

S/S 7505789

DEPARTMENT OF STATE
WASHINGTON

March 26, 1975

The President:

I have the honor to submit to you, with a view to its submission to the Senate for its advice and consent to acceptance, the Protocol for the Continuation in Force of the International Coffee Agreement of 1968 as Extended, which Protocol was adopted by the International Coffee Council on September 26, 1974 and signed by the United States on January 15, 1975. I recommend that the Protocol be transmitted to the Senate for advice and consent to acceptance.

The purpose of the Protocol is to continue in force until September 30, 1976 (and under certain conditions until September 30, 1977) the International Coffee Agreement of 1968 as Extended. The United States has participated in International Coffee Agreements since 1962. Both the 1962 International Coffee Agreement and its successor, the 1968 International Coffee Agreement, were designed to deal with persistent overproduction of coffee and accumulated surpluses which depressed prices and the export earnings of a large number of developing countries in Latin America and Africa. Through a system of export quotas and other measures, these Agreements made possible the reduction of surplus stocks without a disastrous depression of prices to levels which would have been prejudicial to the interests of both producing and consuming countries. At the same time, the Agreements

The President,

The White House.

contributed to the achievement of better balance between world coffee production and consumption through the 1960's.

Severe frosts in 1969 and 1972 sharply reduced Brazilian coffee harvests. This resulted in world production being below consumption in the early 1970's and consequently stocks were reduced, too. These developments, exacerbated by other factors such as international monetary adjustments, resulted in sharply higher coffee prices. In this situation, the United States and other importing countries questioned the need to continue restricting the flow of coffee to the market and the quota system was suspended in December 1972.

Before the 1968 Agreement expired on September 30, 1973, member countries decided to extend it for a period of two years with virtually all economic provisions deleted. This decision was reached after it had become clear that producers and consumers were unable to reach agreement on provisions to adapt the 1968 Agreement to the changed market situation. Nonetheless, both producers and consumers did agree that the International Coffee Organization should be preserved as a forum for discussion and eventual negotiation of a new Coffee Agreement containing economic provisions and as a source of statistical information and technical studies on developments in world coffee markets. Forty-two producing countries and seventeen consuming countries are members of the Extended Agreement.

One of the principal factors leading to the suspension of economic provisions in 1972 and the extension of the 1968 Agreement without them was a side agreement announced by major producers in 1972 to withhold coffee from the market, leaving export quotas underfilled. The United States and other consuming countries objected

that such one sided action was incompatible with the spirit and objectives of producer/consumer cooperation. Since 1972, producers on several occasions have expressed their intention to restrain or control the supply of coffee to world markets. However, the statistical data now available indicates that, in fact, producers did not restrict exports. On the contrary, world coffee exports increased from 53.3 million bags in 1971, to 57.7 million bags in 1972 and to 61.6 million bags in 1973. Nonetheless, the absence of a producer and consumer agreement on supply objectives led to unsettled market conditions and unnecessary tensions between the producing and consuming countries.

Coffee prices continued generally strong through 1973 and rose even higher in early 1974 as the anticipation of a longshoremen's strike in the United States and possible frost in Brazil spurred imports. By mid-year, neither of these fears had materialized and it appeared that world production for the 1974/75 crop would be the highest since the 1965/66 crop year. As a result, trade fell off, coffee inventories in producing countries have been replenished and a more normal equilibrium between world supply and demand is in prospect. Reflecting this outlook, coffee prices have eased considerably from their mid-1974 highs.

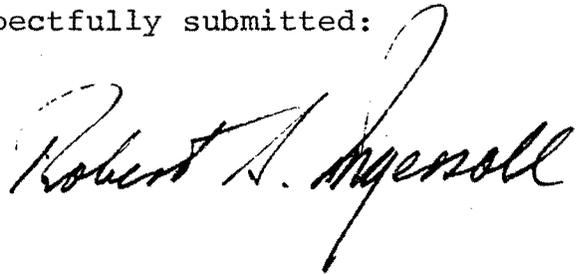
Although the International Coffee Agreement of 1968 as Extended contained provisions to encourage negotiations for a new, more effective coffee agreement, such negotiations did not get under way in 1973 or 1974. Unsettled market conditions, rising production costs, and a generally uncertain commodity outlook tended to make member countries cautious and non-committal with respect to the types of economic provisions which might be required in the future.

In September 1974, the International Coffee Council adopted Resolution Number 273 calling for the further one year extension of the International Coffee Agreement as Extended and providing for up to an additional 12 month extension if the conclusion of a new Coffee Agreement had progressed to the degree specified. It also approved Resolution Number 274 establishing a Working Group on the Negotiation of a New Agreement which began its studies in January 1975. Together, these Resolutions should facilitate consideration of economic provisions for a new Coffee Agreement and, if agreement is reached, should provide the time required for the completion of the necessary constitutional procedures for ratification and entry into force.

It is believed that the continuation of the present Agreement will promote several United States foreign policy interests. By responding positively to the strongly expressed desire of the producing countries of this Hemisphere and the developing world generally to preserve the institutional cooperation on coffee developed over the past twelve years, the United States acknowledges and strengthens interdependence with the producing countries and reaffirms the mutual commitment to constructive solutions to problems. United States participation in negotiations for a new Coffee Agreement will demonstrate our continued concern for the economic well-being of the producing countries during periods of excess supply and permit us to seek new, flexible arrangements to give better protection to the interests of consumers in periods of tight supply. Success in this endeavor will benefit both producing and consuming countries and reinforce the spirit of cooperation which has been the hallmark of the International Coffee Agreements.

The Departments of Agriculture, ^{/Treasury,} and Commerce, concur in the submission of this Protocol to the Senate for its advice and consent to acceptance by the United States. It is hoped that the Senate will give prompt and favorable consideration to the Protocol.

Respectfully submitted:

A handwritten signature in cursive script, reading "Robert A. McGill". The signature is written in dark ink and is positioned below the typed name "Robert A. McGill".