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Chief, RQM/OIS 2 June 1953

Chief, WHD

Guatemalan Coffee Study

1. This will confirm our oral request for a comprehensive survey of the Guatemalan coffee industry, as set forth in conversations by members of WHD and ECD with [ ] and [ ] [ ] of RQM/OIS.

2. It is requested that this study be developed along the general lines of an informal list of questions submitted to Mr. [ ] and as modified by subsequent meetings.

3. As the Guatemalan political situation may result in attracting undesired attention to our interest in it, it is requested that the information be gathered in as secure a manner as is possible, in keeping with the pratical consideration of current and accurate results.

J. C. KING

WH/JCK/CFM/DKG/jc

Distribution:
Orig & 1 : RQM/OIS
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Duplicate memo sent to RQM/OIS on 22 June 53 after that ofc stated orig was not rec'd. 22 June 53 [ ]

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(Attachment C)
15 May -53

BOYCOTT

Guatemalan coffee is one of the mild coffees used mostly in this country to obtain one of the higher price blends. While changes in blend composition, necessitated by variations in availability and price of blending coffees, have little short term significance, except to the merchant; over longer periods, cyclical changes in supply and prices may induce significant modifications in consumption. Favorable or unfavorable effects upon the demand for one brand have limited significance to the industry as a whole, but a general tendency for coffee merchants in important consuming markets to use better-quality or poorer-quality coffees does have an undeniable influence upon consumption habits, and hence, upon demand in international trade.

In practice, the coffee merchants formula for an established brand is never rigidly fixed. Coffee drinkers may have preferences as to blends and may be able to distinquish between Brazilian coffee and the milder growths from other Latin-American countries, but a good cup of satisfying coffee can be obtained from quite a variety of combinations in the blend. Standard good brands of coffee in the U.S. are a blend of 15-40 percent of mild Colombian or Central American coffees with good Brazilian coffees. High quality brands are blends of milds and may contain no Brazilian coffee, while the cheapest coffees may consist entirely of Brazil's. Most coffee sold at retail is identified by a roaster's or distriutor's brand name, commonly through the package or container in which the coffee is sold.

It is believed thatif large users of Guatemalan coffee among the leading brands were to be persuaded, on patriotic gounds, to eliminate Guatemalan coffee entirely in their blends, therfore, and substitute another mild coffee, it could be done without the consumer being any the wiser.

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Deliberate discrimination could be disavowed by the simple explanation of improving flavor.

Guatemalan exports of coffee averaged 875,000 bags (60 Kg. each) from 1945-49, and about 68 percent of this was marketed in the U.S. Guatemalan exports during this period represented 2.9% of the world's total exports. Other producers of milds were in Central America and Mexico and accounted for 12.4%. Colombia and Venequela, other mild producers, supplied 16.1 and 2%, respectively, of the world's exports during this period. Ample supplies of milds would therefore be available to merchants who would agree to switch from Guatemalan to some other mild coffee intheir blends for patriotic reasons.

INTERFERENCE WITH QUALITY

At the receiving port, newly arrived green coffee goes into jobber's or roaster's warehouses to await distribution to outlying markets, where it is roasted, ground, and packaged for sale to the ultimate consumer.

Coffee is not particularly subject to deterioration because of temperatures, but is especially vulnerable to humid conditions. While storage of many tropical products is hazardous in producing centers, both because of weather and inadequate storage facilities, it is especially so with a commodity like coffee where, without flavor and aroma, the valuable properties disappear entirely. Long storage of green coffee affects first the color of the bean and later the flavor.

When weather or conditions of preparation vary enough to affect the quality of the season's output, the merchant using certain central American coffees may find it necessary to shift to a different type and suppły source because of the limited quantities of high quality blending coffees available during a particular season.

Several roasters in the U.S., with fairly large requirements, depend entirely upon Central American Coffees.

The condition of coffee upon arrival at its foreign destination depends largely upon proper stowing aboard ship. Because it is liable to sweating, care must be taken that no metal touches the bags. Ample air circulation during the voyage is necessary to assure dryness of the cargo.

If the coffee becomes wet, it must be given special treatment at the receiving port. This adds to the cost of handling and necessitates selling on a "distress" basis.

The sudden drop in temperature when the steamship on which the coffee is loaded leaves the Gulf stream, after many days of warm weather, may cause excessive sweating between decks.

Ship sabotage of Guatemalan coffee could, therefore, be accomplished b interfering with the air circulation, br breaking steam pipes that would cause humid conditions, or by opening portholes during storms that would cause partial flooding of the cargo. Similarly, when the coffee is in warehouses in this country, tampering with the sprinkler system might have the same effect of spoiling the flavor or aroma of the green coffee bean. It would be difficult for shippers to get insurance coverage for loss of flavor or aroma, yet importers could lodge claims against shippers and make deductions from invoices for this reason.

PRICE RIGGING

When a short supply of mild coffees or an abnormal demand forces the price upward, the roaster first seeks alternatives in coffees of similar characteristics. Failing in this, he must make the closest approach possible under conditions of prevailing price differentials. This means altering the proportion of the various coffees used in the blend.

Thus, coffee consumers in the U.S. were offered more mild coffees than ever before during World War II and liked them, continuaing a pre-war trend which was accelerated when Brazil's were not available in adequate quantities because of shipping difficulties.

Trade demand over short periods is much more responsive to price changes than is consumer demand. Stocks are built up when prices are low and reduced when they are high. Abundance and low prices stimulate the trade to embark on campaigns, not merly to dispose of large stocks, but to raise the level of public demand. Trade demand, over longer periods, must of course, reflect consumer demand.

There still seemed to have been some lingering doubt as to the "justice" of consumer reactions to excessively high coffee prices in late 1949, but no doubt that consumption was down in May 1950, and this in a period of essentially full employment, high per capita national income, and generally stable prices for other foodstuffs.

Once consumers acquire the habit, continued use of coffee seems to depend more upon price than upon income, but this view is frequently disputed and is practically impossible to prove. Both prices and income are undoubtedly of prime importance in affecting consumption, but are by no means the only influences.

Except in countries imposing heavy duties and taxes on imported coffee (it is duty free in the U.S.), the cost of the raw product is always the largest single item in the retail price. The higher the price of green coffee, and the the larger the ratio it bears to the retail price, the greater the influence of changes in green coffee prices. Most of the expenses of transportation, storage, roasting, packaging, and selling, tend to remain more or less stable in relation to the volume of coffee handled regardless of its value.

In 1943, growers were getting 8 cents per pound for coffee retailing around 20 cents in the U.S. In 1950, they were getting over 40 cents per pound for coffee retailing around 80 cents per pound. The ratio of grower return to retail selling price had increased from 3 to 1, to 2 to 1.

The cost of producing coffee in Guatemala in 1947 was said to be approximately 14 cents per pound. Since then, production costs have increased about 30%. Practically all costs involved in producing and marketing coffee have increased in the past decade, but undoubtedly the labor item is the most important in overall costs. Between the plantation and the retail distributor in the consuming country, many costs and expenses are incurred over which the producer has essentially no control. Retail prices are made up of first costs of coffee, plus such items as handling to the shipping port, export duties or taxes levied by producing countries, ocean freight and insurance, more handling and storage at the receiving port; import duties and other taxes levied by governments of the consuming countries; processing, packaging, merchandising and distribution charges; and the business profits of intermediaries along the line. Undoubtedly, all of these costs have increased over pre-war in some degree but not to the extent of the prime costs of production.

Depressing the price of Guatemalan coffee would, therefore, have an immediate repercussion on Guatemalan labor, necessitating lower wages on the plantations. Lower prices could be artificially induced, first, by reducing the supply by cornering it. The first effect of such action would be to raise the price. However, since the milds in any blend are chiefly responsible for the body, flavor, and aroma of a brand; it is especially important to the merchant that the premium coffees be available in the desired quantities and at prices that permit keeping over-all blend costs at, or near, a pre-determined figure. If Guatamalan coffee were priced out of the market thru speculation, merchants would turn to other types for their blends. Representing only 2.9% of the total supply, and less than 10% of the supply of milds, the effect would be more to eliminate the use of Guatamalans' in blends than to raiseetho prices of other milds. After a seasons crop of competing types had been marketed and merchants had filled their requirements with other blends, part of the cornered supply could then be used to depress the market in Guatamalans by offering it at demoralizingly low prices. The fact that a supply of Guatemalan coffee hung over the market would continue to depress the price. The repercussion or returns to growers would be in a ratio of 2 to 1.

Faced with lower prices for their product, growers would seek to reduce labor costs. Political repercussions might follow.

STIMULATION OF SUBSTITUTES

Guatamalan coffee production represents about 10% of the total production of milds capable of being substituted for Guatamalan coffee by blenders. Coffee has a relatively inelastic demand. But since final processing of raw coffee does not occur until it begins to move into consuming channels, the coffee importer has more flexibility in timing his purchases and often can await a favorable market. However, if the supply of a given type of coffee was held off the market, the importer must inevitably turn to substitutes. Once substitution were made, competing producers would draw on interior stocks to fill the demand. The Colombian Federation of Coffee Growers was thought to hold substatial stocks in 1947. With $80 million in resources, it was reported in 1947 to be buying 90% of all the new crop coffee to support the market. Market development of the next few years, which was favorable to producers, permitted this semigovernmental agency to liquidate its temporary holdings advantageously. Usually, out of an exportable production of 30 million bags of interior-held coffee stocks, stocks in port and afloat and other visible stocks amount to about 50% of the annual production.

RESTRICTION OF MARKETING

The Agrarian Reform Law was conceived partly to deal with the problem of the FINCAS NATIONALES (re. the expropriated German fincas) to avoid having to return them to their former owners, even though they have been allowed to deteriorate and in some cases to lie fallow. The German plantations, taken over by the Government and administered by Otto Carbello of of Officano Central, are commencing to deteriorate. Such plantations were formerly show places and accounted for about 1/3rd of all Guatamalan coffee production. They are now improperly administered; old trees are not replaced, and production has dropped considerably. However, they are earning about $40 million annually for the Guatamalan Govt. and their loss would be a serious blow to Government revenues.

When the discussion of a U.S.-German peace treaty arose, Guatemala, being in the U.S. sphere of influence, felt that she would be placed on the spot in regard to the disposition of these fincas. The Agrarian Reform Law was drawn up partly, at least, to transfer these German holdings to permanent Guatamalan ownership. It was also, partly of course, a political move. The Reform Law would require domestic disposal of the fincas and therefore will probably not be implemented but will be kept as an excuse to prohibit return to German ownership.

The finqueros, in general, are not particularly concerned about the Agrarian Reform Law. Cultivated land is exempt and the definition of "cultivated land" is very broad. It includes all crop and pasture land, only sterile ground is considered uncultivated.

Generally speaking, local capitalists in Latin America have never had sufficient confidence in their own governments to be willing to support a national fiscal policy. Their interests lay in quick profits that could later be converted to some form of "sheltered" investment. The bulk of the export business in the principal coffee producing countries tends to be concentrated in the hands of relatively few firms.

The 16 nation Paris Conferences, early in 1948, placed European coffee requirements at 8.7 million bags annually for 4 years, a consumption rate about 40% greater than then current. But coffee producers wanted dollars and European countries were already conserving their dwindling gold and U.S. dollar reserves for more essential purchases. If Latin American producers would not accept inconvertible currencies; market contraction, accumulation of stocks and pressure on coffee prices were inevitable. Producers saw in the Marshall Plan the opportunity to enjoy a continualtion of high coffee prices. If European demand could be made "effective" by virtue of the fact that the U.S. supplied the dollars, producers would be able to maintain their superior bargaining position in dealing with the all important American market. The ERP involved the help of Latin American countries as suppliers, and hence the bargaining power was substatntially increased at a time when it seemed to be in the decline. Although, perhaps, not deliberately planned; the U.S. efforts to bolster European economies indirectly benefited Latin America. With coffee, the increased purchased by European countries was enough to tip the scales and create conditions in the U.S. market that the producers had long sought. By late 1949, with the "coffee famine scare", their most extravagant hopes had been realized.

After the spectacular run-up in prices in 1949, the National Coffee Association seemed somewhat less confident that demand was not restricted by high prices. The effects on coffee consumption in the U.S. were difficult to appraise but "everyone" seems to agree that high prices are having a bad effect on consumption of coffee in Brazil. Some estimates on this reduction go as high as 600,000 bags". The National Coffee Association is the leading coffee trade organization in the U.S., including brokers, importers, and roasters, in its membership. It sometimes joins with the Pan American Coffee Bureau in coffee promotion campaigns. The Bureau, established in 1937, is strictly a Latin American producers' agency for promoting consumption and advising its members on current market developments. As of 1950, it was supported by Brazil, Colombia, Costa Rica, El Salvador, Guatamala, Honduras, Mexico, Dominican Republic, and Venezuela.

Small coffee plantation owners in Guatemala have recently been extremely remiss in shipments. Purchases are tied up for abnormal lengths of time. This poor trade conduct of the small plantation owners is caused by the influence of communist groups to harass U.S. trade and the small owners are the most susceptible to such overtures.

Under these conditions it would seem difficult to apply any artificial restricutions on the marketing of Guatemalan Coffee in the U.S. Coffee planters, merchants and bankers dislike the leftist government. But they lack the intelligence and courage to curb its excesses. Most of them have a "tomorrow" temperament and are too individualistic to act together. The Communists who are largely in command of the agrarian program are said to be arming the small farmers, who have been the chief beneficiaries of that program.