

# Coffee Bubble Props Up Latin Debt

## COFFEE

Colombia's President Alfonso López Michelsen warned during a state visit to Costa Rica March 19 that "the fate of the capitalist world is at stake with coffee." López warned the Carter Administration that a sharp drop in coffee prices would endanger "the stability of 14 (Latin American) countries, which could be demolished by grave upheavals and could fall into the hands of communist economic systems . . . as the African continent has already fallen. . . . If the U.S. does not have a positive position towards the price (of coffee), 14 countries that depend on coffee, among them Colombia, Brazil and Costa Rica, will see their economic and market systems utterly destroyed."

While López Michelsen's outburst reflects the gravity of Colombia's own economic crisis and the weakness of his government, his characterization of the role of high coffee prices in keeping Latin American producer nations afloat financially is no exaggeration. A debt default by Brazil or Mexico, which would put the New York commercial banks in the "most seriously effected" category, is only being prevented in great measure by the coffee bubble. Despite the claims of U.S. coffee boycott advocates, Brazil and the other major producers are reaping little direct benefit from almost trebled coffee earnings — the bulk of which are being recycled right back to New York to meet payments on outstanding foreign debt. The case of coffee prices — which have jumped more than 300 percent over the last two years — is a paradigm for the operation of the Carter "Common Fund" and Kissinger "International Resources Bank" schemes, which would establish "price supports" for pri-

**Table 1**  
**Coffee Export, Volume and Earnings**

(MILLIONS OF BAGS, AND US \$ MILLIONS)

	1975	1976	1977 (EST)
<b>BRAZIL</b>			
VOLUME	14.6	15.6	12.0
EARNINGS	934	2,360	4,200
<b>COLOMBIA</b>			
VOLUME	8.2	6.3	6.5
EARNINGS	635	918	2,171
<b>MEXICO</b>			
VOLUME	2.4	2.7	3.0
EARNINGS	184	334	1,002
<b>CENTRAL AMERICA</b>			
VOLUME	7.5	7.2	7.7
EARNINGS	476	959	2,569
<b>LATIN AMERICA</b>			
VOLUME	32.7	31.8	29.2
EARNINGS	2,320	4,750	9,942

CENTRAL AMERICA INCLUDES NICARAGUA, COSTA RICA, HONDURAS, EL SALVADOR, AND GUATEMALA

SOURCE: COMPILED FROM BANK OF LONDON AND SOUTH AFRICA REVIEW, REPORT OF MEXICAN COFFEE INSTITUTE

**Table 2**  
**Foreign Debt and Debt Servicing**

(US \$ MILLIONS)

	1975	1976	1977 (EST)
<b>BRAZIL</b>			
DEBT SERVICE	3,600	5,000	7,000
TOTAL	21,200	28,000	34,000
<b>COLOMBIA</b>			
DEBT SERVICE	N.A.	N.A.	600
TOTAL	N.A.	2,536	3,000
<b>MEXICO</b>			
DEBT SERVICE	2,000	3,000	5,000
TOTAL	25,000	32,000	35,000
<b>CENTRAL AMERICA</b>			
DEBT SERVICE	N.A.	N.A.	N.A.
TOTAL	2,000	N.A.	5,301(1)
<b>TOTAL</b>			
DEBT SERVICE	---	---	12,900
TOTAL	53,000*	66,036*	77,301

(1) 1977 FOREIGN DEBT FOR CENTRAL AMERICA ESTIMATED; OFFICIAL PUBLIC = \$3,301 BILLION

\*TOTAL DEBT OF MAJOR COFFEE PRODUCERS IN 1975-76 ESTIMATED

mary Third World raw materials exports to cover a portion of otherwise uncollectable Third World debt.

This is the case, most graphically, with Mexico and Brazil, which have a combined foreign debt of upwards of \$60 billion (Table 2). The two nations face combined scheduled debt service payments of approximately \$12 billion (conservatively estimated) in 1977 alone; expected coffee export earnings, due to the price hike, amount to about 60 percent and 20 percent, respectively, of the two nations' debt service requirements this year (Tables 1,3).

Coffee export earnings for the major producers (Jamaica, Venezuela, Dominican Republic, Ecuador and Peru are not covered here, due to their relatively small production levels) have generally trebled from 1975 to 1977, despite a levelling-off, or even reduction, in volume exports (Table 1). Coffee ranked, for the first time in 1976, as Mexico's number one agricultural export earner and number two overall export commodity. Production was doubled in 1976 to take advantage of the coffee bubble.

Central America, which ranks third in world coffee production (it produced about 11.7 percent of the 1975-76 world crop) registered coffee export earnings of over \$400 million above 1975 levels, despite a decrease in volume exports in 1976 of about 300,000 bags. Coffee earnings are primarily responsible for the region's net foreign reserve gain of \$400 million last year, and the first

Table 3 — Coffee Revenues as Percentage of Debt Service Obligations, 1977

BRAZIL	60%	MEXICO	20%
COLOMBIA	350%	CENTRAL AMERICA	49%
		TOTAL (AVERAGE)	76%

significant balance of trade and payments surplus since a disastrous slump in 1974.

Colombia is a somewhat different case, since its foreign debt is relatively low at \$2.6 billion. Government officials are, however, planning to increase the rate of repayment of foreign debt obligations, based on the country's "coffee bonanza," and are now floating a proposal to increase the country's foreign indebtedness by \$1.2 billion during the 1977-78 fiscal year. Scarcely a penny of the bonanza has yet been applied to productive investment in developing Colombia's stagnating industrial or agricultural production.