Calendar No. 424

98TH CONGRESS } SENATE { REPORT
1st Session } { No. 98-250

INTERNATIONAL COFFEE AGREEMENT, 1983

SEPTEMBER 28 (legislative day, SEPTEMBER 26), 1983.—Ordered to be printed

Mr. DOLE, from the Committee on Finance, submitted the following

REPORT

[To accompany S. 1847]

The Committee on Finance reports a bill (S. 1847) to amend the International Coffee Agreement Act of 1980, and recommends that the bill do pass.

I. SUMMARY

The Committee bill would authorize the President to carry out and to enforce the International Coffee Agreement, 1983, an international trade agreement that succeeds the International Coffee Agreement, 1976.

II. GENERAL EXPLANATION

A. BACKGROUND

The 1983 International Coffee Agreement (ICA) is the fifth in a series of such agreements dating from 1963. It would replace the 1976 agreement, which expires September 30, 1983. The Congress last year extended the President's authority to carry out U.S. obligations under this agreement also until September 30, 1983.

Like its predecessors, the 1983 ICA is designed to stabilize coffee prices within an agreed range ($1.15–$1.50 per pound). Export quotas, buttressed by stocking requirements, are established among the coffee producing nations in order to maintain prices within this range. Quotas are reduced, expanded, or suspended for this purpose. Consuming countries agree to regulate imports to support the quota system, and they participate in the negotiations determining the aggregate annual quota and its distribution among types of coffee.

Operation of the agreement is conducted through the International Coffee Organization, headquartered in London. The ICA covers nearly 95 percent of coffee traded worldwide, and will encompass nearly all

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exporting and importing countries. Votes in the organization are distributed on a weighted basis among producing and consuming members; the United States is entitled to 30 percent of the consumers' votes.

The administration supports continued participation in the ICA because it believes the agreement contributes to stability in coffee trade without significantly restraining market forces that normally determine price and supply. This stability is important because coffee exports account for over 50 percent of total export earnings of seven countries, and between 20 and 50 percent for nine others. A predictable coffee market assures some measure of economic—and in many cases, political—stability in these countries. On the other side, the major U.S. importers support the agreement as a way of ensuring stable supplies. The National Coffee Association and the consumer advisers to the ICA negotiating team support the agreement.

On July 27, 1983, following the recommendation of the Committee on Foreign Relations, the Senate unanimously gave its advice and consent to ratification of the 1983 ICA. (See International Coffee Agreement, Report of the Committee on Foreign Relations on Treaty Doc. 98-2, Exec. Rep. No. 98–11 (1983)).

B. PRESENT LAW

In the International Coffee Agreement Act of 1980 (Public Law No. 96–599; 19 U.S.C. 1356 K), the Congress authorized the President to carry out the obligations of the United States under the ICA of 1976. The act authorizes the President to regulate coffee imports, to prohibit the entry of non-quota coffee, to require any coffee exported from the United States to be documented properly, and to take other regulatory actions necessary or appropriate to implement U.S. obligations under the agreement. The law further requires the President to take action in response to market manipulation by members of the International Coffee Organization, if he determines the existence of such conduct. Finally, the act requires the President to submit an annual report on the operation of the ICA. In Executive Order No. 12297 (46 Fed. Reg. 16877, March 12, 1981), the President delegated his authority under the act of the U.S. Trade Representative.

C. COMMITTEE BILL

S. 1847, as reported by the Committee, would renew the authority vested in the President by the International Coffee Agreement Act of 1980 for the term of the 1983 ICA, which is to remain in force for 6 years.

In voting to renew this authority for the full term of the Agreement, the Committee recognized the generally satisfactory way in which the 1976 ICA has operated and the important improvements achieved by the U.S. negotiators in the new agreement. These include greater imput by the consuming nations into the allocation of export quotas, more effective provisions for addressing quota short-falls, and strengthened provisions relating to obligations of producer nations not to engage in multilateral marketing arrangements beyond the scope of the agreement. As the letter below from Ambassador Brock makes clear, the administration supports uninterrupted renewal of the 1980 Act's authority because, in its view, the ICA is functioning well, and participation in the agreement is in the best economic and foreign policy interests of the United States.

Because of the 20-year record of progress in achieving the objectives of the successive coffee agreements, and the need to provide longer term predictability to international trade in coffee, the Committee accepted the administration's position of support for extension of the President's authority for the term of the 1983 ICA. The Committee, however, expects the United States to remain vigilant in its review and enforcement of U.S. rights and obligations under the agreement. The Committee accepts the assurances of the Administration in this regard, and expects the U.S. Trade Representative to comply fully with the provisions of the act that require reporting to the Congress in full on the operation of the agreement and reconsideration of U.S. participation in the ICA in the event of noncompliance by other signatories with their obligations under that agreement.

III. Vote of the Committee in Reporting the Bill

In compliance with section 133 of the Legislative Reorganization Act of 1946, the Committee states that the bill was ordered reported without objection.

IV. Budgetary Impact of the Bill

In compliance with section 252(a) of the Legislative Reorganization Act of 1970, sections 308 and 403 of the Congressional Budget Act of 1974, and paragraph 11(a) of rule XXVI of the Standing Rules of the Senate, the following statement is made relative to the cost and budgetary impact of the bill.

The committee accepts as its estimates the report of the Congressional Budget Office under section 403 of the Congressional Budget Act, as follows:

U.S. Congress,
Congressional Budget Office,
Washington, D.C., September 28, 1983.

Hon. Robert J. Dole,
Chairman, Committee on Finance,
U.S. Senate, Washington, D.C.

Dear Mr. Chairman: Pursuant to section 403 of the Congressional Budget Act of 1974, the Congressional Budget Office has prepared a cost estimate on S. 1847, an amendment to the International Coffee Agreement Act, as ordered reported by the Senate Finance Committee on September 27, 1983.

Should the Committee so desire, we would be pleased to provide further details on the attached cost estimate.

Sincerely,

Rudolph G. Penner, *Director.*

CONGRESSIONAL BUDGET OFFICE—COST ESTIMATE

1. Bill number: S. 1847.

2. Bill title: To authorize the President carry out and enforce the International Coffee Agreement 1983.

3. Bill status: As ordered reported by the Senate Finance Committee on September 27, 1983.

4. Bill purpose: This bill (S. 1847) amends the International Coffee Agreement Act of 1980 by extending for 6 years the authority of the President to implement U.S. obligations under the International Coffee Agreement (ICA). This bill contains amendments to sections 2, 3 and 5 of the 1980 Act. These amendments replace references to the "International Coffee Agreement of 1976" with references to the "International Agreement of 1983". There are no other substantive changes of the 1980 Act.

The purpose of these amendments is to permit enforcement of the new ICA, which will enter into force on October 1, 1983 for a period of six years. The new agreement retains the basic provision of the 1976 agreement—export quotas, stockpiling requirements, and agreed price ranges for imposition or removal of export quotas.

The ICA, which was recently ratified by the Senate, is designed to protect both consumer nations and producer nations from large fluctuations in the price of coffee beans by stabilizing the price within a quotas for coffee sales by producer nations to consumer nations. Under the ICA, both prices and quotas are adjusted annually.

The 1980 Act provides authority for U.S. implementation of its obligations under the ICA, including use of import measures to enforce the agreement's export quotas on member countries and to prevent imports from non-members. The 1980 Act also provides that the President shall seek to protcet American consumers against unwarranted price increases resulting from market manipulation by ICA members, and requires annual reports on the operation of the ICA.

5. Estimated cost to the Federal Government: Under current law, U.S. participation in the ICA requires federal outlays for two purposes:

(1) The United States membership in the International Coffee Organization. The ICA permits the International Coffee Organization to assess contributions from member nations to pay for the expenses of the Organization. The agreement, however, does not authorize appropriations for contributions from the U.S. In the past, such payments have been authorized in previous annual State Department authorization bills. The State Department authorization bills for 1984 (H.R. 2915), (S. 1342) include about $700,000 for such payments.

(2) Regulatory costs to the United States customs for the purposes of implementing the import and export provisions specified in the 1980 Act. The Customs Bureau estimates that approximately 20 full-time individuals are employed for the purposes of enforcing the provisions in the ICA. This would amount to a total cost of approximately $600,000 for the fiscal year 1984. In the past, such payments have been authorized in the annual authorization for appropriation for the Customs Bureau.

Inflationary impact.—In the absence of the ICA, the world price of green coffee presumably would fluctuate largely as a function of the supply of green coffee. For example, green coffee prices under the previous agreement exceeded $3.00 per pound after freezing weather significantly reduced the Brazilian coffee crop in July of 1975. Prior to the destruction of Brazilian coffee trees in 1975, green coffee prices ranged between 40 cents and 80 cents per pound. Current prices are $1.25 per pound.

Assuming full compliance by all members of the International Coffee Organization, the ICA would tend to raise prices above what they would be in times of abundant supply. In times of short supply, the ICA should tend to keep prices lower than they would be otherwise. At present, green coffee is abundant so the ICA should be slightly inflationary, making both wholesale and retail prices higher than in the absence of such an agreement. It is not possible to determine how far short run wholesale prices would fall given current abundant supplies of coffee and the relatively inelastic demand for coffee. CBO has received reports of potential sales as low as 65 cents per pound. In any event, because the cost of green coffee currently accounts for about 50 percent of the retail price of roasted coffee, retail prices would not fluctuate as much as the price of green coffee when the price movements are measured in percentage terms.

For example, if the price of green coffee actually dropped by about 50 percent, from $1.25 to 65 cents per pound (in the absence of this agreement), retail prices could be expected to fall by 24 percent for roasted coffee, and by 22 percent for instant coffee. This would lower projections of the consumer price index by about 0.06 percent.

6. Estimated cost to State and local governments: None.
7. Estimate comparison: None.
8. Previous CBO estimate: This estimate is in part based upon information obtained for a similar bill, H.R. 3813, as ordered reported by the House Ways and Mean Committee. This bill differs from the house version in that it would extend the President's implementing authority for a full six years as is specified in the International Coffee Agreement of 1983.
9. Estimate prepared by: Carla Kruytbosch.
10. Estimated approved by:

JAMES L. BLUM, *Assitant Director for Budget Analysis.*

V. REGULATORY IMPACT OF THE BILL

In compliance with paragraph XXVI of the Standing Rules of the Senate, the committee states that the provisions of the committee bill will continue existing authority to regulate individuals or businesses involved in the international trade of coffee, but these regulatory actions are minimal. The provisions of the bill will not impact on the personal privacy of individuals, and will result in no additional paperwork other than that already required pursuant to existing authority. The bill authorizes continued funding of current Customs Service functions without substantially modifying the law governing its operations.

VI. Changes in Existing Law

In compliance with paragraph 12 of rule XXVI of the Standing Rules of the Senate, the changes in existing law made by the bill as reported are shown below (existing law proposed to be omitted is enclosed in black brackets, new matter is printed in italic, existing law in which no change is proposed is shown in rooman):

International Coffee Agreement Act of 1980

IMPORTATION OF COFFEE UNDER INTERNATIONAL COFFEE AGREEMENT 1976; PRESIDENTIAL POWERS AND DUTIES

SEC. 2. On and after the entry into force of the International Coffee Agreement [1976] *1983*, and for such period [prior to October 1, 1983] *before October 1, 1985*, as the agreement remains in effect, the President is authorized, in order to carry out and enforce the provisions of that agreement—

(1) to regulate the entry of coffee for consumption, or withdrawal of coffee from warehouse for consumption, or any other form of entry or withdrawal of coffee such as for transportation or exportation, including whenever quotas are in effect pursuant to the agreement, (A) the limitation of entry, or withdrawal from warehouse, of coffee imported from countries which are not members of the International Coffee Organization, and (B) the prohibition of entry of any shipment from any member of the International Coffee Organization of coffee which is not accompanied either by a valid certificate of origin, a valid certificate of reexport, a valid certificate of reshipment, or a valid certificate of transit, issued by a qualified agency in such form as required under the agreement;

(2) to require that every export or reexport of coffee from the United States shall be accompanied by a valid certificate of origin or a valid certificate of reexport, issued by a qualified agency of the United States designated by him, in such form as required under the agreement;

(3) to require the keeping of such records, statistics, and other information, and the rendering of such reports, relating to the importation, distribution, prices, and consumption of coffee as he may from time to time prescribe; and

(4) to take such other action, and issue and enforce such rules and regulations, as he may consider necessary or appropriate in order to implement the obligations of the United States under the agreement.

DEFINITION OF COFFEE

SEC. 3. As used in this Act, the term "coffee" means coffee as defined in article 3 of the International Coffee Agreement [1976] *1983*.

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REPORT TO THE CONGRESS

SEC. 5. The President shall submit to the Congress an annual report on the International Coffee Agreement [1976] *1983*. Such report shall contain full information on the operation of such agreement, including full information with respect to the general level of prices of coffee and matters pertaining to the transportation of coffee from exporting countries to the United States. The report shall also include a summary of the actions the United States and the International Coffee Organizations have taken to protect the interest of United States consumers.

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