

**THE CONTROVERSY BETWEEN THE UNITED
STATES OF AMERICA AND BRAZIL
ON SOLUBLE COFFEE.**

**AN EXAMPLE OF (ANOTHER) BLEMISH
ON THE ALLIANCE FOR PROGRESS?**

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**1. THE ALLIANCE FOR PROGRESS:
INITIAL ASSUMPTIONS AND FINAL RESULTS**

Initiated in the year 1961, by president John F. Kennedy, the aid programme called the Alliance for Progress was one of the most crucial attempts of providing economic support to Latin America in recent history. Planned for ten years, the programme was intended to generate more than 10 billions USD of material and technological aid for the states of the South American continent. Its aim was to promote the economic growth and political reforms in the era of the greatest tensions between the democratic West and the communist East. As a result of the programme, factories, powerplants, roads and ports were to be built. The Latin American states were to be industrialized, leading to an increase in the general standard of living and a reduction in poverty. The political context of the United States' programme is now very clear; the aid for Latin America was planned to prevent the Soviet penetration of the continent. That threat became particularly obvious for the American government after the Cuban revolution¹.

¹ M.C. Eakin, *Historia Ameryki Łacińskiej. Zderzenie kultur [The History of Latin America: Collision of Cultures, New York 2007]*, Kraków 2009, p. 309.

Countering communism was followed by one more reason of aiding the neighbouring continent. The US wanted the Alliance for Progress to spread the model of American values and its vision of democracy understood as a benefit for the international community. Primarily, it was to demonstrate, that the American ideals on political organisation could be universally applied. The Americans expected that it would be a success of their social engineering, assuming that due to large financial support and directed modelling of society, one could achieve economic growth, solve social problems and ensure democracy development². During the meeting with the diplomatic corp of the Latin American states in March 1961, President Kennedy laid out in his speech idealistic plans for the promotion of democracy, economic development and an improved standard of life for the citizens of the Latin American countries. The president claimed that the main task was to show the world that the aspirations of economic progress and social justice could be achieved only by free men, working in the frames of democratic institutions³.

The above-mentioned ambitions were promoted by the presidents Kennedy and Johnson, although the latter, despite his initial enthusiasm toward the programme, after the mid-sixties was showing less interest in it. The threat of the Soviet influence decreased, despite the activities of left oriented movements in the South American countries. For the Americans, the problem emerged in another place of the world; the war in Vietnam required total concentration, not only for international public opinion, but, above all, American finances. The money needed to conduct military operations the US government more and more reached into funds dedicated to the Alliance for Progress. The situation worsened during the presidency of Richard Nixon, who didn't want to be identified with a rather unsuccessful (as he saw it) programme associated with his predecessors.

What is more the programme lost its ethos and as such the optimism created by Kennedy. Withholding loans for the labour union-sympathizing

² J. Taffet, *Foreign Aid as Foreign Policy: The Alliance for Progress in Latin America*, New York 2007, p. 13.

³ K. Derwich, *Instrumenty polityki zagranicznej USA wobec państw Ameryki Łacińskiej 1945–2000* [The Instruments of Foreign Policy of the USA towards Latin America states 1945–2000], Kraków 2010, p.135.

Goulart's government in Brazil caused its overthrow by a military junta, under which the loans were reactivated. The Alliance for Progress, therefore, served as a source of financing for military dictatorships instead of the development of democratic systems. Indeed, the same occurred in some other countries of Latin America, where the US quite quickly accepted the military coups. In Argentina and Peru it happened in 1962, so yet under the government of Kennedy. The idea of democratisation of Latin America gave into the particular interests of the United States, decisions to whom to deliver financial aid were driven by immediate political benefit instead of the question whether a candidate was advancing in its reform path⁴.

Such an attitude of the United States undoubtedly caused a fall in confidence of the Latin America residents. Nevertheless the evaluation of the Alliance for Progress was to be measured as well by its economic results, but differing from the initial assumptions. The Alliance was intended to produce a growth of *per capita* income of at least 2,5% annually. In most of the Latin countries, however, the growth was smaller. A reason for such, well documented in literature, was that the local Latin American elite were unwilling to accept any reforms and wanted to maintain the previous *status quo*. The other reason lay in the population explosion which occurred in the continent during the sixties⁵. Some authors also mentioned the huge backwardness of local economic structures; for instance, the considerable fragmentation of agriculture and the reluctance to join production cooperatives⁶. However, what is frequently omitted are the factors lying on the side of the United States. Economically, the US government, from time to time, betrayed its early promises. Nevertheless it's not what some scholars emotionally wrote about the "predatory" character of investment activities of the USA⁷ (the ideological judgment of the participation of American

⁴ W. Dobrzycki, *Stosunki międzynarodowe w Ameryce Łacińskiej. Historia i współczesność* [The International Relations in Latin America. History and the present], Warszawa 2000, p. 183.

⁵ K. Derwich, op. cit., p. 140.

⁶ H. Brands, *Latin America's Cold War*, London 2010, p. 57.

⁷ "najważniejszą funkcją bezpośrednich inwestycji [USA] było wytwarzanie lub przechwytywanie wartości dodatkowej i przywłaszczanie sobie znacznej części bogactwa

enterprises in Latin America stays out of the scope of this article, although the fact that, at the time of the Alliance for Progress, the increase of direct foreign investments of the USA in that region was extremely dynamic⁸), but it refers to some inconsistency in the US foreign trade relations with Latin America at that time.

In the second half of the sixties the United States moved the focus of the aid offered, within the Alliance for Progress, towards achieving more political-defensive aims. This was connected to the search of international support for their policy in Vietnam. That turn of events met with the dissatisfaction of the Latin Americans, who expressed it during the 3rd Inter-American Conference that started in February 1967. Then, during the following conference of the Organization of American States in Punta del Este in April 1967, the Committee of Nine appointed by the Council of the organization published a document, which firmly reviled the behaviour of the US government. The Committee pointed out that one couldn't reach the desired national growth at the level of 4–6% p.a. unless basic changes in the economic and social structure were carried out, especially in the agricultural sector. The primary condition for this was to increase exports from the Latin American countries and provide better access to the world markets (particularly the US) for their raw materials⁹. Meanwhile the export trade met or was about to meet many obstacles caused by policies of some of the developed, importing countries.

A major example of the previous point was the controversy between Brazil and the United States about the basis of Brazilian exports of proc-

wytwarzanego na latynoamerykańskiej ziemi”, R. Stemplowski, *Spółczeństwa i państwa latynoamerykańskie w latach sześćdziesiątych i siedemdziesiątych* [Latin American Societies and States in the Sixties and Seventies] [in:] *Dzieje Ameryki Łacińskiej. Tom III. 1930–1975/1980* [History of Latin America. Volume III. 1930–1975/1980], R. Stemplowski (ed.), Warszawa 1983, p. 551.

⁸ R. Mroziewicz, W. Rómmel, *Ewolucja sytuacji społeczno-politycznej w Ameryce Łacińskiej (1960–1970)* [The Evolution of social-political situation in Latin America 1960–1970], Warszawa 1971, p. 13.

⁹ P. Kownacki, *Sojusz dla Postępu. Taktyka polityczna czy program rozwoju gospodarczego? Synteza polityki USA wobec krajów Ameryki Łacińskiej 1961–1974* [The Alliance for Progress. Political Tactic or programme of economic development? Synthesis of USA Policy Toward Latin America States], Warszawa 1983, p. 114.

cessed soluble coffee to the American market. The circumstances of that controversy and its meaning for the general guidelines of the Alliance for Progress constitute the subject of this paper.

2. INDUSTRIALIZING THE BRAZILIAN COFFEE ECONOMY: EFFECTS OF THE PROCESSED COFFEE EXPORTS TO THE UNITED STATES

Historically, since the XIX century, when Brazil became the biggest coffee producer of the world; coffee has had a big, and perhaps even the biggest significance for the Brazilian economy. Huge areas of coffee were cultivated, among others regions, in the valley of Paraíba and in São Paulo state. As an aside note; it is worth to indicate, that in the end of the XIX century, due to coffee business, the *per capita* income growth in Brazil was faster than in the USA¹⁰. No wonder that in the history of Brazil coffee was regarded as the most important export product and any fluctuations of its price influenced the whole national economy of Brazil¹¹. “Brazil is coffee” stated the popular slogan among the Brazilian planters from the end of the XIX century¹².

On the other side of the commercial link there was the United States, the world’s biggest coffee consumer and importer, where coffee became a national beverage. This situation created a special relationship between these two countries, affecting their mutual policy throughout the XX century. The coffee trade became an important subject of their bilateral policy. To explain how important; it is enough to mention the first serious controversy during the so-called “coffee valorisation” from 1912, when Brazil regulated supplies of its coffee causing a rise in prices. The US government disagreed with that practice, leading to a diplomatic crisis

¹⁰ M. Kula, *Historia Brazylii* [History of Brazil], Warszawa 1987, p. 90.

¹¹ A. Maryński, Z. Szot, *Geografia ekonomiczna Ameryki Łacińskiej* [Economic Geography of Latin America], Warszawa 1977, p. 174.

¹² S. Zaborski, *Cukier, złoto i kawa* [Sugar, Gold and Coffee], Warszawa 1965, p. 193.

between Washington – Rio de Janeiro¹³. The next significant controversy on coffee trade between these two countries broke out in the mid sixties, i.e. halfway through the Alliance for Progress.

The characteristic feature of that period was a great increase in consumption of soluble coffees. This trend resulted in changes to the production structure of coffee processing factories in the consumer countries, especially in the USA, primarily the major food processors; for example General Foods. Soluble coffee became a very profitable merchandise; the market grew constantly, both in quantity and in value.

This success provoked the producing countries to develop their own soluble coffee production lines, however, among them only Brazil had the financial, technical and market potential to start its own soluble coffee sector. The coffee producing countries of Africa did not have sufficient capital, while the other Latin American producers, especially Colombia, produced coffee of a quality which was too good to use in the soluble process (arabica specified as *colombian mild*).

Only Brazil could manage to introduce the investment plan for setting up the soluble coffee industry. The plan was executed in the mid sixties, after a few years of action from the Brazilian Coffee Institute, which was a state agency purchasing 80% of solubles from Brazilian coffee plants¹⁴. The plants themselves began to operate in 1963–1965; among them were Cacique's factory in Londrina (Parana state), Dominion S.A. (opened with great pomp by the president of the Brazilian Coffee Institute – Leonidas Lopes Borio) and even the Swiss Nestlé¹⁵. The ones who didn't benefit from the development of soluble coffee plants in Brazil were Americans. At first General Foods thought about opening a factory at a location in Brazil, but

¹³ L.F. Sensabaugh, *The Coffee – Trust Question in United States – Brazilian Relations: 1912–1913*, "The Hispanic American Historical Review", Vol. 26, No. 4, Washington 1946, p. 482.

¹⁴ M. Sivetz, *Export of Solubles from Brazil to U.S.*, "Tea and Coffee Trade Journal", New York (September) 1966, p. 27.

¹⁵ V. Couto, *I.B.C. Signs First Financing Contract With Soluble Industry*, "Tea and Coffee Trade Journal", New York (May) 1963, s. 45. L.M. Peppercorn, *Brazil's First Plant to Produce Soluble Coffee for Export Opens*, "Tea and Coffee Trade Journal", New York (January) 1966, p. 69.

soon abandoned that idea. The decision was determined by fear of political instability in Brazil, the high rate of inflation and – most of all – industrial unrest by US labour unions (moving factories abroad would cause mass lay-offs of American employees)¹⁶.

In this way the American coffee firms missed the opportunity of investments in Brazil, while the local production of soluble coffee and its export to the USA grew rapidly. In 1967 the share of Brazilian soluble coffee in the American market reached 14%. The export of that coffee to the USA rose rapidly, compared with previous years, more than 10,000 tonnes (a year before it had been only 2,700 tonnes). It corresponded to 205,000 60-kg of soluble coffee bags exported to the USA¹⁷.

Such a jump was due to very competitive prices of already processed coffee brought from Brazil. The coffee processed in the USA was 60% more expensive compared to Brazil. It caused the American food processors, led by General Foods, and brokers acting as middlemen in international coffee trade to feel threatened by the Brazilian's progress in conquering the market. The result forced the Department of State to become involved in the matter in order to defend the interest of the American coffee entrepreneurs. The reaction of the US Department of State prompted the second such serious conflict in the bilateral coffee relations between Brazil and the USA since 1912¹⁸.

3. SOLUTIONS TO THE SOLUBLE COFFEE CONTROVERSY: FINDINGS OF ICO'S ARBITRATION PANEL

At first, controversy surfaced against a background of negotiations for signing the second international coffee agreement in 1968. The International Coffee Agreement had remained in effect since 1962 regulating

¹⁶ R.L. Lucier, *The International Political Economy of Coffee. From Juan Valdez to Yank's Dinner*, New York 1988, p. 138.

¹⁷ *Brazil-U.S. Soluble Problem Mushrooming*, "Tea and Coffee Trade Journal", New York (August) 1967, p. 18.

¹⁸ Kabir-Ur-Rahman Khan, *The Law and Organisation of Commodity Agreements*, Dordrecht 1982, p. 147.

international coffee trade using export quotas, which were determined by the International Coffee Organization (the institution created by the agreement). The agreement was signed by 32 coffee exporting countries and 22 net consumer countries; this made the agreement and the organisation an important forum for the coffee industry throughout the world¹⁹. Brazil was its main coffee producing and exporting member, whilst the USA was its main coffee consuming and importing member and therefore, indicated their political importance in the Organization. Export quotas contributed to a rise of prices on the international market and therefore, the producing countries wanted to maintain the same system. The problem was that the agreement would expire five years after its entry into force, hence a new one was soon needed. The soluble coffee topic became then a bargaining card for the US administration in the forthcoming negotiations. It needed to be added that the ICO was an essential part of the US-Brazilian relationship.

The United States as the biggest coffee importing member of the International Coffee Organization (ICO) demanded that the second agreement should contain a clause, entitling importing countries to levy unilaterally an import duty in the case where an exporting member didn't have equal export duty on green coffee (unprocessed coffee) and soluble coffee. The demand came from the fact that the Brazilians, according to international law, exported the soluble coffee as a part of its export quotas but at prices much lower than regular green coffee. The reason of that domestic export duty was levied on green coffee but not on the soluble one. In Brazil the processed goods were exempt from the export tax to promote industrialisation of the country. With coffee it created the opportunity to sell processed coffee at a price much lower than the raw coffee, which still needed to be processed in the importing country. This was the source of American companies irritation, and in consequence of the Department of State demands with regard to the new coffee agreement.

¹⁹ M.R. Chudziak, *Międzynarodowe umowy kawowe. Zarys prawnomiędzynarodowych ram światowego sektora kawy* [International Coffee Agreements. International Legal Frames of Coffee Sector], "Studia Iuridica Toruniensia", T. IX., Toruń 2011, p. 173.

The Brazilians objected that forcing them to introduce comparable export taxes on green and soluble coffee was against the nature of the United Nations Conference on Trade and Development and, what is more, was the total opposite of the Alliance for Progress, created, after all, to industrialise Latin America. Indeed the Department of State's request, at first, embarrassed president Johnson. He had just supported a declaration of the American States Organization, in 1967, encouraging Latin American countries to export processed agricultural products. Shortly after Johnson withdrew from that declaration, making room for the Secretary of State Dean Rusk, to lead the negotiations.

After mediation provided by the ICO staff, led by its Executive Director Joao Oliveira Santos, Brazil eased its position making concessions toward introducing a new clause to the agreement. It was in Brazil's interest to keep the quota system, so at least a partial retreat was necessary to extend the agreement. The compromise consisted of including in its text article 44 as follows: "no member shall apply governmental measures affecting its exports and re-exports of coffee to another member which, when taken as a whole in relation to that other Member, amount to discriminatory treatment in favour of processed coffee as compared with green coffee". If discriminatory treatment were found to exist by the ICO special arbitration panel, the complaining member might take counter measures which should not go beyond – as the article said- what is necessary to counteract the discriminatory treatment.

In fact this provision led to moving the negotiations on and signing the new agreement in March 1968, but it didn't overcome the controversy itself. Soon after, on the basis of article 44, the United States made a complaint to the ICO about discriminatory Brazilian trade in soluble coffee. The case was brought by the organisation before the Arbitration Panel consisted of three members. The Panel proceeded from the 14th to the 28th of February 1969²⁰.

The arbiter elected for the controversy by the United States, David Hertz, indicated that according to Brazilian law any export of low quality

²⁰ International Coffee Organization, *Findings of Arbitration Panel Established under the Provision of Article 44*, ICO Doc. ED 397/69, London 3.03.1969, p. 2.

coffee was forbidden. Low grade coffee, excluded from export, was available to Brazilian entrepreneurs at very advantageous prices in Brazilian currency – *cruzeiro*, it was not accessible at all to American soluble coffee producers. At the same time Brazilian law didn't prohibit to export coffee processed in that way. The point was that soluble coffee was made from low quality coffee grains. For instance, the Americans usually made it from African *robustas*. Moreover, as it was mentioned before, green coffee export in Brazil was subject to export duty, which was completely independent of the ICO's export quotas. The export tax however didn't apply to processed, instant coffee. Hence Herwitz accused Brazil of "applying governmental measures", violating the rule contained in The Atlantic Charter stating equal access to raw materials and in consequence contravening article 44 of the International Coffee Agreement. He (Hertz) demanded that Brazil withdraw the ban on exporting low grade coffees and introduced an equivalent export duty on instant coffee, warning that otherwise the US government would be forced to take counter measures on the basis of article 44 (3) of the agreement. The USA could even introduce an import tax on Brazilian soluble coffee, but to do that the Arbitration Panel needed to establish first if in fact the Brazilian government committed discriminatory steps.

In response to the American accusation the Brazilian arbiter Paulo Egydio Martins denied that his country had taken any discriminatory measures toward the USA. He argued that the ban on exporting low grade coffee remained in absolute conformity with the provisions of the coffee agreement, especially with those concerning coffee quality. He emphasized that the share of Brazilian soluble coffees in the American market was still relatively low, because American companies processed mostly African *robustas*, which were cheaper than Brazilian *arabicas*. Consequently, the closing down of some coffee processing plants in the USA couldn't be linked with Brazilian soluble coffee imports. As he firmly stated, underpinning the reason of the case: "this contention within the ambit of the International Coffee Organization transcend the classic dispute between countries producing raw materials and industrialized consumer countries and, for the first time, involves a confrontation of the interests of an industrialized consumer country and a producing country which is

being industrialized. It is to be hoped that such confrontations will be broadened in the years to come, involving several producing countries in conflicts similar to that which now brings Brazil face to face with the United States, because they are a consequence of economic development (...) [The United States] seek to remove from countries producing raw materials and members of agreements, any natural advantages they may possess for industrialization; the industrialized consumer countries reserving the right to maintain the status quo. This attempt is not justified by the principles underlying the Agreement, which essentially aim to give the developing nations economic advantages that will help them to accelerate their development. During the 1968 renegotiations, the United States sought to introduce into the context of the multinational Agreement a provision that would enable it, as an industrialized importing country to take a unilateral decision and, at its own discretion, apply retaliatory measures to the exporting countries, in order to correct behaviour, which, in its view, could be considered discriminatory. It is interesting to note the tutelary intent incorporated in the United States' claims and in its Complaint, both when it sets itself up as defender of industrialized consumer countries and protector of other countries producing primary products (...) It is interesting to note that both the unilateralism of the United States' position and this intimidation process were presented in the guise of good faith, as sincere belief that by acting in this way the United States was simply defending inviolable and "sacred" principles such as "free trade" and "equal access to raw materials". The adoption of an Agreement guaranteeing economic support and equitable prices for the developing countries was the outcome of a politico-economic principle of the containment of "free trade" and "laissez faire", within limits defined by the very aims of the Agreement, that is, the creation of artificial conditions for the benefit of the developing countries with a "quid pro quo", namely the stabilization of prices of raw materials for consumer countries, thus avoiding the impact on their economies or pronounced fluctuations in world market prices. The attempt to deny the developing countries a normal stage in their economic development such as that of processing their own raw materials – which could be undertaken only with the aid of incentives great enough to offset growing economic, technological and cultural disparity between them and

the industrialized countries – seems inconsistent to anyone who, within the same agreement, accepts a policy for raw materials but rejects it for the processed product (...) The declared position of the United States: contradicts the spirit of UNCTAD; reduces the significance of the Punta del Este Declaration; undermines the International Coffee Agreement”²¹.

It seems that with such an argument Martins got to the crux of the matter. Indeed on the one hand the USA gave legitimization to the international agreement, whose aim was to regulate the market, on the other hand it justified its position arguing its concern for free trade. In those circumstances it is difficult to defend the view that the selection of arguments was neither totally particular nor driven by double standards based on actual interest. Nonetheless the Chairman of the Arbitration Panel, Mr Bengt Odevall of Sweden, shared the American view and declared that the USA was entitled to register the complaint. His decision was decided by the analogy made by Herwitz, who asked rhetorically if in a case that Brazil had possessed technology proper enough to process green coffee to a regular one on a mass scale, would have Brazil seized a substantial share of the consumer market. When Martins confirmed indicating that both cases referred to industrial product processing, it became obvious that dismissing the US complaint would cause a dangerous precedent, which could threaten the interests of coffee roasters in all importing (consumer) members of the ICO²².

In those circumstances Odevall stated that: “as the history of this case clearly shows a need to have remedy applied to the situation, I would take it that appropriate action by the United States Government would be a natural course to follow; therefore, in the context in which this case has arisen I find that the United States is entitled to find such action pursuant to paragraph 3 of Article 44 (...) On the other hand article 44 (3) gives Brazil an opportunity to take care of the situation. As this has been contemplated on previous occasions by the Brazilian Government, the existing unfortunate situation between the two Governments in the field of soluble

²¹ Ibidem, p. 21.

²² Ibidem, p. 14.

coffee would perhaps be best corrected if the Brazilian Government took it upon themselves to deal with it”²³.

As a consequence Brazil, seeing lack of support from the side of the Chairman Odevall, decided to make some concessions, before the USA could make more unfavourable moves. On the 1st of May 1969 Brazil introduced an export tax on soluble coffee exported to the USA. Every pound of such coffee was levied by a duty of 13 US cents. The United States wanted more, demanding to increase this duty to 40 US cents per pound, but Brazil objected. Brazil explained that a year after the duty was introduced the price of soluble coffee in the American market was about 30 US cents higher compared to the previous year. As a matter of fact in this particular case it was caused by the exhaustion of lower grade coffees excluded from export than the tax itself. Brazil justified this stating that its processors started to use the same grade of green coffee which the American processors did, so the prices were now equivalent for both parties.

This argument wasn't accepted by the US Department of State, which still was trying to force Brazil to rise its export duty on solubles at least to 30 US cents per pound. The negotiating position of the USA wasn't, however, as strong as it appeared at first. In practice its trump card in the form of unilateral measures wouldn't be so easy to apply. The new Secretary of State William P. Rogers knew very well that imposing an import tax on soluble coffee could worsen relations not only with Brazil, but also with the other producing countries of the ICO. In the face of bigger and bigger involvement in the Vietnam War the USA paid attention to maintain an equal coercive policy with other countries of the Third World, avoiding any rush moves. Such a deadlock situation didn't meet the expectations of the coffee processors lobby. Hence General Foods sent James W. Andrews, a director of Maxwell House brand to have a meeting with the Chairman of the Ways and Means Committee of the U.S. House of Representatives – Wilbur Mills. Congress was the place where some pressure on the cautious Department of State could be made. Andrews tried to persuade Mills to take appropriate counter measures or other firm steps in order

²³ Ibidem, p. 4.

to force Brazil to give more concessions. The 15th of July 1970 during the second meeting with Mills, in the company of all Committee members, the congressmen decided to suspend any implementation procedures referring to the International Coffee Agreement 1968. The Chairman Mills even publically expressed his opposition to the participation of the USA in the coffee agreement, threatening that as long as he was the chairman, the Committee would neither permit the implementation of the agreement nor any future extension of the agreement unless import tax were imposed on Brazilian soluble coffee²⁴.

Withholding the implementing act wasn't a counter measure in the meaning of article 44 of the coffee agreement, but could damage the effectiveness of the agreement itself. This would affect all the ICO's coffee producing countries, provoking wide dissatisfaction among them, which the US government was trying to avoid. Therefore the Department of State wasn't pleased about the statement of the congressional committee. Only after a few months did Deputy Secretary of State and the US representative in the International Coffee Organization, Julius L. Kartz, persuade Mills to change his position. Thanks to his change of mind the Ways and Means Committee on the 30th of November picked up the process of adapting the internal law to the coffee agreement provisions²⁵.

The act passed the Committee and became a subject of deliberations of the U.S. Senate, which on the 31st of December 1970 pushed the case, warning that the controversy should be resolved before the end of March of the coming year. Otherwise the Congress was about to stop any works on implementing the act for good. That would be tantamount to complete paralysis of the International Coffee Organization.

In these circumstances, both governments, blackmailed so to speak by the Congress statement, needed to reach a quick consensus. The negotiations were even more complicated after Brazil passed the law expanding its territorial sea to 200 miles and claimed its exclusive right to any

²⁴ *Ways and Means Chairman Opposes ICA Extension*, "Tea and Coffee Trade Journal", New York (July) 1970, p. 46.

²⁵ *House Committee Clears ICA Bill; Warns on Brazil Soluble*, "Tea and Coffee Trade Journal", New York (December) 1970, p. 45.

natural resources found there. In principle it was one of the signs that Brazil decided to abandon almost 70 years of the policy of close relations with the USA to move for better integration with Latin America²⁶. In this situation the date of voting on the implementation bill fell on the 7th of June 1971 but was postponed at the request of congressman Sam Gibbons, who invoked an incident of firing upon American fishing vessels entering the recently proclaimed 200-miles territorial sea limit²⁷. Nonetheless the agreement was reached and on the 30th of March 1971 both countries agreed that Brazil would release from the export tax a quantity of green coffee corresponding to the total amount of soluble coffee exported in 1970 to the USA. In return it could abolish the 13 cents export tax on soluble coffee established on the 1st May 1969. Thanks to that the American processors gained a right to purchase 560,000 bags of Brazilian green coffee at a lower price.

In that way the conflicting sides ended the 4 year old controversy on soluble coffee. The implementation works moved on and the United States remained a member of the ICO.

4. THE DISPUTE'S CONTEXT

The coffee quotas remained in effect and the international coffee trade could still be regulated. But the controversy itself was a harbinger of the end of the Alliance for Progress or to be more exact one of the signs of its failure, as since 1967 the Inter-American relations met with scepticism. It is important to underline that formally the coffee agreement remained outside of the Alliance for Progress, as the programme was a typically regional initiative, while the agreement was signed worldwide. It was still a very important instrument of diplomatic communication between the USA and the South American countries, serving as a platform of the highest foreign policy for such countries like Brazil or Colombia, i.e. the

²⁶ P. Raine, *Brazil. Awakening giant*, Washington 1974, p. 209.

²⁷ *Congress Lets Membership Lapse In Row with Brazil*, "Tea and Coffee Trade Journal", New York (July) 1971, p. 21.

biggest coffee producers in the world. The mutual attitudes expressed by the two sides within the frame of the ICO reflected their more general international politics at that time. Undoubtedly those two levels of international activity of Latin America were completely parallel and in this way the dispute had to influence the relations in the wider range, not only as a narrow, unconnected section of Brazil – USA relations.

The controversy was then a small block in the worsening communication between the United States and the South American states within the scope of the Alliance for Progress. It was just a supplement of other arguments ruining the programme. The reference to the Alliance made by Paulo Egydio Martins in his statement was slightly provocative, as he had to know, that it is the end of the aid programme. The Latin Americans more and more loudly blamed the United States for allocating their funds arbitrarily in political or military projects instead of financing the “progress” in systemic matters, like development of trade unions, student federations, peasant leagues, cooperatives and any others institutions characteristic of civil society. In return the Americans felt disappointed by the attitude of some Latin American governments, which instead of strongly rejecting communism appeared to provoke their curiosity toward very leftist ideas, like for example Salvador Allende and his “*vía chilena al socialismo*”. Some U.S. officials complained that the money was wasted. As it was aptly captured by Sebastian Edwards: “when Richard Nixon came to power in 1969 the aid to Latin America declined significantly, and with time the Alliance folded without much fanfare”²⁸.

SUMMARY

The paper refers to a diplomatic controversy between Brazil and the United States that took place in the late sixties of the 20th century. The reason of the dispute layed in a fact of exporting processed soluble coffee by Brazil to the USA at very competitive

²⁸ S. Edwards, *Forty Years of Latin America's Economic Development: From the Alliance for Progress to the Washington Consensus*, National Bureau of Economic Reserach Working Paper, Cambridge 2009, p. 6.

prices. The US processors didn't have access to law grade coffees, which served as a raw material to fabrication of soluble powder. The US processors forced the Department of State to counteract that situation. As a result the USA government blamed Brazil of discriminatory trade practices and violating free trade. The controversy was put under the consideration of the International Coffee Organization. The proceedings coincided with the twilight of the American aid programme for Latin America called Alliance for Progress. The controversy was an instance of growing suspicions and deteriorating relations between Latin America and the USA, which changed its foreign policy in that region from supporting development of democracy in the continent toward backing up military regimes.

Key words: Coffee, Latin America, USA, Inter-American Relations, International Coffee Agreement, International Coffee Organization, Alliance for Progress, Controversy