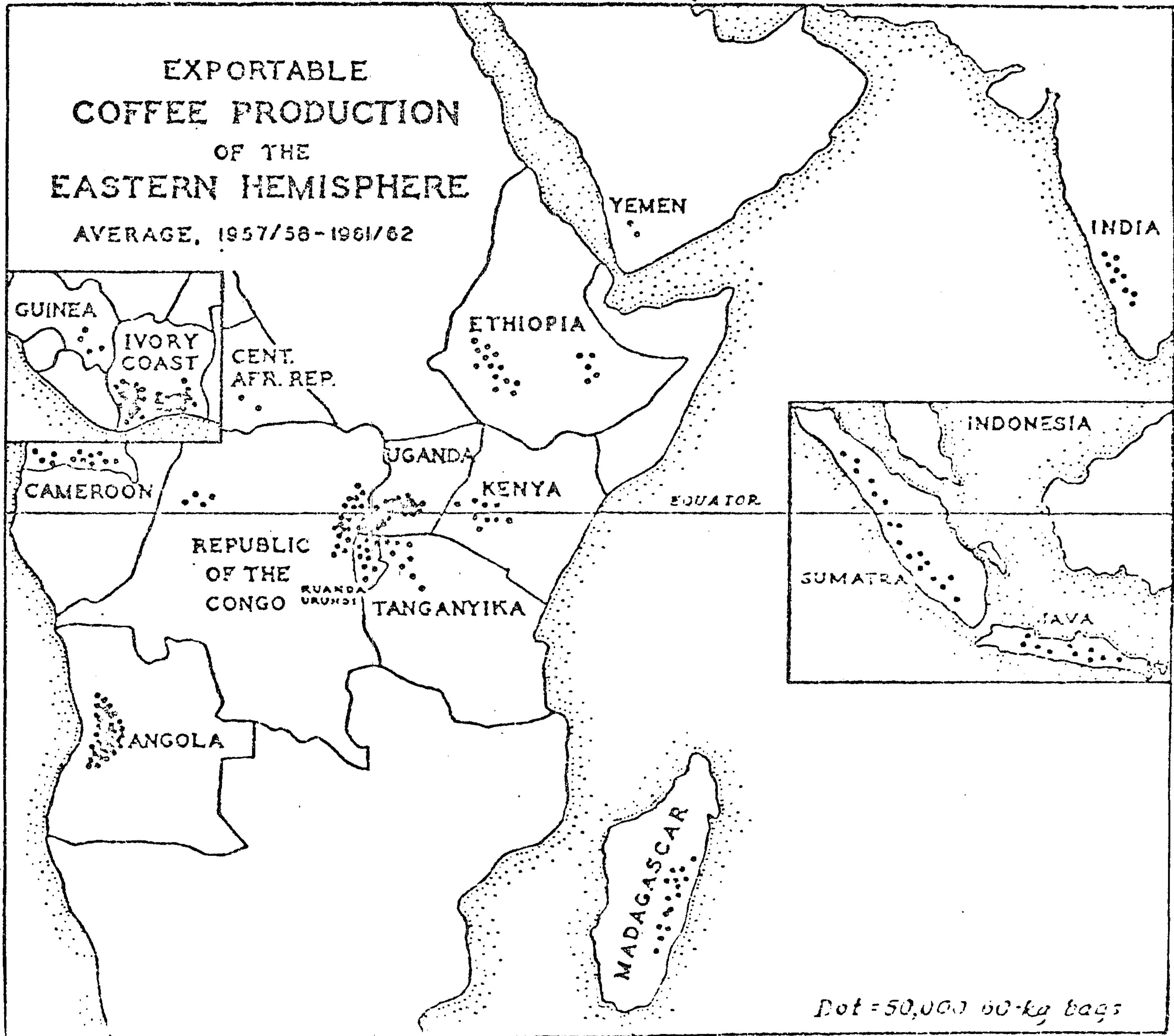
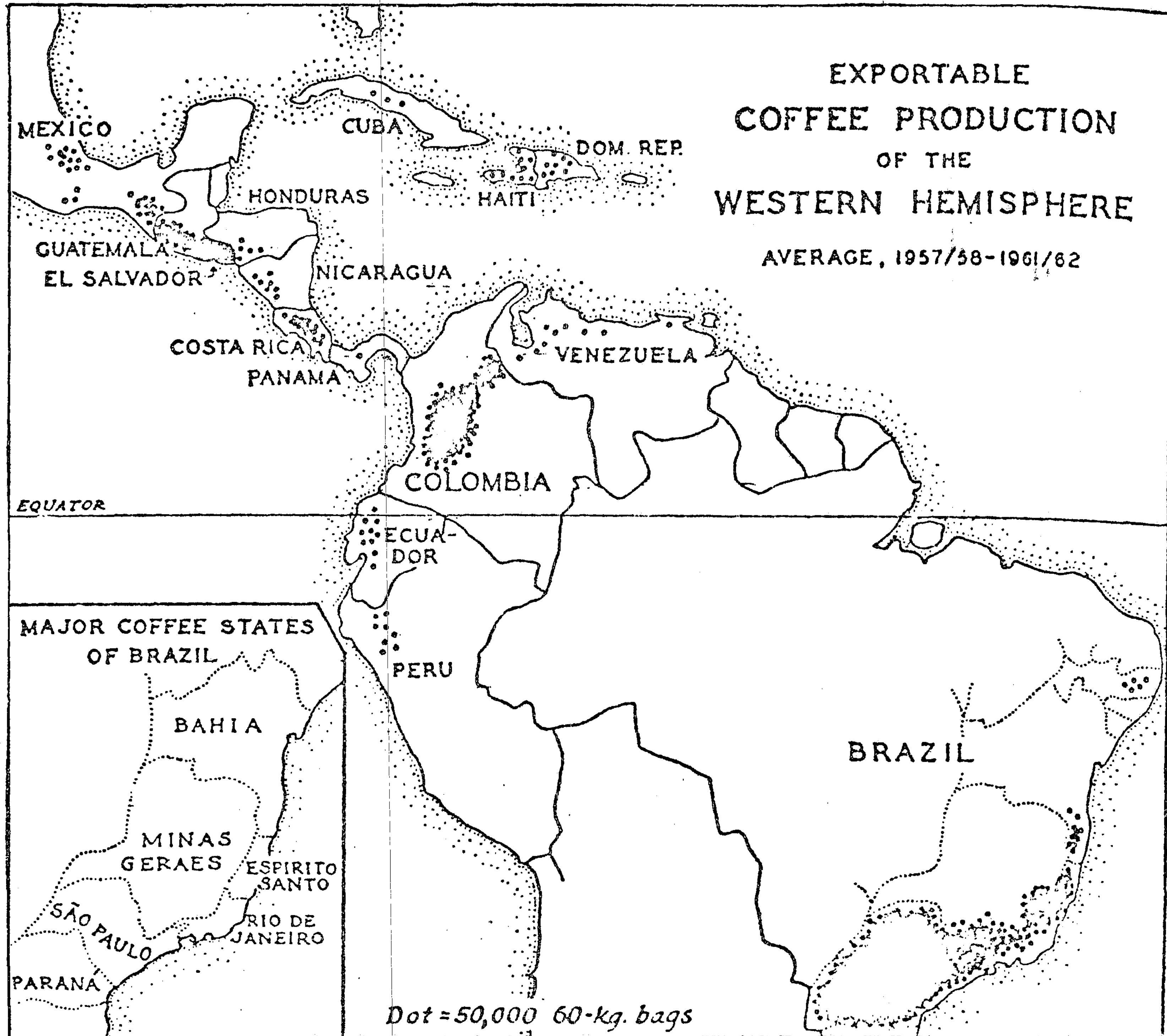
[1]V. D. Wickizer, "International Collaboration in the World Coffee Market", Food Research Institute Studies, 4, 1964, p. 276.

[2]Musgrove and Grunwald, p. 300.



MAP 1
EXPORTABLE COFFEE PRODUCTION OF THE EASTERN HEMISPHERE



MAP 2

EXPORTABLE COFFEE PRODUCTION OF THE WESTERN HEMISPHERE

The Demand for and Supply of Coffee

Nearly all the really serious problems which have plagued the world coffee industry have come from one source - the imbalance between the supply of and demand for coffee. Market demands tend to grow at a fairly steady rate.[1] Market supplies, however, tend to be highly variable due to frequent and wide fluctuations in crop yields.[2] Supply fluctuations are due to many factors. The two main ones are the weather and the nature of the coffee plant. Local weather conditions aside, the coffee plant has its own yield cycle, with a tendency to bear lightly after a large crop and to bear heavily after a period of rest. The sharp fluctuations in yield become more noticeable and acute when weather conditions reinforce the upward or downward phase of the yield cycle. Coffee growers have little control over these natural conditions. Their only influence over production is through control of disease and pests, the use of fertilizers and the use of good cultural techniques.

Because of a slow response of supply to an increase in demand, a period of rising prices usually generates the following cycle. First, because of high crop prices, farmers are induced to increase output through an extension of production into new areas. New trees are planted but these take from 3 to 5 years to reach the bearing stage. Once they do begin to bear fruit, they continue to do so for 20 or more years.

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[1] 2.6 per cent per year.

[2] In a good crop year, a coffee grower's production may be as much as ten times greater than in a poor crop year. Obviously this makes it extremely difficult to predict crop yields from year to year. Short-term adjustments in planting are unfeasible for it takes at least 3 years to bring a coffee tree to the bearing stage.

Because of (1) potentially high yields and returns, (2) the ease of coffee production (cultivation) and (3) the fact that many parts of the world are suited to coffee production, this new planting is usually overdone. The result is a growth in world output which easily outruns the growth in world consumption.[1] As the main cost to the farmer is the buying and clearing of the land and the cost of planting the trees rather than the cost of harvesting the crop, the farmer will usually harvest his crop regardless of the market price.[2] Abandonment only takes place after a long period of low and unprofitable prices. The result, of course, of this excessive planting and reluctant abandonment is the serious problem of oversupply.

Between 1947-9 and 1955-7, the volume of coffee exports increased by only about 15 per cent. Prices, however, doubled in the same period of time, resulting in both greater export earnings and a greater percentage of export earnings represented by coffee.[3] The increase in the price of coffee in 1950 induced some new planting. By 1954 the rate of new planting had greatly increased when prices rose to their alltime high. (See Table 4.) New planting continued at a fast rate until 1958, then at a slower pace for the next few years. While the total area planted to coffee in Brazil had been 3.5 million hectares in the late 1930's and only 2.4 million hectares in the 1940's, it rose to

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[1] R. B. Bilder, "The International Coffee Agreement: A Case History in Negotiation", Law and Contempory Problems, 28 (Spring, 1963), p. 334.

[2] Ibid., p. 331.

[3] Wickizer, p. 276.

TABLE 4

NEW YORK SPOT COFFEE PRICES, 1925-1967 (U.S. CENTS PER POUND)

Year	Brazil Santos No. 4	Colombia Manizales	Year	Brazil Santos No. 4	Colombia Manizales
1925	24.2	27.9	1938	7.8	11.0
1926	22.1	28.5	1939	7.5	11.6
1927	18.5	25.1	1940	7.2	8.3
1928	23.2	27.3	1941	11.4	15.0
1929	22.1	22.8	1942	13.4	15.9
1930	13.2	18.0	1943	13.4	15.9
1931	8.8	16.3	1944	13.4	15.9
1932	10.7	11.9	1945	13.6	15.9
1933	9.2	10.8	1946	18.7	21.0
1934	11.2	14.3	1947	26.4	30.1
1935	8.9	10.7	1948	27.1	32.5
1936	9.3	11.0	1949	32.8	37.4
1937	11.1	12.0			

Year	Colombia Manizales	El Salvador Washed High Grown	Guatemala Good Washed	Mexico Coatepec	Average, Mild Arabicas[b]
1950	53.25	52.98	51.37	52.60	52.79
1951	58.74	57.71	55.35	57.34	57.77
1952	57.01	56.42	54.83	56.15	56.41
1953	59.82	56.41[c]	55.21[c]	57.74[c]	58.05
1954	80.02	72.00[d]	68.33	78.37	76.46
1955	64.57	61.25	58.38	60.12	62.25
1956	73.97	68.84	67.56	70.88	71.53
1957	63.94	62.82	61.70	60.87	62.87
1958	52.34[e]	50.85	49.11	49.93[f]	51.04
1959	45.22	42.18[g]	41.98	42.89	43.95

Year	Brazil Santos No. 4	Angola Ambriz	Ivory Coast Robusta Courant	Uganda Native Standard	Average, Robustas[h]	Average, All Coffees[j]
1950	50.52	41.53		40.10	40.82	48.04
1951	54.20	47.56		46.85	47.21	53.06
1952	54.04	46.17		44.03	45.10	51.85
1953	57.93	49.22		47.59	48.41	54.80
1954	78.71	63.02		57.86	60.44	71.87
1955	57.09	45.23		38.41	41.82	53.72
1956	58.10	38.35	31.03	33.59	34.32	54.65
1957	56.92	40.22	34.17	34.65	36.35	52.05
1958	48.41	40.25[k]	36.49	37.57	38.10	45.85
1959	36.97	30.60	27.01	28.72	28.78	36.57

Year	Colombia MAMS	El Salvador Washed High Grown	Guatemala Prime Washed	Mexico Prime Washed	Average, Mild Arabicas[b]
1960	44.89	42.20	41.33	41.61	43.19
1961	43.62	38.58	37.55	37.53	40.65
1962	40.77	36.54	35.83	35.87	38.31
1963	39.55	36.11	35.40	35.56	37.51
1964	48.80	47.48	47.16	47.16	47.99
1965	48.49	45.68	45.51	45.54	47.01
1966	47.43	42.63	42.25	42.41	44.92
1967	41.94	39.61	39.23	39.36	40.64

Year	Brazil Santos No. 4	Angola Ambriz No. 2AA	Ivory Coast Superior No. 2	Uganda Native Standard	Average, Robustas[h]	Average, All Coffees[j]
1960	36.60	25.27	19.45	20.18	21.60	33.80
1961	36.01	19.93	18.67	18.48	19.03	31.90
1962	33.96	21.55	20.23[m]	20.63	20.80	31.02
1963	34.11	28.73	28.21	27.86	28.27	33.30
1964	46.66	36.38	35.78	35.56	35.92	43.52
1965	44.71	31.59	29.40	31.12	30.70	40.81
1966	40.83	33.98		33.61	33.80[n]	40.10
1967	37.82	33.83		33.51	33.67[n]	37.49

Sources: 1925-49 -- FAO, *World Coffee Economy*, p. 73. 1950-67 -- PACB, *Annual Coffee Statistics.*

[a]Annual average; quotations ordinarily represent offers for Thursday only. Prices include all marketing charges and are ex-warehouse.

[b]Arithmetic average of the prices of El Salvador Central Standard (not washed high grown), Guatemala Prime Washed, Mexico Prime Washed, averaged together with the price of Colombia MAMS.

[c]January-July average.

[d]Quotation for 12 December 1954 only.

[e]Beginning 1958, MAMS grade rather than Manizales.

[f]Beginning 1958, prime washed grade rather than washed Coatepec.

[g]January-March average. Average quotation for December was 41.34 cents per pound.

[h]Arithmetic average of the prices of Angola Ambriz No. 2AA, Ivory Coast Superior No. 2, Uganda Native Standard

[j]Arithmetic average of the price of Santos No. 4 (Brazil) and the average prices of mild arabicas and robustas. This is the price used in 1965-1966 by the International Coffee Organization in setting quotas. See Resolution 67, approved at the seventh plenary meeting, 19 March 1965; reprinted in *Annual Coffee Statistics*, 1964, p. 11.

[k]Beginning 1958, Ambriz No. 2AA grade.

[m]January-August average.

[n]Average of Angola Ambriz No. 2AA and Uganda Native Standard.

Source: Grunwald and Musgrove, p. 324.

3 million by 1954, to 4 million by 1957 and in excess of 5 million hectares in the years 1959-62. The total area planted to coffee in Latin America which had been about 4.6 million hectares in 1950 rose to a peak of over 7 million hectares by 1963. Concurrently there was a great increase in planting in Africa. Because of this increased African production, world exportable supplies rose from about 1.8 million tons in 1950 to a peak of almost 4 million tons in 1960. (See Table 5.)

While world exports expanded only from 1.9 to 2.6 million tons during the decade, prices fell sharply. Santos number four which had been selling at 50.5 cents per pound in New York in 1950, rose to 78.7 cents by 1954 but eventually fell to 36.6 cents in 1960. By 1962-3, the price had slipped to 34 cents per pound.[1] This decline in the price of coffee put renewed pressure on producers as the value of output in 1960-1 was about half that of the 1954 peak.

The coffee industry now faced a problem of low prices as it was now in another period of excess supply. Beginning in 1958, world surplus production mounted steadily, rising to some 4.6 million tons by 1964. By then the coffee industry was back in a position comparable with 1929, with excess capacity due to high prices and a high rate of

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[1] It is interesting to note that over the period 1925-64, the price of coffee was more unstable than that of most of the primary commodities. In 1954 the price was about five times the price prevailing in 1940, as seen from Table 6. Such has not been the case for all such commodities, although a case can be made for many of them. In terms of deviations from the average, only cocoa (11) is more unstable. Also while real prices in the period 1961-3 were higher than at any time in the period 1930-46, they were far below the levels of 1947-58.

TABLE 5

WORLD COFFEE PRODUCTION, 1929/30 to 1967 (THOUSANDS OF METRIC TONS)

Country or Region	Average 1929/30-1933/34	Average 1934/35-1938/39	Average 1939/40-1943/44	Average 1944/45-1948/49	1949/50	1950/51	1951/52	1952/53	1953/54	1954/55	1955/56	1956/57
Latin America	1,988.7	1,995.1	1,623.6	1,597.2	1,821.6	1,784.0	1,899.3	1,980.9	1,975.3	1,924.1	2,209.7	1,882.3
Brazil	1,442.9	1,347.8	974.5	885.1	1,068.3	1,071.4	1,080.2	1,125.4	1,110.6	1,037.0	1,370.0	979.3
Colombia	211.9	251.2	306.2	351.9	337.8	302.3	402.7	384.3	403.1	377.1	335.1	365.2
Costa Rica	22.5	23.2	23.5	21.9	23.5	20.1	21.1	33.0	22.8	33.8	25.3	33.8
Cuba	23.6	32.1	28.1	30.1	27.4	32.8	28.4	27.0	35.2	38.0	53.6	36.6
Dominican Republic	15.9	23.2	20.1	20.0	28.0	25.0	28.9	26.5	31.6	26.3	32.6	31.9
Ecuador	8.0	13.7	12.3	14.1	11.6	23.4	21.6	24.2	22.6	35.2	22.6	29.4
El Salvador	62.0	63.9	65.1	64.4	59.8	71.7	58.9	78.1	59.9	76.7	72.6	91.3
Guatemala	49.0	54.9	52.6	55.3	55.6	54.2	63.0	58.3	62.8	65.3	66.5	73.6
Haiti	50.6	26.9	19.0	30.6	40.0	38.3	35.0	37.0	43.8	30.7	40.8	28.0
Honduras	1.6	1.3	1.6	4.5	12.5	13.9	14.0	15.1	18.0	16.3	15.5	17.9
Mexico	39.1	51.8	54.7	55.8	65.6	68.1	70.8	87.7	84.9	93.0	88.3	97.3
Nicaragua	13.2	15.3	14.0	12.3	19.8	18.7	20.7	17.1	20.3	26.6	24.3	23.2
Panama	0.8	1.2	1.0	2.5	2.8	2.8	2.9	2.3	2.8	2.8	2.1	2.4
Peru	2.6	3.0	3.2	4.3	5.5	5.6	5.8	8.9	9.6	9.6	12.1	12.0
Venezuela	56.4	58.2	43.6	42.4	50.7	34.0	43.3	54.0	44.8	53.4	46.3	58.0
Other countries[b]	7.5	7.6	5.1	2.4	2.7	1.7	2.1	2.0	2.5	2.3	2.0	2.4
Africa	72.9	128.6	172.0	215.2	243.5	266.5	307.0	330.3	358.3	418.0	486.9	495.7
Angola	10.8	16.7	18.8	40.0	50.0	50.0	55.0	57.4	75.0	57.9	79.0	81.0
Belgian Congo	6.6	18.8	29.8	28.5	28.7	34.6	35.1	34.8	33.5	33.5	49.2	53.0
Ethiopia	16.0	14.2	7.4	18.2	22.0	22.0	25.0	43.1	40.0	45.7	54.0	51.9
French West Africa	1.0	7.9	21.6	37.3	45.3	42.6	61.7	55.6	71.3	89.8	113.8	95.7
French Equatorial Africa	0.1	1.3	2.4	3.7	4.5	5.5	4.2	3.8	2.7	5.4	3.7	6.5
Kenya	13.0	18.0	14.6	10.1	6.4	9.9	16.4	12.5	11.5	24.3	24.3	18.8
Madagascar	10.1	21.7	33.8	23.9	29.2	30.7	26.1	41.3	44.7	44.0	54.6	57.0
Uganda	3.5	10.6	18.8	24.6	24.1	33.4	42.3	37.2	35.7	64.5	49.3	62.1
Asia	128.2	146.3	69.8	50.5	64.2	78.7	77.5	82.8	106.7	98.9	114.7	114.3
India	15.8	16.5	16.5	20.6	20.8	24.6	24.7	22.0	25.7	26.6	34.4	35.8
Indonesia	[illegible]2.7	119.0	38.8	14.6	29.1	39.1	39.1	46.8	61.7	57.0	63.4	59.1
Oceania[c]	5.1	5.6	4.6	5.2	3.5	5.3	4.9	5.6	5.7	5.9	7.1	6.4
World Total	2,[illegible]04	2,268	1,884	1,883	2,138	2,147	2,307	2,413	2,467	2,463	2,841	2,514
Shares (%) in world total of												
Latin America	90.0	87.9	86.4	85.0	85.4	83.0	82.4	82.2	80.0	78.1	77.8	75.0
Brazil	64.4	59.3	51.7	46.8	50.0	50.0	46.9	46.6	45.0	42.0	48.2	39.0
Other	25.6	28.4	34.7	38.1	35.4	33.0	35.5	35.6	35.0	36.1	29.6	36.0
Africa	3.2	5.7	9.2	11.4	11.4	12.4	13.3	13.7	14.5	16.9	17.1	19.7

Source: Grunwald and Musgrove, p. 321.

TABLE 5 (CONTINUED)

Country or Region	1957/58	1958/59	1960	1961	1962	1963	1964	1965	1966	1967
Latin America	2,473.7	2,732.6	2,945.0	3,447.7	3,431.4	2,919.1	2,274.8	3,138.8	2,611.0	2,750.0
Brazil	1,409.3	1,695.8	1,796.6	2,228.7	2,190.3	1,650.5	1,042.0	1,831.8	1,365.6	1,397.9
Colombia	468.4	462.0	462.0	468.0	468.0	492.0	450.6	492.0	405.1	474.0
Costa Rica	45.6	51.4	69.9	61.6	54.4	60.7	49.5	61.5	72.9	76.8
Cuba	43.6	29.5	42.0	37.0	58.0	28.5	36.0	27.6	27.0	27.0
Dominican Republic	35.8	32.4	35.4	36.1	34.1	41.4	40.5	36.9	30.3	38.1
Ecuador	30.4	32.3	35.2	53.5	55.5	42.8	50.1	66.2	74.4	67.0
El Salvador	81.3	92.8	93.7	122.7	96.6	121.9	123.0	109.2	123.0	138.0
Guatemala	81.0	84.0	98.7	100.5	108.0	105.0	97.8	123.0	100.2	108.0
Haiti	42.0	27.0	26.2	43.5	35.4	31.8	33.0	34.5	27.9	30.0
Honduras	18.6	18.2	24.0	21.2	27.6	28.6	28.8	35.0	20.4	28.8
Mexico	121.9	97.2	124.3	126.6	139.8	141.8	144.8	159.0	185.0	180.0
Nicaragua	21.8	21.0	23.5	22.7	27.7	29.5	31.4	27.9	28.8	33.0
Panama	2.7	3.8	4.1	5.1	4.4	4.5	4.4	4.4	5.1	5.3
Peru	18.3	21.3	32.5	42.6	45.0	48.7	52.7	48.3	54.0	51.6
Venezuela	50.3	61.8	55.1	57.0	54.2	60.7	56.1	54.4	61.0	61.8
Other countries[d]	2.7	2.1		4.8	6.0	7.9	9.3	10.2	9.2	9.8
Africa	527.2	620.0	817.5	753.8	933.9	1,027.5	1,014.8	1,184.7	1,036.5	1,145.0
Angola	77.1	87.9	166.2	168.6	185.0	168.0	186.0	205.0	198.0	204.0
Belgian Congo	43.1	53.8	54.0	54.0	66.0	66.0	57.8	59.3	54.8	60.7
Ethiopia	57.1	57.1	66.0	130.0	132.0	134.0	136.0	138.0	150.0	146.0
French West Africa	110.0	158.5[c]	187.6	186.3[c]	198.9[c]	176.8[c]	254.6[c]	279.5[e]	273.0[c]	237.0[c]
French Equatorial Africa	5.0	7.0	8.5	9.3	7.5	8.6	10.8	13.4	15.6	16.1
Kenya	21.2	23.8	37.2	19.6	26.8	28.7	23.8	26.0	24.4	28.0
Madagascar	48.0	45.6	50.5	44.5	61.0	51.5	51.2	55.0	58.0	58.0
Uganda	79.2	84.3	118.7	95.5	120.2	146.6	186.2	219.7	170.0	185.6
Asia	127.5	132.7	210.0	206.8	209.8	244.1	211.8	222.8	234.0	288.0
India	40.3	45.9	69.0	68.0	45.7	56.7	70.0	61.6	63.4	78.0
Indonesia	65.4	65.0	93.8	78.3	99.1	121.0	74.0	88.0	85.0	120.0
Oceania	6.5	9.0	4.0	4.4	5.3	6.4	6.4	6.4	6.4	6.4
World Total	3,143	3,516	3,980	4,423	4,588	4,205	3,516	4,560	3,843	4,190
Shares (%) in world total of										
Latin America	78.5	77.8	73.9	77.9	74.7	69.4	64.6	68.8	67.6	65.6
Brazil	44.8	48.3	45.2	50.3	47.7	39.2	29.6	40.1	35.5	33.3
Other	33.7	29.5	28.7	27.6	27.0	30.2	35.0	28.7	32.1	32.3
Africa	16.8	17.7	20.5	17.0	20.3	24.4	28.8	25.9	26.9	27.3

Sources: 1929/30-1956/57 – FAO, *The World Coffee Economy*, Commodity Bulletin no. 33, 1961. 1957/58-1967 – FAO, *Production Yearbook.*

[a]Total production, or total amount of coffee harvested, as estimated by the FAO; includes domestic consumption and exportable production (exports plus net change in stocks).

[b]Bolivia, Paraguay, and the Guianas. The other Western Hemisphere producers not included in Latin America are included in the world total.

[c]Includes Hawaii.

[d]Bolivia and Paraguay only; other Western Hemisphere producers included in world total.

[e]Ivory Coast only; other producers in former French West Africa included in African total production.

Source: Ibid., p. 322.

TABLE 6

LATIN AMERICA: INDICES OF DEFLATED PRICES OF SELECTED PRIMARY COMMODITIES, 1925-1964 (BASE 1956=1000: ALL PRICES DEFLATED BY THE U.S. WHOLESALE PRICE INDEX, BASE 1957=100)

	1	2	3	4	5	6	7	8
Commodity	Copper	Iron Ore	Lead	Zinc	Tin	Crude Oil	Crude Oil	Coal
Market	LME	U.S.A.	LME	LME	LME	U.S.A.		
Producing or Exporting Country		Brazil				Venezuela	Venezuela	U.S.A.
1925	555	1546	907	1101	975	921		778
1926	537	1927	814	1061	1125	925		905
1927	541	1090	665	930	1173	969		850
1928	612	996	573	815	912	707		777
1929	735	792	641	814	830	705		813
1930	587	592	549	598	621	794		885
1931	454		438	496	627	719		1004
1932	326		346	468	582	556		1060
1933	399	833	406	644	996	541		982
1934	389		398	588	1179	612		1016
1935	373		472	553	1104	591		926
1936	452	605	586	588	1005	603		918
1937	596	376	723	818	1107	608		883
1938	484	781	513	557	938	646		948
1939	469	711	485	538	1037	628		983
1940	577	793	692	848	1000	682		964
1941	547	617	622	761	960	664		974
1942	484	538	551	674	896	660		964
1943	463		526	644	856	716		963
1944	460		523	641	927	745		1003
1945	451		514	703	911	715		913
1946	492		865	921	854	677		1008
1947	677	445	1246	1218	922	775		645
1948	643	431	1294	1285	1082	1050		974
1949	614	571	1345	1356	1158	1112		1004
1950	604	565	1015	1355	1051	1037		936
1951	668	656	1388	1755	1363	914		907
1952	814	1155	1186	1549	1251	941	927	940
1953	797	1101	820	792	960	1033	1024	907
1954	788	931	861	831	947	1054	1036	876
1955	1103	993	938	963	971	1032	1032	920
1956	1000	1000	1000	1000	1000	1000	1000	1000
1957	647	1081	806	821	932	1028	1084	1012
1958	578	1067	602	651	895	1017	1024	969
1959	694	860	584	806	954	922	898	934
1960	717	820	588	866	966	912	865	902
1961	671	822	531	762	1081	926	872	913
1962	683	820	463	659	1088	915	849	911
1963	683	822	524	752	1109	916	835	904
1964	1023	759	832	1153	1511	910	809	917
Entire Period Average	626	873	721	858	996	822		928
(1) Average deviation from the average	15.7	22.7	26.3	26.2	12.5	18.8		8.5
(2) Average year-to-year variation	13.2	14.1[a]	17.5	16.5	10.8	6.4		0.6
Postwar Period[b] Average	755	876	843	1004	1077	979	943	935
(1) Average deviation from the average	16.4	17.0	52.2	26.8	11.8	6.1	8.9	3.4
(2) Average year-to-year variation	14.3	9.9	18.7	18.8	10.0	3.9	4.5	3.4

Source: Grunwald and Musgrove, p. 49.

	9	10	11	12	13	14	15	16
Commodity	Coffee	Coffee	Cocoa	Cocoa	Sugar	Sugar	Bananas	Bananas
Market	New York	New York	New York	U.S.A.		New York	U.S.A.	U.S.A.
Producing or Exporting Country	Brazil	Colombia	Ghana	Ecuador	Cuba			
1925	709	642	593	1094	1194	1211	625	
1926	668	676	740	1049	1241	1248	668	
1927	586	624	1065	1230	1469	1423	700	
1928	726	670	851	996	1231	1252	679	
1929	702	569	704	895	939	1140	690	
1930	462	495	603	932	742	1122	760	
1931	365	531	459	711	783	1318	869	
1932	498	434	435	731	606	1300	919	
1933	422	380	429	640	668	1409	924	
1934	452	454	447	635	613	1154	813	
1935	336	318	402	511	555	1165	762	
1936	348	324	542	573	550	1283	725	
1937	389	331	627	636	662	1151	665	
1938	300	333	426	538	643	1080	745	
1939	294	357	400	643	937	1119	791	
1940	277	251	418	681	714	1025	852	
1941	395	408	560	552	844	1117	780	
1942	411	383	581	623	1377	1094	715	
1943	393	366	555	582	1316	1046	718	
1944	390	363	551	610	1307	1038	759	
1945	389	357	542	643	1499	1023	779	
1946	468	413	618	831	1773	1097	752	
1947	538	482	1515	1416	1712	1208	665	
1948	510	481	1592	1485	1330	996	627	906
1949	650	583	912	1059	1377	1099	755	1046
1950	963	798	1303	1292	1586	1079	693	1064
1951	928	790	1294	1253	1621	990	744	954
1952	951	789	1327	1269	1226	1052	772	995
1953	1034	839	1411	1241	1017	1072	938	1014
1954	1403	1120	2193	2005	970	1036	951	1041
1955	1014	901	1414	1335	961	1009	990	1024
1956	1000	1000	1000	1000	1000	1000	1000	1000
1957	952	840	1089	1140	1441	996	932	1034
1958	798	678	1555	1491	964	987	925	939
1959	609	585	1282	1251	816	980	929	833
1960	602	580	994	970	862	988	897	819
1961	594	567	794	703	802	992	933	789
1962	560	527	736	816	816	1013		778
1963	563	513	889	901	2337	1288		725
1964	769	631	821	936	1612	1085		697
Entire Period Average	610	560	867	948	1103	1117	796	
(1) Average deviation from the average	33.7	29.0	40.2	23.7	30.8	8.4	16.0	
(2) Average year-to-year variation	14.7	12.7	22.6	18.4	18.9	7.0	6.0	
Postwar Period[b] Average	837	734	1188	1166	1213	1042	881	922
(1) Average deviation from the average	23.1	20.5	23.9	19.4	27.9	5.1	9.8	11.5
(2) Average year-to-year variation	14.9	22.8	22.9	20.9	24.0	19.0	4.9	5.2

Source: Ibid., p. 50.

planting rather than from a decline in world demand.[1]

Prices remained steady from 1955 to 1957 but fell dramatically from 1957 onwards. The result was reduced exchange earnings. Producing countries now turned toward international co-operation for a possible solution to low exchange earnings. The result was a series of witholding actions; beginning with the 1957 Mexico Agreement and ending with the 1962 International Coffee Agreement. The sequence of events which began in 1940 and which eventually led to the 1957 Mexico Agreement and subsequently to the 1962 International Coffee Agreement deserves some attention at this point.

Efforts at Regulating Production and Trade

July 1, 1963 marked the official beginning of the first long-term international agreement for the regulation of the marketing of coffee. With membership close to seventy countries, the Agreement was one of the most significant international economic agreements yet negotiated. Its provisions were to affect more than one and three quarter billion dollars a year in world trade with a vital and immediate impact on 20 million people in more than 30 countries and an indirect effect on hundreds of millions more. For Latin America and Africa with their great dependence on the exchange earnings from their coffee exports, the failure or success of this agreement would surely affect their economic and political future.

The four basic principles of this long-term agreement[2] were

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[1]Grunwald and Musgrove, p. 313.

[2]This Agreement in 1962 replaced a series of more limited short-term agreements which had begun with the 1957 Mexico Agreement.

(1) the stabilization of the price of coffee, (2) the promotion of consumption, (3) the bringing about of long-term equilibrium between the production and consumption of coffee and (4) the establishment of a policy relative to stocks. The most important feature of the agreement pertained to price stabilization and involved a comprehensive system of export quotas whereby the supply put on the market by exporting members would be equal to the estimated demand.[1]

The background and events which led up to the first long-term agreement for the regulation of the price of coffee, which included both producer and consumer participation on an equal basis, requires some examination.

In 1936 a Pan American Coffee Bureau was set up. Its main purpose was to both learn more about the coffee industry and to promote the consumption of coffee. Unfortunately, it was never designed to regulate supplies;[2] the result being that the years prior to World War Two did not witness the formation of any international agreement to deal with supplies surplus to normal market requirements. All attempts to regulate the market were made primarily by Brazil - at that time the producer of most of the world's coffee. These attempts, of course, were strictly interventions on a national basis. Brazil for a number of years had sought to stabilize the world coffee market by limiting its own exports, and where necessary, buying and accumulating stocks. As time passed, Brazil realized she could not control the market alone

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[1]Bilder, p. 328.

[2]Musgrove and Grunwald, p. 313.

and that unilateral efforts were expensive and ineffective.[1]

While effective international co-operation in the world coffee market had long been sought,[2] it took the outbreak of war in Europe to show the common interest of the America's and to bring about the truly international co-operative scheme for the regulation of the coffee trade and the support of coffee prices. In a political move, the United States, realizing how vital coffee exports were to the economies of these Latin American countries, joined with 14 Latin American producing countries to create the Inter-American Coffee Agreement of 1940. The aim was the mitigation of the difficulties created by the closure of the European markets.[3] For the first time artificial market control was more than a strictly Brazilian affair - a marked contrast to the unsuccessful attempts of the 1930's to extend the idea of market manipulation outside of Brazil.[4]

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[1]Between 1931 and 1944, Brazil destroyed over 78 million bags of coffee (the equivalent of world consumption for two and one-half years) in an attempt to maintain prices. Yet, prices still fell. See Bilder, p. 335.

[2]While the first international coffee conference had taken place in 1902, the most important obstacle which remained was the reconciliation of producer and consumer interests. While producers sought stability through keeping coffee prices at a sufficiently high level under varying market conditions, consumers also sought stable prices but at a level which would not discourage consumption. This conflict of interest was of course a barrier to the type of international collaboration which was sought.

[3]In the years before the war, the world coffee crop had averaged from 32 to 36.4 million bags with world deliveries having never exceeded 27 million bags. Of these 27 million bags, two-fifths had been taken by the European Continent. See "Latin American Coffee", Economist, 145, December 11, 1943, p. 780.

[4]Wickizer, p. 279.

In the first year of the agreement all worked well with over 16 million bags being delivered to the United States. The American entry into the Second World War in 1941, however, created difficulties as the war effort now restricted the shipping space available for the transportation of coffee. Permits became necessary for all coffee shipments to the United States. These were granted only if shipments of essential materials were not held back.

In both the 1941-2 and 1942-3 seasons only 13 million bags were delivered as compared to 16 million bags delivered in the 1940-1 season. This was due not only to a lack of available shipping space but also to small yields because of frost. Towards the end of 1943 the recurring problem of excess supplies had given way to a position of tight supply due to frost in Brazil in the summers of 1942 and 1943. This shortage finally reached a level which caused Brazil to abandon her sacrifice quota; the first time she had done so since 1931. This quota had at times represented as much as 15 per cent of total output.[1]

Generally, the 1940 Agreement was considered a short-term measure for it contributed nothing towards a solution of the fundamental problem of oversupply. Brought into force October 1, 1940, the initial negotiations called for the Agreement to run for a three year term. Because of the prolonged war effort and difficulties arising from postwar adjustment, however, the Agreement was extended on a yearly

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[1] "Latin American Coffee", Economist, 145, December 11, 1943, p. 780.

basis until September 1, 1948.[1]

An integral part of the Inter-American Coffee Agreement was the Inter-American Coffee Board, This Board stated in 1948 that there was no foundation to the thought that coffee surpluses would soon reappear. The Board, however, had not made its projections beyond 1950 as to do so was considered unnecessary. To have done so, though, would have resulted in a very different prediction.

Convinced that there was no threat of a growing surplus, the Board felt that international collaboration was no longer needed. It believed that all action should be on a national basis. The Board also felt sure that the wartime crisis had created certain enduring adjustments which would permit a more permanent equilibrium between production and consumption. The market would not be inundated by an unco-ordinated expansion of production.[2] The industry was considered to be in a position of prosperous maturity. Unfortunately, this was not to be the case.

In the immediate postwar period, production was increasing at a slow but steady pace. World demand, however, with the recovery of European consumption, was growing at a much faster pace. While world consumption in the war years had been about 20 per cent below total world production, consumption on a yearly basis by 1949 was outpacing production by about seven and a half per cent.[3] This deficiency was

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[1]Wickizer, p. 280.

[2]Ibid., p. 281.

[3]The Inter-American Coffee Bureau estimated consumption for 1949 at 32 and one-half million bags and production at 30 and one-half million bags. See "Brazil's Boom in Coffee", Economist, 157, November 12, 1949, p. 1071.

met from Brazil's surplus stocks. These, however, were exhausted by the end of 1949.[1]

The increase in demand and the consequent exhaustion of stocks, the stagnation of production[2] and adverse weather conditions resulted in a considerable rise in prices from 1946 to 1950. While in 1946, Santos number 4 on the New York spot market was 18.7 cents a pound, by 1950 the price had risen to 50.5 cents per pound (see Table 4). The increase in price from 33 cents per pound in 1949 to 50 cents per pound in 1950 took place as it became evident that there was a shortage of coffee. The shortage had been disguised until late 1949 by surplus stocks in Brazil. The exhaustion of these stocks revealed the true position of the market.

Sharply rising prices induced an increase in plantings in South America and Central America. These plantings, however, were only to reach the bearing stage three to four years later. From 1950 to 1953 the price of coffee remained at 54 cents per pound. Reports of frost damage in Brazil in 1953 coupled with the knowledge of deficient stocks caused the price to rise steeply in 1954. At one point in 1954 the

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[1] J. W. F. Rowe, The World's Coffee (London: Her Majesty's Stationery Office, 1963), p. 14.

[2] People often wonder why production should have stagnated even in 1949 when prices had risen considerably over wartime prices. First, the coffee industry had been depressed for more than 15 years. Farmers who had seen many a large crop destroyed because of excess supply took much convincing even with the higher prices that there was a genuine shortage and that new planting was desirable. Secondly, if supply had been equal to demand over this 15 year period, coffee trees would have been gradually replaced as they died off. This, coupled with considerable interplanting, caused a considerable delay before trees were at the bearing stage again. See Rowe, The World's Coffee, p. 15.

price almost reached one dollar per pound while for a month the price averaged 88 cents per pound. For the entire year the price averaged 78.7 cents per pound. It was not until the end of the year that the price finally fell below 70 cents per pound. The result of these high prices was a decrease in demand. In the United States imports dropped from 21.4 million bags in 1953 to 17.4 million bags in 1954.[1]

This postwar boom in coffee prices and the increase in demand diminished the need for any form of international co-operation. Although the coffee problem had again become disturbing by 1954 a proposal by the Organization of American States for an international agreement was not given consideration by the United States because of the prevailing high prices. As for the producers, the situation had not reached the point where they were overly concerned. Furthermore, it was felt that an effective agreement could not be negotiated within the framework of the Organization of American States alone as participation of both the European consumers and the African producers were considered to be essential to the success of any such proposed agreement.[2]

By 1955 the increased plantings of the early 1950's were at the bearing stage and world exportable production was once again in excess of world demand. This imbalance in the demand-supply relationship was to gradually worsen. The result was a decline in prices once

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[1]Rowe, The World's Coffee, pp. 14-5.

[2]Bilder, p. 336.

again.[1] By the end of the 1955 coffee year prices had slipped back to the price level prevailing in 1953. Once again Brazil began talking of burning her excess stocks. Colombia, meanwhile, forbade her exporters to sell their crop below the prices stipulated by a special committee. Both moves resulted in the price of coffee remaining stable until 1957.

The expansion of production and the decline in prices brought about renewed pressures in 1955-6 for some form of international collaborations[2] but it took the huge coffee crop of 1957-8 and the increasing conviction of a condition of chronic overproduction to bring the situation to a climax. In an attempt to secure some relief from the downward drift of prices, seven Latin American producers - Brazil, Colombia, Costa Rica, El Salvador, Guatemala, Mexico and Nicaragua - met in Mexico City in October, 1957. The outcome was the emergency short-term Mexico Agreement.[3] The countries just mentioned agreed to co-operate in a scheme of restrictive measures to limit output on the world market and thus prevent any further slide in prices. Based on an allocation of quarterly export quotas, each country was to retain a certain proportion of output and to limit shipments to a specified amount set by market requirements. Ten per cent of the total crop was to be shelved and the exports were to be rationed over two periods - November 1957 to March 1958 (main selling season) and March 1958 to November 1958.

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[1] Ibid., p. 334.

[2] Ibid., p. 336.

[3] Ibid.

The alarm of the South and Central American farmers was understandable - the drop in price from 80 cents to 60 cents per pound of coffee represented a difference in total revenue of 600 million dollars per crop.[1] Yet, while the African share of world output had risen to almost 20 per cent by 1957,[2] there had been no consultation with the African producers over the drafting of the Mexico Agreement. That there was nothing really very international about this first agreement was soon realized.

Aware that this agreement had failed in its attempt to curb exports effectively, representatives from all the producer countries, including the African countries for the first time, and a number of consumer countries met in Rio de Janeiro in January, 1958 with the hope of resolving the export problem. All participants came to the conclusion that an International Coffee Organization should be set up and paid for by a levy on each bag of coffee exported. This conference and the newly created organization was not expected to be a success, however, for, while the African producers agreed to co-operate with the

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[1]"Central America Fights a Glut", Economist, November 9, 1957, p. 529.

[2]The African crop continued to grow at a faster pace than the Latin American crop for the next few years. Most of the coffee grown in Africa is of the Robusta variety. Robusta trees take only three years to reach the bearing stage while Arabica trees take seven years to mature. Prices received were very favorable as most of the African Robusta crop was being used for instant coffee. African planting, therefore, continued at a vigorous pace due to the high prices [see "Producers Get Together", Economist, 186, March 15, 1958, p. 972] and output increased quickly due to the short growing period needed. The outcome of this heavy planting would be seen later - especially with regard to Africa's changed attitude on control schemes.

Central and South American coffee producers in promoting the sale of coffee, they would not consent to curbing exports of coffee from their countries.

Meanwhile, the United States which, for obvious reasons, was becoming increasingly aware of, and involved in, the problems of the developing countries of Latin America and Africa, began to take a serious interest in the "Coffee Problem".[1] In 1958, on the initiative of the United States, a Coffee Study Group was set up with its headquarters in Washington, D.C. Membership included more than 20 producing and consuming countries. This Group had to consider (1) the immediate problem of rapidly declining prices and (2) the problem of long-run disequilibrium.[2]

In the summer of 1958, 15 of the Latin American Producers negotiated and signed the Latin American Coffee Agreement. Like the preceding Mexico Agreement, this agreement was based on a system of export quotas. It was expected that prices would be prevented from falling any further as the exports from these 15 countries represented 70 per cent of the total world trade in coffee. But problems of disequilibrium continued to persist for, while world exportable production reached 52 million bags, imports from the same period were only 41 million bags. The carry-over now passed the 40 million bag mark; up one-half from the previous year. Not an international agreement,

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[1]It should be noted that in part, Castro's Cuba had something to do with the changed position of the U.S. See J. Levinson and J. de Onis, The Alliance That Lost Its Way (Chicago: Quadrangle Books, 1970), p. 133.

[2]Bilder, p. 337.

this agreement was like the Mexico Agreement in that it was an emergency stop-gap measure designed to allow more time to study the problem. A solution to the problem was the hoped-for result. But an immediate solution was not in sight, for again the African producers did not join this agreement. While France and Portugal agreed to impose export quotas on all green coffee exports from their African territories, this still left out about one-half of all the African coffee exported - especially the production and export from British East Africa.[1]

Mid-way through 1959 the price of African robustas began to fall sharply. Prices fell, rose slightly, then continued their downward slide again.[2] It was this fall in robusta prices that made the African producers show some interest in the regulated marketing procedures used by the Latin American Coffee Agreement.

Further work by the Coffee Study Group during this period resulted in proposals to replace the Latin American Coffee Agreement by a new and somewhat more comprehensive short-term agreement. The result was the agreement known as the International Coffee Agreement. Beginning in October, 1959, it was to last for one year. Again, specific quotas were given to each participant. This time, though, participants had a choice of either (1) 90 per cent of exports in the best year between 1949 and 1958 or (2) 88 per cent of the current estimate of exportable production for any country having less than two million bags of exportable production.

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[1]"The Troubles of Coffee", Economist, 189, October 11, 1958, p. 178.

[2]Wickizer, p. 294.

For the first time non-Latin American producers were represented and took part in the new agreement. France and Portugal signed the Agreement on behalf of their overseas territories as well as the 15 former members of the Latin American Coffee Agreement. Consumer countries, however, were still not a part of the agreement; thus limiting its overall effectiveness.[1]

While some of the African countries were now a part of the International Coffee Agreement, the remaining African producers were not overly enthusiastic about joining this Agreement. Rather, in a defensive move to counteract the dominant position of the Latin American countries in the International Coffee Agreement, the African producers, meeting first in Paris in September and October of 1960 and in Madagascar in December, 1960, agreed to set up an Inter-African Coffee Organization which would include all African and Asian producers. Meeting again in Paris in January, 1961, the participants recommended strong measures for the defense of robusta coffee prices.[2] No consideration was given to the idea of defending coffee prices in general.

More than ever it was now realized that full co-operation would be needed if any commodity agreement in the near future were to be considered successful. Brazil had learned her lesson the hard way during the 1930's and was still attempting to get the co-operation of all the producers including the abstaining African producers. The events of the past few months, however, made the task more difficult.

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[1]Bilder, p. 337.

[2]Wickizer, p. 294.

This lack of co-operation now made people very cynical as to the success of any short-term agreement in the near future.

While many felt that the limited aims of the International Coffee Agreement had been attained - price stability having been partially achieved - little had been done to alleviate the stock problem.[1] By the end of the 1959-60 coffee year, world stocks were equivalent to consumer demand for 18 months. Nonetheless, the 1959 Agreement was thought to have been successful enough to renew it for another year, or until October 1, 1961. The Agreement now affected 94 per cent of the world's exportable production as 8 more independent African producers now joined.[2]

Stocks during the second year of the International Coffee Agreement continued to mount. By the end of the 1960-1 coffee year the carry-over of stocks was estimated at 64 million bags, 45 million of which were in Brazil. Net exports at this time were running at about 44 million bags per year with exportable production at 52 million bags per year. To complicate matters, the 1961-2 coffee year produced a bumper crop of 75 million bags. While exportable production increased to 59 million bags, import requirements increased only slightly. The gap between production and consumption would obviously widen.[3] Fear

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[1] L. Baranyai and J. C. Mills, International Commodity Agreements (Mexico, 1963), p. 156.

[2] The export restrictions accepted by the African producers were no more than marginal. It was the drastic fall in prices of robusta coffee after 1959 that finally convinced the African producers to accept a larger measure of export restriction. See "Keeping Prices Up", Economist, 197, October 1, 1960, p. 81.

[3] Baranyai and Mills, p. 159.

was expressed that the world surplus could go as high as 80 million bags - enough to supply world needs for two years.[1]

What was needed was more than stop-gap measures. Despite the ambitious nature of the short-term agreements, the broad producer membership and the partial success in stopping the downward drift of prices, the Coffee Study Group realized that such an agreement was an inadequate solution to the basic coffee problem. Not only had quotas been set at too high a level to be effective but the basic quota arrangements had also been violated because of (1) importing countries not being members of the Agreements and (2) a lack of certain agreed definitions on the quota sizes. Not having dealt with the production issue in these countries, the agreements to date were really no more than temporary palliatives.[2]

The Coffee Study Group realized the position that the coffee market was in and quickly concluded that no effective long-run solution would ever be brought about without a truly global pact. What was really needed now amidst overproduction, mounting stocks and a steady downward pressure on prices was a scheme in which there would be realistic quotas, consumer and producer participation and on an equal basis and a genuine attack on the problems of overproduction and underconsumption.[3] Many felt that the time was right for such an agreement, as the succession of one year marketing agreements seemed to have

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[1]Wickizer, p. 283.

[2]Bilder, p. 338.

[3]Ibid.

lessened the friction between the producer and consumer interests.[1] But while such appeared to be the case, the key element in any long-term agreement for the coffee industry was still the participation of the United States.

By 1960, the Latin American share of U.S. imports had fallen to its lowest level since the end of the Second World War. Lower prices for traditional primary products had reduced the value of U.S. imports from Latin America. This decline in the exchange earnings and the eventual depletion of the financial reserves of these Latin American countries led to a decrease in their purchases from the United States.[2]

How would the United States react to this turn of events? The answer came in March, 1961 when the late President Kennedy in an Alliance for Progress speech said in part:

> ... the U.S. is ready to co-operate in serious case-by-case examinations of commodity market problems. Frequent violent changes in commodity prices seriously injure the economies of many Latin American nations, draining their resources and stultifying their growth. Together we must find practical methods of bringing an end to this pattern.[3]

The United States now clearly realized the close relationship between the position of the international coffee market and the general problem of economic development in coffee-growing countries. The forces had now been marshalled. The stage was set for the global solution to the

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[1]Producers considered these agreements a useful way of stopping the downward slide in coffee prices and export earnings while importers seemed content with a price level roughly half that of the 1954 peak. See Wickizer, p. 285.

[2]Wickizer, p. 278.

[3]Bilder, p. 338.

coffee problem. Events consequently began to move swiftly. By December, 1961 a tentative draft agreement had been completed and distributed to all 34 members of the Coffee Study Group and 15 other countries for comment. Meanwhile the International Coffee Agreement was extended for one more year.

In March, 1962 the members met to consider this first draft of the proposed long-term International Coffee Agreement. One of the problems which arose was that of some countries feeling that they should not be subjected to the same quotas as all the other countries. Other difficulties involved the tax issue in Europe and the lack of agreement on the role of price provisions and the relationship to quotas. Aside from this it was concluded that the December draft was a reasonable basis for negotiation. The follow-up was a request to the Secretary General of the United Nations to convene a formal international conference for that summer.[1]

This United Nations Conference was attended by representatives from 58 producer countries and observers from 13 more. The governments of 54 countries had indicated their intention to join by November 30, 1962. Ratification required at least 20 exporter countries constituting 80 per cent of world exports and 10 importer countries constituting 80 per cent of world imports. Final ratification by the U.S. Senate on May 21, 1963 ensured that the new long-term International Coffee Agreement would replace the series of short-term annual agreements.

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[1] *Ibid.*, p. 340.

The Agreement became effective July 1, 1963.[1]

In the preamble to the Agreement it was emphasized that one of the aims of the Agreement would be

> ... close international co-operation on coffee marketing [to] stimulate the economic diversification and development of coffee-producing countries ... thus [contributing] to a strengthening of the political and economic bonds between producers and consumers ...[2]

The objectives, therefore, of the 1962 International Coffee Agreement were (1) the furtherance of international co-operation on world coffee problems, (2) the achievement of a reasonable balance between supply and demand over the life of the Agreement, (3) the alleviation of serious hardships due to burdensome surpluses and excessive fluctuations and (4) the assistance in increasing the purchasing power of coffee in the coffee-exporting countries.[3]

The Agreement was an export restriction scheme (like the previous agreements) but with price provisions to increase its effectiveness. Quotas were set for three years, although the Board had the authority to change them as world coffee prices changed. Producer countries were to adjust their production in line with the size of their respective quotas during the lifetime of the Agreement. The method by which this would be accomplished was strictly the concern of the respective countries. No consideration was given to an overall eradication plan.

One of the most important points in the Agreement was the

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[1]Wickizer, p. 273.

[2]*Ibid.*, p. 286.

[3]Havilland, pp. 14-5.

participation of consumer countries for the first time. Their special obligation was

> the prevention by non-member countries from increasing their exports at the expense of the members, each importing member to limit its total annual imports from non-member countries, as a group, to a quantity not in excess of its imports from such group during any one of the coffee years (1958-9, 1959-60 and 1960-1).[1]

The 1962 International Coffee Agreement was therefore the culmination of efforts at the international level to solve the problem of the decline in prices and persistent overproduction; problems which had affected the market for more than 40 years.

[1] Wickizer, p. 296.

CHAPTER IV

Experience With The International Coffee Agreement

The Early Years

The 1962 International Coffee Agreement is as comprehensive and automatic in operation as can be expected of a scheme which involves 61 countries[1] with varied capacities, costs and interests. The negotiation and conduct of such an agreement represents a considerable achievement.[2] In spite of supply controls, the agreement is still able to retain flexibility with respect to the development of new markets, changes in demand and freedom of trade within the alloted quotas.[3] While production controls were not imposed, allowance was made for such a recommendation after one year's duration of the agreement; the aim of course being the equalization of output with consumption.

The quota agreed upon for the first three years of the agreement was 45.6 million bags. This was allocated among 36 producer countries.[4] Latin America's basic quota was 31.1 million bags. Brazil's share of this quota was 18 million bags. Estimated exportable production from

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[1]As of mid-1967, of the 61 countries, 38 were exporting counties and 23 were importing countries.

[2]To get both sides together on an issue aimed at keeping prices up was quite something.

[3]Musgrove and Grunwald, p. 316.

[4]"The New Force", Economist, 204, September 1, 1962, p. 832.

Latin America was 38.4 million bags.[1] Africa's quota was 11.4 million bags. Estimated exportable production was 12.9 million bags.[2] These export quotas were based on the performance of the various coffee-growing countries during the previous four years. Basic quotas were not to be changed for three years.[3] However, there were provisions for year-to-year overall adjustments.[4] Such was possible through the establishment of an "annual quota" which was expressed in terms of the total quota. Thus, for the first year of the agreement, the annual quota was set at 99 per cent of the 45.6 million bags. That is, the permitted quotas[5] for each country during that year was 99 per cent of its "basic quota".[6]

The first annual international coffee conference after the

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[1]It should be noted that the Latin American producers accepted small quotas compared to their output. The aim was to encourage most of the coffee-growing countries to join the agreement.

[2]In 1959-60, Africa's production represented 14 per cent of the total coffee crop. By 1963-4, it had increased to over 24 per cent. In 1964-5, because of the sharp decline in Brazilian production, it went to 30 per cent. With the recovery of the Brazilian crop in 1965-6, Africa's share fell to 25 per cent. See "Latin America's Coffee Problem", Bank of London and South America (January, 1966), p. 8.

[3]"The New Force", Economist, 204, September 1, 1962, p. 832.

[4]The annual export quotas are established by an International Coffee Conference during the month of August for the following coffee year beginning on October 1. These are based on estimates of global world imports adopted by the Council of the Agreement. See Spenser, C. C., "World Situation and Outlook for Coffee", Agricultural Producers and Their Markets, T. K. Warley, ed. (Oxford: Basil Blackwell Press, 1967), p. 114.

[5]For the 1963-4 coffee year, the per cent was raised to 102.15 while for the 1964-5 coffee year it was raised again slightly to 102.67. See "Latin America's Coffee Problem", Bank of London and South America (January, 1966), p. 15.

[6]Kravis, p. 305.

singning of the 1962 Agreement was held in August, 1963. One of the main topics of concern was the extent to which consumer countries were willing to go in honouring the spirit of the Agreement. That is, how far they were willing to go to control imports. Although there was talk of "certificates of origin", these, as will be seen, were not to come into force until later.[1] The issue of the tariff and internal tax position in Europe was also raised.[2] It was felt by the producer countries that the interest of the consumer countries was only half-hearted while they continued to use internal revenue duties.

An Attempt at Greater Price Stabilization

Between 1960 and 1966 one may say that the short-term objectives of the International Coffee Agreement were met.[3] But the International Coffee Agreement, from 1962 to 1964, still faced the task of keeping excess supplies of the world market.[4] This attainment was greatly aided

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[1]"International Blend", Economist, 208, August 3, 1963, p. 456.

[2]Of course, the former African colonies of the Six were in a favored position for they were associate members of the European Economic Community. See Ibid.

[3]However, while the quota allocations under the Agreement has given some stability to the coffee market, the resulting general price level has not been a true reflection of the statistical position. For due to the favorable prices paid, stocks have been mounting in the producing countries. In 1964 world stocks were in excess of 50 million bags. Over the next three years an additional 15 million bags would be added. See Kravis, p. 301.

[4]Exportable production increased by 38 per cent between the 1957-8 and 1965-6 coffee seasons. (The actual increase was from 46.2 million bags to 63.8 million bags.) Consumption (measured by imports) over the same period increased by only 29 per cent (from 36.9 million bags to 47.4 million bags). Consumption growth since the war has been about 2.6 per cent per annum (the average growth since 1947). See Kravis, p. 299.

not only be recurring frost and drought in Brazil but also by the surpluses being held mainly in Brazil and Colombia - countries which were able to both hold and finance them.[1] But while the Brazilian stocks were considerable, they were ageing. With little guide to the true reserves of high grade coffee, a fear of a shortage of "quality" coffees in the early 1960's led to price increases. By the 1964 coffee year the annual average price was 10 cents per pound higher than in 1963 for mild arabicas, 12 cents per pound higher for Brazils and almost 8 cents per pound higher for robustas. Total earnings were raised from 1,800 million dollars to 2,400 million dollars over the 1962-4 period; a level which has been maintained.[2] (See Chart 3.) World consumption was expected to reach 50 million bags but quotas for the year were set at 47.5 million bags.[3] The United States pressed for quota increases in order to create lower prices for her consumers but without success.

Under the 1962 Coffee Agreement, the world coffee market had been shared out amongst the producers as the market allocations stood in 1962.[4] While a greater demand for robusta coffee than was permitted to be released under the quota system soon developed, little could be officially done to rectify the situation.

In March, 1965, an important step was taken in an attempt to

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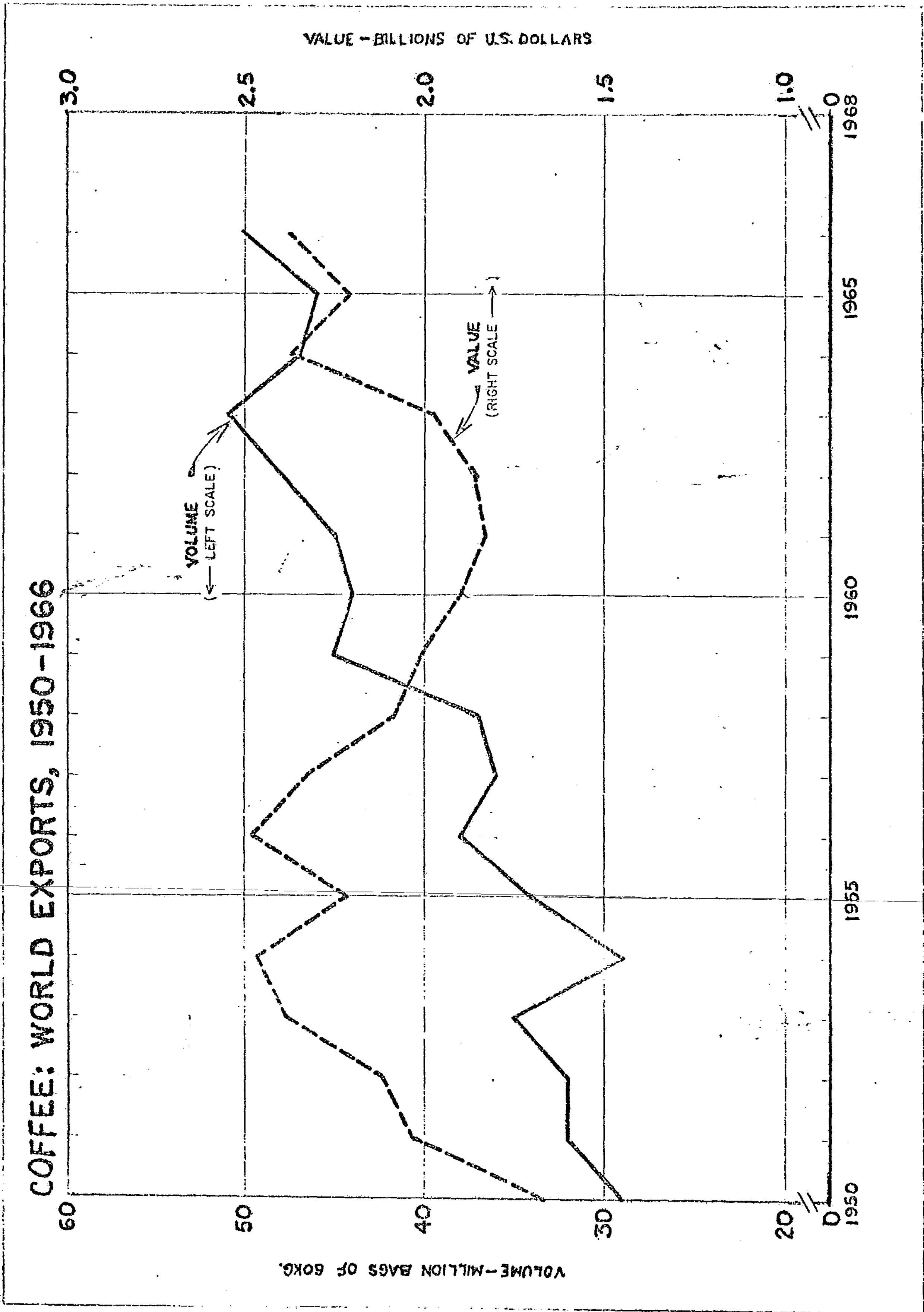
[1]"An Awful Lot of Coffee", Economist, 221, December 3, 1966, p. 1048.

[2]Musgrove and Grunwald, p. 316.

[3]"America Signs On", Economist, 210, January 18, 1964, p. 233.

[4]Kravis, p. 307.



Source: I.M.F.-I.B.R.D., The Problem of Stabilization of Prices of Primary Products, Washington, 1969.

create a greater stabilization in the coffee market. To do so, the International Coffee Council introduced a functional relationship between the size of quotas and the overall price level. This involved a system of semi-automatic adjustments of quotas, from 6 per cent in the first quarter to 1.5 per cent in the final quarter whenever the daily indicator price (calculated by averaging daily prices for mild, Santos number 4 and Robusta coffees) remained outside an agreed price range for 15 consecutive market days.[1] For the remainder of the 1964-5 coffee year, the price range was set at 38-44 U.S. cents per pound. When prices fell below the lower limit in April/May, 1965, quotas were reduced by 4.5 per cent - the maximum amount permissible for the second half of the 1964-5 coffee year.[2]

This obviously was a better effort at stabilizing prices. Furthermore, it necessitated a greater effort at agreement on "equitable" prices - something on which agreement had not been possible when the 1962 International Coffee Agreement was negotiated.[3]

While this indicator price system worked well with reasonable success, it was decided in October, 1966 to break it up into four parts in order to bring about a greater stabilization of prices. Under this multiple indicator price system quotas were to be adjusted for each of the four different categories of coffee in accordance with their own indicator price. As the system stood in mid-1967, an upward or

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[1] "Latin America's Coffee Problem", Bank of London and South America, 1 (January, 1966), p. 16.

[2] Ibid.

[3] Kravis, p. 307.

downward adjustment of total export authorizations by 2½ per cent for any type of coffee could take place if its indicator price exceeded or fell below the specified limit for 15 days. The categories and limits as of mid-1967 were as seen below.

Category	Cents per Pound
Colombian milds	43.5 - 47.5
other milds	40.5 - 44.5
unwashed arabicas	37.5 - 41.5
robustas	30.5 - 34.5

Source: Kravis, p. 307.

This new multiple indicator price system now recognized consumer preferences and accounted for them by altering the quantities of the various kinds of coffee placed on the market.[1] Attention was now focussed on each major type of coffee and on the fortunes and policies of the producing regions associated with each.[2]

In these schemes the robusta producers were the main beneficiary of quota revisions before the division into four groups.[3] Even after the division into four groups in 1966 they continued to gain at the expense of the arabica producers. This was due in part to a lack of discipline by the small producers of robusta coffee. Important was the reflection of a continual movement toward robusta beans because of lower

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[1] C. F. Marshall, "World Coffee Problems", Bank of London and South America, 3 (October, 1969), p. 618.

[2] Kravis, p. 308.

[3] The former price gap between African robusta coffees and Brazils had been roughly halved by 1963. Robusta prices had increased from 148 pounds per ton to 198 pounds per ton.

prices (relative to Brazils and milds) and the favorable characteristics for soluble coffee (a separate issue to be discussed later). This movement toward robusta coffee prompted the Latin American producers in August, 1969 (at the yearly Council session) to pursue a policy of attempting to lessen the power of the selectivity principle. While this policy objective was opposed by both the robusta producers and the consuming countries, the Latin American countries did gain some concessions.[1]

The Tourist Coffee Issue

While the world output of coffee had been approximately 4 million tons between 1960-1 and 1963-4 (crop years), world output in the 1964-5 crop year was only 3 million tons. In the 1965-6 crop year production recovered with output surpassing 4.5 million tons. This production recovery was due in part to the favorable prices paid to producers. The profitability of coffee production, relative to the profitability of other crops in most of the coffee-producing countries, was favorable. Unfortunately, there was no international mechanism to reduce the incentives to planting coffee; rather, there was an unintentional encouragement to planting coffee trees.

This production recovery in 1965 soon led to problems of storage and financing. Many of the smaller producers now felt they should be entitled to larger quotas as they now had considerable unsaleable surpluses. Many producer countries were already exporting quantities in excess of their quotas. A failure to allow some increase

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[1]Marshall, p. 621.

in quotas would surely lead to an even greater effort to export quantities in excess of allowable quotas. Due to the pressure of overproduction as well as a lack of agreement on the revision of the basic export quotas, the International Coffee Organization agreed in December, 1965 to permit 22 exporting countries to exceed their quotas for the 1965-6 coffee year, thereby adding 1.4 million bags of coffee to the annual quota of 43.7 million bags.[1] Such action was not, however, to be regarded as prejudging the issue of future quotas, for these waivers were to be suspended if prices fell below specified levels.[2]

Although this pressure of overproduction appeared to threaten the existence of the Agreement, a more serious problem soon emerged. Through a loophole in the International Coffee Agreement rules, these unsaleable surpluses led to the "tourist" coffee[3] problem. In accordance with a coffee promotion program to be financed by the exporting members, the 'loophole' was the permission to sell unlimited amounts of coffee in designated "new market" areas (more than 30 Afro-Asian and Soviet Bloc countries with low per capita coffee consumption and therefore

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[1]It should be noted that Brazil, Colombia and Mexico voluntarily agreed not to exceed their respective quotas. By so agreeing, Brazil forced herself to add nearly 12 million bags to her stocks. The cost to the government was in excess of 250 million dollars. See "An Awful Lot of Coffee", Economist, 221, December 3, 1966, p. 1048.

[2]But this expansion of the global quota forced prices steadily downward during 1966. The result was two quota decreases for non-Colombian coffee (mild arabicas) and a quota decrease for Colombian coffee. The latter took place early in 1967. See Musgrove and Grunwald, p. 316.

[3]This "tourist" coffee problem involves the transshipment of coffee through other countries (those who are not a part of the Agreement) to escape being charged to a quota.

potential for expansion). This permission soon resulted in a complication of the control over the destruction of coffee. Considering the number of countries in the Agreement and the wide variety of coffee grades, there was considerable scope for cheating. Coffee destined for these "new markets" was ending up in the high-priced markets of the importing-member countries. While some of this coffee was covered by waivers, much of it was in violation of the Agreement. In time this led to the idea of smuggling coffee into non-member countries for deliberate transshipment to member countries. In doing so the claim was made that this coffee was grown in and exported solely by the non-member country.[1]

This "tourist" coffee problem has been an important issue in recent years. It has been estimated that in one year alone 3 million bags of "tourist" coffee were in circulation. To try and combat this problem, the International Coffee Organization undertook to improve the system of surveillance over export quotas. Importing countries were now relied upon to make the export quota system effective by curbing over-shipments. All exports under the quotas were now to be accompanied by a certificate of origin. These were to be issued by the exporting country, with copies going to both the importing country and the International Coffee Council. Importing countries thus were relied upon not to permit the entry of coffee from any other member country without a certificate of origin or a certificate of re-export. Finally, the importing countries were expected to restrict imports from all

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[1]Kravis, p. 305.

non-member countries to predetermined levels.[1]

While the system of monitoring the quotas of the exporting countries worked reasonably well, there were still difficulties. In an attempt to tighten the system even more, a stamp system was introduced in April, 1967. Under this stamp system, certificates of origin now were to be valid only if they had a quantity of International Coffee Organization-issued stamps affixed to them, equal to the amount of coffee covered by the certificate. Even with this new system, however, there have still been large-scale irregular diversions of non-quota coffee. Tourist coffee has continued to be difficult to trace with as much as 500 million dollars a year evading the Agreement.[2] Fortunately, while the production of rubber, wool and tea is controlled by a few dominating countries who are able to co-ordinate their interests without too much difficulty, such is not the case with coffee. With the coffee-producing countries it would take only one of them to put an end to the entire Agreement. This, of course, has been a factor of major consideration when considering the tourist coffee issue and that of soluble coffee - an issue to be taken up next. Both of these issues could still prove to be disasterous to the International Coffee Agreement, if appropriate action is not taken.

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[1] Ibid.

[2] One example took place in July, 1970 when Uganda was caught trying to sell 100,000 bags of coffee through Rumania. While she was caught many others have been luckier.

The Case of Soluble Coffee

Nearly all the coffee exports from Latin America are in the form of green beans. Latin America, particularly Brazil, in recent years had been accepting a gradually decreasing share of the green coffee market. Since the mid-1950's Brazil's role as the main supplier to the world coffee market had declined considerably. Offsetting this decline has been the steady growth of the African robusta producers. This is evident from the table on the next page.

This development in the coffee market led to the "soluble" coffee issue; an issue which had a definite effect on the shape of the coffee market as well as on the initial agreement itself. The immediate end result of the disagreement over whether soluble coffee exports from Brazil should be allowed into the United States (at a lower price than the Americans could produce the same instant coffee from imported beans) was the writing of an entirely new section of the renewed International Coffee Agreement, which became effective on October 1, 1968. The new article prohibited any member of the Agreement from exporting instant coffee or other processed coffee under more favorable conditions than those under which it could export green coffee.[1] The new article also provided for an independent body to arbitrate in all

[1]Brazil, therefore, had a choice. It could either impose a tax (about 17 cents per pound) on its instant coffee exports to make them comparable in price with its green coffee exports. Or it could abolish the tax on its green coffee exports to make them comparable in price with its soluble coffee exports. The latter, however, did not seem realistic because of the foreign exchange loss which would inevitably result.

TABLE 7

PERCENTAGE OF THE WORLD COFFEE MARKET SUPPLIED BY BRAZIL AND AFRICA: 1947-67

	Percentage of Market	
	Brazil	Africa
1947	51	14
1952	49	16
1956	43	23
1961	39	26
1962	35	28
1963	40	26
1964	31	30
1965	30	32
1966	33	31
1967	34	30

Source: A. J. Cordell, "The Brazilian Soluble Coffee Problem: A Review", Quarterly Review of Economics and Business, Volume 9, Number 1, 1969, p. 29.

disputes involving instant and other processed coffee.[1]

While the above was the immediate solution, how did this initial disagreement and eventual agreement evolve? It is worthwhile to pause for a moment and examine the details.

By 1963 the Brazilian authorities had decided that her decreasing role as the main supplier to the world coffee market should at least be halted if not refersed. Brazil felt that if she were mainly responsible for holding up the price umbrella, then she ought to be entitled to recapture "her share" of the world coffee market. Three options were open to Brazil. She could (a) lower prices and create a price war - hoping by so doing to drive the others out of the world coffee market, (b) stress better quality coffees, or (c) differentiate its product. The latter option was chosen. The strategy would be to process the green beans at home and sell instant coffee in the U.S. domestic market.[2]

Contrary to public belief, instant coffee production in Brazil was not exactly novel. The first plant for the processing of green ~~beans into instant coffee had been built in the region in the 1950's.~~ Its product, however, had been strictly for domestic consumption. What was novel, though, was large-scale production with the emphasis on export to existing markets. The aims were to capture extra foreign exchange and to offset the growing imports of robusta beans into the consuming countries for the making of soluble coffee. The main target

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[1] The New York Times, February 20, 1968, p. 63.

[2] Cordell, p. 31.

was to be the United States.[1]

Set into motion in 1964, this policy stimulated the building of processing units in Brazil for the processing of the green beans. By 1965 there were 20 of these processing units in operation, while several more were in various stages of planning and construction. While in 1965, soluble coffee exports from Brazil were supplying less than one per cent of the U.S. market, by 1967 they were supplying 14 per cent of America's instant coffee.[2] For coffee-growing countries taken as a group, it was estimated that 600 to 700 million dollars had been added to their export earnings since 1961-2.[3] The extent to which soluble coffee was exported from Brazil to the U.S. can be seen from the table on the next page.

This export of soluble coffee from Brazil to the U.S. soon led to a serious conflict of interest between the two countries. At one point the conflict was so great that it was felt that the entire coffee agreement would founder after its first five year pact unless a compromise could be reached between the American and Brazilian interests.

Basically, the dispute centred on the amount of Brazilian soluble coffee exports that could enter the United States. The U.S. processors objected to inroads in the American market by the Brazilian soluble coffee imports. This ability of the Brazilians to export soluble coffee was attributed to tax advantages advantageous to the Brazilian

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[1]Musgrove and Grunwald, p. 311.

[2]"The Price of Instant Coffee", Economist, 226, February 3, 1968, p. 52.

[3]The New York Times, February 20, 1968, p. 63.

TABLE 8

EXPORTS OF SOLUBLE COFFEE IN POUNDS FROM BRAZIL
TO THE UNITED STATES, 1964-9

	Soluble Coffee Exports from Brazil to the United States (in pounds)
1964	33,000
1965	275,641
1966	5,996,349
1967	22,330,466
1968	18,862,589
1969	28,218,851

Source: (1964-7), Cordell, p. 32.

(1968-9), U.S. Bureau of the Census, _U.S. Imports for Consumption and General Imports_.

operation and to access to certain low-priced green coffees which the government would not permit to be exported. The American processors felt that these Brazilian exports of cheap instant coffee were slowly putting them out of business.

At this point one must remember that, unlike with the case of the green beans, exports of Brazilian soluble coffee were not subject to price controls. The Brazilians could purchase low quality "grinders" at 5 cents per pound for conversion into instant coffee. The cheapest grade of coffee available to the American processors was the harsh African robusta. The cost is at least 20 cents per pound. The cheapest grade of Brazilian coffee available to the U.S. cost 31 cents per pound. Thus a 132 pound bag of the cheapest Brazilian grade cost $40.92 American. Of this only $15.37 goes to the farmer and the one who markets it. The other 60 per cent, the "contribution quota", goes to the government.[1] It was only natural that the Brazilians could produce instant coffee for the American market at a much cheaper price than could their American counterparts.[2]

The U.S. producers, with a certain amount of Congressional backing, fought adamantly on this soluble coffee issue. The debate often became heated.[3] What the Americans demanded was comparable

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[1]The New York Times, November 27, 1967, p. 78.

[2]To many, such a move seemed to run counter to the Coffee Agreement; the design of which seemed to have been the controlled export of coffee.

[3]This conflict of interest naturally represented a major irritant in the relations between the two countries. At one particularly heated session, the Brazilians asked if perhaps the U.S. were going to send the Marines in.

access to the green coffee beans that Brazil was using. The Brazilians' reply was embodied in two concessions. They promised to (a) impose a freeze on any additional plants for the processing of green beans into instant coffee, and (b) raise the price of green coffee to her processors.[1] This being unacceptable to the Americans, the U.S. then insisted on the right of unilateral determination. Brazil countered by demanding multilateral determination (she felt she could successfully block any move against her due to the size of her voting power).

While the issue on the surface was centered on the imports of soluble coffee, the argument really went deeper. It really concerned the issue of the industrialization of commodities; that is, the partial processing of raw materials by less-developed exporting countries in order to increase their export earnings. The question was how far the industrialized nations were willing to go.[2] In a sense, we have come back to the tranformation problem.

The Coffee Diversification Fund

As a longer-run solution to the coffee problem, producer countries in the International Coffee Agreement were to adjust production to world needs. While each country was responsible for the method of achieving this goal, all, or lack of, progress (as the case may be) was to be reported to the Coffee Council. As part of the overall process, the Coffee Council was to have determined production goals for each producing country. This was to have taken place within one year of the

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[1] The New York Times, February 20, 1968, p. 68.

[2] Ibid., p. 63.

start of the Agreement in 1962 but a lack of power by the Council prevented any real action being taken on these production quotas. Attention, consequently, turned toward the concept of a coffee diversification fund.

Diversification schemes until the middle nineteen sixties were primarily national efforts. The breakthrough came in November, 1965 when the International Coffee Organization reached an agreement with the International Bank of Reconstruction and Development and the Food and Agricultural Organization of the United Nations for a study on the needs and possibilities of replacing coffee with other crops in producing countries. In 1968 the renewed International Coffee Agreement instigated a diversification fund for the provision of financial resources for a shift from coffee. This was considered essential; especially since the International Coffee Organization quotas were now to be more firmly enforced. The fund was to be financed by a compulsory contribution of 60 cents per bag on all coffee exported under the Agreement and by a share of the proceeds of exports in excess of quotas for which waivers were allowed.[1] This was to continue for a five year period beginning with the 1968-9 coffee year.[2] Of the total resources collected,[3] the fund is allowed to use 20 per cent without any geographical restriction.

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[1]Musgrove and Grunwald, p. 317.

[2]Kravis, p. 308.

[3]It has been estimated that at the current level of exports the Fund would accumulate some 30 million dollars annually from the levy. There have also been loans from the U.S. Furthermore, the U.S. said it would contribute 30 million dollars if other countries would contribute 15 million dollars. See Musgrove and Grunwald, pp. 317-8.

The remainder of the money has to be spent in the country which supplies the funds.[1]

But it is interesting to note that while the emphasis has been on diversification from coffee, surplus stocks can no longer be assured. Brazil's reserves at one time were in excess of 65 million bags. But the last big crop in Brazil was in the 1965-6 crop year. Since then, Brazil has only been able to fill its 18 million bag quota (even this has been difficult to do in some years) and supply about 8 million bags for home use. By the summer of 1970, reserves were down to 20 million bags.[2] Due to the frost in Brazil, much of the crop forthcoming in the 1970-1 season has been destroyed. Estimates put the 1970-1 Brazilian crop as low as 10 million bags. As a result, forecasts for the 1970-1 crop year have put consumption ahead of production for the fifth consecutive year. To maintain supplies, Brazil and the other world producers have been forced to draw on accumulated stocks to maintain supplies.

Based on estimates of population and income growth as well as on various assumptions about prices, the Food and Agricultural Organization of the United Nations has estimated that the world demand for coffee by 1975 would be between 4.7 and 4.9 million tons.[3] Although production

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[1]Thus, the funds were mainly distributed in proportion to exports rather than to excess capacity.

[2]"Coffee Under Control", Economist, 236, August 15, 1970, p. 50.

[3]This would represent an increase of about 30 per cent since the early 1960's.

is somewhat harder to estimate,[1] the Food and Agricultural Organization did estimate production for 1975 to be approximately 5.6 million tons.[2] Considering the projected increase in consumption, this would leave a surplus of about 15 million tons.

The possibility, therefore, that surplus stocks could be exhausted in a few years is no longer unrealistic. But it must be noticed that in recent years the total purchases of coffee have been considerably ahead of world consumption. Consumer countries are building up their own stocks as they have seen those held by the producing countries, particularly Brazil, dwindling. This abnormal buying by the consumer countries has made the threat of shortage look far more serious than it really is. While coffee production and demand are in approximate equilibrium for the first time in some twenty years, the International Coffee Agreement cannot be considered to be superflous.

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[1]Because of possible crop destruction (as occurred due to frost and drought in 1965-6 and to frost in 1969-70) and various opportunities for raising yields.

[2]This estimate ignored new planting - future production was to be estimated from present productive capacity. This is partly based on the assumption that all countries that could grow coffee have already reached the productive stage.

CONCLUSION

When one considers commodity agreements in general, it must be realized that there are more people with more arguments against the need and use of commodity agreements than there are people who expound the needs, benefits and advantages of commodity agreements in the process of development. Most international trade experts claim that the 1962 International Coffee Agreement represents a holding action, thus resulting in the misallocation and waste of human and natural resources. Although a geographer, this view is expressed the clearest by Rowe. It is Rowe's contention that the Agreement 1) prevents any adjustment of the price level downward toward the genuine costs of production and 2) prevents any adjustment of sources of supply in accordance with the demand for particular qualities of coffee with respect to their relative costs of production. He feels that this Agreement (as an example of all commodity agreements) merely gives a further lease on life to the obsolescent high-cost producers at the expense of the low-cost producers and thus hinders the expansion of low-cost production in the African coffee countries. Men and resources (natural), rather than being employed in the production of coffee in the lowest-cost areas, are employed in the production of coffee for destruction. As such, price support makes the coffee market worse by increasing the supplies of

[1]These range from charges of resource misallocation to that of a halt in technical progress and higher than equitable prices for consumers.

coffee that are already in excess supply.[1] Also, at the end of the agreement, two major problems would still remain to be solved; 1) the adjustment of prices and 2) the changes in the sources of supply in accordance with relative costs. As such, Rowe argues that "... it is hardly too much to say that the fundamental aim of the agreement is deliberately to postpone its solution, and thereby the inconvenient and even painful adjustments which any solution must involve at least in the most producing countries."[2]

One may argue that the justification of freezing the present position lies in the opportunity of using the time to 1) secure the adjustment of production to demand, 2) create a greater demand for coffee and 3) allow the development of a policy relative to stocks. But Rowe contends that:

> ... Brazil has no positive coffee policy, and is not prepared to face the difficulties, internal and external, inherent in any effective remedial policy: all along her policy, if she may be said to have one, has been a policy of opportunism, and the 1962 Agreement has perfected this holding operation which has all along been her strategy, without imposing any appreciable limitations on her freedom of action in respect of the more distant future.[3]

It is therefore concluded that the regime solidified by the new agreement leads nowhere. Merely a holding action with political overtones, the agreement does not bring the coffee world any nearer to a solution of its problems. For it both uses resources which ought to be used

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[1]It is also claimed that technical progress suffers and consumers are forced to pay higher than necessary prices for their coffee.

[2]Rowe, p. 190.

[3]*Ibid.*

productively in some other way, and offers little prospect of reducing and finally eliminating such waste. There is no certainty that the passing of time will make the solution less difficult. The proposal is that the 1962 Agreement be done away with.

While the major argument against the use of the 1962 Agreement has been based on the case of resource misallocation, a case has also been made against the agreement as a means of providing aid.[1] While it is realized that commodity agreements do transfer resources (financial) from the rich nations to the poor countries, the claim has been made that commodity agreements are an inferior way of providing aid. For they levy taxes in the rich countries on the basis of the use of the commodity and distribute aid to the poor countries on the basis of exports of the commodity.[2] Assistance would be received by all exporting countries irrespective of the absorptive capacity for capital, the state of the balance of payments, and the existence of political will and effective development planning. Rather than the country giving aid on the basis of its per capita income, it would really be the consumers of the product in each country who would be paying. Assistance in this form would offend all the principles devised for the 'optimum' allocation of foreign economic aid. While the low-cost producers would be the

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[1]The question of whether the agreement is a form of aid or is strictly for stability purposes has remained unsettled. Nevertheless, the use of commodity agreements as a means of providing international assistance has provoked much criticism for some time. Part of this argument of course is based on a desire to see free-market forces in action; that is, international aid in preference to commodity price support.

[2]Kravis, p. 296.

greatest beneficiaries and would be best able to use the differential between cost and revenue for development purposes, it would be the high-cost producers who really ought to receive the greatest amount of aid.[1]

If the 1962 Agreement is thus considered as a freezing action, how is it then assumed that free-market forces would bring about an adjustment in thesources of supply toward the low-cost producers? As Griffin puts it:

> Orthodox neo-classical theory would lead one to believe that a change in relative prices would induce an economy to alter the composition of production in such a way that specialization in the declining price industries would be reduced and output in the rising price - and hence more profitable - industries would increase. This adjustment would help to counteract the tendency toward a fall in the terms of trade. Thus a flexible economy with a diversity of natural resources could nullify in part any tendency there might be for its terms of trade to deteriorate.[2]

While it is true that resources should be shifted into new means of production over time, free-market forces[3] are not the way to bring about this transformation. For it must be realized that the economies we are studying have inherent structural problems and are not flexible; rather they are beset with a lack of flexibility, structural rigidities and an inability to shift resources from declining enterprises. In such a setting falling commodity prices do not result in a movement of resources into new pursuits. For falling commodity prices to cause a shift in

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[1]Killick, p. 29.

[2]Griffin, p. 112.

[3]What laissez-faire really seems to be considering is the maximization of total world production from giving resources. Once we can get away from this objective, price-supporting commodity agreements seem to become well worth studying.

resource use, it would have to be assumed that alternative means of employment are readily available for the producers of the primary products.[1] To accept this assumption would be difficult.

Financially, laissez-faire fails to consider the loss of resources through falling export prices regardless of the volume of exports involved. Where the resources will come from to bring about the transformation is never really mentioned, although aid transfers are often considered a ready solution. However, while international political bodies have continued to call for a greater flow of economic assistance, various changes in events, among them domestic difficulties in many of the developing countries and a change in cold war strategies, has resulted in the net flow of international economic aid ceasing to grow.[2] From 1960 to 1968, foreign economic assistance given by the 15 major doner countries dropped from .89 per cent of Gross National Product to .77 per cent of Gross National Product. While the figures are noteworthy, it has been suggested that they understate the real reduction. For during the same period, 1) the average rate of interest increased, 2) the length of the loan period was shortened, and 3) grants increasingly represented a smaller percentage of the total aid flow.[3]

The "Decade of Development" therefore has created a disillusionment with the performance of foreign economic aid. The quantities as noted above have not only been small but have also been decreasing as a

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[1] Ady, p. 37.

[2] S. Lanfranco, "The Strategy of Economic Development: Prospects for the Future", Al-Noudwa (October, 1970), p. 4.

[3] Ibid., p. 5.

percentage of Gross National Product. Yet, even for these amounts, the political and economic strings have been considerable. Much of the gains from aid flows have been transferred out of the country. For many countries aid flows have only resulted in a high level of foreign indebtedness and debt repayment.[1]

This disillusionment has resulted in a renewed interest in commodity agreements during the last ten years. This renewed interest has been due not only to the failure of the developed countries to expand their aid or to give greater market access to the developing countries, but also because of a general decline in primary commodity prices since the late 1950's and the growing gap between per capita incomes in the rich and poor countries. The overcoming of the political difficulties of the coffee countries and the emergence of a long-term coffee agreement also played an important part.

If the export earnings of the coffee countries are to be maintained, and the development of the national economies of these countries is to continue, then the 1962 Agreement has an important role to play, for politically it may be easier to help these countries through price distortion rather than by aid transfers. In the present context, the Coffee Agreement does represent a way of increasing the flow of financial resources to the less-developed countries in a time when the opposition to aid programs is continuing to mount in the United

[1] Ibid.

States[1] and Western Europe. As Pincus: "If we accept the thesis that it will be difficult to achieve further increases in foreign aid, then the alternative [to International Commodity Agreements] is not genuine."[2]

While some people have fought for an orderly organization of commodity markets, one must be careful not to put too much emphasis on the possibility of using commodity agreements across the board for providing resource transfers. For technical feasibility, one would need commodities which possess the following characteristics: few substitutes, forming a small part of the total expenditure by consumers in the importing countries, being a major component of the exports of the less-developed countries and a minor component of the import expenditures of the less-developed countries, being preferably not exported by the developed countries, and being relatively homogeneous in nature.[3] Because of the required characteristics, many commodities are not of the type to take advantage of a commodity agreement. As such, International Commodity Agreements do not offer a general solution to the development problem. The only commodities for which commodity agreements would be technically feasible are the ones in group 1(a) in the chart on the next page. It

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[1]For example, the rejection by the United States Senate on October 29, 1971 of a $2.9 billion bill to extend the U.S. foreign aid program for a further two years. One of the agencies directly affected by this move is the United Nations Development Program - a program set up in 1959 to improve agricultural and industrial output and training in the less-developing countries. It was to receive $100 million. The vote in the Senate represented the climax to long years of grumbling over the aid program in its present form.

[2]J. Pincus, "What Policy for Commodities?", Foreign Affairs (January, 1964), p. 233.

[3]McBean, p. 295.

TABLE 9

A CLASSIFICATION OF COMMODITIES EXPORTED BY DEVELOPING COUNTRIES, ACCORDING TO THE EXISTENCE OR OTHERWISE OF SUBSTITUTES IN CONSUMPTION AND TRADE BARRIERS

	Principal Commodities	Exports from Developing Countries 1963-5 Average	
		$000	per cent
1. Commodities produced wholly or mainly in developing countries:			
(a) Not facing serious competition from substitutes.	Coffee, tea, spices, cocoa, bananas.	4.2	26
(b) Facing serious competition from substitutes.	Raw cotton, natural rubber, raw wool, jute.	3.3	20
2. Commodities produced in substantial amounts in both developed and developing countries:			
(a) Not facing appreciable trade barriers.	Copper, iron ore, fish, bauxite, lead, zinc, manganese ore.	2.9	18
(b) Facing appreciable trade barriers.	Sugar, vegetable oils, wood.	5.1	32
3. Commodities produced wholly or mainly in developed countries.	Meat and dairy products	0.7	4
	Total of above	16.2	100

Source: Ady, p. 41

should be noted that this group represents only 26 per cent of all primary exports of the less-developed countries. Coffee, however, is one of the commodities that is considered technically feasible for a commodity agreement.

In recent years with commodity agreements having been considered as possibly of use for countries trying to develop, thoughts have turned toward the idea of making commodity agreements more efficient and more acceptable. Here we enter the realm of what can be referred to as 'ideal' commodity agreements. Because of the charges of resource misallocation associated with the coffee agreement, an ideal coffee agreement would be one which makes aid transfers possible while at the same time minimizing the misallocation of resources. The key requirement of a coffee agreement that will satisfy the aid and efficiency objectives is a means of separating the price or revenue received by the exporting country from that received by the individual producer. While the Coffee Agreement has given a higher level of exchange earnings than could be expected from under free-market forces, the key point is how these earnings are being distributed; that is, the benefit should go to the nation and not to the individual producers. Although it is realized that it is important to ensure high aggregate receipts to the coffee-producing nations, it has been suggested that there should be a uniformity of producer prices for the various grades in the coffee-producing countries. Producers of a given quality of coffee would be paid the same export price regardless of the country producing it. The advantage cited for the establishment of this uniform producer price would be the reduction in the aggregate world-wide cost of producing a

given size crop. This would supposedly allow the elimination of the high-cost producers and allow the low-cost producers to expand.[1] The low-cost countries would presumably bribe the losers - our high cost producers, thereby making them no worse off than before. Producer countries as a group would be no worse off under this one price system, for the same total revenue would be available but at a lower total cost.

While such may at first appear to be elegant, on further study it really seems that what is being proposed would be even more difficult to manage than the present coffee agreement. One only has to look at the difficulties that have arisen from the present agreement during the last five years. First, there has been the problem of managing the quotas - that is, scrutinizing the quotas assigned to each member so as to try and prevent overshipments. These attempts at circumventing the agreement led to the tourist coffee problem. Second, because Brazil felt that its share of the market was being eroded through time, it went into the production of soluble coffee. This subsequently led to many difficulties. To get around these problems, a stamp system has been introduced which it is hoped will tighten up the overshipment problem.

Yet, what has been proposed? What is being suggested is a completely new quota system based on the cost of production. While this would be to the advantage of countries like Brazil, it is not foreseeable that such an agreement could help the majority of the coffee countries for a number of problems are immediately evident. First, what would

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[1] Kravis, p. 297.

happen to countries like Colombia who receive 67 per cent of their foreign exchange receipts from the export of coffee and is regarded as a high-cost producer? Is it not the implicit assumption that countries like Colombia could diversify overnight from coffee and into other products? Are there not countries that are not able to do so? For many of the peasants involved in the export of coffee, this is their only source of income. Also how can it be assumed that all producers would be better off under the new one-price system, simply because the same total revenue is available but at a lower cost?

Second, who would be responsible for channelling the benefits to the nations who are the low-cost producers and who would see that this money would not get into the hands of the producers of these countries? Furthermore, can it be considered realistic to foresee one country getting out of the production of coffee and having another country (very possibly a rival) transfer money to it in the form of compensation?

Third, would there not be even more chance of countries trying to evade the agreement as they see their industry being taken away by the decisions of others? The possibility of a renewed tourist coffee problem would not be an impossibility.

Fourth, would there not be considerable price-fixing on the part of the various governments in the hope that by so doing it could outlast its competitors and eventually claim the whole market for itself? The result could be a price war with all countries paying subsidies to their producers in the hope of keeping them in business.

While this type of agreement would be more efficient, it does

not follow that such a proposal would be put forward at a time when many feel that the Coffee Agreement in its present form is too difficult to manage. For the political difficulties of this new agreement would be even more burdensome than those faced by the present agreement. Many of the present difficulties in the 1962 Agreement appear small by the standards of the foreseeable problems.

While it may be generally agreed that this 'ideal' agreement would not work, the 1962 Agreement still comes under the same fate with the continuing belief that it (a) is politically too difficult to manage efficiently and (b) is no more than a holding action. The claim is still made that the coffee countries do not have a positive coffee policy; thus, production will never be equal to demand.

When considering the problem of surplus stocks and over-production in the coffee world, the country that immediately comes to mind is Brazil. It is an historical fact that most of the world's surplus coffee has been and presently is in Brazil.[1] Consequently, a lack of effort by Brazil to diversify out of coffee would naturally lead one to state that the 1962 Agreement was nothing more than a holding action. But it can be shown that Brazil does have a positive coffee policy and that she is making efforts to diversify from the production of coffee and into the production of other commodities. To do so would tend to indicate that the Coffee Agreement is not a holding action.

As far back as 1961, Brazil was making an effort under

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[1]To find surplus stocks in other countries is not the normal state of affairs.

G.E.R.C.A.[1] to bring about an effective reduction in both the area planted to coffee and in the output per acre. This was done by paying subsidies to farmers to uproot trees and by offering technical and financial assistance for converting the land into other uses. Between 1960-1 and 1965-6 some 1,650 million trees (net) were uprooted and the area planted to coffee was reduced by one-third of the previous area. Interesting enough, most of this took place between 1961 and 1964, in response to low prices and frosts in Parana. In Parana, coffee acreage in 1961 was 1,786,700 hectates. By 1965, 482,600 hectares had been taken out of the production of coffee; bringing the total area planted to the production of coffee to 1,304,100 hectares. While it must be remembered that the principal goal was to bring about a reduction in output, considerable improvement did take place with regard to the yield/acreage ratios.

It is important to note that the diversification process has not come to an end. In 1966 the Brazilian government set up a plan in a further attempt to control production. The resolution of the Brazilian Coffee Institute set into motion the adjustment of production to demand with respect to the eradication of trees. Between 1966 and 1969 the intention has been to take 330 million trees out of production in the state of Parana. The expectation was that coffee output would be reduced by four and a half million bags.[2] Coffee output for the period 1966-70 would then be about 24 million bags yearly. Of the 475,000

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[1]Grupo Ejecutivo de Racionalizacao de Cafeicultura.

[2]S. H. Valdes, "The Coffee Industry and Agricultural Diversification", Revta Cafetera, XVII (1967), p. 42.

hectares released, 142,000 hectares would be used for pasture. The remaining land would be used for soya beans and other crops. With the government plan for eradication, there was a strong attraction for the production of other crops. Close to 200 million dollars was spent during the 1966-7 coffee year. This was used for credit provision, technical assistance, and for processing and storage facilities.[1] By 1975 it is expected that the net reduction will be 335 million trees. It is further expected that by 1975, 300,000 acres of low-yielding output areas would have been eliminated[2] in Sao Paolo. The number of trees should have decreased by 220 million. While more trees will be planted per acre, the total output will still be less than previously. This can be seen in the table on the next page. One can see that by 1975, production in millions of tons will have decreased from 889.2 to 540 million tons. While the production index indicates that there will be an increase in production in the state of Sao Paolo, the total combined output will have decreased. While in 1965 coffee represented 17 per cent of the region's output, by 1975 it has been projected that it will be as low as 12 per cent.[3] It is hoped that by 1975 production will have been reduced to the point that it will be equal to demand.[4]

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[1] Ibid., p. 43.

[2] Ibid., p. 40.

[3] Ibid., p. 43.

[4] The Food and Agricultural Organization projections for both coffee production and consumption tend to indicate that there could be surplus stocks of between 750,000 and one million tons for the 1975 coffee year. If such were the case for successive years up to 1975, stocks could conceivably reach a level in excess of 100 million tons;

(continued)

TABLE 10

POSSIBLE CHANGES IN THE PRODUCTION OF COFFEE
IN THE STATE OF SAO PAULO TILL 1975

Title	Existing Situation 1965	Reasonably Expected by 1975
Coffee Area in millions of hectares	700	400
Number of Coffee Trees (million)	700	450
Yield in kilograms per hectare	650	1,200
Total production index	100	106
Cost of labor index	100	200
Cost of fertilizer index	100	100

POSSIBLE CHANGES IN THE PRODUCTION OF COFFEE
IN THE STATE OF PARANA TILL 1975

Title	Existing Situation 1965	Reasonably Expected by 1975
Coffee Area (hectares)	1,304,100	600,000
Number of Coffee Trees (million)	935	600
Yield in kilograms per hectare	684	900
Total production in millions of tons	889.2	540
Total production index	100	60.7
Cost of labor index	100	170
Cost of fertilizer index	100	100

Source: Valdes, pp. 42-3.

Whether or not these goals of 1) an even greater reduction in the area planted to coffee trees and 2) a further decrease in the total output of coffee will be realized will not be known for some time. However, what is really of importance at this stage of the 1962 Coffee Agreement is the fact that a positive attitude has been taken toward the whole idea of diversification from coffee and into other products. The view that the 1962 Agreement is a freezing action (consideration of the agreement in a static sense) is no longer correct.[1] It appears that the exponents of this view have tended to prejudge the situation. The fallacy of basing one's argument on the performance of the Coffee Agreement over a three or four year period, rather than over a ten or twelve year period, as has been done by many, has had the tendency to make one forget the possible built-in dynamics. Thus the condemnation after only a few years' operation when little appeared to have been accomplished.

When one goes further and considers the politics involved, one cannot help but come to the realization that quick results cannot be expected from such an agreement. It is no easy task to get so many countries to agree on such a proposition when the effects are going to

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an amount which could put considerable strain on the Agreement. These projections, however, are based on the productive capacity of the area planted to coffee in the middle 1960's. For our purposes, such projections cannot be considered realistic in light of the developments which have just been outlined.

[1]While commodity agreements in the past have been considered as holding actions and noted for not bringing about changes in the sources of supply, it cannot be deduced that the emergence of more commodity agreements will necessarily lead to more resource misallocation.

be felt on the economies of only some of the members. Naturally, a country that will be affected will be wary of the decisions of others. To get them to initiate speedy action on such an issue is even more difficult. To believe that such is possible can only be the result of weak reasoning or a total lack of contact with reality.

Even when it is finally agreed that Brazil has a positive coffee policy, the argument is still advanced that there is a lack of enough money for the diversification process. Naturally, when discussing plans for diversification, one must be able to guarantee that enough foreign exchange and domestic resources will be forthcoming to allow the consequent diversification to be effective. Yet, the Agreement has provided for this as well. First, under the Coffee Agreement, foreign exchange receipts have increased - rising from about 1,800 million dollars in 1962 to 2,400 million dollars by 1964, a level which has been maintained since then.[1] Second, the Agreement made provisions in 1968 for a Coffee Diversification Fund. The resources for this fund are to come from two sources, a levy of 60 cents per bag on all coffee exported under the agreement and a share of the proceeds on all coffee exports in excess of the quotas on which formal waivers are allowed. Estimates indicate that the fund should collect 300 million dollars annually[2] - an amount which could have considerable impact in promoting diversification.

While there have been doubts as to the effectiveness of the

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[1]Musgrove and Grunwald, p. 316.

[2]Ibid., p. 318

fund,[1] it is mostly because of a failure to note that Brazil is the largest exporter under the Agreement as well as the country most noted for having excess stocks. As such, the claim that the distribution of funds represents a major problem is not really valid.

It is well known that the long-run objective of the less-developed countries is the growth of their economies. As previously argued, a diversification of production would make these countries less dependent on a few primary commodities for their export earnings and less dependent on imports for their basic needs. But, of course, it has also been argued that the ability to shift resources from coffee and into other products depends on the capability of the less-developed countries to both maintain and increase their foreign exchange earnings through trade and aid. It has been shown that not too much reliability can be put on aid flows as a means of increasing the inflow of monetary resources. The emphasis, therefore, appears to be on the trade side.

As mentioned, the agricultural sector in these countries bulks large in the economy. The foreign exchange gained from the export of coffee represents a large proportion of the total foreign exchange receipts for the coffee-exporting countries. Some examples are given in the table on the next page. As such, it must be realized that the 'commodity problem' of the coffee-growing countries is not something that can be separated from the 'development problem'. Because of the

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[1]The skepticism rests on the fact that only 20 per cent of the funds collected will be without geographical restrictions. The other 80 per cent of the levy must be spent in the country supplying the funds. The proposed weakness of the system of payments is based on the idea that the proceeds are distributed in proportion to exports rather than to excess capacity.

TABLE 11

RELYING ON COFFEE

	Value of Coffee Exports in 1969 (in millions of dollars)	Coffee as a Percentage of Total Exports in 1969
Brazil	846	42
Colombia	344	67
Ivory Coast	150	34
Angola	115	48
Uganda	89	52
Guatemala	80	34
Ethiopia	68	51
Burundi	10	80

Source: "Coffee Under Control", Economist, 236 (August 15, 1970), p. 50.

structures of the economies to which we are referring, development will have to take place as a result of a successful commodity policy. The emphasis, therefore, should be on the commodity problem; the most important aspect being that of structural adjustment. It has been shown that diversification and structural adjustment are not going to take place as a result of the interplay of free-market forces. Since the agricultural export sector is still the major provider of foreign earnings in the less-developed countries, commodity agreements are one way of upholding these foreign exchange proceeds and to allow this diversification from coffee to take place. The abandonment of the 1962 Coffee Agreement will serve no purpose at all if economic development is the goal in these developing countries.

The main objective of commodity agreements in general should be looked upon as an orderly method through which patterns of production and trade can best be adjusted to the requirements of world demand over time.[1] While properly designed commodity agreements are a good way of bringing about the needed structural adjustments in developing countries, they cannot be considered successful unless they are able to bring world production and consumption into balance. Naturally, this is not a matter for international agreements alone. Rather there has to be a close co-ordination between international agreements and national policy as has been exemplified by Brazil in the Coffee Agreement.

Based on the evidence presented on diversification in Brazil

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[1]A sub-optimal resource use might have to be accepted for the present in order to permit the economies of these low-income countries to diversify and achieve a more satisfactory growth rate.

it appears that the 1962 Coffee Agreement will eventually be considered successful. The Agreement could go a long way in stimulating economic growth in the coffee-producing countries, not only by providing a secure base for their trade but also in allowing them to diversify from coffee and to transform their economies over a longer period of time. While it must be remembered that there will continue to be some resource costs in this scheme,[1] these will be small. If economic development is the world's goal for the coffee-producing countries and a diversification of their output is considered desirable, then in the name of development these resource costs should be forgotten and the Coffee Agreement retained.

[1]While resource misallocation immediately comes to mind, this has already been dealt with. Rather what is being considered is effects on individual countries. As such, while there will continue to be some effect on the balance of payments of the consuming countries, the import of coffee by most of these countries represent only a small fraction of all commodity imports. Also it must be remembered that the subsequent increased imports from the developed countries would be an offsetting force.

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