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# OPERATIONS MEMORANDUM

TO: American Embassy, Rio de Janeiro  
ATTN: Agricultural Attaché  
FROM: American Consulate, Salvador  
SUBJECT: ECONOMIC REPORTING: Cocoa  
REF:

Date: July 1, 1964

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HM  
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INCO (VP)  
Cocoa

The following information is submitted for possible use in the cocoa report due July 15. We are attempting to obtain more information on Bahia's stand with regard to the minimum export price and the forthcoming conference in TOGO. This will be transmitted to Washington by airgram with a copy to the Agricultural Attaché's office.

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Estimates of the temporão crop still being harvested have declined somewhat and the most commonly heard figure is 1.1 million bags. Cold and rain during the past six weeks has caused some damage. The main crop will bring this year's total production to over two million bags -- perhaps to 2.1 million. The cold and rain is reported to have caused some damage to buds for the main crop.

Sales remain slow. Exporters can pay growers CR\$4500 per arroba only if they can get US\$0.20 or more f.o.b. from buyers abroad. On sales to the United States this minimum price is not available on shipments prior to September. Russia, Eastern European countries and Argentina and Uruguay have been paying more but the total demand is not sufficient to remove large stocks from the hands of the growers. Through the end of May only 180,000 bags had been sold as against a normal 500,000. The figure for the end of June will show some improvement but the situation is not yet normal. Growers are unwilling to sell for less than CR\$4500 per arroba and are reluctant at that figure.

Russia has reportedly bought 5000 tons at prices ranging between US\$22.50 and \$23.00 per 50 kilos f.o.b. Ilhéus, or approximately US\$0.20625 per pound. Reportedly they will keep buying and will raise their price to \$23.50 per 50 kilos. At 5000 tons, Russia's purchases already equal about 10% of the exportable temporão crop.

Following a shift in manner of computing stevedoring charges in Ilhéus from a volume to a tonnage basis with consequent drop

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in the cost per bag, various shipping conferences have reduced their charges accordingly:

Mediterranean Freight Conference:

Ilhéus: Old rate, \$US63.50 per ton; new rate, \$43.50

Salvador: Old rate, \$US47.50 per ton; new rate, \$38.50

Brazil-U.S.-Canada Freight Conference:

Ilhéus: Old rate, \$US2.75 per bag; new rate, \$2.62

Salvador: New rate, US\$2.37 per bag.

Cocoa shipments this year have returned to the normal pattern of using Ilhéus in preference to Salvador. Through May (including some shipments from last year's main crop) 170,000 tons had gone from Ilhéus as against 64,700 from Salvador.

Cocoa growers continue to agitate for higher prices and for a reduced contribution to CEPLAC (Comissão Executiva do Plano de Recuperação da Lavoura Cacauzeira). The Consulate recently received a copy of a letter (mimeographed, copy attached) addressed to Mr. Isaac Witkin of the General Cocoa Company, New York, bitterly attacking US cocoa importers and users and declaring that as of October 1, 1964 there will be no cocoa exported at less than US\$0.27 per pound. At a meeting of the Bahia Cocoa Trade Commission the morning of June 30 this letter was discussed -- the source of this information would not reveal the writer's name -- but the consensus of the meeting was that Bahia should not go along with any such price-fixing plan. A major, if not the sole reason, for lack of support among exporters is skepticism about the good faith of the African countries in sticking to a price minimum. Growers are generally in favor of the proposal and the Bahia Cocoa Institute, according to the newspapers, will send a representative to the July 25 conference on cocoa in Togo.

CEPLAC now receives 15% of the value of cocoa exports. Half of this is for its operations, the other half is supposed to go into a fund to assist cocoa growers. Reportedly the fund, amounting to CR\$6-7 billion, exists only on paper and is not readily available. Cocoa growers are requesting that they pay only 7.5% until such time as the price rises to US\$0.23 per pound. At the moment such relief does not appear likely. CEPLAC's head, Paulo ALVIN, recently reported that CEPLAC has 114 agronomists in the cocoa region and that through disease control and improved and increased use of fertilizers and shade, production can be increased from the present two million bags to four million bags before the end of the decade. Some industry sources are skeptical of this and even believe that cocoa

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production, except for climatically induced fluctuations, will trend downward. They point to instances of cocoa growers turning to cattle raising. At the present world price this may well be true. If it were to rise -- even to US\$0.23 per pound -- there might be sufficient spread to pay for needed improvements in production methods. As yet, no grower has shown willingness to spend large amounts on fertilizers or in renewing plantations.

**SUBJECT:** The cocoa products industry has been severely jolted in recent weeks by the State Government's decision to withdraw the industry's exemption from the 5% export tax. Producers of cocoa butter and other products have ceased all exports pending the decision of a committee studying the problem and have threatened to close permanently if forced to pay the tax. They claim that world market conditions and the necessity to pay import duties into some countries make profitable operation impossible in the face of the 5% tax. Reportedly the committee has decided against maintaining the exemption. It is probable that the various companies involved will find some way of adapting to the situation if they are not successful in getting the government to reverse its position, but resumption of activity in the plants in Salvador and Ilheus may be delayed at least through July. In the meantime, cocoa products companies are reported to be exporting cocoa beans.

**Attachment:**

as stated

...and Argentina and Uruguay have been paying more but the total demand is not sufficient to remove large stocks from the hands of the growers. Through the end of May only 130,000 bags had been sold as against a normal 500,000. The figure for the end of June will show some improvement but the situation is not yet normal. Growers are unwilling to sell for less than \$14.00 per arroba and are reluctant at that figure.

Russia has reportedly bought 5000 tons at prices ranging between \$122.50 and \$21.00 per 50 kilos f.o.b. Ilheus, or approximately \$240.20-\$225 per pound. Reportedly they will keep buying and will raise their price to \$23.50 per 50 kilos. At 5000 tons, Russia's purchases already equal about 12% of the exportable temporary crop.

**REService:la**

...allowing a shift in manner of accounting stored cocoa changes in Ilheus from a volume to a revenue basis with consequent drop

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