THE WHITE HOUSE

WASHINGTON

February 18, 1976

ADMINISTRATIVELY CONFIDENTIAL

MEMORANDUM FOR: L. WILLIAM SEIDMAN
BRENT SCOWCROFT

FROM: JAMES E. CONNOR JEC

SUBJECT: U.S. Participation in the Third International Coffee Agreement

Confirming phone calls to your offices, the President reviewed your memorandum of February 11, 1976 and approved the following recommendations:

> "That the U.S. sign the new International Coffee Agreement."

> "That the announcement be made promptly and contain the points outlined in your memorandum."

Please follow-up with appropriate action.

cc: Dick Cheney

THE WHITE HOUSE
WASHINGTON

February 16, 1976

MR. PRESIDENT:

The attached was staffed to Messrs. Buchen, Cannon, Marsh and Friedersdorf who all concur.

Jim Connor

Check with Dick C. on timing.

J

THE WHITE HOUSE

WASHINGTON

February 11, 1976

MEMORANDUM FOR THE PRESIDENT

FROM: L. WILLIAM SEIDMAN LWS
BRENT SCOWCROFT BS

SUBJECT: U.S. Participation in the Third International Coffee Agreement

Last November negotiations were concluded on a Third International Coffee Agreement (ICA). The Economic Policy Board and the NSC have reviewed the new agreement. This memorandum outlines the principal provisions of the new Agreement, provides ~~a~~n analysis of the economic impact of the Agreement, reviews briefly certain foreign policy considerations, discusses the potential domestic political impact, and seeks your decision on an EPB/NSC recommendation that the U.S. sign the new Agreement.

The United States signed the first ICA in 1962. In 1968 we joined the second agreement, which expires on September 30 of this year.

In negotiating a third agreement, you instructed the U.S. negotiators to obtain new consumer safeguards to assure that a new agreement would encourage new production, would not hold up current high prices, and would provide incentives for producers to make coffee available to the market. A copy of the negotiating instructions is attached at Tab A.

Principal Provisions of the New Coffee Agreement

The Third International Coffee Agreement contains the following principal provisions:

- The Agreement is for six years, but each member must signify its intention of remaining in the agreement after three years.
- The Agreement contains no general or specific price objectives.

- o The Agreement utilizes export quotas as the major market stabilization device. When quotas are triggered, a global coffee quota and price range are set annually by the Coffee Council. The U.S. has sufficient voting strength that we need the support of only one other country to block the setting of any quota or price range adverse to the interests of consumers.

- o The global quota is divided among producer countries based on export performance prior to the first imposition of quotas, and on the relative share of world stocks held by each country. This is a more flexible system than that used in the old agreements.

- o The Agreement will start with quotas suspended. Quotas will be imposed if for 20 consecutive market days the price drops 15 percent below the previous year's average price or below 63 cents a pound (the average price for 1975). When quotas are in effect, they will be suspended if the price rises 15 percent over the previous year's average or 15 percent above the ceiling of the price range in effect at the time.

- o When quotas are in effect, countries which cannot ship their quotas are obliged to notify the Council at least six months before the end of the coffee year, so that the shares of other countries can be increased to cover the deficit.

Analysis of Economic Impact

Because of a severe Brazilian frost in 1975 and, to a lesser degree, political disruptions in major African producing countries, prices will be so high over the next three years that our analysis indicates quotas will not be triggered. Loss of 10 percent of the Columbian crop and the recent Guatemala earthquake have reinforced this prospect. In the longer run, even when real prices begin to decline, the effect of inflation is likely to keep prices in current dollars from dropping in such a way as to trigger quotas at unreasonable price levels. In short, it does not appear that the new ICA will work in such a way as to sustain prices above long-term market levels. During the first 3 years of the Agreement, it is estimated that the Agreement will result in no added costs to United States consumers. Although the analysis shows no price effect other than stabilization around market trend beyond that period, the U.S. will have ample opportunity to review its position before extending its participation.

Foreign Policy Considerations

Forty-three developing countries are members of the ICA (see Tab B). Coffee is the most important agricultural export of the developing countries. U.S. refusal to join the new ICA, which incorporates many of our own suggestions for consumer safeguards, would meet with harsh reaction from many moderate developing countries which are members of the ICA, such as Brazil, Columbia, the Ivory Coast, and several Central American countries. The U.S. initiatives begun at the Seventh Special Session of the United Nations, and now underway in the producer-consumer dialogue, would be undercut if we withdrew from the one commodity agreement with which we have had a long association.

Domestic Political Impact

A decision to join the new ICA at a time when coffee prices are at historic highs may meet with criticism from some consumer groups and possibly in the Congress. The House Agriculture Committee has scheduled hearings on current high coffee prices for March 16-18, with primary focus on domestic coffee industry margins.

The EPB and the NSC recommend that if the U.S. joins the Agreement, we take the following steps:

- An announcement of our intention to join should be made quickly, so that any adverse domestic political impact has time to dissipate.

- The announcement should stress the following points:

    - We believe this Agreement fairly serves the interests of producers and consumers.

    - The Agreement contains no specific price objectives, and will not operate in such a way as to sustain coffee prices above long-term market trends.

    - We will seek implementing legislation for only 3 years, and the U.S. will thus have an opportunity to review the long-term impact of the Agreement on coffee prices before committing itself for the additional three years.

    - The Agreement will begin with quotas suspended assuring that during the current shortage period the Agreement will not work to maintain high prices.

-- Once quotas do come into effect, they will automatically be suspended in the event of future periods of shortage and high prices.

-- The Agreement will encourage producers to replant damaged trees and to move available coffee to the market, thereby increasing supply.

-- It should be made clear that current high coffee prices are the result of a major frost in Brazil last July that destroyed 70 percent of this year's crop. While many coffee trees will recover, at least half a billion trees will have to be replaced for Brazil to resume normal production.

o Further congressional consultations should be held. These would be completed before February 20, when Secretary Kissinger, who will then be in Brazil, would like to announce your decision that the U.S. will sign the Agreement.

o Senate ratification should be sought for the life of the Agreement, but implementing legislation should only be requested through 1979. This procedure will make clear to Congress our intent to return for legislation before renewing our membership in 1979. At that time we will have a clearer idea of how the market is recovering from the 1975 Brazilian frost, and of future price trends.

Recommendation

The EPB/NSC recommends that the U.S. sign the new International Coffee Agreement.

Approve GRF   Disapprove ________

The EPB/NSC recommends that the announcement be made promptly and contain the points outlined above.

Approve GRF   Disapprove ________

Tab A

NEGOTIATING INSTRUCTIONS FOR:

A NEW INTERNATIONAL COFFEE AGREEMENT

You are authorized to negotiate within the conceptual framework of the existing agreement; that is to say, a system which includes as its main instrument export quotas, subject to the following principles.

You are instructed to seek improvements in the traditional agreement which will provide more substantial protection of consumer interests, among others the upside risk. One important mechanism for improving the agreement in this manner is the introduction of incentives to put any accumulated stocks on the market when the market is firm, through such devices as penalties or quota reductions for undershipments.

You should not take sides in the struggle between the African and Latin American producers over allocation of quotas. In pursuing these objectives, you should play an active role in the negotiations, advancing such proposals as would accomplish them. However, you should make clear that any draft agreement is "ad referendum" only, and must be considered at Cabinet level in Washington before the U.S. adheres. You should inform us before agreeing to draft formulations which do not go in the direction of the objectives stated above.

If you believe that the draft agreement does not meet the above instructions, you are authorized not to initial it.

Tab B

ICO MEMBERS

Producers

Angola
Bolivia
Brazil
Burundi
Cameroon
Central African Republic
Colombia
Congo
Costa Rica
Dahomey
Dominican Republic
Ecuador
El Salvador
Ethiopia
Gabon
Ghana
Guatemala
Guinea
Haiti
Honduras
India
Indonesia
Ivory Coast
Jamaica
Kenya
Liberia
Madagascar
Mexico
Nicaragua
Nigeria
Panama
Papua New Guinea
Paraguay
Peru
Rwanda
Sierra Leone
Tanzania
Timor
Togo
Trinidad and Tobago
Uganda
Venezuela
Zaire

Consumers

Australia
Belgium*
Canada
Cyprus
Czechoslovakia
Denmark
Federal Republic of Germany
Finland
France
Ireland
Japan
Netherlands
New Zealand
Norway
Portugal
Spain
Sweden
Switzerland
United Kingdom
United States of America
Yugoslavia

*Including Luxembourg

THE WHITE HOUSE

ACTION MEMORANDUM WASHINGTON LOG NO.:

Date: February 12, 1976 Time:

FOR ACTION: cc (for information):

Phil Buchen
Jim Cannon
Max Friedersdorf
Jack Marsh

FROM THE STAFF SECRETARY

DUE: Date: Friday, February 13, 1976 Time: 3 P.M.

SUBJECT:

Seidman/Scowcroft memo 2/11/76 re
U.S. Participation in the Third International
Coffee Agreement

ACTION REQUESTED:

____ For Necessary Action   __X__ For Your Recommendations

____ Prepare Agenda and Brief   ____ Draft Reply

__X__ For Your Comments   ____ Draft Remarks

REMARKS:

PLEASE ATTACH THIS COPY TO MATERIAL SUBMITTED.

If you have any questions or if you anticipate a delay in submitting the required material, please telephone the Staff Secretary immediately.

[redacted]
James E. Connor
For the President

THE WHITE HOUSE

WASHINGTON

February 11, 1976

MEMORANDUM FOR THE PRESIDENT

FROM: L. WILLIAM SEIDMAN LWS
BRENT SCOWCROFT

SUBJECT: U.S. Participation in the Third International Coffee Agreement

Last November negotiations were concluded on a Third International Coffee Agreement (ICA). The Economic Policy Board and the NSC have reviewed the new agreement. This memorandum outlines the principal provisions of the new Agreement, provides an analysis of the economic impact of the Agreement, reviews briefly certain foreign policy considerations, discusses the potential domestic political impact, and seeks your decision on an EPB/NSC recommendation that the U.S. sign the new Agreement.

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- The Agreement utilizes export quotas as the major market stabilization device. When quotas are triggered, a global coffee quota and price range are set annually by the Coffee Council. The U.S. has sufficient voting strength that we need the support of only one other country to block the setting of any quota or price range adverse to the interests of consumers.

- The global quota is divided among producer countries based on export performance prior to the first imposition of quotas, and on the relative share of world stocks held by each country. This is a more flexible system than that used in the old agreements.

- The Agreement will start with quotas suspended. Quotas will be imposed if for 20 consecutive market days the price drops 15 percent below the previous year's average price or below 63 cents a pound (the average price for 1975). When quotas are in effect, they will be suspended if the price rises 15 percent over the previous year's average or 15 percent above the ceiling of the price range in effect at the time.

- When quotas are in effect, countries which cannot ship their quotas are obliged to notify the Council at least six months before the end of the coffee year, so that the shares of other countries can be increased to cover the deficit.

Analysis of Economic Impact

Because of a severe Brazilian frost in 1975 and, to a lesser degree, political disruptions in major African producing countries, prices will be so high over the next three years that our analysis indicates quotas will not be triggered. Loss of 10 percent of the Columbian crop and the recent Guatemala earthquake have reinforced this prospect. In the longer run, even when real prices begin to decline, the effect of inflation is likely to keep prices in current dollars from dropping in such a way as to trigger quotas at unreasonable price levels. In short, it does not appear that the new ICA will work in such a way as to sustain prices above long-term market levels. During the first 3 years of the Agreement, it is estimated that the Agreement will result in no added costs to United States consumers. Although the analysis shows no price effect other than stabilization around market trend beyond that period, the U.S. will have ample opportunity to review its position before extending its participation.

Foreign Policy Considerations

Forty-three developing countries are members of the ICA (see Tab B). Coffee is the most important agricultural export of the developing countries. U.S. refusal to join the new ICA, which incorporates many of our own suggestions for consumer safeguards, would meet with harsh reaction from many moderate developing countries which are members of the ICA, such as Brazil, Columbia, the Ivory Coast, and several Central American countries. The U.S. initiatives begun at the Seventh Special Session of the United Nations, and now underway in the producer-consumer dialogue, would be undercut if we withdrew from the one commodity agreement with which we have had a long association.

Domestic Political Impact

A decision to join the new ICA at a time when coffee prices are at historic highs may meet with criticism from some consumer groups and possibly in the Congress. The House Agriculture Committee has scheduled hearings on current high coffee prices for March 16-18, with primary focus on domestic coffee industry margins.

The EPB and the NSC recommend that if the U.S. joins the Agreement, we take the following steps:

- An announcement of our intention to join should be made quickly, so that any adverse domestic political impact has time to dissipate.
- The announcement should stress the following points:
  - We believe this Agreement fairly serves the interests of producers and consumers.
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  - We will seek implementing legislation for only 3 years, and the U.S. will thus have an opportunity to review the long-term impact of the Agreement on coffee prices before committing itself for the additional three years.
  - The Agreement will begin with quotas suspended assuring that during the current shortage period the Agreement will not work to maintain high prices.

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-- The Agreement will encourage producers to replant damaged trees and move available coffee to the market, thereby increasing supply.

-- It should be made clear that current high coffee prices are the result of a major frost in Brazil last July that destroyed 70 percent of this year's crop. While many coffee trees will recover, at least half a billion trees will have to be replaced for Brazil to resume normal production.

o Further congressional consultations should be held. These would be completed before February 20, when Secretary Kissinger, who will then be in Brazil, would like to announce your decision that the U.S. will sign the Agreement.

o Senate ratification should be sought for the life of the Agreement, but implementing legislation should only be requested through 1979. This procedure will make clear to Congress our intent to return for legislation before renewing our membership in 1979. At that time we will have a clearer idea of how the market is recovering from the 1975 Brazilian frost, and of future price trends.

Recommendation

The EPB/NSC recommends that the U.S. sign the new International Coffee Agreement.

Approve __________ Disapprove __________

The EPB/NSC recommends that the announcement be made promptly and contain the points outlined above.

Approve __________ Disapprove __________

Tab A

NEGOTIATING INSTRUCTIONS FOR:

A NEW INTERNATIONAL COFFEE AGREEMENT

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~~CONFIDENTIAL~~

Tab B

ICO MEMBERS

Producers

Angola
Bolivia
Brazil
Burundi
Cameroon
Central African Republic
Colombia
Congo
Costa Rica
Dahomey
Dominican Republic
Ecuador
El Salvador
Ethiopia
Gabon
Ghana
Guatemala
Guinea
Haiti
Honduras
India
Indonesia
Ivory Coast
Jamaica
Kenya
Liberia
Madagascar
Mexico
Nicaragua
Nigeria
Panama
Papua New Guinea
Paraguay
Peru
Rwanda
Sierra Leone
Tanzania
Timor
Togo
Trinidad and Tobago
Uganda
Venezuela
Zaire

Consumers

Australia
Belgium*
Canada
Cyprus
Czechoslovakia
Denmark
Federal Republic of Germany
Finland
France
Ireland
Japan
Netherlands
New Zealand
Norway
Portugal
Spain
Sweden
Switzerland
United Kingdom
United States of America
Yugoslavia

*Including Luxembourg

STAFFING

THE WHITE HOUSE

ACTION MEMORANDUM WASHINGTON LOG NO.:

Date: February 12, 1976 Time:

FOR ACTION:

Phil Buchen
Jim Cannon
Max Friedersdorf
Jack Marsh

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ACTION REQUESTED:

___ For Necessary Action

X For Your Recommendations

___ Prepare Agenda and Brief

___ Draft Reply

X For Your Comments

___ Draft Remarks

REMARKS:

Friedersdorf - concur
Buchen - concur
Marsh - concurs
Cannon - concur (call Pat McKee 2/16)

P approved but said check timing with Greeks

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James E. Connor
For the President

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REMARKS:

No objection -- Ken Lazarus 2/12/76

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[redacted]
James E. Connor
For the President

THE WHITE HOUSE

WASHINGTON

February 13, 1976

MEMORANDUM FOR: JAMES E. CONNOR

FROM: MAX FRIEDERSDORF M. F.

SUBJECT: Seidman/Scowcroft memo 2/11/76 re U.S. Participation in the Third International Coffee Agreement

The Office of Legislative Affairs concurs with Seidman and Scowcroft's recommendation.

THE WHITE HOUSE

WASHINGTON

February 11, 1976

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FROM: L. WILLIAM SEIDMAN LWS
BRENT SCOWCROFT BS

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<u>Recommendation</u>

The EPB/NSC recommends that the U.S. sign the new International Coffee Agreement.

Approve __________ Disapprove __________

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Ghana
Guatemala
Guinea
Haiti
Honduras
India
Indonesia
Ivory Coast
Jamaica
Kenya
Liberia
Madagascar
Mexico
Nicaragua
Nigeria
Panama
Papua New Guinea
Paraguay
Peru
Rwanda
Sierra Leone
Tanzania
Timor
Togo
Trinidad and Tobago
Uganda
Venezuela
Zaire

Consumers

Australia
Belgium*
Canada
Cyprus
Czechoslovakia
Denmark
Federal Republic of Germany
Finland
France
Ireland
Japan
Netherlands
New Zealand
Norway
Portugal
Spain
Sweden
Switzerland
United Kingdom
United States of America
Yugoslavia

*Including Luxembourg