

TELEGRAM

Foreign Service of the
SUBJECT

INCOMING RIO DE JANEIRO

INCO- COFFEE

RECEIVED

ACTION: FAS-2

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ACTION TAKEN

1. SUGGEST EMBASSY DRAW ON FOLLOWING IN ITS REPLY TO QUESTIONS RAISED BY GOMEZ:
2. DIVERSIFICATION FUND.
 - A) WE AGREE WITH IMPORTANCE GOMEZ ATTACHES GETTING FUND UNDER WAY AS SOON AS POSSIBLE. IT WAS PARTIALLY FOR THIS REASON THAT U S TRIED HARD USE PRESSURE RENEGOTIATION AGREEMENT TO HAVE STATUTES OF FUND AS ANNEX TO AGREEMENT. FAILURE AT THIS CRITICAL PERIOD TO SETTLE MAJOR OPERATING FEATURESNUF FUND AS PART AND PARCEL RENEGOTIATION MAY LEAD TO LONG SUBSEQUENT WRANGLE IN COFFEE COUNCIL DELAYING INCEPTION FUND OPERATIONS.
 - B) WE ALSO RECOGNIZE THAT TO INSIST ON HIGHER PORTION THAT 20 PERCENT IN CONVERTIBLE CURRENCY (AND WE ASSUME THEREFORE TRANSFERABLE TO OTHER THAN CONTRIBUTING COUNTRY) MIGHT POSSIBLY BE COUNTERPRODUCTIVE. THIS CERTAINLY NOT OUR AIM AND WILL DO EVERYTHING AVOID IT. TWO ASPECTS INVOLVED THIS QUESTION, ONE SUBSTANTIVE THE OTHER PRESENTATIONAL, DETERMINING OUR PRESENT APPROACH.
 - C) FIRST, CONCEPTION OF FUND HAS ALREADY UNDERGONE MAJOR TRANSFORMATION TO MEET PRODUCER OBJECTIONS. IT HAS BEEN SUBSTANTIALLY REDUCED IN SIZE AND PRODUCERS NOW WANT TO FOIST PRODUCER CONTRIBUTION IN LOCAL CURRENCY, WHICH WE ACCEPTED WITH LARGER FUND, ON MUCH SMALLER FUND. WHILE NO ONE CAN STATE WITH ANY DEGREE ACKRACY HOW MUCH MONEY NEEDED TO REDUCE SURPLUS, IS DOUBTFUL, GIVEN EXTENT OF SURPLUS, THAT \$140 MILLION OR EVEN ORIGINAL \$270 MILLION SUFFICIENT. FURTHERMORE EFFECTIVENESS OF REDUCED FUND SERIOUSLY QUESTIONED BY LOCAL CURRENCY CONTRIBUTION. SOME PROGRESS WOULD PROBABLY BE MADE REDUCING SURPLUS IF ALL COUNTRIES USED EFFECTIVELY THEIR CONTRIBUTION TO FUND FOR DIVERSIFICATION. HOWEVER SURPLUS PROBLEM IS FAR LESS MANAGEABLE IN GUATEMALA, SALVADOR, IVORY

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COAST, AND UGANDA THAN SAY COLOMBIA OR MEXICO. IT IS THESE FORMER COUNTRIES THAT HAVE FREQUENTLY VIOLATED THE QUOTA PROVISIONS OF AGREEMENT AND ENDANGERED PRICES. TO HAVE POTENTIALLY AVAILABLE FOR ALLOCATION AMONG THE SEVEN OR EIGHT MOST CURCIAL COUNTRIES TOTAL OF SOME \$6MILLION A YEAR (ABOVE THEIR OWN CONTRIBUTION) IF THE 20 PERCENT LIMITATION WERE ACCEPTED, WOULD CONTRIBUTE LITTLE TO CONTROLLING THEIR SURPLUS PROBLEM. CONCERNING THIS V BASIC POINT, PRESENT RENEGOTIATION PERIOD OFFERS ONLY OPPORTUNITY GET FIRM COMMITMENT FROM PRODUCERS ON FUND. AFTER AGREEMENT SIGNED TO EXPECT PRODUCERS TO VOTE CHANGE IN CONTRIBUTIONS IS UNREALISTIC. WHILE OTHER CONSUMERS NOT YET COMMITED CONTRIBUTE FUND, OBVIOUS THAT CONSTRUCTIVE ACTION BY PRODUCERS IMPORTANT FACTOR IN THEIR FINAL DECISION ON CONTRIBUTION.

D) EVEN MORE PRESSING THAT SUBSTANTIVE ARGUMENT IS PRESENTATIONAL ONE. BLUNT FACT IS THAT COFFEE AGREEMENT HAS FEW CHAMPIONS IN U.S. PUBLIC AND LITTLE SUPPORT CONGRESS. FUND IS A MAJOR SELLING POINT OF AGREEMENT TO CONGRESS. WITH A MEANINGFUL FUND WE CAN TRUTHFULLY SAY TO CONGRESS THAT PRODUCTION PROBLEM BEING TACKLED BY PRODUCERS THEMSELVES AND MAY BE MAJOR FACTOR IN ACHIEVING LONG-RANGE GOAL OF PUTTING AGREEMENT ON STAND-BY BASIS. WITHOUT FUND OR SIMILAR ARRANGEMENT, AGREEMENT, IN CONGRESSIONAL VIEW, FUNCTIONS MERELY AS PRICE-FIXING ARRANGEMENT WITHOUT GETTING AT ROOT CAUSES COFFEE PROBLEM. CONGRESS IN PAST HAS QUESTIONED THIS ASPECT AGREEMENT AND AFTER FIVE YEARS OF LITTLE ACTION IN CONTROLLING PRODUCTION, CAN ONLY HAVE GREATER DOUBTS. NATURE OF FUND PROPOSAL, MOREOVER, HAS BEEN EXTRENSIVELY DISCUSSED IN PUBLIC AND WITH IMPORTANT MEMBERS OF CONGRESS IN CONNECTION U S CONTRIBUTION TO FUND. CONGRESS WILL BE WELL AWARE SIGNIFICANT ALTERATION ORIGINAL CONCEPT, ALSO CONGRESS NOT LIKELY ACCEPT AS MEANINGFUL FUND, ONE IN WHICH U S CONTRIBUTION PROVIDES MAJOR PART RESOURXES AVAILABLE FOR TRANSFER.

E) IMPORTANCE OF SIZEABLE AND EFFECTIVE FUND COMMITMENT IN GETTING CONGRESSIONAL APPROVAL AGREEMENT CANNOT BE STRESSED TOO HIGHLY. THIS MAY BE MOST IMPORTANT MESSAGE COLOMBIA CAN CARRY TO OTHER PRODUCERS, SINCE WE SEEM TO BE HAVING TROUBLE GETTING THIS MESSAGE ACROSS.

3. COCOA

A) ESSENTIAL REASON FOR SUSPENSION RPT SUSPENSION GENEVA COCOA CONFERENCE WAS INSUFFICIENT TIME TO RESOLVE MAJOR DIFFERENCES OVER A NUMBER OF COMPLEX AND ESSENTIAL ISSUES WHICH WILL REQUIRE PROTRACTED NEGOTIATION TO ASCERTAIN IF FAVO

EBLE OUTCOME POSSIBLE. IN LIMITED TIME AVAILABLE PRIOR HOLIDAYS (16 WORKING DAYS) SOME SIGNIFICANT PROBLEMS, E.G. CDNTROLS, SITE, VOTING, TREATING OF FINE AND FLAVOR COCOA, DURATION OF AGREEMENT, WERE NOT DISCUSSED OR DISCUSSED INCONCLUSIVELY. PROGRESS WAS MADE, HOWEVER, ON A NUMBER OF QUESTIONS

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AND TEXTS OF 39 ARTICLES, LARGELY ADMINISTRATIVE AND LEGAL, AGREED UPON.

B) AT GENEVA USDEL DID DECLINE ACCEPT PROPOSED PACKAGE ON QITA MECHANISM (GOMEZ CITATION OF QTE FORMULA ON MINIMUM PRICES END QTE MISLEADING) LARGELY BECAUSE SEVERAL PARTS OF PACKAGE EXCEEDED EARLIER AGREEMENTS ON PRINCIPLES THAT SHOULD GOVERN COCOA AGREEMENT. USDEL EMPHASIZED THAT ACCEPTABLE SOLUTION ON QUOTA MECHANISM SHOULD BE POSSIBLE WITH FURTHER, ORDERLY NEGOTIATION. REJECTION HAS NO RELATIONSHIP COFFEE AGREEMENT POLICIES.

C) BRAZILIAN PROPOSALS AT GENEVA ON PREFERENCES AND OBSTACLES TO CONSUMPTION VIRTUALLY IDENTICAL WITH AMENDMENTS SUGGESTED LONDON AND CAME UNDER STRONG ATTACK IVORY COAST, TOGO AND CAMEROON LARGELY ON BASIS PRESENTATION VIOLATED COMMITMENTS ALGIERS CHARTER TO DELAY ACTION PENDING OUTCOME UNCTAD II AND IN-DEPTH COMMODITY STUDIES. BRAZIL INDICATED WILLINGNESS TO CONSIDER ISSUE IN SMALLER GROUP (ALTHOUGH INFORMAL, WEEK-LONG EFFORTS AMONG PRODUCERS SEEK COMPROMISE WERE FRUITLESS), BUT AOCs IMPLIED ISSUE NOT NEGOTIABLE CITING THEIR STRONG DEPENDENCE ON EC RELATIONSHIPS. GIVEN RELATIVE VALUES INVOLVED, IT APPARENT BRAZIL -- AND PERHAPS AOCs AS WELL -- CONSIDER ISSUE SHOULD BE THRASHED OUT IN COFFEE, NOT COCOA, ARENA.

D) DISCUSSIONS ON US/DUTCH SPONSORED AMENDMENT ON QTE PROCESSED COCOA END QTE (SUBSTANCE OF WHICH SIMILAR TO LONDON SOLUBLE COFFEE PROPOSAL) DID NOT RPT NOT REACH STAGE OF VOTE. AMENDMENT STRONGLY ATTACKED BY ALL MAJOR PRODUCERS, HOWEVER, AND WITH PARTICULAR VEHEMENCE BY BRAZIL AND NIGERIA. SIGNIFICANCE FOR COFFEE NEGOTIATIONS DIFFICULT ASSESS, BUT HERE AGAIN IT APPEARS THAT ANY SOLUTION MUST BE DEVELOPED IN LONDON NOT GENEVA.

3) CONFERENCE REQUESTED PREBISCH TO DECIDE ON SUITABLE DATE FOR RESUMPTION NEGOTIATIONS AND TO ARRANGE FOR ANY NECESSARY PRELIMINARY CONSULTATIONS AND DISCUSSIONS.

4. PREFERENCES. USG WAS PREPARED VOTE FOR LATIN AMERICAN VERSION ARTICLE 47, WITH SOME DRAFTING CHANGES, WHICH BRAZILIANS INDICATED INFORMALLY WERE ACCEPTABLE TO THEM. HOWEVER OUR ASSESSMENT WAS THAT EEC HAD ENOUGH VOTES AMONG CONSUMERS PREVENT THIS ARTICLE FROM GETTING NECESSARY 2/3 MAJORITY OF CONSUMER VOTES. WE CONTINUE BELIEVE BEST HOPE FOR SATISFACTORY SOLUTION THIS PROBLEM LIES IN DIRECT DISCUSSIONS BETWEEN LATINOS AND AFRICANS -- NOT THROUGH FURTHER ATTEMPTS PRESS EEC.

5. SEPTEL WILL FOLLOW ON PRESIDENTIAL EXCHANGES.

6. WE HAVE REPEATED CABLE FROM RIO REPORTING PRESS COVERAGE POSSIBLE COIMBRA RESIGNATION. NO OTHER HARD INFORMATION AVAILABLE HERE. RUSK

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