

# TELEGRAM

**SUBJECT** of the United States of America

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RIO DE JANEIRO

INCO/COFFEE

ACTION: ECON-4

INFO R 051155Z AUG 67 AMERICAN EMBASSY LIMITED OFFICIAL USE

Control: 1220

AMB FM AMEMBASSY LONDON  
DCM TO RUEHC/SECSTATE WASHDC 7941  
MINECON INFO RUESBG/AMEMBASSY BOGOTA 21  
FAS RUESUA/AMEMBASSY RIO DE JANEIRO 51  
POL ZEN/AMEMBASSY ABIDJAN UNN  
USIS ZEN/AMEMBASSY GUATEMALA UNN  
ECON/ ZEN/AMEMBASSY KAMPALA UNN  
COML ZEN/AMEMBASSY SAN SALVADOR UNN  
FINATT STATE GRNC  
ADDP BT  
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FILE

Read: AUGUST 7 0700

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SUBJECT: COFFEE

1. ON SOLUBLE PROBLEM, COSTA (BRAZIL) SAID AUGUST 4 THAT BRAZILIAN GOVERNMENT HAD HOPED RECENT TALKS IN WASHINGTON WOULD INCLUDE SOME MEANINGFUL INDUSTRY-TO-INDUSTRY DISCUSSIONS SO THAT SUBSEQUENT BRAZILIAN GOVT SOLUTION COULD APPEAR IN BRAZIL TO HAVE RESULTED FROM THESE TALKS. FAILURE TO ESTABLISH DIALOGUE, TOGETHER WITH UNFORTUNATE PUBLICITY, HAS NOW MADE IT ALMOST IMPOSSIBLE POLITICALLY FOR GOB TO EITHER COLLECT CONTRIBUTION QUOTA ON SOLUBLE EXPORTS OR LIMIT EXPORTS TO US FOR FEAR OF GIVING IMPRESSION BRAZIL KNUCKLING UNDER TO US. ALTERNATIVE NOW BEING CONSIDERED IS LIMITATION OF PRODUCTION, WHICH HAS DRAWBACK OF ENRICHING ALREADY ESTABLISHED SMALL GROUP PRODUCERS. COSTA HOPES ISSUE CAN BE KEPT OUT OF COFFEE COUNCIL SINCE THIS WILL ONLY COMPLICATE DELICATE NEGOTIATIONS, BUT HE UNSURE WHETHER BRAZIL WOULD MAKE DECISION BY TIME OF MEETING. IMPLIED THAT MINISTER SA ALMEIDA HAD EXCEEDED INSTRUCTIONS WHEN, AFTER DELIVERING NOTE PROTESTING

PUBLICITY, HE SAID A SUBSTANTIVE GOB REPLY STILL TO COME. DGCOSTA THEN VOLUNTEERED THAT PRESENT BRAZILIAN SOLUBLE POLICY WRONG BECAUSE IT EMPHASIZES LOW PRICE AND POOR QUALITY, STRESS SHOULD BE ON BUILDING HIGH QUALITY FREEZE DRY PLANTS. SEVERAL LATINS HAVE COMMENTED ON ARTICLE IN JULY 21 VISION ON RENEWAL OF COFFEE AGREEMENT WHICH MENTIONS DIFFICULTIES BRAZILIAN SOLUBLE POLICY CREATING FOR CONTINUED US SUPPORT OF AGREEMENT.

2. COSTA WENT ON TO EXPLAIN THAT MINISTRY OF FOREIGN AFFAIRS AND IBC HAVE ROUGHLY EQUAL POWER ON COFFEE MATTERS - MFA HAS EDGE IN EXPERIENCE AND NEGOTIATING ABILITY, IBC HAS

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FIRST SAY ON QUOTA REVISION, PRICE DIFFERENTIALS, AND DIVERSIFICATION. HOWEVER, IMPORTANT ISSUES ARE REFERRED FOR DECISION TO MINISTERS OF FOREIGN AFFAIRS, FINANCE, AND COMMERCE AND INDUSTRY. COSTA SAID COMMERCE AND INDUSTRY BACKS IRC, WHEREAS NEW FINANCE MINISTER DELFIM NETO IS YOUNG AND BRIGHT AND HAS GOOD UNDERSTANDING OF LARGER ISSUES. COSTA ADDED THAT MORE BRAZILIAN OFFICIALS NOW QUESTIONING NEED FOR AN AGREEMENT, ARGUING THAT EVERYONE IS CHEATING AT BRAZIL'S EXPENSE. COSTA ADMITS THAT GOOD PROGRESS HAS BEEN MADE ON IMPLEMENTING EFFECTIVE CONTROLS IN PAST YEAR, AND THAT NEW BRAZILIAN OFFICIALS DON'T FULLY REALIZE THIS. COSTA SAID PROGRESS MUST CONTINUE, AND THAT COUNCIL SHOULD FIND SOME WAY TO BETTER DEFINE BONA FIDE CONTRACTS BECAUSE OF DEMONSTRATED COMPLICATIONS INVOLVED IN EVENT OF QUOTA OUT.

3. ON PREFERENCES, COSTA SAID HE THOUGHT AFRICANS READY TO GIVE UP THOSE ON COFFEE IF CAN GET SOMETHING MEANINGFUL IN RETURN. ADDED THAT SOME AFRICANS SEEM LESS WEDDED TO SELECTIVITY WITH BIG ROBUSTA HARVEST COMING UP.

4. ON NEED FOR WRAPPING UP NEGOTIATIONS AT THIS COUNCIL, RAMIREZ (COLOMBIA) SAID COLOMBIA, BRAZIL, AND CENTRAL AMERICANS ALREADY FACING INCREASING OPPOSITIONS AT HOME WHICH WILL INCREASE IF NEGOTIATIONS BECOME BITTER AND DRAG OUT. COLOMBIA NEEDED AGREEMENT IN 1962 AND HELPED PUSH IT THROUGH, BUT HAS LOST MARKETS AND ONLY SLIGHTLY INCREASED EXPORT REVENUES SINCE THEN. RAMIREZ (AND COSTA) ADDED THAT AFRICANS NOW FULLY SUPPORT RENEWAL, BUT SHOULD NEGOTIATIONS BE EXTENDED, THERE WILL BE INCREASING TEMPTATIONS FOR THEM WITH BIG ROBUSTA HARVEST COMING UP, TO FIND WAY TO START CHEATING AGAIN, WEAKEN MARKET, AND FURTHER ERODE LATIN SUPPORT FOR RENEWAL.

5. HIGH LEVEL GROUP MAKING PROGRESS AUGUST 4.

6. CONCLUSIONS GROUP CONCENTRATED ON PRODUCTION CONTROLS WITH TENTATIVE AGREEMENT THAT THERE MUST BE STRICT EXPORT AND IMPORT CONTROLS AND IN NEW AGREEMENT NO WAIVERS GRANTED FOR AN INCREASE IN EXPORTABLE PRODUCTION. THESE MEASURES, TOWARD WHICH COUNCIL ALREADY MOVED THIS COFFEE YEAR, SHOULD HELP PROVIDE NECESSARY INCENTIVES TO CURTAIL EXCESS PRODUCTION SINCE SURPLUS WOULD THEN BE VALUELESS. THERE WAS ALSO AGREEMENT THAT (1) NEITHER PRODUCING COUNTRIES NOR AID DONOR COUNTRIES, NOR INTERNATIONAL FINANCING AGENCIES SHOULD PROVIDE FUNDS TO INCREASE PRODUCTION, (2) TO ENSURE IMPLEMENTATION OF PRODUCTION CONTROLS AND VERIFICATION OF STOCKS ICO SHOULD SEND YEARLY MISSIONS TO PRODUCERS AND THAT PRODUCERS SHOULD SUBMIT YEARLY REPORTS, AND (3) THAT COUNTRY STUDIES HAVE SHOWN PRODUCERS ALREADY DOING MORE THAN HAD BEEN EXPECTED TO LAY BASIS FOR CURTAILING PRODUCTION.

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7. PROBLEM AROSE WHEN BRAZIL SAID IF WITHIN TWO OR THREE YEARS COUNCIL NOT SATISFIED THAT PRODUCTION GOALS BEING PROPERLY IMPLEMENTED, AGREEMENT WOULD BE TERMINATED. BRAZIL WENT ON TO SAY WOULD ONLY FAVOR THREE YEAR CONDITIONAL EXTENSION UNTIL SURE OTHER PRODUCEPS SERIOUS ABOUT SHARING SACRIFICES. FEELING OF OTHER MEMBERS, EXCEPT COLOMBIA, WAS THAT CONDITIONAL EXTENSION CREATES TOO MUCH UNCERTAINTY FOR COUNTIPES TO TAKE HARD POLITICAL DECISIONS TO ENSURE COMPLIANCE WITH PRODUCTION GOALS. SANTOS PROPOSED THAT AGREEMENT BE RENEWED FOR FIVE YEARS SINCE ARTICLE 71 (3) PROVIDES AUTHORITY FOR TERMINATING AT ANY TIME. DISCUSSION WILL CONTINUE ON THIS AND RELATED ISSUES AUGUST 7.  
BRUCE

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