

MONEY TRUST INVESTIGATION

INVESTIGATION

OF

FINANCIAL AND MONETARY CONDITIONS IN THE UNITED STATES

UNDER

HOUSE RESOLUTIONS NOS. 429 AND 504

BEFORE A

**SUBCOMMITTEE OF THE COMMITTEE ON
BANKING AND CURRENCY**

PART 1

**WASHINGTON
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SUBCOMMITTEE OF THE COMMITTEE ON BANKING AND CURRENCY,

HOUSE OF REPRESENTATIVES.

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MONEY TRUST INVESTIGATION.

SUBCOMMITTEE OF THE
COMMITTEE ON BANKING AND CURRENCY,
HOUSE OF REPRESENTATIVES,
Washington, D. C., Thursday, May 16, 1912.

The subcommittee met at 2.30 o'clock p. m.

Present, Messrs. Pujo (chairman), Doughton, Stephens, Daugherty, Byrnes, Neeley, McMorran, Guernsey, and Heald.

The subcommittee had under consideration the following resolutions:

[H. Res. 429, Sixty-second Congress, second session.]

Resolved, That in order to obtain full and complete information of the banking and currency conditions of the United States for the purpose of determining what legislation is needed, the Committee on Banking and Currency is authorized and directed to make a full investigation thereof, including all matters touched upon in House Resolution Numbered Four hundred and five within the jurisdiction of said committee; and the said committee is authorized, as a whole or by subcommittee, to sit during sessions of the House and the recess of Congress, to compel the attendance of witnesses, to send for persons and papers, to administer oaths to witnesses, and to employ experts, counsel, accountants, and clerical and other assistants.

The Speaker shall have authority to sign and the Clerk to attest subpoenas during the sessions or recess of Congress.

[H. Res. 504, Sixty-second Congress, second session.]

Whereas H. Res. 429 was heretofore passed for the purpose of directing the conduct of an investigation into certain of the matters covered by this resolution, and it has since been ascertained that said H. Res. 429 is insufficient in the delegation of its powers to permit of the scope of inquiry which is believed to be necessary as a basis for remedial legislation on the subjects covered by this resolution:

Resolved, That H. Res. 429 is hereby amended so that the same shall read as follows:

"Whereas legislation is now pending involving important changes in our national currency and monetary system and vitally affecting our national banks and other financial institutions, and various bills have also been introduced, and are now under consideration by Congress having for their purpose the amendment and supplementing of the act approved July second, eighteen hundred and ninety, entitled 'An act to protect trade and commerce against unlawful restraints and monopolies,' generally known as the Federal anti-trust law; and

"Whereas bills are also pending or under consideration to regulate industrial corporations engaged in interstate commerce through Federal incorporation, supervision, and otherwise, and legislation is believed to be necessary to further control the incorporation, management, and financial operations of railroad corporations that are now subject to the jurisdiction of the Interstate Commerce Commission, including, among other things, the regulation of the issue and sale of their securities and the protection of minority stockholders; and

"Whereas it has been charged, and there is reason to believe, that the management of the finances of many of the great industrial and railroad corporations of the country engaged in interstate commerce is rapidly concentrating in the hands of a few groups of financiers in the city of New York and their associates in New York and other cities, and that these groups, by reason of their control over the funds of such corporations and the power to dictate the depositories of such funds, and by reason of their relations with the great life insurance companies with headquarters in New York City, and by other means, have secured domination over many of the leading national banks and other moneyed institutions and life insurance companies in the city of New York and in other cities to which they direct such patronage and over the vast deposits of money and of the other assets of such institutions, thus enabling them and their associates to direct the operations of the latter in the use of the money belonging to their depositors and the stockholders and in the purchase and sale of securities and loans of money by such banks and other moneyed institutions and life insurance companies, and that these institutions and their funds are being used to further the enterprises and increase the profits of these groups of individuals from such transactions and to augment their power over the finances of the country and to control the money, exchange, security, and commodity markets, and prevent competition with the enterprises in which they are interested, to the detriment of interstate commerce and of the general public; and

"Whereas it has been further charged and is generally believed that these same groups of financiers have so entrenched themselves in their control of the aforesaid financial and other institutions and otherwise in the direction of the finances of the country that they are thereby enabled to use the funds and property of the great national banks and other moneyed corporations in the leading money centers to control the security and commodity markets; to regulate the interest rates for money; to create, avert, and compose panics; to dominate the New York Stock Exchange and the various clearing-house associations throughout the country, and through such associations and by reason of their aforesaid control over the aforesaid railroads, industrial corporations, and moneyed institutions, and others, and in other ways resulting therefrom, have wielded a power over the business, commerce, credits, and finances of the country that is despotic and perilous and is daily becoming more perilous to the public welfare; and

"Whereas the national banks and other moneyed institutions controlled as aforesaid are charged to have been, and to be, engaged in the promotion, underwriting, and exploitation of speculative enterprises and in the purchase and sale of securities of such enterprises, and in acquiring, directly or indirectly, stocks of other banking institutions and absorbing competitors and in using their corporate funds and credit for such purposes, either alone or in conjunction with those by whom they are controlled; and

"Whereas it is deemed advisable to gather the facts bearing on the aforesaid conditions and charges or in any way relating thereto or to any of the subjects above mentioned as a basis for remedial and other legislative purposes: Therefore be it

"Resolved, That the Members now or hereafter constituting the Committee on Banking and Currency, by a subcommittee consisting of the eleven members thereof already appointed under H. R. 429 and by such substituted members as may be from time to time selected from the members of the said committee to fill vacancies in the subcommittee, is authorized and directed—

"First. To fully investigate and inquire into each and all of the above-recited matters and into all matters and subjects connected with or appurtenant to or bearing upon the same.

"Second. To fully inquire into and investigate among other things whether and to what extent—

"(a) Individuals, firms, national banks, and other moneyed corporations are engaged in or connected with the management of financial affairs of interstate railroad or industrial corporations, or life insurance companies, and what potential or other power they have or exercise over such corporations, and how and to what uses the bankable funds of such interstate railroad or industrial or other corporations are applied.

"(b) The marketing of the securities that have been from time to time issued by interstate railroad and industrial corporations has been by competitive bidding or otherwise.

"(c) Changes have been procured in the general laws of any of the States under which such interstate corporations are organized in the interest or upon

the procurement of such corporations, and for what reason and by what methods and influences such changes were accomplished.

"(d) Individuals, firms, national banks, and other moneyed corporations interested in or in anywise connected with such interstate corporations are enabled by reason of their relations or connection with other interstate corporations or with other individuals, firms, national banks, moneyed corporations, or life insurance companies, or otherwise to prevent or suppress competition in the interest of such interstate corporations, or to protect or assist the latter in preventing or suppressing competition.

"(e) Such interstate corporations and the individuals, firms, national banks, and moneyed corporations are mutually benefited and protected against competition and otherwise by the relations existing between them.

"(f) National banks and other moneyed and other institutions are directly or indirectly owned, dominated, or controlled through their directors or through stock ownership, official management, patronage, or otherwise by the same persons, interests, groups of individuals, or corporations that are also directly or indirectly interested in other national banks or moneyed or other corporations located in the same city and in interstate corporations that are customers of said national banks and other moneyed corporations.

"(g) The same individuals are officers or directors of, or were or are directly or indirectly interested in or dominate or control, or heretofore dominated or controlled, in any way, more than one national bank or other moneyed corporation.

"(h) The funds or credit of national banks and other moneyed corporations or life insurance companies are or have been used or employed other than in making current loans to merchants or on commercial paper, by whose influence or direction such funds or credits were so used or employed, and particularly whether and to what extent such funds are or have been employed: First, in the purchase of securities from bankers or others in any way interested in or connected with such corporations; second, in the guaranty or underwriting of securities or syndicate transactions, either alone or in conjunction with others; third, in loans on notes secured by bonds, stocks, or other collateral; fourth, in loans on or purchases of stock of other banks or of any trust or investment company or financial or moneyed corporation; and, fifth, in any form of investment alone or in joint account with others.

"(i) Any national bank or other moneyed corporation, whether directly or indirectly, or whether through or by means of another corporation having substantially the same officers, management, control, or stockholders, or with stock paid for by the dividends of a parent or affiliated company, and, whether alone or with others, has acted as an issuing house or in offering securities to the public or to investors by prospectus, advertisement, solicitation, or otherwise, or has speculated or is speculating in stocks and if so, the nature of all such transactions and the profits and all other details thereof.

"(j) The management and operations of the New York Stock Exchange and the New York Clearing House Association are, or may be, directly or indirectly, dominated, controlled, or otherwise affected by any individuals or groups of individuals who control or are influential in directing the use or deposit of the funds of national banks in the city of New York, or of interstate railway or industrial corporations, or life insurance companies, and the relations that the New York Stock Exchange and the New York Clearing House bear to such individuals and groups of individuals and to their financial transactions and to our commercial and financial systems and to interstate and foreign commerce.

"(k) Any individual, firm, or corporation, or any one or more groups of such individuals, firms, or corporations, may or can affect the security markets of the country through the New York Stock Exchange, or can create, avert, or compose panics by the control of the use and disposition of moneys in the banks and other moneyed or other corporations that are controlled by such individual, firm, or corporation, or by other means.

"(l) There is any connection between the relation of bankers, banking firms, and the relations of any of these interests to any of the others that operate to interstate commerce, and the relations of such bankers, banking firms, and their associates to the national banks and other moneyed or other corporations, and the relations of any of these interests to any of the others that operate to protect such interstate corporations against competition or are or may be used for that purpose.

"Third. To investigate, find, and report the facts bearing upon the payment of political contributions to national campaign funds by or in the interest of national banks and interstate railroad and industrial corporations, and by all

persons who are officers or directors thereof, and by other persons who are directly or indirectly in control of or connected with such corporations, together with the amounts of such contributions and the circumstances attending the same.

"Fourth. To investigate the methods of financing the cash requirement of interstate corporations and of marketing their securities, and the relations of national banks and others to such transactions.

"Fifth. Said committee as a whole or by subcommittee is authorized to sit during the sessions of the House and during the recess of Congress. Its hearings shall be open to the public. The committee as a whole or by subcommittee is authorized to hold its meetings both during the sessions of Congress and throughout the recesses and adjournment thereof and in such cities and places in the United States as it may from time to time designate; to employ counsel, experts, accountants, bookkeepers, clerical and other assistants; may summon and compel the attendance of witnesses; may send for persons and papers; and administer oaths to witnesses. The Comptroller of the Currency, the Secretary of the Treasury, and the Commissioner of the Bureau of Corporations, and their respective assistants and subordinates, are hereby respectively directed to comply with all directions of the committee for assistance in its labors, to place at the service of the committee all the data and records of their respective departments, to procure for the committee from time to time such information as is subject to their control or inspection, and to allow the use of their assistants for the making of such investigations with respect to corporations under their respective jurisdictions as the committee or any subcommittee may from time to time request.

"No person shall be excused from giving testimony or from answering any question or from otherwise disclosing any fact within his knowledge as an individual or as an officer or director of a corporation, or otherwise, or from producing any book, paper, or document on the ground that the giving of such testimony or the production of such book, paper, or document would tend to incriminate him, or for any other reason; but every person so testifying shall be granted immunity from prosecution with respect to any matter or thing concerning which he may be interrogated and as to which he shall truthfully make answer under oath upon such investigation. The Speaker shall have authority to sign and the Clerk to attest subpoenas during the recess of Congress."

Mr. PUJO. The committee will be in order. The purpose of this special hearing to-day is to take the testimony of a gentleman, Mr. Herman Sielcken, who is about to go abroad, and who has kindly consented to appear before the committee without subpoena for the purpose of giving such information as he has or may have in his possession relating to the subject matter of this inquiry. Mr. Farrar is not here to-day, largely owing to the short time that we had to give him notice, and no doubt also to conditions existing down in New Orleans at this time, because of the flood.

The inquiry will be primarily conducted for the purpose of having it in concise and sequential by the counsel for the committee. Of course, every member of the committee has the right to ask a question, but it is suggested that this should not be done until the inquiry in the main is concluded.

With this preliminary statement, and such statement as counsel may desire to make, I will swear the witness and commence with the inquiry.

TESTIMONY OF MR. HERMAN SIELCKEN.

The witness was sworn by Mr. Pujó.

Mr. UNTERMYER. Mr. Chairman, before proceeding to inquire of Mr. Sielcken perhaps I ought to say to the committee that Mr. Sielcken is being called out of order and that therefore the sequence of the inquiry may not quite so readily appear from his examination as will be made apparent later, when it is taken in connection with

testimony that will be adduced in the regular order of procedure. Owing to the fact that Mr. Sielcken is going to Europe we felt that perhaps he ought to be called out of order.

Mr. Sielcken, you live in the city of New York?

Mr. SIELCKEN. I do.

Mr. UNTERMYER. How long have you lived in New York?

Mr. SIELCKEN. Forty years.

Mr. UNTERMYER. You are a member of the firm of Crossman & Sielcken?

Mr. SIELCKEN. I am.

Mr. UNTERMYER. That firm is engaged in what business?

Mr. SIELCKEN. In importing and exporting from and to foreign countries.

Mr. UNTERMYER. What is its primary or principal business as importer?

Mr. SIELCKEN. As importers we are now largely in coffee.

Mr. UNTERMYER. That firm has existed many years, has it not?

Mr. SIELCKEN. Yes; the firm was established in 1862.

Mr. UNTERMYER. Your firm has been a very large factor in the coffee market for many years, has it not, Mr. Sielcken?

Mr. SIELCKEN. Yes.

Mr. UNTERMYER. Has it or not been the principal factor, in America, in the coffee business?

Mr. SIELCKEN. I suppose that since about 25 years ago we have been the largest dealers in green coffee in America.

Mr. UNTERMYER. You are members of the New York Coffee Exchange?

Mr. SIELCKEN. We are.

Mr. UNTERMYER. Is your firm a member or are you individually the firm member in the exchange?

Mr. SIELCKEN. No; both partners are members. We are both members.

Mr. UNTERMYER. And you are important factors in that exchange, are you not?

Mr. SIELCKEN. We are large dealers in it, yes. We neither of us visit it.

Mr. UNTERMYER. You transact your business through your brokers?

Mr. SIELCKEN. Through brokers.

Mr. UNTERMYER. Brokers who are your representatives in the exchange?

Mr. SIELCKEN. Yes.

Mr. UNTERMYER. The Coffee Exchange in New York is an important element in the international dealings in coffee, is it not?

Mr. SIELCKEN. Yes.

Mr. UNTERMYER. And has been an important element for many years past?

Mr. SIELCKEN. Yes.

Mr. UNTERMYER. The United States of America consume about what proportion of the entire coffee production of the world?

Mr. SIELCKEN. The entire coffee production in the world changes according to the crops. The United States alone consume about 70 per cent as much as all Europe.

Mr. UNTERMYER. But, taking a series of years, is it not a fact that the consumption in the United States is, in rough figures, about 40 per cent of the coffee output of the world?

Mr. SIELCKEN. Yes.

Mr. UNTERMYER. The dealings on the coffee exchange are not only national but international; are they not?

Mr. SIELCKEN. They are international so far as other people do business on the coffee exchange in New York—so far as foreign people do.

Mr. UNTERMYER. Yes; and they are national in so far as from the coffee exchange radiate the dealings in the United States.

Mr. SIELCKEN. Yes.

Mr. UNTERMYER. The quotations and dealings on the coffee exchange in New York are the standard regulators of prices, are they not?

Mr. SIELCKEN. The basis of prices; not the standard regulator.

Mr. UNTERMYER. Those quotations are the authentic quotations of value, are they not?

Mr. SIELCKEN. I would rather say the authentic quotations in certain branches. There is sometimes a considerable difference between the values of green coffee in the different qualities as compared with the values of the coffees on the coffee exchange.

Mr. UNTERMYER. Yes; but in the dealings in coffee—not the speculative dealings but the actual dealings in coffee—the prices as quoted from time to time on the exchange are the basis of value, are they not, or approximately so?

Mr. SIELCKEN. Approximately; yes.

Mr. UNTERMYER. That is, there is not any very wide difference between the quotation prices and actual transactions?

Mr. SIELCKEN. Oh, yes; there is sometimes.

Mr. UNTERMYER. There is at times?

Mr. SIELCKEN. Yes.

Mr. UNTERMYER. But ordinarily actual transactions follow the quotations of the exchange, do they not, pretty closely?

Mr. SIELCKEN. The quotations of the coffee exchange are based upon the cleanliness of the coffee, while the transactions of the country are based upon the quality of the coffee. For illustration, Java coffee might sell 6, 7, or 8 cents higher than the coffee exchange quotation of that day.

Mr. UNTERMYER. Most of the quotations on the exchange are in Brazilian coffee, are they not?

Mr. SIELCKEN. Yes. The coffee exchange deals in all grades. Delivery can be made in every grade of coffee sold in the world, but, Brazil furnishing about 80 per cent of the world's production, naturally the quotation is in Brazil coffee.

Mr. UNTERMYER. And the usual quotations for Brazil coffee in New York are for No. 7?

Mr. SIELCKEN. Basis No. 7.

Mr. UNTERMYER. No. 7 is the basis of value?

Mr. SIELCKEN. The base; yes.

Mr. UNTERMYER. What does "No. 7" mean?

Mr. SIELCKEN. The coffee exchange has nine grades, from No. 1 to No. 9. Formerly there were 11 grades. According to the laws recently changed in the United States, it is not allowed to deliver any-

thing below No. 8. No. 8 is the lowest grade in quality, and No. 7 is next. It is a lower grade.

Mr. UNTERMYER. The coffee exchange issues, does it not, from time to time a list of values, and a history of the course of prices and values?

Mr. SIELCKEN. Yes.

Mr. UNTERMYER. And the visible supply?

Mr. SIELCKEN. Yes.

Mr. UNTERMYER. This is the list that is issued, is it not, and that is considered as official and authentic and accurate, usually [handing paper to witness]?

Mr. SIELCKEN. Yes; this is issued by the coffee exchange, by the superintendent, officially.

Mr. UNTERMYER. I will offer this in evidence, it being a pamphlet or sheet entitled, "The Coffee Exchange of the City of New York, supplement," containing a statement of the crops of each year; first of all kinds, then of Rio and Santos, then the amounts of the arrivals of crops of coffee in the United States and in Europe, and then deliveries of the coffee in the United States and in Europe; with a separate column showing the world's visible supply on the 1st day of July and the 1st day of January of each year, beginning in 1886 and ending in 1912; also with a column showing the highest and lowest prices at which future contracts for coffee were sold during these years. Then it gives the quotations of Rio No. 7 spot coffee in New York, on the 1st of July and the 1st of January, together with the highest and lowest prices during each crop year. Then it has other columns, which do not concern us much here, relating to the exchange at Rio and at London, and the different levels of coffee.

(The supplement referred to was marked "Exhibit No. 1, May 16, 1912," and will be found appended to this hearing.)

Mr. UNTERMYER. Rio coffee is coffee from what States of Brazil?

Mr. SIELCKEN. From the State of Rio and from the State of Menas.

Mr. UNTERMYER. Yes; Rio de Janeiro?

Mr. SIELCKEN. Rio de Janeiro is the capital, and the Rio coffee is shipped by Rio de Janeiro, the capital.

Mr. UNTERMYER. Is Rio de Janeiro the name of the State?

Mr. SIELCKEN. It is the name of the State and also of the capital.

Mr. UNTERMYER. That is a coffee-growing State?

Mr. SIELCKEN. Yes.

Mr. UNTERMYER. The largest coffee-growing State of Brazil is Sao Paulo, is it not?

Mr. SIELCKEN. Yes.

Mr. UNTERMYER. The State of Sao Paulo produces what proportion of the entire Brazilian crop?

Mr. SIELCKEN. When I first visited Brazil the State of Sao Paulo produced 300,000 bags, and the States of Rio and Menas together produced from four and one-half to five millions. Since then the production of Rio and Menas has decreased, and the production in Santos itself has increased toward a record crop. The largest crop was five years ago, or six years ago, when it was in excess of 15,000,000 bags in Santos alone. An average crop in Santos to-day would be

10,000,000 bags. In Rio the average crops are about two and one-half million bags now.

Mr. UNTERMYER. Santos is equivalent to Sao Paulo?

Mr. SIELCKEN. Santos is the shipping port of the State of Sao Paulo.

Mr. UNTERMYER. The world's visible supply of coffee is very much larger than it was 10 or 12 years ago, is it not?

Mr. SIELCKEN. The world's visible supply; yes.

Mr. UNTERMYER. For instance, in July, 1899, the world's visible supply was a little over 6,000,000 bags.

Mr. SIELCKEN. Yes.

Mr. UNTERMYER. In January, 1900, it was a little over 7,000,000 bags. It is now between 13,000,000 and 14,000,000 bags, is it not?

Mr. SIELCKEN. It was that on the 1st of January.

Mr. UNTERMYER. Yes. If you take the 1st of January, 1912, as a basis, on the 1st of January, 1912, the world's visible supply of coffee was about twice what it was in 1900, was it not?

Mr. SIELCKEN. Yes.

Mr. UNTERMYER. The price of coffee covering the same period is double what it was then; that is, it was $6\frac{1}{2}$ cents a pound then, when the visible supply was only 6,000,000 bags, and it is about 13 or 14 cents a pound now, is it not?

Mr. SIELCKEN. It is about that; yes.

Mr. UNTERMYER. You are very familiar with this attempt—successful attempt—of the Brazilian States to carry through a plan of what they call valorization, are you not?

Mr. SIELCKEN. I am familiar with it; yes.

Mr. UNTERMYER. You are very familiar with it, are you not, Mr. Sielcken? You were quite interested in it, personally?

Mr. SIELCKEN. Yes.

Mr. UNTERMYER. And took part in it to some extent, did you not?

Mr. SIELCKEN. Yes.

Mr. UNTERMYER. When, in point of time, did the coffee-growing States of Brazil begin to undertake a plan for controlling the price and supply of coffee?

Mr. SIELCKEN. I do not think they ever tried to control, if you ask me that question.

Mr. UNTERMYER. Then, as I understand you, they never did inaugurate a plan the purpose of which was to maintain or increase the price, and to control and regulate the supply?

Mr. SIELCKEN. Not quite so.

Mr. UNTERMYER. Well, substantially so; was it not?

Mr. SIELCKEN. No; not even substantially.

Mr. UNTERMYER. We will get to that in a minute and see. Let us see what it was then. This plan, whatever it was, began in October, 1905, did it not?

Mr. SIELCKEN. Some negotiations were carried on at that time in which I was not interested.

Mr. UNTERMYER. Now, let us see. On the 3d of October, 1905, you recall a law being enacted by the State of Sao Paulo, authorizing it to enter into an agreement with the Brazilian Federal Government, and with the governments of the coffee-growing States, for the adoption of measures to assure the valorization of coffee?

Mr. SIELCKEN. Yes; I remember it.

Mr. UNTERMYER. That law, if you will remember, authorized the Government of Sao Paulo, did it not, to make contracts and guarantee interest or premiums in a certain manner?

Mr. SIELCKEN. To make contracts?

Mr. UNTERMYER. Yes; to contract with the neighboring States also producing coffee.

Mr. SIELCKEN. Yes.

Mr. UNTERMYER. To enter into what was called the Taubate agreement?

Mr. SIELCKEN. Yes.

Mr. UNTERMYER. The Taubate negotiation, resulting in the Taubate agreement, was a negotiation between the three coffee-growing States, was it not?

Mr. SIELCKEN. Yes.

Mr. UNTERMYER. The reason that it is called the Taubate agreement, as I understand, is because Taubate is the city or town at which the agreement was made; is that right?

Mr. SIELCKEN. Yes.

Mr. UNTERMYER. That is the name of the Brazilian city where the agreement was entered into?

Mr. SIELCKEN. Yes.

Mr. UNTERMYER. Do you recall that following this first law of which I have spoken, in October, 1905, there was a law enacted by the State of Sao Paulo, on December 29, 1905, imposing a tax of 3 francs gold (about 57 cents) on each bag of coffee exported?

Mr. SIELCKEN. Yes.

Mr. UNTERMYER. That tax was to be collected at the ports of Santos and Rio de Janeiro, was it not?

Mr. SIELCKEN. Yes.

Mr. UNTERMYER. The proceeds of that tax were to be used in the valorization of coffee, were they not?

Mr. SIELCKEN. It was not commenced yet.

Mr. UNTERMYER. The proceeds of the tax, when it was in force, were to be used for the valorization plan, were they not?

Mr. SIELCKEN. They were trying to collect the money to proceed. There was no actual business commenced at that time.

Mr. UNTERMYER. No; but the law was passed, and the surtax of 3 francs per bag was imposed for the purpose of inaugurating the valorization scheme, was it not?

Mr. SIELCKEN. It did not go into effect. It was passed, but did not go into effect.

Mr. UNTERMYER. Did it not later go into effect?

Mr. SIELCKEN. Yes; a year later.

Mr. UNTERMYER. Yes; I understand that; you are familiar with that law, are you not?

Mr. SIELCKEN. Yes.

Mr. UNTERMYER. Under article 1 of that law do you remember that the contracting parties agreed to maintain in the domestic markets of Brazil a minimum price on coffee of from 55 to 65 francs gold, being a price of from 7.3 cents a pound to 9.34 cents a pound?

Mr. SIELCKEN. That was the intention, which was not carried out.

Mr. UNTERMYER. That was the first article of the law, was it not?

Mr. SIELCKEN. The law which they enacted, which they never were able to carry out.

Mr. UNTERMYER. No; but I am tracing the history of this, now. They did pass such a law, did they not, and that law did fix a minimum price within Brazil?

Mr. SIELCKEN. No; they could not live up to it.

Mr. UNTERMYER. But there was such a law passed, was there not?

Mr. SIELCKEN. They tried to.

Mr. UNTERMYER. And that law provided for a minimum price of 7.9 cents a pound up to 9.34 cents a pound for the American type No. 7 coffee, did it not, and it was to be raised later to 10 cents a pound?

Mr. SIELCKEN. It was their wish to do so.

Mr. UNTERMYER. And that was the law that was enacted, was it not?

Mr. SIELCKEN. The law was passed, and so states, but it was never carried out.

Mr. UNTERMYER. There was never any law carried out for a surtax of 3 francs?

Mr. SIELCKEN. Oh, yes; but this law of which this price, as you state, was supposed to be the basis, was never carried out.

Mr. UNTERMYER. When the surtax was collected was it not collected under the same law to which I have referred?

Mr. SIELCKEN. But not on the same basis of price.

Mr. UNTERMYER. On what basis of price was the surtax collected? Do you know?

Mr. SIELCKEN. The basis of price which the Brazilians tried to maintain as their cost of production was 4 milreis in their money, which was equal to about 7 cents in our money.

Mr. UNTERMYER. You say you are familiar with the Taubate agreement?

Mr. SIELCKEN. Yes, sir.

Mr. UNTERMYER. That provided for raising a loan of £15,000,000 sterling, did it not, to control the output of coffee?

Mr. SIELCKEN. Yes.

Mr. UNTERMYER. Do you remember when the first attempt was made by the Brazilian Government to control the output in the way of a financial operation in a foreign country?

Mr. SIELCKEN. In August-September, 1906.

Mr. UNTERMYER. Was that the loan from the Brazilianische Bank für Deutschland?

Mr. SIELCKEN. I had nothing to do with that.

Mr. UNTERMYER. You remember that was the first financial transaction, do you not?

Mr. SIELCKEN. Yes; in Europe—not here at all.

Mr. UNTERMYER. And it was a loan of £1,000,000, was it not?

Mr. SIELCKEN. Yes.

Mr. UNTERMYER. For one year?

Mr. SIELCKEN. Yes, sir.

Mr. UNTERMYER. The next step in the attempt to control the price and output of coffee was in December, 1906, was it not?

Mr. SIELCKEN. No, sir.

Mr. UNTERMYER. Do you remember in December, 1906, a loan being arranged with J. Henry Schroeder & Co., of London, and the National City Bank of New York?

Mr. SIELCKEN. Yes.

Mr. UNTERMYER. That was a loan of £3,000,000 sterling, was it not?

Mr. SIELCKEN. Yes; but that was not the step that you refer to.

Mr. UNTERMYER. Let us see; we will come to that in a minute, Mr. Sielcken. It is a fact, is it not, that the Government of Sao Paulo in December, 1906, did arrange a loan of £3,000,000 sterling with Schroeder, of London, and the National City Bank, of New York?

Mr. SIELCKEN. Yes; £2,000,000 sterling in London, and £1,000,000 here.

Mr. UNTERMYER. It was all under one contract, was it not?

Mr. SIELCKEN. Under one contract.

Mr. UNTERMYER. And you represented the National City Bank in that transaction, did you not?

Mr. SIELCKEN. I did.

Mr. HEALD. Mr. Chairman, will you have the attorney ask the witness to explain what this valorization scheme is that he is talking about?

The CHAIRMAN. Yes; I think he is coming to that logically. We will have him do it at the proper time.

Mr. UNTERMYER. Yes; I am going into it very fully. This is the contract, is it not, Mr. Sielcken? [Handing paper to witness.]

Mr. SIELCKEN. Yes, sir.

Mr. UNTERMYER. Will you look at the back and see whether that is your signature for the National City Bank?

Mr. SIELCKEN. Yes, sir.

Mr. UNTERMYER. I will ask the stenographer to mark that "Exhibit 2, May 16, 1912," being a contract between the government of the State of Sao Paulo and Messrs. J. Henry Schroeder & Co. and the National City Bank of New York.

The paper referred to was marked "Exhibit No. 2, May 16, 1912," and will be found printed at the end of this hearing.

Mr. UNTERMYER. You were active in negotiating that contract, were you not?

Mr. SIELCKEN. I was.

Mr. UNTERMYER. Prior to the negotiation of this contract, had the government of Sao Paulo been buying large quantities of coffee in the market in Brazil?

Mr. SIELCKEN. Prior to that I made a contract—

Mr. UNTERMYER. Yes, I know; but before we come to that—

Mr. SIELCKEN. In September, 1906.

Mr. UNTERMYER. But prior to your making a contract, the government of Sao Paulo had begun, had it not, making purchases in the market?

Mr. SIELCKEN. No, no; not in Brazil.

Mr. UNTERMYER. You are sure of that?

Mr. SIELCKEN. Quite sure.

Mr. UNTERMYER. A time did come, though, before December, 1906, the date of this contract, when the government of Sao Paulo bought largely in the Brazilian market, did it not?

Mr. SIELCKEN. Yes.

Mr. UNTERMYER. When this contract of December, 1906, was made, how much coffee had been accumulated by the government of Sao Paulo in purchases in the Brazilian market?

Mr. SIELCKEN. The government of Sao Paulo contracted with a number of coffee merchants, including myself, for an advance of 80 per cent on consignments of coffee, and that contract provided that the government should not exceed purchases of 500,000 bags a month. So it commenced in September, October, November, December. The maximum quantity which they could have acquired by that time was 2,000,000 bags.

Mr. UNTERMYER. This coffee, thus purchased by the government was purchased for the purpose of taking it off the market, was it not?

Mr. SIELCKEN. The surplus of that crop.

Mr. UNTERMYER. It was to take the surplus of that crop off the market, was it not?

Mr. SIELCKEN. Yes, sir.

Mr. UNTERMYER. And the purpose of taking the surplus of that crop off the market was to secure higher prices for the balance of the crop, was it not?

Mr. SIELCKEN. It was just the reverse. It was not that way; it was the reverse.

Mr. UNTERMYER. It was the reverse? In other words, the Government went into the market to buy coffee and have it kept off the market so that the planters should get less money for their coffee, did they?

Mr. SIELCKEN. No; the market went down under the Government's purchases.

Mr. UNTERMYER. The question is not what happened, Mr. Sielcken; we will come to that in a little while. The question is, What was the purpose of the Government in taking this coffee off the market?

Mr. SIELCKEN. The purpose of the Government was to prevent a price below the cost of production.

Mr. UNTERMYER. Yes; in other words, to increase the price of the remaining coffee above what it would be if the Government had not bought.

Mr. SIELCKEN. You could not say that; at least, I could not confirm that, because the Government primarily did not wish to have the price below the cost of production.

Mr. UNTERMYER. This coffee that the Government bought, and that you and your associates took on consignment and advanced 80 per cent of the cost, you agreed to carry, did you not?

Mr. SIELCKEN. Oh, we agreed to carry it for one year after the crop was finished.

Mr. UNTERMYER. And then to extend it for another year if necessary, did you not?

Mr. SIELCKEN. Each one had his own option.

Mr. UNTERMYER. Did not all of you agree to carry it for a certain time?

Mr. SIELCKEN. One year.

Mr. UNTERMYER. Did you not all agree, Mr. Sielcken, that if required by the Government you would renew that for a second year?

Mr. SIELCKEN. No; nobody was obligated for more than one year.

Mr. UNTERMYER. Were the contracts that were made with the different coffee houses, like yours, all substantially in the same form?

Mr. SIELCKEN. All alike.

Mr. UNTERMYER. And they were all made with the Government of Sao Paulo?

Mr. SIELCKEN. With the Government of Sao Paulo.

Mr. UNTERMYER. Is this one of the forms—the form of the contract with Arbuckle? [Exhibiting paper to witness.]

Mr. SIELCKEN. That was the form which Arbuckle Bros., of New York, insisted upon.

Mr. UNTERMYER. And you all had the same form?

Mr. SIELCKEN. The same conditions; not exactly the same form.

Mr. UNTERMYER. But substantially the same contract?

Mr. SIELCKEN. Substantially the same.

Mr. UNTERMYER. I offer that in evidence, being a contract between the Government of the State of Sao Paulo and Arbuckle Bros.

The paper referred to was marked "Exhibit No. 3, May 16, 1912." and is here printed in the record, as follows:

EXHIBIT NO. 3, MAY 16, 1912.

The government of the State of Sao Paulo of the United States of Brazil, having applied to Arbuckle Bros., of the city of New York, United States of America, for the loan of a sum of money upon the security of 200,000 bags of coffee, and having requested said Arbuckle Bros. to arrange for the classification (grading), shipment, and storing of the coffee:

It is therefore agreed by and between said State of Sao Paulo and said Arbuckle Bros. as follows, to wit:

ARTICLE I. Subject to the terms and conditions hereinafter set forth, said Arbuckle Bros. agree to lend to said State of Sao Paulo a sum of money equal to 80 per cent of the value of not more than 200,000 bags of coffee, which coffee shall be pledged to said Arbuckle Bros. as security for the repayment of the loan and the interest and other charges hereinafter mentioned.

ART. II. Said State of Sao Paulo agrees and binds itself to repay to said Arbuckle Bros. at any bank or other place in London, England, which Arbuckle Bros. may designate, all sums of money loaned to it by said Arbuckle Bros. in pursuance of this agreement, which repayment shall be made one year from the date of the respective loans, together with interest thereon at the rate of 6 per cent per annum, from the date of the loans until paid; and also agrees and binds itself to pay to said Arbuckle Bros. at the same place and at the same times, all and singular the costs, charges, and expenses hereinafter mentioned.

ART. III. Said State of Sao Paulo also promises and agrees to purchase 100,000 bags of coffee at Santos and 100,000 bags of coffee at Rio de Janeiro, and to ship same to the city of New York, United States of America, and not to sell the same or any part thereof within one year from the date of this agreement.

ART. IV. Said State of Sao Paulo also promises and agrees that so long as any part of the aforesaid loans remains unpaid, the collection of the surtax of 3 francs per bag of coffee on all coffee exported from the ports of Santos and Rio de Janeiro will be enforced.

ART. V. The coffee to be pledged as security must average as nearly as practicable the grade known as No. 5 of the New York Coffee Exchange standard, and must be shipped to New York consigned to Arbuckle Bros.

ART. VI. Whenever said State of Sao Paulo desires said Arbuckle Bros. to advance any part of the proposed loan, it shall place the coffee which it intends to pledge as security therefor at the disposal of Arbuckle & Co. at Santos or Rio de Janeiro (as the case may be), for shipment to New York, and when the bills of lading for such coffee have been issued and delivered to Arbuckle & Co., said Arbuckle Bros. (through Arbuckle & Co.) shall deliver to said State of Sao Paulo bills of exchange on London, payable 90 days after sight for a sum equal to 80 per cent of the value of the coffee represented by said bills of lading; the value of the coffee within the meaning of this Article VI being the then market value of the like grade of coffee at New York.

ART. VII. The classification (grading) and shipping of the coffee shall be made and done by Arbuckle & Co., and besides the expenses for shipment at Santos and Rio de Janeiro, that is, cartage to the vessel, dock dues, export tax, freight to New York at the rate of 35 cents per bag and 5 per cent primage, fire and marine insurance, and other small usual expenses, said Arbuckle & Co. shall be paid 100 reis per bag shipped, as a remuneration for classifying (grading) the coffee.

ART. VIII. Upon arrival of the coffee at New York it shall be stored in warehouses by Arbuckle Bros. The storage charges at New York shall be 4 cents per bag per month, plus the cost of insurance, and Arbuckle Bros. shall pay the insurance premiums as the same become payable. The charges for taking the coffee into the warehouses and out again (both included) shall be 4 cents per bag. All the charges and expenses referred to in this agreement shall be chargeable to the State of Sao Paulo, and shall bear interest at the like rate with the principal loan, and shall be due at the same time and place that the principal is due.

ART. IX. As compensation for the services and obligations undertaken and assumed by said Arbuckle Bros., and for which no other compensation is specified herein, they shall receive a commission of 3 per cent per annum of the value of the said 200,000 bags of coffee, and this whether the whole amount of 200,000 bags is pledged and shipped or not. The value of the coffee as a basis for calculating this commission shall be as follows: For the coffee actually shipped and pledged, the value shall be the same as is fixed by Article VI of this agreement; and for any part of the 200,000 bags of coffee which are not shipped and pledged, the value shall be calculated at the price of 55 francs per 50 kilos at Havre. Arbuckle Bros. shall also be paid a banker's commission of one-fourth of 1 per cent upon all the bills of exchange mentioned in Article VI of this agreement.

ART. X. If at the maturity of any of the said loans the State of Sao Paulo shall have paid the interest, costs, and charges provided for in this agreement, and, as well, kept and performed all and singular the other terms and conditions herein contained on its part to be kept and performed (except the repayment of the principal), then and in that event said State of Sao Paulo shall have the option of requiring a renewal of the loan for one year upon the same terms and conditions as are herein contained, except that such renewal shall not carry with it the right or option for any further renewal.

ART. XI. Should the value of the coffee (that is, the market value in New York) fall below the value upon the basis of which the loans were made, then the State of Sao Paulo shall at once pay to said Arbuckle Bros., at any bank or other place in London designated by Arbuckle Bros., such sum of money as will reduce the amount of the loan to the point where the loan will not be in excess of 80 per cent of the then value of the coffee; and this shall be done from time to time as often as the fluctuations in the market value make it necessary, it being the intention and agreement that a margin of 20 per cent shall always be kept intact. And if the State of Sao Paulo should make any default in fulfilling the provisions of this Article XI said Arbuckle Bros. are hereby given the right, power, and authority in such case to sell so much of said coffee as may be necessary to realize a sum of money sufficient to reduce the loan to the point where said margin of 20 per cent shall be again attained. The sale or sales which may be made under and by virtue of the provisions of this Article XI shall be made in accordance with and be governed by the provisions of Article XIII of this agreement.

ART. XII. Should default be made by the State of Sao Paulo in any of the promises or conditions contained in this agreement the principal sums of the said loans, and all other charges and expenses herein provided for, shall, at the option of said Arbuckle Bros., or their assigns, become immediately due and payable without demand and without notice.

ART. XIII. The State of Sao Paulo hereby gives to said Arbuckle Bros., and their assigns, full power and authority to sell and deliver the whole or any part of the said coffee at any broker's board or elsewhere, at public or private sale, at the option of said Arbuckle Bros., or their assigns, on the nonperformance of any of promises or conditions herein contained, and without notice of the amount due or claimed to be due, without demand of payment, without advertisement, and without notice of the time or place of sale, each and every of which is hereby expressly waived; and such power of sale may be exercised by said Arbuckle Bros., or their assigns, from time to time as they in their discretion may deem proper; and at any such sale or sales said Arbuckle Bros.,

or their assigns, may purchase all or any part of the coffee then offered for sale, free from any right of redemption.

ART. XIV. Whenever the coffee pledged as security as aforesaid shall be sold, whether in accordance with any of the foregoing provisions of this agreement or after liquidation of the loans, said Arbuckle Bros. shall be entitled to a commission of one-half of 1 per cent of the sale price.

In testimony whereof this memorandum of the said agreement and another of like form and tenor have been executed by the said parties thereto as of the 13th day of February, in the year 1907.

UNITED STATES OF AMERICA,

State of New York, City and County of New York, ss:

On this — day of May, in the year 1907, personally came before me, William A. Jamison, to me known and known to me to be one of the members of the firm of Arbuckle Bros., and who executed the foregoing agreement, and he acknowledged that he executed the same for and in behalf of, and as the act and deed of the said firm of Arbuckle Bros.

Witness my hand and official seal at the city of New York aforesaid, this — day of May, 1907.

Mr. UNTERMYER. I call your attention to article 10 of the agreement. After providing that the consignees were to carry the coffee for one year for the State of San Paulo, it provides as follows:

If, at the maturity of any of the said loans, the State of San Paulo shall have paid the interest, costs, and charges provided for in this agreement, and has well kept and performed all and singular the other terms and conditions herein contained, then and in that event the said State of San Paulo shall have the option of requiring a renewal of the loan for one year upon the same terms and conditions as are herein contained.

That is correct, is it not?

Mr. SIELCKEN. That may be the exact language of that contract.

Mr. UNTERMYER. I understood you to say they were all in substantially the same language.

Mr. SIELCKEN. Substantially. Arbuckle's is a very rich firm, and a great many of the parties in Europe who contracted could not engage themselves for more than one year.

Mr. UNTERMYER. But, Mr. Sielcken, what I want to know is this: I understood you to say that all these contracts were substantially the same.

Mr. SIELCKEN. The same, except that I say now nobody was obligated to carry it longer than one year.

Mr. UNTERMYER. Was your contract the same as Arbuckle's contract?

Mr. SIELCKEN. No; we were only obligated to carry it one year.

Mr. UNTERMYER. Where is your contract?

Mr. SIELCKEN. The contract under which this business was done was made by a firm named Theodor Wille.

Mr. UNTERMYER. The question is, Where is your contract?

Mr. SIELCKEN. I personally had none.

Mr. UNTERMYER. Then, as I understand, your firm had no contract for the carrying of coffee directly with the State of San Paulo?

Mr. SIELCKEN. No.

Mr. UNTERMYER. Your contract was through Wille?

Mr. SIELCKEN. Through Wille.

Mr. UNTERMYER. That is a Brazilian house, is it not?

Mr. SIELCKEN. A German and a Brazilian house.

Mr. UNTERMYER. It is the largest coffee house in the world, is it not?

Mr. SIELCKEN. I think it is, sir.

Mr. UNTERMYER. Larger than yours?

Mr. SIELCKEN. Yes.

Mr. UNTERMYER. Your contract, then, was with Wille, was it?

Mr. SIELCKEN. Wille contracted for all of us.

Mr. UNTERMYER. I see. So that the State of San Paulo carried this coffee through a contract with Wille, and Wille made subcontracts with these other coffee houses? Is that right?

Mr. SIELCKEN. Yes.

Mr. UNTERMYER. These contracts were made in 1907, were they not?

Mr. SIELCKEN. 1906.

Mr. UNTERMYER. This one was dated in February, 1907.

Mr. SIELCKEN. Yes; but our contracts under which this business was done were all dated in September, 1906. That was not the first contract that Arbuckle made. He made a previous shipment.

Mr. UNTERMYER. Yes; but these contracts for the consignment and placing of the coffee by the State of Sao Paulo were made, then, before the £3,000,000 loan was negotiated, were they?

Mr. SIELCKEN. Yes, sir; nearly four months before.

Mr. UNTERMYER. So that at that time, when the loan was negotiated with the National City Bank and with Schroeder, there were on consignment how many bags of coffee under these various contracts?

Mr. SIELCKEN. Two million bags.

Mr. UNTERMYER. About 2,000,000 bags?

Mr. SIELCKEN. The parties, the merchants that contracted with the State of San Paulo, confined the State of San Paulo to 500,000 bags a month.

Mr. UNTERMYER. Then this loan of £3,000,000 was negotiated for the purpose of assisting in further purchases of coffee, was it not?

Mr. SIELCKEN. No. All further purchases, all of them during the whole year, were made by the merchants on consignment. This contract that you speak of was an entirely different matter. It was an exchequer contract.

Mr. UNTERMYER. I understand that it was an exchequer loan, but the exchequer loan was for the purpose of aiding Sao Paulo in buying coffee, was it not?

Mr. SIELCKEN. Sao Paulo needed money.

Mr. UNTERMYER. And was it not for the purpose of aiding her in buying coffee?

Mr. SIELCKEN. During the year 1906-7 the State of Sao Paulo, in order to do its business, needed money.

Mr. UNTERMYER. It was to buy coffee, was it not?

Mr. SIELCKEN. Yes; but their credit was good enough to make the loan without any coffee.

Mr. UNTERMYER. But do you not see that that does not concern us? The question is whether the money was borrowed for the purpose of enabling the State of Sao Paulo to go forward with these coffee purchases.

Mr. SIELCKEN. That was not a condition of the contract.

Mr. UNTERMYER. But that was the purpose of the loan, was it not?

Mr. SIELCKEN. I can not discuss the purpose.

Mr. UNTERMYER. Did you not negotiate the loan?

Mr. SIELCKEN. I negotiated the loan and negotiated the security of the loan, but what the State of Sao Paulo would do with her money I could not negotiate for her.

Mr. UNTERMYER. There was no understanding as to what they were to do with the money, was there?

Mr. SIELCKEN. What they would do with the money was not stated in the loan, nor was any coffee given as security.

Mr. UNTERMYER. Mr. Sielcken, we want to get these facts.

Mr. SIELCKEN. I understand.

Mr. UNTERMYER. And we do not want to fence at all.

Mr. SIELCKEN. No; I understand—

Mr. UNTERMYER. Wait a moment, Mr. Sielcken. You know that in 1906 and 1907, at this time, there was a very heavy crop, was there not?

Mr. SIELCKEN. Yes.

Mr. UNTERMYER. An unusually heavy crop?

Mr. SIELCKEN. Yes.

Mr. UNTERMYER. That threatened to reduce the price of coffee very much, did it not?

Mr. SIELCKEN. Yes, sir.

Mr. UNTERMYER. And you know, do you not, that this loan of £3,000,000 was negotiated for the purpose of enabling the State of Sao Paulo to buy up coffee and take it out of the market?

Mr. SIELCKEN. Not exactly.

Mr. UNTERMYER. Was that one of the purposes?

Mr. SIELCKEN. In a time like that the State of Sao Paulo probably needed money, but none of the coffee shipped during the year 1906-7—in fact, no coffee shipped by the State of Sao Paulo—has been shipped under anything but the consignment contracts; not a single bag.

Mr. UNTERMYER. That I understand, but under the consignment contracts the State of Sao Paulo had to pay 20 per cent of the price of this coffee itself, did it not?

Mr. SIELCKEN. Yes.

Mr. UNTERMYER. You and your associates only loaned 80 per cent, did you not?

Mr. SIELCKEN. Eighty per cent.

Mr. UNTERMYER. The State of Sao Paulo had to pay 20 per cent on the coffee, did it not?

Mr. SIELCKEN. They had to pay 20 per cent on the coffee; yes, sir.

Mr. UNTERMYER. And part of this money went for that purpose, did it not?

Mr. SIELCKEN. I suppose so, but that is not what I can state.

Mr. UNTERMYER. You negotiated the business yourself, did you not?

Mr. SIELCKEN. I did.

Mr. UNTERMYER. With the State of Sao Paulo and its representatives?

Mr. SIELCKEN. With the Brazilianische Bank and the Schroeders; yes.

Mr. UNTERMYER. And with the Government?

Mr. SIELCKEN. Yes.

Mr. UNTERMYER. So that you knew, did you not, what the Government was borrowing the money for?

Mr. SIELCKEN. The Government needed money. I did not go into—

Mr. UNTERMYER. Do you mean to tell us that you do not know that they were borrowing the money to carry through this valorization?

Mr. SIELCKEN. I mean to state that none of the coffee shipped was shipped under that contract.

Mr. UNTERMYER. What you mean is that the coffee was not given as security for the loan, was it?

Mr. SIELCKEN. It was not given as security for the loan.

Mr. UNTERMYER. That we know; but the money was given as security for the coffee, was it not? That is, the State of Sao Paulo had to put up part of the purchase price of the coffee?

Mr. SIELCKEN. Yes.

Mr. UNTERMYER. And had to get the money to do it?

Mr. SIELCKEN. Yes.

Mr. UNTERMYER. And you helped them get it, did you not?

Mr. SIELCKEN. I helped them negotiate that deal.

Mr. UNTERMYER. Yes; I see. Under this arrangement how much coffee did the State of Sao Paulo buy after this £3,000,000 loan had been negotiated and the money had been paid over on it?

Mr. SIELCKEN. The State of Sao Paulo had negotiated with me and my associates 2,000,000 bags, as I stated before, and we negotiated with them 3,000,000 bags more under the same conditions as the first, only the condition was that the advances should be only given on a declining market; not on an advancing market.

Mr. UNTERMYER. That is not material. What I want to know is how much coffee they bought after this £3,000,000 was turned over to them?

Mr. SIELCKEN. I do not know whether they bought it after the £3,000,000 was turned over to them or before; I can not state. The total purchases they made up to the end of that crop year were between seven and eight million bags.

Mr. UNTERMYER. Up to what date had the State of Sao Paulo accumulated from seven to eight million bags of coffee?

Mr. SIELCKEN. Up to the end of that crop year—July, 1907.

Mr. UNTERMYER. Is it not a fact that they had accumulated a little over 8,000,000 bags?

Mr. SIELCKEN. Not for shipment. I was only interested in taking my share of the consignment and the coffee which the Government bought and shipped to foreign countries.

Mr. UNTERMYER. Let me see, Mr. Sielcken, whether there had not been accumulated 8,146,123 bags for shipment?

Mr. SIELCKEN. There might have been that amount. I was not in the negotiations.

Mr. UNTERMYER. Let us see about it.

Mr. SIELCKEN. I was only interested in settling—

Mr. UNTERMYER. You carried 452,700 bags, did you not—Crossman & Sielcken?

Mr. SIELCKEN. No; more.

Mr. UNTERMYER. I mean up to 1907.

Mr. SIELCKEN. Yes; up to that time.

Mr. UNTERMYER. Theodor Wille & Co. carried 5,159,644 bags, did they not?

Mr. SIELCKEN. No, no.

Mr. UNTERMYER. For themselves and their friends, did they not?

Mr. SIELCKEN. Yes.

Mr. UNTERMYER. The Comptoir Commercial Anv. & Bunge & Co. carried 1,000,000 bags, did they not?

Mr. SIELCKEN. Yes.

Mr. UNTERMYER. Peimann, Ziegler & Co.—who are they?

Mr. SIELCKEN. A coffee firm in Hamburg.

Mr. UNTERMYER. They carried 500,000 bags, did they not?

Mr. SIELCKEN. Probably; yes, sir. I do not know the exact quantity.

Mr. UNTERMYER. Who are Prado, Chaves & Co.?

Mr. SIELCKEN. Prado, Chaves & Co. are Brazilian exporters of coffee.

Mr. UNTERMYER. They carried about 840,000 bags, did they not?

Mr. SIELCKEN. I do not know that, because—

Mr. UNTERMYER. Very well. Is it not the fact that the total purchases of coffee by the State of Sao Paulo up to the time of the £15,000,000 loan, of which we will speak hereafter, were over 10,800,000 bags that were taken off the market under this valorization scheme?

Mr. SIELCKEN. It is a fact that according to the statement of the Sao Paulo Government they bought that much and resold part of it in the meantime, but they never owned that much. I do not know the exact amount they bought; I could not tell you, because I had no connection then and no detailed knowledge of what they did at home in Brazil. I did not know.

Mr. UNTERMYER. Let us see. On September 30, 1909, you know that there were over 7,000,000 bags still being carried, do you not?

Mr. SIELCKEN. Yes.

Mr. UNTERMYER. Taken off the market and carried, and that of that amount 1,744,161 bags were carried in New York?

Mr. SIELCKEN. About that; yes, sir.

Mr. UNTERMYER. What is terme coffee?

Mr. SIELCKEN. Terme coffee is coffee received under terme contracts, what we call options in this country. In Europe they call them termes.

Mr. UNTERMYER. That is different from consigned coffee, is it not?

Mr. SIELCKEN. That is different.

Mr. UNTERMYER. Of the coffee that was carried in New York in September, 1909—of the 1,744,161 bags—there was about 500,000 bags of terme coffee?

Mr. SIELCKEN. Yes; option coffee.

Mr. UNTERMYER. Option coffee, and about 1,241,000 bags of consigned coffee?

Mr. SIELCKEN. Yes; that is all right.

Mr. UNTERMYER. And in Hamburg there was carried at that time 566,000 bags of terme coffee and 1,200,203 bags of consigned coffee, making a total of 1,766,203 bags carried at Hamburg?

Mr. SIELCKEN. That is probably correct.

Mr. UNTERMYER. That is about right, is it not?

Mr. SIELCKEN. Yes, sir.

Mr. UNTERMYER. You have said that the crop of 1906-7 was a very heavy one, was it not?

Mr. SIELCKEN. Yes.

Mr. UNTERMYER. This table shows that it was; and the idea of the Government in buying up this coffee to the extent of 10,000,000 bags and having it carried and borrowing money with which to pay the 20 per cent was to keep that coffee off the market, was it not?

Mr. SIELCKEN. It was never kept off the market.

Mr. UNTERMYER. Will you not answer my question as to whether that was the idea?

Mr. SIELCKEN. No; it was not.

Mr. UNTERMYER. It was never the idea?

Mr. SIELCKEN. Of that one crop year.

Mr. UNTERMYER. Of that one crop?

Mr. SIELCKEN. That one crop year.

Mr. UNTERMYER. But the idea was to keep that surplus off the market, was it not?

Mr. SIELCKEN. No; I was always trying to sell it. It was not kept off the market.

Mr. UNTERMYER. You all have three or four million bags of it now, have you not?

Mr. SIELCKEN. How much?

Mr. UNTERMYER. Between three and four million bags.

Mr. SIELCKEN. We?

Mr. UNTERMYER. No; I mean the parties in the valorization scheme.

Mr. SIELCKEN. There is left about four millions and something.

Mr. UNTERMYER. Four million bags are still left, after all these years?

Mr. SIELCKEN. Yes, sir.

Mr. UNTERMYER. And coffee is selling at nearly 14 cents a pound, is it not?

Mr. SIELCKEN. Yes.

Mr. UNTERMYER. More than twice what it was selling at when the scheme went into effect?

Mr. SIELCKEN. Yes.

Mr. UNTERMYER. And you gentlemen were so anxious to sell that coffee that you have still got it, have you not?

Mr. SIELCKEN. We are anxious to sell it.

Mr. UNTERMYER. But I say, you have still got it, have you not?

Mr. SIELCKEN. We have a part of it.

Mr. UNTERMYER. You have 4,000,000 bags?

Mr. SIELCKEN. Yes.

Mr. UNTERMYER. And this is part of what you have been carrying for the last four years, is it not?

Mr. SIELCKEN. Shall I speak for the United States, or what they do in Europe?

Mr. UNTERMYER. No; I am talking about the whole scheme.

Mr. SIELCKEN. The whole scheme? We have sold here, in New York City—

Mr. UNTERMYER. No, Mr. Sielcken; do not let us get into that.

Mr. SIELCKEN. I thought that this concerned principally the United States.

Mr. UNTERMYER. Do you not think this valorization scheme concerns the United States as much as the rest of the world?

Mr. SIELCKEN. It did not concern our market here.

Mr. UNTERMYER. Do you not think it concerns our market here whether we pay 14 cents a pound or 6 cents a pound for coffee?

Mr. SIELCKEN. It did; but that was not the reason it went to 14 cents a pound.

Mr. UNTERMYER. Never mind; we will see about that in a minute.

Mr. SIELCKEN. All right.

Mr. UNTERMEYER. Referring to this £3,000,000 loan, of which the National City Bank took £1,000,000, did they have any partners in that enterprise?

Mr. SIELCKEN. I took a part of it.

Mr. UNTERMYER. And who took the rest?

Mr. SIELCKEN. They put it on the market.

Mr. UNTERMYER. No; did they not have partners in that?

Mr. SIELCKEN. No; not as a bank.

Mr. UNTERMYER. They underwrote it and put it on the market, did they?

Mr. SIELCKEN. Yes; at once.

Mr. UNTERMYER. As this coffee had to be carried and was being carried along, the State of Sao Paulo required more money, did it not?

Mr. SIELCKEN. No.

Mr. UNTERMYER. They made a loan of £15,000,000—\$75,000,000—did they not?

Mr. SIELCKEN. But for the sake of repaying the other loans.

Mr. UNTERMYER. But they did not need \$75,000,000, did they?

Mr. SIELCKEN. Exactly.

Mr. UNTERMYER. Then it was because they could not carry the other loans any longer, was it?

Mr. SIELCKEN. No; it was too expensive to carry the other loans.

Mr. UNTERMYER. Oh, I see. Who negotiated this loan of £15,000,000?

Mr. SIELCKEN. Who negotiated it?

Mr. UNTERMYER. Yes.

Mr. SIELCKEN. John Henry Schröder & Co. in London and the Societe Generale in Paris.

Mr. UNTERMYER. And also the Banque de Paris des Pays Bas?

Mr. SIELCKEN. Yes; they were partners with the Societe Generale.

Mr. UNTERMYER. There were other partners in that loan, too, were there not?

Mr. SIELCKEN. No. Others bought a part of it, but they were not partners in negotiating the loan.

Mr. UNTERMYER. Whether they were partners in negotiating the loan or not, they were partners in taking the loan, were they not?

Mr. SIELCKEN. There were several people who took part of that loan; yes, sir.

Mr. UNTERMYER. The loan was for £15,000,000 altogether?

Mr. SIELCKEN. Yes.

Mr. UNTERMYER. Of which the City Bank took £2,000,000, did it not?

Mr. SIELCKEN. Yes.

Mr. UNTERMYER. That is the National City Bank of New York, is it not?

Mr. SIELCKEN. Yes.

Mr. UNTERMYER. The City Bank had partners in that transaction, did it not?

Mr. SIELCKEN. They had two partners in that transaction.

Mr. UNTERMYER. And who were those partners?

Mr. SIELCKEN. J. Pierpont Morgan & Co. and the First National Bank.

Mr. UNTERMYER. The First National Bank of New York. In what proportions did those three partners participate in that loan?

Mr. SIELCKEN. Absolutely I can not answer. I suppose equally. I have never seen that. I do not know the details. I suppose equally.

Mr. UNTERMYER. Were you not intimately connected with the negotiation of that loan, Mr. Sielcken?

Mr. SIELCKEN. I never asked a question about what they did amongst each other.

Mr. UNTERMYER. No; but I say, you were very much concerned in the negotiation of that loan, were you not?

Mr. SIELCKEN. I was very much interested that the loan should be made.

Mr. UNTERMYER. Did you not help negotiate it?

Mr. SIELCKEN. The negotiation was for £2,000,000, which I—

Mr. UNTERMYER. You made it, did you not?

Mr. SIELCKEN. I sold it from the Schröders to the City Bank.

Mr. UNTERMYER. Yes; you made the negotiations for the £2,000,000 participation of the City Bank?

Mr. SIELCKEN. I had no negotiation with their partners.

Mr. UNTERMYER. Do you mean to tell us that you, as the negotiator of that £2,000,000 loan between the Schröders and the City Bank, did not know who the City Bank's partners were?

Mr. SIELCKEN. I told you who they were.

Mr. UNTERMYER. But you did not know the proportions of their arrangement?

Mr. SIELCKEN. No.

Mr. UNTERMYER. And do not know them yet?

Mr. SIELCKEN. I do not know them up to to-day.

Mr. UNTERMYER. You assume it was an equal division?

Mr. SIELCKEN. I assume that.

Mr. UNTERMYER. This is the contract under which that loan was made. It is not—a copy of it in French and English [exhibiting paper to witness]?

Mr. SIELCKEN. Yes.

Mr. UNTERMYER. I offer that as Exhibit 4.

The paper above referred to was marked "Exhibit 4, May 16, 1912," and will be found printed at the end of this hearing.

Mr. UNTERMYER. Were you present when the contract was signed?

Mr. SIELCKEN. No; I was not.

Mr. UNTERMYER. It was executed in London, was it not?

Mr. SIELCKEN. In London.

Mr. UNTERMYER. The French bankers took one-third of the loan, did they not?

Mr. SIELCKEN. They took £5,000,000 out of the £15,000,000, and Schröder took the £10,000,000.

Mr. UNTERMYER. Schröder took the £10,000,000 in partnership with these associates of his, did he not?

Mr. SIELCKEN. He resold £2,000,000 to the City Bank, £2,000,000 in Germany, and £1,000,000 in Belgium.

Mr. UNTERMYER. It was all part of the same transaction by which the Schröders took the loan. was it not?

Mr. SIELCKEN. He resold it and charged them a commission. That I know.

Mr. UNTERMYER. So that the City Bank did not get the loan on the same terms that the Schröders got it?

Mr. SIELCKEN. No, sir.

Mr. UNTERMYER. What was the difference in the terms?

Mr. SIELCKEN. I think it was about 1 per cent.

Mr. UNTERMYER. That is your recollection, is it?

Mr. SIELCKEN. Yes.

Mr. UNTERMYER. What was the security for that loan?

Mr. SIELCKEN. The security for that loan was threefold: About 7,000,000 bags of coffee which were held by the consignees and the guaranty of the Federal Government of Brazil and the government of the State of Sao Paulo.

Mr. UNTERMYER. Let us see, Mr. Sielcken. Is not this the fact, that as security for that loan the State of Sao Paulo agreed, first, to prohibit the planting of any more coffee?

Mr. SIELCKEN. No, sir; that was done long previous.

Mr. UNTERMYER. I know; but they had passed a law, had they not, at the time—

Mr. SIELCKEN. In 1901.

Mr. UNTERMYER. Wait a moment. You are sure they did not pass a law in 1905 prohibiting the planting of coffee?

Mr. SIELCKEN. They renewed that law.

Mr. UNTERMYER. They renewed it?

Mr. SIELCKEN. They renewed it.

Mr. UNTERMYER. That was about the time they were going into this valorization scheme, was it not?

Mr. SIELCKEN. That was the time when they stood before an over-production.

Mr. UNTERMYER. From that time to this—from 1905 to this day—that contract is still outstanding, is it not, whereby the State of Sao Paulo agrees to prohibit the planting of coffee?

Mr. SIELCKEN. Oh, no; oh, no! They never prohibited it; they put a tax on the planting.

Mr. UNTERMYER. They put how much of a tax on the planting?

Mr. SIELCKEN. About 2 milreis on a quantity of land, called in Brazil an alquier.

Mr. UNTERMYER. The effect of that law has been to prohibit the planting of more coffee?

Mr. SIELCKEN. No; that was not the effect.

Mr. UNTERMYER. Has there been more coffee planted in that area?

Mr. SIELCKEN. Yes; there has been some.

Mr. UNTERMYER. How much?

Mr. SIELCKEN. I do not know that; but if you wish to know the truth, the effect was a different one. They wanted to induce the planters, instead of planting coffee alone, to plant beans and corn and other things—to diversify their crops.

Mr. UNTERMYER. But they wanted to avoid the planting of any more coffee, did they not?

Mr. SIELCKEN. They wanted to avoid the State of Sao Paulo planting coffee only.

Mr. UNTERMYER. Did they not want to avoid the planting of any more coffee?

Mr. SIELCKEN. It was stated in that contract that the planters could replant all the trees that had gone out or trees that were old and replenish all of them. This contract only meant for new lands in the State of Sao Paulo to be used for coffee plantations.

Mr. UNTERMYER. They wanted to prevent and prohibit the planting of any more coffee land?

Mr. SIELCKEN. Not prohibit it, sir. They wanted to diversify their crops.

Mr. UNTERMYER. And to diversify them by omitting the planting of any more coffee except to take the place of trees that went out?

Mr. SIELCKEN. That is not quite correct. If I am to answer, I can not answer that question quite in that way. The State of Sao Paulo passed that law as a paternal measure to diversify their crops and to direct their planters, to make it more difficult for them to plant coffee only.

Mr. UNTERMEYER. Another step that the State of Sao Paulo took was, was it not, to limit the exportation of coffee—the amount of coffee that might be exported?

Mr. SIELCKEN. That law was made at the same time that the £15,000,000 sterling loan was effected.

Mr. UNTERMYER. Yes; and that law provided, did it not, that there should not be exported from Brazil—

Mr. SIELCKEN. From Sao Paulo.

Mr. UNTERMYER. From Sao Paulo the first year more than 9,000,000 bags of coffee, the second year not more than 9,500,000 bags of coffee, and the third year and subsequent years not more than 10,000,000 bags of coffee?

Mr. SIELCKEN. That is correct, except the subsequent years were only as long as the loan was not repaid—during the life of the loan.

Mr. UNTERMYER. Yes; so that during the life of this loan the exports of coffee from Sao Paulo were restricted in the manner I have described?

Mr. SIELCKEN. It was not necessary to restrict the crops. The crops were less than the amount provided for in the restriction.

Mr. UNTERMYER. Mr. Sielcken, was it or not part of the agreement on which this loan was made that those crops were to be restricted in the way I have stated?

Mr. SIELCKEN. Yes.

Mr. UNTERMYER. If it was not necessary to make any such restriction it was made anyway, was it not?

Mr. SIELCKEN. It was made to avoid further planting in case of another enormous crop like the crop of 1906-7.

Mr. UNTERMYER. Will you be good enough to tell me why you say it was not necessary to make any such restriction because the subsequent crops were not as large as that one?

Mr. SIELCKEN. Most of them were not so large.

Mr. UNTERMYER. Let us see; this arrangement was made in what year—this £15,000,000 sterling loan?

Mr. SIELCKEN. 1908.

Mr. UNTERMYER. The crop of 1908-9 from Sao Paulo was 12,419,000 bags, was it not?

Mr. SIELCKEN. That is possible, yes; but that was during that crop year when the contract was made. It did not affect that one. It affected the next crop.

Mr. UNTERMYER. Let us see about that; the contract was made when?

Mr. SIELCKEN. In December, 1908.

Mr. UNTERMYER. You say it was not necessary to restrict the crops because they did not amount to so much, anyway?

Mr. SIELCKEN. Not from 1909 onward when that law went into effect.

Mr. UNTERMYER. It was not? The 1909-10 crop of Sao Paulo was 14,944,000 bags, was it not?

Mr. SIELCKEN. I have always understood that that was Rio and Santos together.

Mr. UNTERMYER. Of course it is Rio and Santos together.

Mr. SIELCKEN. Then this restriction does not refer to Rio.

Mr. UNTERMYER. Does it not?

Mr. SIELCKEN. No, sir; not at all.

Mr. UNTERMYER. I think you will find it, does.

Mr. SIELCKEN. No, no, no, no; only Santos.

Mr. UNTERMYER. How much was the Rio crop?

Mr. SIELCKEN. The Rio crop this last year has been about 2,500,000 to 3,000,000.

Mr. UNTERMYER. And the rest of it is Santos?

Mr. SIELCKEN. Santos.

Mr. UNTERMYER. Deducting 2,500,000 from the 1909 crop—

Mr. SIELCKEN. 1909-10.

Mr. UNTERMYER. 1909-10 you would still have 12,500,000 bags, would you not?

Mr. SIELCKEN. No; there was not that much.

Mr. UNTERMYER. Is this statement right or is it not?

Mr. SIELCKEN. Let me see that. I do not remember.

The statement heretofore marked "Exhibit No. 1" was handed to the witness.

Mr. SIELCKEN. It is Rio and Santos. Does it show how much each one was?

Mr. UNTERMYER. No; they are not separately marked. They are marked together.

Mr. SIELCKEN. Rio and Santos, 14,944,000—well, if such a large crop was in Santos then in the same year the crop in Rio was larger than two and a half. When there are small crops in one place there are small crops in the other place.

Mr. UNTERMYER. How big was the Rio crop in 1909-10? Was it as much as 3,000,000 bags?

Mr. SIELCKEN. Oh, yes; easily.

Mr. UNTERMYER. Your memory is refreshed, then, on that point, is it?

Mr. SIELCKEN. Well, I concluded—I am giving the figures from memory, you know—that we never have very large crops in Santos and very small crops the same year in Rio.

Mr. UNTERMYER. Was it more than 3,000,000 bags?

Mr. SIELCKEN. About, say, 3,000,000. I think it was three million—three or four; I do not know exactly.

Mr. UNTERMYER. If it was three and a half million bags, the Sao Paulo crop was still in excess of the 10,000,000 bags, was it not?

Mr. SIELCKEN. But that was the only crop since then, when that law went into effect. The crops since then have been much smaller.

Mr. UNTERMYER. You say there were not any since then?

Mr. SIELCKEN. I said it was not necessary to restrict them, because a little more export for that year would not have made any difference. That was made in order to provide against a succession of enormous crops; not against one single crop.

Mr. UNTERMYER. At any rate, it was thought important to restrict the exports as a condition of getting this money, was it not?

Mr. SIELCKEN. That condition was made in France.

Mr. UNTERMYER. I did not ask you where it was made.

Mr. SIELCKEN. The French bankers made that condition.

Mr. UNTERMYER. Yes—well, the others agreed to it, did they not?

Mr. SIELCKEN. They could not get the loan without it.

Mr. UNTERMYER. Now, I call your attention to the ninth paragraph of this contract, Exhibit 4. It reads as follows (this is the contract providing for the £15,000,000 loan, with 7,000,000 bags of coffee as collateral):

A committee, consisting of seven members resident in the United States of Europe, or partly in one and partly in the other, shall be appointed, whereof four and their successors shall be nominated by Messrs. Schroeder, two and their successors by the Societe Generale, and one and his successor by the Government; that committee shall be invested with full powers of controlling the sale and liquidation of the said coffee now belonging to the Government as aforesaid, and other matters and things connected with the said coffee.

This committee of seven, having charge of this 7,000,000 bags of coffee, was appointed, was it not?

Mr. SIELCKEN. It was.

Mr. UNTERMYER. And you were one of them, were you not?

Mr. SIELCKEN. I was representing the United States interests.

Mr. UNTERMYER. You represented the United States interests, and you are still a member of that committee, are you not?

Mr. SIELCKEN. I am.

Mr. UNTERMYER. And that committee has meetings from time to time in London, has it not?

Mr. SIELCKEN. Yes.

Mr. UNTERMYER. Paragraph 11 of this contract, after providing that Sao Paulo is to limit its production of coffee, contains this provision:

The Government—

Referring to the Government of Sao Paulo—

Will use its best endeavors to arrange that the governments of the States of Rio Minas Geraes and Espirito Santo will also pass laws limiting the amount of coffee to be exported from those States.

Mr. SIELCKEN. Yes.

Mr. UNTERMYER. Do you remember that provision of the contract?

Mr. SIELCKEN. Yes.

Mr. UNTERMYER. Did the Government of Sao Paulo use its best endeavors to have the Governments of these other States pass laws limiting the amount of coffee?

Mr. SIELCKEN. They never succeeded. It was not done.

Mr. UNTERMYER. It was not done?

Mr. SIELCKEN. I do not know how well they tried.

Mr. UNTERMYER. I suppose the purpose of making these elaborate provisions, not only that Sao Paulo was to limit its exports, but that it was to get the other coffee-growing States to limit their exports, had nothing to do with an attempt to limit the supply of coffee, had it?

Mr. SIELCKEN. It had only to do with the equalization of the supply; not with the control.

Mr. UNTERMYER. I say, it had nothing to do with limiting the supply of coffee?

Mr. SIELCKEN. No; it had only to do with the equalization of it.

Mr. UNTERMYER. What do you understand to be the meaning of these words—

That the Government "of Sao Paulo" will use its best endeavor to arrange that the Governments "of these other States" will pass laws limiting the amount of coffee to be exported from those States.

Mr. SIELCKEN. Just exactly what I say—to equalize the crops.

Mr. UNTERMYER. You mean to reduce the exports?

Mr. SIELCKEN. To equalize it; to put the large surplus of one crop into the next.

Mr. UNTERMYER. But was the purpose of preventing exports from those different States to reduce the supply or to increase the supply?

Mr. SIELCKEN. It did not reduce the supply. It confined the supply to Brazil instead of to Europe or the United States.

Mr. UNTERMYER. Let us see about that, Mr. Sielcken. These bankers were lending £15,000,000 upon the security, partly, of 7,000,000 bags of coffee, were they not?

Mr. SIELCKEN. Yes.

Mr. UNTERMYER. And that 7,000,000 bags of coffee was being put into the hands of this committee of seven, of which you were one?

Mr. SIELCKEN. Yes.

Mr. UNTERMYER. And you are still acting, are you not?

Mr. SIELCKEN. Yes.

Mr. UNTERMYER. It was also provided, was it not, in this contract, that only a given number of bags could be sold each year?

Mr. SIELCKEN. Not exactly so.

Mr. UNTERMYER. Five hundred thousand bags could be sold the first year, could they not?

Mr. SIELCKEN. Yes.

Mr. UNTERMYER. And 600,000 the second year?

Mr. SIELCKEN. No. We could at any time double the amount if the market required it.

Mr. UNTERMYER. You mean you could feed it out to the market if they would take it without affecting the price?

Mr. SIELCKEN. If the market required it.

Mr. UNTERMYER. Suppose you were to feed out the 4,000,000 bags that you have got on hand. Do you think coffee would remain at 14 cents a pound?

Mr. SIELCKEN. I can only answer that question from the standpoint of the American market. I do not wish to answer for the European market.

Mr. UNTERMYER. Suppose you should dump 4,000,000 pounds on the world's market?

Mr. SIELCKEN. I will say that you have supposed, and I will answer your supposition. If the amount of coffee held by this valorization in the United States to-day was sold to-morrow it would not make that much difference in the market [the witness snapped his fingers].

Mr. UNTERMYER. It is 14 cents a pound now, is it not?

Mr. SIELCKEN. Yes.

Mr. UNTERMYER. And it only cost the Government 7, did it not?

Mr. SIELCKEN. Oh, I beg your pardon! It cost them a great deal more.

Mr. UNTERMYER. Did it?

Mr. SIELCKEN. Oh, yes.

Mr. UNTERMYER. You mean with commissions and bankers' charges and the rest of it?

Mr. SIELCKEN. Insurance, et cetera.

Mr. UNTERMYER. But I am talking about the price in the coffee market.

Mr. SIELCKEN. The original price.

Mr. UNTERMYER. It did not average 7, did it?

Mr. SIELCKEN. No.

Mr. UNTERMYER. How much did it average?

Mr. SIELCKEN. Oh, that would be a rough estimate.

Mr. UNTERMYER. If you can get 14 cents for it now, why do you not sell it?

Mr. SIELCKEN. I will answer that question in this way: The conditions of the contract were that at the time it was difficult to obtain money, and this being a very unpopular measure in the markets—

Mr. UNTERMYER. Which markets?

Mr. SIELCKEN. All markets.

Mr. UNTERMYER. Why was it unpopular; because it raised the price?

Mr. SIELCKEN. It did not raise the price.

Mr. UNTERMYER. I see. Then the fact that the price of coffee has gone from 5 cents a pound to 14 cents a pound has not anything to do with the fact that you gentlemen kept these millions of bags off the market?

Mr. SIELCKEN. Not that much [the witness snapped his fingers].

Mr. UNTERMYER. I suppose if you had 20,000,000 bags more—

Mr. SIELCKEN. Not that much [the witness again snapped his fingers].

Mr. UNTERMYER. We will see about that. Mr. Sielcken, there was a report made by the secretary of finance of the State of Sao Paulo to his Government on the subject of this valorization, was there not?

Mr. SIELCKEN. There was.

Mr. UNTERMYER. It was a very intelligent report, was it not?

Mr. SIELCKEN. Yes, sir.

Mr. UNTERMYER. It was made in September, 1910, was it not?

Mr. SIELCKEN. Yes, sir.

Mr. UNTERMYER. And you concur in the statements in that report, do you not?

Mr. SIELCKEN. In most of them. I have not read it entirely, but it is an intelligent report.

Mr. UNTERMYER. A very intelligent report. Now, let me ask you whether you concur in these statements which I will read from the report:

There is no foundation whatsoever to the suggestion, which has sometimes been made, that the benefits which followed the Government's action were simply due to natural causes and were not in any way influenced by such action.

What happened was just the contrary, as may be easily verified by examining the following table, showing the figures for the crops of four years preceding and of the four years succeeding the Government's action:

Four years preceding official intervention.

Years.	Crops.	
		<i>Bags.</i>
1902-1903.....	16,655,000	} Average, 15,474,000 bags.
1903-1904.....	15,992,000	
1904-1905.....	14,445,000	
1905-1906.....	14,792,000	

FOUR YEARS OF INTERVENTION PERIOD.

Years.	Crops.	
		<i>Bags.</i>
1906-1907.....	23,786,000	} Average, 18,418,000 bags.
1907-1908.....	14,862,000	
1908-1909.....	15,968,000	
1909-1910.....	19,059,000	

So far, therefore, from there having been a falling off in production, as has been suggested, there was a notable increase, a much larger increase, in fact, than was expected.

The Government's action was handicapped by an increase of nearly 3,000,000 bags to be dealt with.

In 1906 Sao Paulo was expected to produce 12,000,000 or 13,000,000 bags, but the crop turned out to be 15,000,000, thereby increasing the world's supply in that year to 24,000,000 bags.

But it did not cease there. In the following year the port of Santos received a further supply of nearly 9,000,000 bags, in itself nearly as large as the whole crop of 1901-2, which up to then constituted a record.

Greater difficulties still were caused by the crop of 1909-10, which contributed no less than 19,000,000 bags to the world's supply.

That is how natural causes influenced the situation. Instead of alleviating, they greatly accentuated the difficulties.

The most critical moment of valorization were the years 1906-7, when the markets of the world, as may be seen from the foregoing table, were flooded with the enormous quantity of 24,750,000 bags of coffee.

You agree to all this, do you not?

Mr. SIELCKEN. No, no.

Mr. UNTERMYER. You do not? Well, will you not—

Mr. SIELCKEN. I beg your pardon; if you ask me for an opinion, you know, I will have to explain. I could not say "yes" or "no" to that.

The CHAIRMAN. You have a right to explain your answer.

Mr. SIELCKEN. If you ask me for an opinion, in the first place—

Mr. UNTERMYER. No; I ask you whether you agree to this statement.

Mr. SIELCKEN. Only the figures I agree to.

Mr. UNTERMYER. You do not agree to his conclusions, do you?

Mr. SIELCKEN. Because the time when that was written was September, 1910, and the values in the coffee market from the valorization we speak of here now, from 1906, when we commenced, to 1910, did not move. The Government action did not impose the price. The values remained the same. Only when we got small crops in 1910-11-12 did the prices improve. It was the small crops and not the valorization.

Mr. UNTERMYER. Now, let us see if you are not wrong about that.

Mr. SIELCKEN. Go ahead.

Mr. UNTERMYER. In January, 1910, coffee was selling at 8½ cents a pound, was it not?

Mr. SIELCKEN. Yes—January, 1910.

Mr. UNTERMYER. Higher than that, in fact; it was selling at 8¼ cents a pound, was it not?

Mr. SIELCKEN. Well, about the same; yes.

Mr. UNTERMYER. That is, the beginning of 1910?

Mr. SIELCKEN. Yes.

Mr. UNTERMYER. This report is dated in September, 1910?

Mr. SIELCKEN. Yes.

Mr. UNTERMYER. As a matter of fact, when the valorization began coffee was selling at about 5 cents a pound, was it not?

Mr. SIELCKEN. No, sir.

Mr. UNTERMYER. Well, let us see.

Mr. SIELCKEN. Yes; 1906, July, August, September—

Mr. UNTERMYER. But the valorization began in 1905, did it not?

Mr. SIELCKEN. No.

Mr. UNTERMYER. The Government began buying coffee and consigning it to you when?

Mr. SIELCKEN. In September-October, 1906.

Mr. UNTERMYER. That is when the Government began?

Mr. SIELCKEN. Yes, sir.

Mr. UNTERMYER. Well, now, let us see.

Mr. SIELCKEN. August-September.

Mr. UNTERMYER. Are you not mistaken?

Mr. SIELCKEN. I am not mistaken.

Mr. UNTERMYER. Let us see about that. The £3,000,000 loan was made when?

Mr. SIELCKEN. In December, 1906.

Mr. UNTERMYER. And the loan by the Brazilianische Bank was made when?

Mr. SIELCKEN. In July, 1906.

Mr. UNTERMYER. Yes; in July, 1906. When did the Government begin buying coffee?

Mr. SIELCKEN. All I know of it—I can only state the facts—was that it was in September, 1906.

Mr. UNTERMYER. As I understand you, you claim that the present high price of coffee is not due to the fact that you gentlemen have been withholding this coffee from the market, but that it is due to natural causes, do you not?

Mr. SIELCKEN. Absolutely.

Mr. UNTERMYER. And in that respect you differ from the minister of finance, do you not?

Mr. SIELCKEN. I do not differ from the minister of finance.

Mr. UNTERMYER. Then, in September, 1910, when he made his report, is it the fact, as he states, that the price was due to the valorization and not to natural causes?

Mr. SIELCKEN. It is not, because—

Mr. UNTERMYER. Then you do differ from him, do you not?

Mr. SIELCKEN. I differ with him in the statement from 1906 to 1910, during the four years of valorization; a further decline was prevented, but no advance had taken place. The average price in those four years after the valorization started remained the same.

Mr. UNTERMYER. Let us see about that. You have heard me read from his report, have you not?

Mr. SIELCKEN. Yes.

Mr. UNTERMYER. Do you agree with it, or do you differ from it?

Mr. SIELCKEN. You have not read his report. You have read, finally, there a report that was written, which he publishes as being an expert report by a foreigner.

Mr. UNTERMYER. But do you differ from it, or agree to it?

Mr. SIELCKEN. You did not read the minister of finance's report.

Mr. UNTERMYER. Yes; this is an extract from his report, is it not?

Mr. SIELCKEN. No, no.

Mr. UNTERMYER. It is not?

Mr. SIELCKEN. No; I believe not.

Mr. UNTERMYER. Yes; it is.

Mr. SIELCKEN. If you will give it to me I will show it to you [examining report].

Mr. UNTERMYER. It is a report made to the president of the State of Sao Paulo.

Mr. SIELCKEN. Yes; but he includes in that report all of this other matter written by Mr. Denis.

Mr. UNTERMYER. But the question is whether that is an extract from the report of the minister of finance to the President of the Republic.

Mr. SIELCKEN. No, no; he says what it is. He says he publishes, from a foreigner, what he considers a good opinion.

Mr. UNTERMYER. But, I say, is this an extract from his report?

Mr. SIELCKEN. He makes this report to the president of Sao Paulo—the minister of finance does.

Mr. UNTERMYER. That is what I asked you.

Mr. SIELCKEN. But that is not his opinion. It is something written by some one else.

Mr. UNTERMYER. Not what I have read.

Mr. SIELCKEN. I think it was.

Mr. UNTERMYER. Oh, I beg your pardon—oh, no; nothing of the kind.

Mr. SIELCKEN. You will see there that Mr. Denis wrote that.

Mr. UNTERMYER. Oh, no. Please look, if you will, at pages 9 and 10 of this report and tell me whether or not that is the report of the minister of finance and not something that he gets from somebody else.

Mr. SIELCKEN. He states in his own report where he gets it. He states it right in this report.

Mr. UNTERMYER. Oh, no; he does not.

Mr. SIELCKEN. Yes; he does.

Mr. UNTERMYER. Is not that his argument to show that it was the valorization scheme that put up the prices and not natural causes?

Mr. SIELCKEN. Mr. Olavo Egydio, the minister of finance, who was very active in the matter, wanted to show, naturally, that the work of the State of Sao Paulo had been very beneficial to the planters of Sao Paulo.

Mr. UNTERMYER. Yes.

Mr. SIELCKEN. But the value of coffee from 1906 until the time he wrote had hardly changed.

Mr. UNTERMYER. That is not the point, Mr. Sielcken. We will clear up one thing at a time.

Mr. SIELCKEN. That is the point.

Mr. UNTERMYER. Do you differ from me?

Mr. SIELCKEN. I differ with the statement that the valorization has put up the price of coffee to-day.

Mr. UNTERMYER. Do you differ from me that the minister of finance says it has?

Mr. SIELCKEN. I have read that report, of course; and as far as I remember he incloses a report from a foreign authority. He says he does not wish to speak himself; he prefers that a foreigner's opinion about the operation should be given. I think I have got that in my pocket.

Mr. UNTERMYER. Let us take one thing at a time. I ask you again, Is it or not the fact that the minister of finance, in his official report to his Government, says that it is the valorization that has increased the price and not any natural causes?

Mr. SIELCKEN. It did not increase the price.

Mr. UNTERMYER. I say, Is not that what he says?

Mr. SIELCKEN. Perhaps so. If you read it, it must be so.

Mr. UNTERMYER. Now, let us see. Is the price of coffee affected at all by the visible supply?

Mr. SIELCKEN. The price of coffee is principally affected by the prospects of crops.

Mr. UNTERMYER. Is it affected at all by the amount on hand?

Mr. SIELCKEN. To some extent.

Mr. UNTERMYER. Is not that the most important factor?

Mr. SIELCKEN. No; the prospect of the coming crop is the most important.

Mr. UNTERMYER. Do you know what next year's crop is going to be?

Mr. SIELCKEN. Yes, sir.

Mr. UNTERMYER. You do?

Mr. SIELCKEN. Yes, sir.

Mr. UNTERMYER. Before the tree flowers?

Mr. SIELCKEN. Yes, sir.

Mr. UNTERMYER. Before it blossoms?

Mr. SIELCKEN. No, no; it blossomed last July, August, September.

Mr. UNTERMYER. But before July of this year you know what next year's crop is going to be, do you?

Mr. SIELCKEN. I know now—at least I suppose I know, and have known since last September—that the crop of 1912-13 will be about 7,000,000 bags.

Mr. UNTERMYER. That you think you know now?

Mr. SIELCKEN. I do.

Mr. UNTERMYER. You have made a great many mistakes in figuring that out, have you not?

Mr. SIELCKEN. Oh, yes; we all do; but I have been closer to it than most of them.

Mr. UNTERMYER. But even you have made many mistakes, have you not?

Mr. SIELCKEN. In estimating the crop?

Mr. UNTERMYER. Yes.

Mr. SIELCKEN. You are bound to. Everybody makes mistakes. The world accepts those figures, though. They are not my figures. The world accepts them.

Mr. UNTERMYER. I call your attention to this table, and to the fact that the visible supply of coffee on January 1 was about 14,000,000 bags—13,578,000 bags.

Mr. SIELCKEN. Yes; about that.

Mr. UNTERMYER. As against 6,000,000 bags in 1900.

Mr. SIELCKEN. Yes.

Mr. UNTERMYER. And yet the price to-day is more than double what it was then, is it not?

Mr. SIELCKEN. Yes. Do you want an explanation of that?

Mr. UNTERMYER. I am going to ask you for one in a moment. Has the fact that your valorization syndicate is holding this coffee and not putting it on the market any effect whatever upon the price of coffee?

Mr. SIELCKEN. At the present time?

Mr. UNTERMYER. At the present time.

Mr. SIELCKEN. Very little.

Mr. UNTERMYER. Has it ever had any effect on the price of coffee?

Mr. SIELCKEN. During the time of overproduction, yes.

Mr. UNTERMYER. When did it have any effect on the price of coffee?

Mr. SIELCKEN. During the years of overproduction.

Mr. UNTERMYER. What years were they?

Mr. SIELCKEN. 1906-7, for instance—those three years, 1906-7, 1907-8, and 1908-9.

Mr. UNTERMYER. When the natural laws of supply and demand have been allowed to have their sway without interference coffee has gone down below 4 cents a pound at times, has it not?

Mr. SIELCKEN. I have known it to go to 4 cents; yes.

Mr. UNTERMYER. It has gone down as low as 3.60 cents, has it not?

Mr. SIELCKEN. By speculation, at times, if you like.

Mr. UNTERMYER. I do not know by what; but it has gone down as low as that?

Mr. SIELCKEN. Yes; but you asked me about the natural laws. I said it was not the result of a natural law.

Mr. UNTERMYER. Did you do the speculating?

Mr. SIELCKEN. Did I?

Mr. UNTERMYER. Yes.

Mr. SIELCKEN. A large speculator had to sell out, and I helped him.

Mr. UNTERMYER. I see. You helped him to sell out?

Mr. SIELCKEN. Yes, sir.

Mr. UNTERMYER. And helped him to buy in?

Mr. SIELCKEN. No; I bought it.

Mr. UNTERMYER. You bought it—you helped him to sell, and then you bought it; and that was the time coffee went to 3.60 cents a pound, was it?

Mr. SIELCKEN. As I remember; yes.

Mr. UNTERMYER. If it had not been for this valorization scheme, do you think coffee would have gone as low as that again?

Mr. SIELCKEN. In 1906-7; yes.

Mr. UNTERMYER. I here offer in evidence the quotations of coffee beginning in 1900, month by month, up to the present time. The others are already in. from 1886 up; so the whole thing is there. Those are correct, are they not, Mr. Sielcken?

Mr. SIELCKEN. Yes; I suppose so.

Mr. UNTERMYER. You furnished those, did you not, yourself?

Mr. SIELCKEN. My office did.

The quotations above referred to, contained on three single sheets, were marked, respectively, "Exhibit No. 5, May 16, 1912," "Exhibit No. 6, May 16, 1912," and "Exhibit No. 7, May 16, 1912," and are as follows:

EXHIBIT 5—MAY 16, 1912.

Quotation of the spot option on the 1st of each month.

	1900	1901	1902	1903	1904		1900	1901	1902	1903	1904
January.....	6.10	5.65	6.65	4.35	7.00	July.....	7.55	5.00	4.85	3.65	5.75
February.....	6.95	5.35	6.25	4.15	8.05	August.....	7.90	4.80	5.75	3.60	6.00
March.....	6.65	6.20	5.35	4.30	5.30	September.....	7.25	4.65	5.40	3.80	6.65
April.....	6.35	5.45	5.20	4.05	5.50	October.....	6.95	5.00	4.95	4.70	6.75
May.....	6.90	5.25	5.00	3.65	5.70	November.....	7.20	5.95	5.05	5.45	6.60
June.....	7.15	5.15	5.00	3.70	5.45	December.....	6.20	6.55	4.40	5.95	6.85

EXHIBIT 6—MAY 16, 1912.

Quotation of the spot option on the 1st of each month.

	1905	1906	1907	1908	1909		1905	1906	1907	1908	1909
January.....	7.65	6.45	5.40	5.55	5.50	July.....	6.40	6.25	5.20	6.05	6.20
February.....	7.05	6.90	5.45	6.00	5.55	August.....	6.80	7.00	5.90	5.70	6.10
March.....	6.10	6.95	6.20	5.85	6.95	September.....	7.20	6.15	5.75	5.70	5.40
April.....	6.50	6.00	5.70	5.65	6.95	October.....	6.95	6.45	5.90	5.60	5.35
May.....	6.50	6.45	5.45	5.80	7.05	November.....	6.40	6.00	5.55	5.45	6.30
June.....	6.30	5.95	5.45	6.05	7.00	December.....	6.65	5.90	5.70	5.10	6.35

EXHIBIT 7—MAY 16, 1912.

Quotation of the spot option on the 1st of each month.

	1910	1911	1912		1910	1911	1912
January.....	6.85	11.25	13.74	July.....	6.65	11.20	.....
February.....	6.75	10.28	13.08	August.....	6.95	11.42	.....
March.....	6.90	10.10	13.10	September.....	7.95	12.25	.....
April.....	6.70	10.54	13.72	October.....	8.90	12.90	.....
May.....	6.35	10.65	13.57	November.....	8.75	14.55	.....
June.....	6.15	10.70	.....	December.....	10.65	14.39	.....

Mr. UNTERMYER. Mr. Sielcken would like to get away to-day. If there is no objection, shall we go on until we get through? You would rather go on until we get through, Mr. Sielcken, I understand?

Mr. SIELCKEN. Yes, sir.

The CHAIRMAN. Mr. Sielcken has come here, as I stated before, without a subpoena, and deferred his trip abroad in order to come and testify. I hope the committee will indulge him every courtesy that it can in the way of continuing his testimony. If there is no objection, we will continue until we finish.

Mr. UNTERMYER. This valorization scheme, Mr. Sielcken, could not have been carried through without this loan of money, could it?

Mr. SIELCKEN. It was carried through without it.

Mr. UNTERMYER. Without the £15,000,000?

Mr. SIELCKEN. Yes; it was.

Mr. UNTERMYER. But the coffee could not have been carried without the loan?

Mr. SIELCKEN. Why, surely.

Mr. UNTERMYER. They could have continued to carry it, could they?

Mr. SIELCKEN. Yes, sir.

Mr. UNTERMYER. The loan cost a great deal of money, did it not?

Mr. SIELCKEN. But it was more expensive to carry it under the old contracts. The old contracts were at 6 per cent interest and 3 per cent commission every year, whether sold or unsold; so it cost the Government 9 per cent a year.

Mr. UNTERMYER. But you gentlemen who were carrying this coffee were not bound to carry it more than one year, were you?

Mr. SIELCKEN. No; but we were perfectly willing to carry it.

Mr. UNTERMYER. Did you not tell us you were only bound to carry it one year?

Mr. SIELCKEN. Yes; we were only bound to carry it one year, but we were willing to renew from year to year.

Mr. UNTERMYER. Oh! Then, it was part of your arrangement that you were to renew, was it?

Mr. SIELCKEN. All parties to that arrangement would be willing to renew if they were financially able to.

Mr. UNTERMYER. For how many years would they be willing to renew?

Mr. SIELCKEN. I should suppose that under the conditions of getting 9 per cent for their money, they would have carried it a great many years; certainly up until now.

Mr. UNTERMYER. That you are sure about, are you?

Mr. SIELCKEN. I suppose so.

Mr. UNTERMYER. And they were all able to do it, were they?

Mr. SIELCKEN. The parties who were in that contract were nearly all rich people.

Mr. UNTERMYER. Was not the Government in danger at any time of any of these parties saying: "We will not renew," and then having to have the coffee sold?

Mr. SIELCKEN. No.

Mr. UNTERMYER. There was no danger of that?

Mr. SIELCKEN. There were parties who desired to withdraw, who did not wish to renew; but there were others to take their place immediately.

Mr. UNTERMYER. It is now almost six years since this operation started, is it not?

Mr. SIELCKEN. It started in September-October; yes, sir. It is not quite five years on an average.

Mr. UNTERMYER. It averages about five years?

Mr. SIELCKEN. Yes.

Mr. UNTERMYER. And you are able to assure us here that \$75,000,000 of loans on coffee could easily have been carried for five years without any difficulty?

Mr. SIELCKEN. Very easily; with great ease.

Mr. UNTERMYER. And the Government in making this loan did it, as you think, simply from motives of economy of carriage, did they?

Mr. SIELCKEN. From motives of economy, for one thing, and finding it more agreeable to trade with a few than to trade with so many.

Mr. UNTERMYER. Let us see about that. The Government sold these bonds at 93, did they not?

Mr. SIELCKEN. No; they did not.

Mr. UNTERMYER. No; they sold them at 85, did they not?

Mr. SIELCKEN. 85.

Mr. UNTERMYER. And they were redeemable at par, were they not?

Mr. SIELCKEN. Yes.

Mr. UNTERMYER. And they had to pay them back at par?

Mr. SIELCKEN. In 10 years.

Mr. UNTERMYER. Or sooner if the coffee was sold?

Mr. SIELCKEN. Yes.

Mr. UNTERMYER. And, as a matter of fact, the loan is going to be closed up within five years, is it not?

Mr. SIELCKEN. Yes; I think within one year from now.

Mr. UNTERMYER. Within one year from now. So that the loan will amount to about a five-year loan, will it not?

Mr. SIELCKEN. Yes; the Government could not foresee how soon—

Mr. UNTERMYER. That is not the question.

Mr. SIELCKEN. When they made that contract, they considered the loan cheaper than 9 per cent.

Mr. UNTERMYER. I do not think you understand me, Mr. Sielcken. This loan was made in December, 1908, was it not?

Mr. SIELCKEN. Yes.

Mr. UNTERMYER. You think it will be closed up within one year?

Mr. SIELCKEN. Yes.

Mr. UNTERMYER. That will be June, 1913, will it not?

Mr. SIELCKEN. Yes.

Mr. UNTERMYER. So that is about four and a half years, is it not?

Mr. SIELCKEN. Yes.

Mr. UNTERMYER. Is that right?

Mr. SIELCKEN. About that; yes, sir.

Mr. UNTERMYER. And the Government received 85 for the bonds, and has to pay them back at par?

Mr. SIELCKEN. Yes.

Mr. UNTERMYER. So that is 15 per cent, is it not?

Mr. SIELCKEN. Yes.

Mr. UNTERMYER. In addition to that there are commissions, are there not?

Mr. SIELCKEN. No; the loan included all commissions.

Mr. UNTERMYER. Commissions for selling the coffee, or to the committee?

Mr. SIELCKEN. The commissions, and interest for carrying, were 9 per cent per annum.

Mr. UNTERMYER. The loan is at 5 per cent, is it not?

Mr. SIELCKEN. Yes.

Mr. UNTERMYER. So it will cost the Government about 9 per cent a year, will it not, to get this loan?

Mr. SIELCKEN. It will cost them 8 per cent, just exactly.

Mr. UNTERMYER. Between 8 and 9 per cent?

Mr. SIELCKEN. Eight; but the other one would cost surely 9 per cent.

Mr. UNTERMYER. Then the other one was uncertain, too, as to how long the people would carry the coffee, was it not, because they only agreed to carry it for one year?

Mr. SIELCKEN. It was renewed from year to year.

Mr. UNTERMYER. But I say it was uncertain, was it not?

Mr. SIELCKEN. Yes.

Mr. UNTERMYER. Now, I will call your attention to this report, and I want to ask you as to certain things in it, because it sets forth, it seems to me, very admirably the situation as it existed. The report states:

In order to give effect to laws No. 959 of October 3, 1905, and No. 984 of December 29, 1905, the Sao Paulo government celebrated with the State governments of Minas Geraes and Rio de Janeiro, the agreement commonly known as the "Convention of Taubate," which was signed at the city of that name on February 26, 1906, by Dr. Nilo Pecanha—

That is right, is it not? That was to give effect to that convention of Taubate?

Mr. SIELCKEN. Yes.

Mr. UNTERMYER (reading):

With a view of defending the coffee interests of the State, seriously threatened by the depreciation of prices, which would be rendered more acute by the exportation and sale of the extraordinary crop of 1906-7, the Sao Paulo government anticipated the acceptance of the Taubate Convention.

Do you agree with that?

Mr. SIELCKEN. Yes; that is what is stated there.

Mr. UNTERMYER. You agree that this scheme was entered into with a view of defending the coffee interests that were threatened with depreciation of prices?

Mr. SIELCKEN. Absolutely.

Mr. UNTERMYER (reading):

In spite of the immense difficulties daily encountered to sustain prices, by holding on to such an enormous stock, the Government never hesitated, and supported by the loyalty of public opinion within the State, and ably seconded by all who were interested in the solution of such a momentous problem, it persevered in its plan which had been adopted in favor of the vital interests of the agricultural and commercial interests of the State of Sao Paulo.

Having once attained the principal object of this campaign; that is, keeping beyond the insistent market offers the excess production of the immense crop of 1906-7 and once reestablished normal market conditions, it became necessary to consolidate the position just reached, adopting means which would enable the Government to hold its stock, keeping same out of the markets until such time as the necessities of the markets and consumption demanded.

You agree to that, do you not?

Mr. SIELCKEN. Mr. Untermyer, how can I agree to what a foreign government say in their report or disagree with it? I can not.

Mr. UNTERMYER. Do you agree that the purpose of this scheme was to keep the stock out of the market?

Mr. SIELCKEN. The purpose of the scheme was what is ably said there—to defend the price of their principal product.

Mr. UNTERMYER. By keeping this stock out of the market?

Mr. SIELCKEN. The surplus of that crop.

Mr. UNTERMYER. Yes; but that would lead to the maintenance or to the increase of prices, would it not?

Mr. SIELCKEN. There is not any question that a big surplus, crop after crop, gives a lower price.

Mr. UNTERMYER (reading):

By law No. 1127 of August 25, 1908, the following measures were authorized toward affecting this purpose:

1. To limit the exportation of coffee to 9,000,000 bags in 1908-9; 9,500,000 bags in 1909-10; and 10,000,000 bags from 1910-11 onward.
2. To raise the surtax from 3 to 5 francs on every bag of coffee exported.
3. To authorize the raising of a foreign loan of £15,000,000 to consolidate the existing position which had been attained.

Mr. SIELCKEN. Exactly.

Mr. UNTERMYER. That is quite right, is it not?

Mr. SIELCKEN. That is what I always maintained.

Mr. UNTERMYER. What is what you always maintained?

Mr. SIELCKEN. That the loan was not made for any new business; it was made to pay off the old ones.

Mr. UNTERMYER. You mean "to consolidate the existing position"?

Mr. SIELCKEN. To consolidate the loans that the merchants had made for 1906-7 a year and a half previous.

Mr. UNTERMYER (reading):

This loan was realized at the rate of 85 per cent, having for its special guaranty the surtax of 5 francs per bag collected on all coffee exported and also the proceeds of sales of all State-owned coffee.

* * * * *

After the realization of the loan of £15,000,000 a committee was constituted in Europe for the purpose of taking charge and selling the State-owned coffee, as per special contract drawn up in London on December 11, 1908.

This committee is composed of seven members. * * * The functions of this committee are: * * *

(c) Liquidate the stocks of coffee in the name and for account of the Sao Paulo Government, by means of public auctions or otherwise, being 500,000 bags in 1909-10, 600,000 bags in 1910-11, 700,000 bags in 1912-13, and afterwards at the rate of 700,000 bags annually. Beyond these minimum quantities, at any time before the commencement of the obligatory sales, the committee is authorized to supply the markets with whatever quantities that are required, taking for their basis the price of 47 francs (later changed) per 50 kilos for good average and 50 francs (ditto) for the quality known as "Havre Superior."

How much is that per pound; do you know? It is about \$10 a bag. That is about how much a pound?

Mr. SIELCKEN. Seven or eight cents.

Mr. UNTERMYER. Eight cents a pound. They could not increase it unless they got that minimum price, could they?

Mr. SIELCKEN. No.

Mr. UNTERMYER. He says, furthermore: "When the price of coffee drops the whole community suffers." I suppose he meant by that the San Paulo community, did he not?

Mr. SIELCKEN. Yes. It was written for the State of Sao Paulo.

Mr. UNTERMYER. It does not mean that the United States consumer suffers, does it?

Mr. SIELCKEN. No; it was written for Sao Paulo. It was not written for your committee.

Mr. UNTERMYER (reading):

The 1897 crop was a remarkably large one, and the world's stocks were immediately raised from five to six million bags. There was then a notable reduction in price which lasted till 1900, when they got firm once more. However, agriculture suffered but little during the first period of low prices.

Mr. NEELEY. I should like to know what the witness considers a surplus to be.

Mr. UNTERMYER. Mr. Sielcken, Mr. Neeley would like to know what you understand a surplus of a crop to be.

Mr. SIELCKEN. Any crop which is larger than the annual consumption. The annual consumption of Brazil coffee, Rio and Santos, to-day is about 14,000,000 bags. So if the two crops produce a great deal more than 14,000,000, that, in all probability, is a surplus of that crop.

Mr. UNTERMYER. Mr. Sielcken, do you agree to this statement:

In October, 1905, news from all parts commenced to pour in indicating prospects of a bumper crop in 1906, news which was later confirmed by the absence of frost and other unfavorable conditions, insuring perfect growth.

That is right, is it not?

Mr. SIELCKEN. But those are facts that only confirm what I said a little while ago, that we know a year and a half in advance.

Mr. UNTERMYER. Do you?

Mr. SIELCKEN. Yes, sir.

Mr. UNTERMYER. I did not know that, because this says that in October, 1905—

Mr. SIELCKEN. Yes; they knew that the 1906-7 crop—

Mr. UNTERMYER. Just a moment. This says that in October, 1905, news came in indicating a bumper crop in 1906.

Mr. SIELCKEN. 1906-07.

Mr. UNTERMYER. No; it says 1906.

Mr. SIELCKEN. But it means from the 1st of July, 1906, until the 1st of July, 1907.

Mr. UNTERMYER (reading):

It soon became evident that the rise of prices of 1905 could not be maintained and calculations were wistfully made as to the probable world's consumption during the next few years and how long it would take to reduce the accumulation of stocks from the crop of 1906. Among these calculations there entered one favorable element which was absent when similar calculations were made in 1901. It was this: Since 1903 the Sao Paulo Government had prohibited further planting.

Do you agree to that statement?

Mr. SIELCKEN. Mr. Untermyer, I can not possibly agree or disagree with statements made in Brazil by an official there.

Mr. UNTERMYER. Do you agree to the statement, from your knowledge of the facts, that since 1903 the Sao Paulo Government have prohibited further planting?

Mr. SIELCKEN. They have never prohibited it.

Mr. UNTERMYER. Then you do not agree to that statement?

Mr. SIELCKEN. They put a tax on it; I explained that before.

Mr. UNTERMYER. That was a tax of 20 per cent ad valorem, was it not?

Mr. SIELCKEN. Ad valorem what?

Mr. UNTERMYER. What was the tax on planting?

Mr. SIELCKEN. The tax was 2 milreis—I have given you a little note that you can look over.

Mr. UNTERMYER. How much was the tax?

Mr. SIELCKEN. Look at the note I gave you.

Mr. UNTERMYER. Do you remember it?

Mr. SIELCKEN. No; a little while ago I explained that it was 2 milreis for so much land to be planted.

Mr. UNTERMYER. Then the minister of finance is wrong in this statement, is he?

Mr. SIELCKEN. In what?

Mr. UNTERMYER. That since 1903 the Sao Paulo Government has prohibited further planting?

Mr. SIELCKEN. He did not prohibit it; he prevented it.

Mr. UNTERMYER. He is wrong about it then, is he?

Mr. SIELCKEN. He is wrong in the expression. If a law is made to forbid planting, that prohibits it. If a tax is imposed, it makes it difficult.

Mr. UNTERMYER. Then he goes on and says this:

This was a very wise precaution, but it could not be expected to yield beneficial results immediately, as same could only be felt after sufficient time had elapsed, because the coffee plant does not commence to bear fruit for five or six years after planting of the young trees.

The Government of Sao Paulo took upon itself to buy the excess of production or surplus, keeping it out of the market for a requisite time until the reduction of stocks must, perforce, raise the price.

Did you understand that to be the purpose?

Mr. SIELCKEN. Mr. Untermyer, I will not criticise or give an opinion upon what the Brazilian Government did nor do I think it proper that this committee should, if I should be here and hear this committee express themselves upon the action of another government, upon which we have no right to express an opinion.

Mr. UNTERMYER. I think this committee will take care of itself, and so will the Government.

Mr. SIELCKEN. You asked me for an opinion.

Mr. UNTERMYER. No; the point is, now, whether you understood, as the minister of finance understood in reporting to his Government, that the State took upon itself to buy the excess of production, keeping it out of the market for a requisite time until the reduction of stocks raised the price; that that was the purpose. If you did not so understand it you will say so; if you did you can state it.

Mr. SIELCKEN. That is a matter for discussion, and you asked for an opinion. I have already explained that the Government bought the surplus of that crop. There is nothing further to say that I can possibly say.

Mr. UNTERMYER. The minister of finance says further, the following, as to the way in which they carried out that scheme. He says:

During a few weeks every year arrivals of coffee flood the Santos market like an irresistible wave, upsetting the market and creating artificial prices, without

consideration of the law of supply and demand. Was it not necessary that some public authority should remedy this evil by intervening in the market as a regulator? There was one great danger. The idea of such regulation was to raise prices. It was seen that the benefits accruing from a rise in the prices of Brazilian produce would also accrue to the competitors of Brazil in other coffee-growing districts of the world. Other places would therefore benefit gratuitously at the expense of the State of Sao Paulo without taking any risk or incurring any of the expense entailed by valorization. It would not do for Sao Paulo to undertake the work at their own cost merely to enrich their competitors in Guatemala or Costa Rica. To prove that this fear existed in Sao Paulo it is only necessary to refer to the trip made by Dr. Augusto Ramos for the purpose of study, he being sent by the Government to visit and report upon the situation in the other coffee-producing countries of South America. His work was published in book form by the Secretary of Agriculture in 1906. He found on all sides the same difficult situation caused by low prices as was the case in Sao Paulo, and that the advantage, from a physical point of view, rested with Sao Paulo, where the maturity was more regular and the crop less embarrassed by excessive rains. He also found that labor was scarcer and of a poorer quality than in Sao Paulo, and that the organization and arrangement of the plantations were not so perfect. He concluded, therefore, that Sao Paulo could conserve the price of coffee, that it had a constant advantage over its most favored competitors, who would be eliminated one after another, the process of elimination having already commenced, and that no benefit would accrue by maintaining the price of coffee below 80 francs.

How much is 80 francs?

Mr. SIELCKEN. That is 12 cents a pound.

Mr. UNTERMYER. 12 cents a pound?

Mr. SIELCKEN. Our money.

Mr. UNTERMYER. About 12 cents?

Mr. SIELCKEN. About, yes.

Mr. UNTERMYER. The report of the minister continues:

He persuaded the Government of Sao Paulo that the business was possible. It was the foundation of valorization.

It is a fact that the purpose of this valorization scheme was to put coffee at 12 cents a pound?

Mr. SIELCKEN. I can not answer *ex parte* questions of that kind. You read me an argument, and if you will allow me to argue I will answer you.

Mr. UNTERMYER. Yes; but I want to know if in your negotiations with the State of Sao Paulo and in the making of these contracts you understood that the purpose of this scheme was to get coffee to 12 cents a pound and keep it there?

Mr. SIELCKEN. It was not. I made the contract. I can state to the committee what the object was.

Mr. UNTERMYER. It was not. You do not agree with the minister of finance?

Mr. SIELCKEN. He does not say so. He says it is necessary to keep it below a given price: nor can anybody keep or put it up. That is impossible.

Mr. UNTERMYER. I will go on with this report [continuing reading]:

It was necessary, therefore, to intervene in another direction, and more radically. It was decided, therefore, to withdraw from the market all of the surplus coffee. It was necessary, however, to proceed with great caution in case the Government's action in curtailing the home market might give impulse and result in greater production on the part of other countries, thereby neutralizing the advantage which Sao Paulo hoped to reap.

Were you parties to any such discussion as that?

Mr. SIELCKEN. I never was a party to any such discussion there.

Mr. UNTERMYER. With what officials of Sao Paulo did you negotiate these contracts?

Mr. SIELCKEN. With what officials?

Mr. UNTERMYER. Yes.

Mr. SIELCKEN. I proceeded with what we call down there the president, and he has got the last authority—the only authority.

Mr. UNTERMYER. Has the minister of finance no authority?

Mr. SIELCKEN. He is just exactly what he is here. He deals with financial matters.

Mr. UNTERMYER. In this report by the minister of finance to his Government he states further:

It is impossible to describe the situation which would thus have been created in the State, struggling with difficulties judged invincible, if the Government had merely taken steps of simple expediency, leaving the process of natural selection to do its work of destruction.

That you do not agree to at all?

Mr. SIELCKEN. Read a little further.

Mr. UNTERMYER. I say you do not agree with that at all?

Mr. SIELCKEN. Read the next sentence, and then I will answer.

Mr. UNTERMYER. Do you agree to that? We will stop right there.

Mr. SIELCKEN. I never agree to anything ex parte. If you wish me to give an opinion, he says there finally that the law of the survival of the fittest does not act well.

Mr. UNTERMYER. Does not act well. But the point about it is this: Do you agree that the situation would have been impossible if the Government had merely taken steps of simple expediency, leaving the process of natural selection to do its work of destruction?

Mr. SIELCKEN. I think there would have been a revolution in Sao Paulo. There was threatening a revolution in Sao Paulo.

Mr. UNTERMYER. Do you think that would have been a worse condition than that we should pay 14 cents a pound for coffee?

Mr. SIELCKEN. We would have paid that anyhow.

Mr. UNTERMYER. We would have paid that anyhow? Going on, he says this, in October, 1910:

The coffee situation is now solid and not easily upset and will continue so indefinitely, provided the public authority is vigilant to see that the conditions which led up to the crises that we have left behind are not repeated.

Do you agree to that?

Mr. SIELCKEN. I can not agree or disagree with what the minister of finance might say of San Paulo.

Mr. UNTERMYER. Why not?

Mr. SIELCKEN. If you will read it there, he makes his argument as the minister of finance; and if you will give me the chance to argue, then I will answer.

Mr. UNTERMYER. Yes; you will get a chance. You will get a chance to make any statement you care to make.

Mr. SIELCKEN. I can not possibly answer. I know the gentleman who has written it, and I have a very high regard for him. I do not wish to criticize—to agree or disagree.

Mr. UNTERMYER. You can tell us whether or not you agree to this?

Mr. SIELCKEN. No; it is not proper for me to do so.

Mr. UNTERMYER. Wait a moment; let me finish my question. You can tell us whether or not you, as a leading coffee merchant of this

country and as an expert of 40 years' standing, are of the opinion that the coffee situation is now solid and not easily upset.

Mr. SIELCKEN. I do not wish to say anything in criticizing what he says.

Mr. UNTERMEYER. He says, further:

It is not necessary to attempt an estimate of the results attained. Sufficient it is to say that the price of coffee in Santos is above Rs. 7,000 for 10 kilos.

Mr. SIELCKEN. 10 milreis, that means at the present time 2.10 for 10 kilos. Ten kilos is 22 pounds.

Mr. UNTERMYER. He continues:

As to the liquidation of the compromises assumed by the state, it may be affirmed that within two or three years they will be all paid off, leaving a considerable balance. As a proof of this statement, it is sufficient to say that the loan of £15,000,000 will on January 1, 1911, be reduced to 10,000,000, not only by means of amortizations already made, but also by the large balances which on that date we shall have in the hands of our bankers. The loan of £3,000,000, contracted through the Federal Government, has already been reduced by amortizations to £2,800,000.

The Government stock of coffee in the hands of bankers was 6,842,374 bags, of which 500,000 bags were sold during the current year, leaving 6,300,000 bags on hand.

If we take as a basis the price of 66 francs per 50 kilos, now ruling at Havre, without taking into consideration the greater value of our coffee, which is nearly all composed of the higher grades, we have at present figures 6,300,000 bags, of the approximate value of £20,000,000.

I will ask to have this report of the minister of finance marked as an exhibit, and I offer it in evidence.

The report referred to was filed, marked by the stenographer "Exhibit No. 8, May 16, 1912," and will be found printed in full at the end of this hearing.

Mr. UNTERMYER. How many meetings of this committee of seven have you attended, Mr. Sielcken?

Mr. SIELCKEN. I think it has met in four years. I have attended in three years, each year one of the meetings.

Mr. UNTERMYER. Have you attended all that have been held?

Mr. SIELCKEN. No.

Mr. UNTERMYER. Was there a meeting held on the 5th of January, 1909?

Mr. SIELCKEN. Yes; I suppose there was.

Mr. UNTERMYER. At that meeting was it decided that no coffee should be sold during the year 1909 at less than 47 francs, which is 7.2 cents a pound, for an average, and then only up to an amount of 500,000 bags during that year?

Mr. SIELCKEN. Our records are published every year.

Mr. UNTERMYER. You have some recollection of that?

Mr. SIELCKEN. We publish our meetings; we publish exact records every year, here as well as over there.

Mr. UNTERMYER. Is that your recollection? Was that done at that meeting?

Mr. SIELCKEN. I suppose it was.

Mr. UNTERMYER. Was it also agreed then that 500,000 bags should be sold at market prices during the period of January to July, 1910?

Mr. SIELCKEN. Yes.

Mr. UNTERMYER. And was it agreed that in case the 500,000 bags were sold in the year 1909 the committee might, at its discretion, cancel the sale of the 500,000 bags to be sold in 1910?

Mr. SIELCKEN. Yes; I think we took that action.

Mr. UNTERMYER. Was there another meeting on the 27th of April, 1909?

Mr. SIELCKEN. Yes; there was.

Mr. UNTERMYER. And is this practically what was done at that meeting: Was it first reported that no sale had been made of the coffee that was to be sold in 1909, and that the sales of the 500,000 bags would not be undertaken until the trade was ready to pay the price stipulated therein, or its equivalent, in any of the markets, and that in no case should the sales during the current year exceed 500,000 bags?

Mr. SIELCKEN. Yes; that is right.

Mr. UNTERMYER. Was it then stated and reported that the government of San Paulo had lately under consideration the advisability of replacing the then existing law limiting export of coffee by a new law creating an extra duty of 10 per cent on all exports of coffee payable in turn, such coffee to be destroyed under the control of the committee?

Mr. SIELCKEN. That was never carried out.

Mr. UNTERMYER. But it was considered?

Mr. SIELCKEN. Yes; it was considered.

Mr. UNTERMYER. The Government was considering, with your committee, the destroying of that coffee?

Mr. SIELCKEN. The Government was considering the destroying of coffee that is forbidden in this country; the common, low grade, which the United States forbids to come in here.

Mr. UNTERMYER. That was the reason; because the United States would not take it?

Mr. SIELCKEN. I do not know the reason. It was immaterial.

Mr. UNTERMYER. Do you not know the reason?

Mr. SIELCKEN. I explained the reason.

Mr. UNTERMYER. The reason was that they wanted to get rid of the surplus, was it not?

Mr. SIELCKEN. The farmers in this country burn corn. Do you suppose they want to destroy it?

Mr. UNTERMYER. Yes. That is all that you have to say about that, is it not?

Mr. SIELCKEN. An opinion is not necessary. It was not carried out.

Mr. PUJO. No; we want the facts. We will draw our deductions when it comes to that.

Mr. UNTERMYER. Did you attend the meeting on January 6, 1910, of this committee?

Mr. SIELCKEN. No; I do not think I attended that meeting.

Mr. UNTERMYER. What?

Mr. SIELCKEN. One meeting I did not attend.

Mr. UNTERMYER. That was the meeting at which it was reported that the plan of destroying the coffee was to be withdrawn?

Mr. SIELCKEN. Yes.

Mr. UNTERMYER. At that time did the committee decide that 500,000 bags should be sold gradually at market prices between the period of February and June, 1910, the first sale of 125,000 bags to take place in the first half of February?

Mr. SIELCKEN. Yes; there was 500,000 bags to be sold.

Mr. UNTERMYER. One hundred and twenty-five thousand bags of which was to be sold in the first half of February; and was it also decided then that no further coffee should be sold during the year 1910?

Mr. SIELCKEN. Yes.

Mr. UNTERMYER. Unless the tendency of the market and the requirement of the trade should, in the opinion of the committee, render such further sales advisable?

Mr. SIELCKEN. Yes; there was some such resolution.

Mr. UNTERMYER. And that such further sales were not to exceed, in any case, 600,000 bags, and that 600,000 bags should be sold at market prices during the period of from January to July, 1911?

Mr. SIELCKEN. Yes.

Mr. UNTERMYER. Is not that right?

Mr. SIELCKEN. Yes.

Mr. UNTERMYER. Was it not further arranged at that meeting that in case 600,000 bags were sold in 1910 the committee might at its discretion cancel the sale of 600,000 bags in 1911?

Mr. SIELCKEN. Yes.

Mr. UNTERMYER. As to the prices realized at these sales, there was a meeting on May 4, 1910, was there not, at which it was announced by the committee that 75,000 bags were sold in New York, if you will remember—

Mr. SIELCKEN. Yes; yes.

Mr. UNTERMYER (continuing). At 9½ cents; do you remember that?

Mr. SIELCKEN. Yes; I suppose so. I do not know.

Mr. UNTERMYER. Were you there?

Mr. SIELCKEN. I have made so many purchases and sales in coffee that I could not remember each date.

Mr. UNTERMYER. Did you buy that?

Mr. SIELCKEN. No; I did not buy it; I sold it.

Mr. UNTERMYER. The committee sold it?

Mr. SIELCKEN. I sold it for the committee.

Mr. UNTERMYER. For the committee; but you did not buy it?

Mr. SIELCKEN. No.

Mr. UNTERMYER. On June 15, 1910, it was announced that 10,000 bags had been sold in New York at 9½-cent basis and 40,000 bags at 9-cent basis?

Mr. SIELCKEN. Yes.

Mr. UNTERMYER. And that there would be no further sales of Government coffee in 1910?

Mr. SIELCKEN. Yes.

Mr. UNTERMYER. That is right, is it?

Mr. SIELCKEN. Yes.

Mr. UNTERMYER. Were you present at the meeting on January 5, 1911?

Mr. SIELCKEN. Yes.

Mr. UNTERMYER. You were? That was in London, too?

Mr. SIELCKEN. Yes.

Mr. UNTERMYER. At that meeting was it decided that 1,200,000 bags should be sold between the 1st and the 30th of April, 1911, and that no more should be sold during that year?

Mr. SIELCKEN. Yes; that is right.

Mr. UNTERMYER. During all this time were you buying, too, on your own account, and selling it?

Mr. SIELCKEN. I am always buying and selling coffee.

Mr. UNTERMYER. Yes.

Mr. SIELCKEN. Always.

Mr. UNTERMYER. And on your own account?

Mr. SIELCKEN. Always; since many, many years.

Mr. UNTERMYER. On February 24, 1911, the committee held a meeting, did they not, in London?

Mr. SIELCKEN. When?

Mr. UNTERMYER. February 24, 1911.

Mr. SIELCKEN. That was in Paris.

Mr. UNTERMYER. It was in Paris, was it?

Mr. SIELCKEN. Yes.

Mr. UNTERMYER. That is the meeting at which they ordered that 600,000 bags of coffee should be sold on April 1, of which 300,000 were to be sold in New York?

Mr. SIELCKEN. Yes.

Mr. UNTERMYER. And the remainder at other points?

Mr. SIELCKEN. Yes.

Mr. UNTERMYER. Did you attend to that for them?

Mr. SIELCKEN. Yes.

Mr. UNTERMYER. And they ordered that 600,000 bags should be sold on April 22 at a price not less than 10.8 cents per pound?

Mr. SIELCKEN. At how much?

Mr. UNTERMYER. Seventy-five francs?

Mr. SIELCKEN. 12 $\frac{3}{4}$ cents.

Mr. UNTERMYER. No; 10.8 cents.

Mr. SIELCKEN. Seventy-five francs; that was the highest point. It was sold at 12 $\frac{3}{4}$ cents in New York City.

Mr. UNTERMYER. That was in April, 1911, was it not?

Mr. SIELCKEN. Yes.

Mr. UNTERMYER. Did you buy that?

Mr. SIELCKEN. I bought it and sold it.

Mr. UNTERMYER. Do you mean that you sold it for the committee or bought it yourself?

Mr. SIELCKEN. I made a profit on that deal.

Mr. UNTERMYER. And on April 1 the committee announced that 300,000 bags had been sold at 12 $\frac{3}{4}$ cents?

Mr. SIELCKEN. Yes.

Mr. UNTERMYER. And afterwards another 300,000 bags at 12 $\frac{3}{4}$ cents?

Mr. SIELCKEN. Yes.

Mr. UNTERMYER. How much of this Government coffee is there now in the New York dock warehouses?

Mr. SIELCKEN. How much?

Mr. UNTERMYER. Yes.

Mr. SIELCKEN. About 600,000 bags.

Mr. UNTERMYER. That is where; in the New York Dock Warehouse Co.?

Mr. SIELCKEN. In the New York dock warehouses; yes.

Mr. UNTERMYER. And is that part of a larger stock that was there?

Mr. SIELCKEN. We had originally, in December, 1908, 1,750,000 bags.

Mr. UNTERMYER. Who is regulating the time and the price at which that coffee is to be sold?

Mr. SIELCKEN. The committee.

Mr. UNTERMYER. You do that by cable correspondence?

Mr. SIELCKEN. No; we do it in our meetings, once or twice a year.

Mr. UNTERMYER. And between those meetings you do not transact any business?

Mr. SIELCKEN. None at all.

Mr. UNTERMYER. I think that is all. Mr. Sielcken, would you like to make a statement?

Mr. SIELCKEN. If the committee is willing to hear me, I would be very much pleased.

Mr. PUJO. The committee would like you to make a concise, succinct statement with reference to valorization and the salient points covered by the general interrogatory, and the general questions, particularly as to the relations of the National City Bank, Mr. Morgan, and others, to the present condition.

Mr. SIELCKEN. In regard to the transaction, I suppose the committee has received the impression from its counsel, and the questions that he has asked, that this valorization has put up the price of coffee to unheard-of high figures; that it was an extraordinary, artificial deal; and otherwise, that the valorization and the financing of it, and everything of that kind, was at the expense of the United States, or of the consumers. I sometimes read in the newspapers about a Coffee Trust. Perhaps you gentlemen have. There is nothing further from the coffee business than a Coffee Trust. If it refers to my business, I have a partner, and neither he nor myself has, nor have we in our business, any understanding, any contract, any market arrangement with any firm in the United States; so that, as a trust necessarily implies a combination of capital and of people in the same business—at least, I so understand it—and as neither of those things has ever existed in our firm, we are not in a trust. My firm is not, that is sure; and there is no Coffee Trust, nor even the semblance of one, anywhere in the United States, to my knowledge; not the semblance of one.

As regards the question of the extent to which valorization increased the value of coffee, which I suppose is the question you would like me to give an opinion upon, the value of coffee since I have been dealing in it, since I have been in Brazil, which is exactly since 1876, has varied as follows: In those years Rio coffee was selling between 21 and 27 cents. The high prices brought about a larger production of coffee, and from 1877 the market slowly declined from 27 cents down to 15 cents and 16 cents, and in consequence of large failures in the trade it ran down to 6 or 7 cents a pound in 1884. In 1884 the Brazilians tried a speculation to prevent a further decline. The Government was not interested, but the speculation was largely aided by the Bank of Brazil, which you might call a Government bank, and it made a most disastrous failure. It improved the price for six months, only to have it break down lower than before. In consequence of the low prices and their effect on production, the crops commenced to decrease, and from 1886 the market commenced to advance, and in one year it advanced from 6 or 7 cents to 22 cents. That 22-cent market did not hold, but for the years from 1886 until

1896 the average price was perhaps 15 cents. The highest was 22 cents and the lowest was perhaps 11 or 12 cents.

In 1889 Brazil changed from an Empire to a Republic, and the Republic immediately commenced to issue paper money in unlimited amounts. When Dom Pedro was driven away from Brazil in 1889, the value of the Brazilian paper money was 27 pence. In four or five years afterwards it was 6 pence; that is, 12 cents in our money. These very low values in paper money enabled the planters at that time to reap a very heavy harvest out of the price of coffee. They paid their labor in that paper money, and did not increase their wages for a long time. The same wages were paid when the exchange was 12 and when the exchange was 27, so that the planting of coffee increased enormously in the State of Sao Paulo, which had been by far the smaller State in coffee raising compared to Rio, and Sao Paulo commenced to raise crops two or three times as much as all Brazil put together, and the planters entirely forgot to pay attention to other branches of agriculture or the necessities of life. The consequence of those enormous big crops was the bringing down of the price of coffee. In 1895 and 1896 the decline commenced, and in 1897 and 1898 it steadily declined, until in 1903 the lowest price was reached.

As to the low rate of exchange, the question there was similar to our silver question. They supposed that the farmer could pay his laborers with the same amount of money in poor money, in paper money, as in gold. That brought about a high rate for everything that they used. They had to pay enormous prices for flour and for beans and for every necessity, and the price of coffee going down created a crisis in Sao Paulo, for the reason that the exchange had changed and the value of their money had gone down from 16 pence to 6 pence, and coffee, which had been selling at 16 cents, went down to 6 cents, and at the same time the price of their paper money went back from 6 to 16, so that the farmer received a low price for his coffee and had to pay a high price for his labor.

It was at that time that the State of Sao Paulo became very dependent, and the question was with them, "How can we prevent a further decline in coffee?" A further decline meant destruction and perhaps ruin and bankruptcy all around. In order to prevent that they first put a tax on the planting of coffee. A tax of 2 milreis at that time was a heavy tax.

Mr. UNTERMYER. How much is a milreis?

Mr. SIELCKEN. A milreis to-day is worth 33 cents—32 or 33 cents. At that time the exchange was 6 cents, and the milreis was worth 12 cents. So it differed.

The State found that the question of not forbidding coffee cultivation, but putting a heavy tax upon planting would not act for many years to come. It takes six to seven years for a full-grown tree to mature. When trees are 4 or 5 years old they give very little.

Then, in those days the planters commenced to refuse to pay interest on their mortgages. They were willing to give up their entire crops, but they said: "We can not pay interest on our mortgages." The consequence was that a single firm was obliged to foreclose on 27 plantations on mortgages, and the Government of Sao Paulo could see a great danger, that either the land in the State would go into the hands of foreigners—because nearly all the mort-

gages were made with foreign capital—or a planter who had been working hard and had raised big crops was fined and punished; raising a big crop he was dispossessed from his homestead. The price of coffee was so low that he could not pay.

Another great danger lay in the fact that they were unable to pay the laborers. The laborers in the State of Sao Paulo are mostly Italians. They have white labor. Two or three years before slavery was abolished in all Brazil Sao Paulo abolished slavery with the condition that the slave was free if he left the State. They wanted him to leave the State, and to substitute white labor. This substitution of white labor has produced a marvelous effect in making the State of Sao Paulo produce, with 3,000,000 people, more coffee than all the other people of all the coffee-raising States, with a population of fifty or one hundred million people. Here was the danger: Should a planter be punished for working hard and raising a large crop? Should men be dispossessed from their homesteads? I was told by people who have lived there for many years, "We will not foreclose any more mortgages. Our life is worth more than that. We will not expose ourselves. These men will defend their homesteads. They say, 'Here take my coffee; I have no money.'"

The State of Sao Paulo has paid millions and millions to import those Italian laborers—for their emigration from Italy. That labor was brought there at the expense of the State. If those laborers should leave the State because of nonpayment, if they should leave the State of Sao Paulo and go to the Argentine, or return, there was a danger that the plantations would be neglected. When a coffee plantation is neglected, the weeds grow high and the trees possibly grow wild, and they can not be replaced. Therefore, in making my statement to you here to-day, gentlemen, I say that the State of Sao Paulo undoubtedly did everything in its power—created all the laws and did all in its power—to prevent a further decline of coffee from the price already existing. A further decline from the existing price, which was below the cost, would have been disastrous. They did everything they could, but by doing what they did they did not make the present price. The price of coffee from the time of the valorization, when the first purchases were made in September, 1906, until July, 1910—that is, during nearly four years—did not change more than a cent or two. The price did not change more than a cent or two in that whole time, but remained stable in spite of the proposed destruction, which Mr. Untermyer several times referred to and which he asked me about. The value of coffee did not go down or up.

Regarding the question of whether, in the beginning of this transaction, the attempt was made by the merchants and bankers participating in the deal to put up the price of coffee, I will give a positive answer. The State of Sao Paulo, through their agent, approached all the bankers in Europe in 1906 for a loan to do their business, and they were refused by the English bankers, by the French bankers, and the German bankers. Nobody would entertain the proposition. They approached me in September, 1906, and asked me whether I could do something in the matter, I being well known in the trade. I told them I would finance 2,000,000 bags provided the reports of the next crop were absolutely assured to be small. To the party who asked me I said, "We can not take your statement. You are biased. If the general opinion of disinterested parties is

that the next crop will be very small, we—my partner and others—will try to make an arrangement by which we will finance 2,000,000 bags of coffee on the basis of 80 per cent of the value.” We started at 7 cents, and the limit at which the Government could buy coffee with that money and consign it to us at 8 cents was not 7 cents for No. 5. We would go downward further. We declined, and all the merchants who were with me declined to advance on the price in excess of cost of production. We were willing to advance the cost of production, and no more; 80 per cent of the cost of production. Therefore any statement that can possibly be translated to the effect that the coffee merchants, of whom I am one, in the United States—and in this case there were only 3 in the United States and in Europe perhaps 25 or 30—aided the Government to try to put up the market is not correct. We absolutely and positively limited the price upward, and we only went further downward, and under the influence of the Government’s buying the market declined, and declined largely. The market decline from the first consignment we received was from 7 cents down to 5 cents. On 5-cent coffee we advanced 4 cents.

Now, all of these transactions were absolutely made only by merchants. No bank or banker had anything to do with them.

I wish to refer to another matter. I was active in procuring the loan of £3,000,000, for the Sao Paulo Government. Sao Paulo did not only not get any more than the market value, but they were obliged to pay us a margin as the market went down. We treated the Sao Paulo Government exactly the same as we would treat any other speculator or any other merchant. They had to keep good their margin of 80 per cent; and that was done not only once, but was continually referred to. The merchants called upon the Government for margins. The market price for coffee going down from 7 cents to 6 cents and from 6 cents to 5 cents, the Government had to put up further margins.

At that time, knowing that the Government needed money, and that the credit of the Government was good and always had been good, that they could borrow money, could raise a loan without security. I was instrumental in negotiating the loan of £3,000,000, of which £1,000,000 was done with the City Bank in New York and £2,000,000 in London. The National City Bank in New York was not at all willing. They were afraid and it was a business to which they were not accustomed. They only accepted it, first, because of my saying, “My firm will take 25 per cent of that loan, and if you do this business you will do a great act for commerce in the United States. In case Brazil needs money, and can only find it in Europe, the commerce of Brazil will go to Europe.” We said to the City Bank of New York, “This will be the entering wedge for the future, larger business between the United States and Brazil. If you go into this, it is safe, you will get a surtax, it will pay you, and you can pay the loan.”

These were the conditions of that loan, and the inducements I held out to the City Bank were particularly the larger and better business in future with Brazil, not only for the City Bank but for the country at large. I may state here that in 36 years I have been probably the largest exporter between this country and Brazil. Coffee is not my only business. I went to Brazil to sell axes and shovels

and spades and silverware and everything else, and I have continued, up to to-day. We export as well as import.

During the four years that valorization had taken place the market did not advance. The Government had financed the surplus of that crop for the purpose of preventing it, as much as possible, from going lower, and for the purpose of making it possible for the planters of Brazil to continue taking care of their plantations. Supposing, now, that they had not done so. Supposing that the planters in that time, during 1906 and 1907, when there were very severe conditions in the financial market the world over, when it was just as difficult to obtain money in Brazil as it was in New York, or in Europe, as you gentlemen all probably remember, had been unable to get money. If it had been impossible for them to obtain money—and I wish that the committee would receive the opinions of others, of other merchants in the trade, merchants who have been successful and have shown that they understand their business—the price of coffee to-day, without the valorization, would be higher than it is. In 1906 and 1907 the price would have gone very much lower. I have not the slightest doubt that that crop would have sold at a ridiculously low price, so low a price as to prevent the planters from paying interest on their mortgages or continuing their business, and if that had happened, the subsequent crops would have been smaller and smaller all the time. There we had a record crop of nearly 20,000,000 bags in Rio and Santos; 15,000,000 bags in Santos alone. Since then the crops that we have had there have been, this year, say, nine and three-fourths millions, last year 8,000,000, and next year, from my information, I should say the crop would be 7,000,000 bags. In case the plantations had been neglected, we might have had crops of two, three, and four million bags, and a price for coffee of 25 cents.

So far as the sale of that coffee is concerned, the valorization coffee, of which there is still on hand 4,400,000 bags, the bankers who took the loan of £15,000,000 sterling, as well as the planters in Brazil who were paying the surtax, required conditions, and the conditions were that the bankers were afraid that some large amount of coffee would be thrown on the market, and not realize as much as the loan. So the guaranty of the Government of Brazil was required to absolutely secure that loan. But the planters, on their part, who were paying the high tax, and to absolutely enable the loan, have done more than we merchants, or all the bankers, because without the payment of that surtax the loan would have been impossible. The planters were sure that in case the crops should be very small, the coffee on hand would not be positively thrown on the market, because on the small crop they would have had to pay the 5 francs surtax, and on the small crop they must receive higher prices than for the big one; and that is not only the case with coffee, but with everything else we have in this country as well. At no time would there have been a possibility to look upon the situation differently than a decrease in the production of coffee. Since I have been in the business, for 35 years, the only country in the world which has increased its production of coffee is the State of Sao Paulo. The Rio Menas production decreased. Java decreased from £2,000,000 down to £300,000; and the Central American States have stood steady, while the consumption of coffee has doubled. So that, without somebody in

the world producing large crops, the price of coffee would have been very much higher than it is to-day, and it is greatly to the interest of all the coffee consuming countries that Sao Paulo is enabled to continue her plantations, giving them the greatest care and the greatest attention, and that the planters of Sao Paulo are not compelled at any time, by the low price of coffee or by their inability to raise money, to let their plantations go down. Therefore, I make the statement that in my opinion the price of coffee without the valorization would have been higher to-day than with it.

As far as this country is concerned—and we do not speak about Europe—we have on hand to-day from the stock which we took over, which was in this country, 1,774,000 bags. We have sold in three years 1,300,000 bags, which leaves only about 400,000 bags on hand, and the committee has sent 500,000 bags from Europe over here to reenforce our stocks. Without that the stock of valorization coffee in this country would be very small, so small that it has no effect on the market. Now, as a merchant, as a coffee dealer, with a crop of 7,000,000 bags in view, coming, I would be willing to pay the Government to-day, if they wanted to sell, the same price that we received for the last sale in January—15 cents. I would be willing to take every bag of coffee that is in this country; I would buy it on account of my firm at that price and resell it, every bag of it, at 15 cents, with the idea of having the same conditions we had then—with the idea that it would be a profitable transaction to me—because that would end all the valorization coffees in this country.

If you will permit me, gentlemen, I will now refer to another matter, which I can not help speaking of, in the interest of the mercantile war here, and of our endeavors in South America to increase business between here and there. I have been in that business for 36 years. I have been there nine times more in the way of selling goods than of buying goods. We require the good will of South America, because the South American Republics, Brazil, Argentina, and Chile, are financially sound people, and they are large producers; and large producers are always large consumers. We are occupied in this country with the question, "Is the valorization deal of another country, or was that deal, a correct deal? Should they have done it?" In the first place, I question the propriety of the United States criticizing or going into the details of the action of another country. Supposing that in this country we had a deal on cotton in the South, and Brazil should say, "Well, we want to look into that"; or suppose England or Germany should say, "We wish to know why cotton is 15 cents a pound. It has been only 5 cents, and later 10 cents—within a year or two—and we want to know why it is 15 cents." Any foreign Government or any foreign party that would act in that way would be thrown out of this country. We would not stand it or allow it for a minute.

From 1900 until 1910, gentlemen, this country has seen the highest prices for its produce on record in those 10 years. I speak of cotton, and I speak of wheat, and I speak of corn, and I speak of everything we raise here. In the same 10 years the Brazilians have had the lowest prices on record for their productions. During the years from 1900 to 1910 the Brazilian coffee market had the lowest prices they ever had. In the last two years we have had better prices,

owing to smaller crops and to prospective small crops. I suppose all of you gentlemen will agree that the markets of the world are more influenced by the prospects of supplies than by the stocks now in existence. That is the case with coffee, and I do believe it is the case with other crops as well. If for two years, when they have small crops after the big ones, they get better prices in Brazil, should we be so mean here as to say to them, "Now, we must try and see why you are getting higher prices for your coffee. You shall sell your products always at the lowest, and we ours at the highest. You must not make any combination of any nature or form. That is a conspiracy if you try to protect yourselves—if you try in the most legitimate way to do the business." So far as the legality of the business is concerned, I challenge the Attorney General in this country and every lawyer in this country to tell me that as a coffee merchant it is illegal for me to accept consignments. That is what was done in this case. The business was done on consignments.

Mr. UNTERMYER. Mr. Sielcken—

Mr. SIELCKEN. If the committee will be kind enough to allow me, I want to say this much: My business has been inquired into by the Attorney General, through grand juries, and here we are sitting, and there have been inquiries, direct and indirect, by the counsel of this committee about what steps the Brazilians took to protect their property. Was that a proper thing to do? Was there something wrong in it? That is the question I am addressing myself to.

Mr. PUJO. Mr. Sielcken, what the committee is primarily interested in and what we conceive to be largely the scope of our investigation is to see whether or not there has been a concentration of capital—

Mr. SIELCKEN. Capital?

Mr. PUJO (continuing). In the United States, by our financial institutions, particularly as connected with this valorization scheme. I understand your testimony, analyzed or epitomized, is that the \$75,000,000 were borrowed and that \$10,000,000 were furnished in this country and that you represented—

Mr. SIELCKEN. I beg pardon, Mr. Chairman. I did not quite say that. The \$75,000,000 with which the coffee was bought was furnished by the coffee merchants of the world.

Mr. PUJO. Yes.

Mr. SIELCKEN. None of it by the banks. As far as the banks are concerned, the City Bank took—

Mr. UNTERMYER. Have we not got all this here in the documents? Does it not all appear here?

Mr. PUJO. I want it epitomized here. Please state your proposition, Mr. Sielcken? The City Bank took how many millions of the loan?

Mr. SIELCKEN. The only interference of any bank here is that out of the £3,000,000 sterling of the exchequer loan for five years the City Bank took one-third of it. They sold here—

Mr. UNTERMYER. That has all been gone into. We have got all that.

Mr. SIELCKEN. Now, you asked me to go over this.

Mr. UNTERMYER. Yes.

Mr. SIELCKEN. In addition to that, the City Bank bought from John H. Schröder £2,000,000 sterling of one, which was placed in this market.

Mr. PUJO. Yes.

Mr. SIELCKEN. Outside of that, gentlemen, I want to state right here, because I have been informed that in Washington it has been current that we, for instance, received large loans from national banks. We never received any.

Mr. UNTERMYER. Mr. Sielcken, there is nothing of that kind before the committee here. We are not discussing anything of that sort. What is the use of going into all that here?

Mr. SIELCKEN. The chairman asked me to what extent the national banks were interested in this deal.

Mr. UNTERMYER. No; we have not inquired into that.

Mr. PUJO. No; this is not a personal question. We do not desire your personal transactions.

Mr. UNTERMYER. If you have finished, I would like to ask you a few questions.

Mr. SIELCKEN. Yes, sir.

Mr. UNTERMYER. In connection with your statement that it is the small crops since 1906 and 1907 that account for the present price of coffee, will you tell me whether or not the world's crop of coffee of 1909 and 1910 was not the biggest crop in 26 years, except the one crop of 1906 and 1907, and was not the crop in 1901 and 1902 about the same as that of 1909 and 1910? That is so, is it not?

Mr. SIELCKEN. In the years 1909 and 1910 the coffee market did not go down.

Mr. UNTERMYER. Let us see about it.

Mr. SIELCKEN. No; it did not.

Mr. UNTERMYER. That is not the question. The fact is, is it not, that after this valorization scheme went into effect you had the biggest crop that you have had in 26 years, except the crop of 1906 and 1907? Will you not answer that?

Mr. SIELCKEN. I can not answer that. If that is so, that does not do away with the argument that I made. I said that the market went up when crops became small, and the crops have only been small for two years.

Mr. UNTERMYER. No; the crops have not been small for two years. The crop of 1910 was the biggest crop in 26 years.

Mr. SIELCKEN. The 1910 and 1911 crop was 8,000,000 bags in Santos. Then it went up.

Mr. UNTERMYER. Is not the fact somewhat different from what you say?

Mr. SIELCKEN. What is that?

Mr. UNTERMYER. That owing to the crop of 1909 and 1910 being large the price of coffee did not go up?

Mr. SIELCKEN. No.

Mr. UNTERMYER. Is it not a fact that coffee on January 1, 1910, was 8 $\frac{1}{4}$ cents?

Mr. SIELCKEN. I do not call that going up.

Mr. UNTERMYER. Let us see about that. You do not think that is going up?

Mr. SIELCKEN. No, sir.

Mr. UNTERMYER. Let us see. In 1902 and 1903, before the valorization scheme, coffee was $5\frac{1}{4}$ cents, was it not?

Mr. SIELCKEN. Yes.

Mr. UNTERMYER. When had it been as high as $8\frac{1}{4}$ cents within 10 years before that? Had it?

Mr. SIELCKEN. Oh, yes; yes. It was—

Mr. UNTERMYER. Now, wait a moment. I find from this chart that from 1897 it had never been as high as $8\frac{1}{4}$ cents, which it was on January 1, 1910.

Mr. SIELCKEN. On the second crop, you say?

Mr. UNTERMYER. Yes.

Mr. SIELCKEN. I will tell you. It was 9 cents.

Mr. UNTERMYER. Then is this chart wrong?

Mr. SIELCKEN. No; it is not. It does not give every month.

Mr. UNTERMYER. You have got every month here, have you not?

Mr. SIELCKEN. Yes; but—

Mr. UNTERMYER. Wait a moment. We can not get on if we both talk at once. On the 1st of January, 1910, coffee was $8\frac{1}{4}$ cents?

Mr. SIELCKEN. Yes.

Mr. UNTERMYER. Now, look at Exhibit No. 5, which I show you, and point out to me, if you will, any time from the 1st of January, 1900—any month or any day—when coffee was as high as $8\frac{1}{4}$ cents.

Mr. SIELCKEN. Well, here [indicating on chart].

Mr. UNTERMYER. Will you not read it?

Mr. SIELCKEN. I beg your pardon; these are coffee options. You quote me No. 7 prices. It is an entirely different thing you quote there.

Mr. UNTERMYER. What is spot option? Is not spot option the same as spot coffee?

Mr. SIELCKEN. No, sir; there is a difference of a cent and a half or 2 cents.

Mr. UNTERMYER. Wait a moment. We will not get excited about it—or we will try not to. Look at the quotations on No. 7 spot coffee. That is spot coffee, is it not?

Mr. SIELCKEN. We have both spot and option on there.

Mr. UNTERMYER. There is a column there that is headed "Spot coffee," is there not?

Mr. SIELCKEN. Yes; here it is [indicating].

Mr. UNTERMYER. And on January 1, 1910, spot coffee was $8\frac{1}{4}$ cents a pound, was it not?

Mr. SIELCKEN. Yes; and on February—

Mr. UNTERMYER. Now, will you not wait a moment?

Mr. SIELCKEN. Yes.

Mr. UNTERMYER. Beginning with 1900, and down to that time, is there any point at which spot coffee was as high as $8\frac{1}{4}$ cents?

Mr. SIELCKEN. Yes; higher.

Mr. UNTERMYER. Where is it?

Mr. SIELCKEN. Here it is [indicating].

Mr. UNTERMYER. Read it.

Mr. SIELCKEN. February, 1904; $9\frac{1}{4}$ cents.

Mr. UNTERMYER. Is there any other time?

Mr. SIELCKEN. Yes. Here is $8\frac{3}{4}$, and here is $8\frac{1}{4}$.

Mr. UNTERMYER. Wait just a moment; let us understand each other.

Mr. SIELCKEN. Yes.

Mr. UNTERMYER. You have spoken of high prices of coffee away back in the eighties.

Mr. SIELCKEN. Not away back—in 1886 to 1896.

Mr. UNTERMYER. That is a long time.

Mr. SIELCKEN. That is not long.

Mr. UNTERMYER. There were not any high prices in 1896, were there?

Mr. SIELCKEN. Up to the year 1896; oh, yes.

Mr. UNTERMYER. Yes?

Mr. SIELCKEN. What you would call high, certainly.

Mr. UNTERMYER. Is 7½ cents high? That is April, 1907.

Mr. SIELCKEN. You are not looking at it right. I will show you.

Mr. UNTERMYER. I do not think so.

Mr. SIELCKEN. Absolutely.

Mr. UNTERMYER. Quotation spot coffee? I think not.

Mr. SIELCKEN. Absolutely. Can I help you with that chart?

Mr. UNTERMYER. No; I can find it. Now, at these times, for instance in 1886 and down to 1895 and 1896, the visible supply of coffee in the world was less than 20 per cent or 25 per cent of a year's production, was it not?

Mr. SIELCKEN. But the consumption was one-half what it is now.

Mr. UNTERMYER. Will you not answer?

Mr. SIELCKEN. I do not know that. The world's markets go by both consumption and production.

Mr. UNTERMYER. Now, if you will just listen to the question and answer it, we will get through here.

Mr. SIELCKEN. Yes.

Mr. UNTERMYER. In 1894 and 1895 the crop was 11,700,000 bags, and the world's visible supply was 2,146,000 bags. That is about 20 per cent of the crop, is it not?

Mr. SIELCKEN. I do not know. I suppose so. I will go by the records.

Mr. UNTERMYER. That was the world's visible supply then—20 per cent of the year's crop. The world's visible supply in 1910 and 1911 was 14,165,000 bags, and the crop was 14,524,000 bags; so that for that year is it not the fact that the world's visible supply was a whole year's crop?

Mr. SIELCKEN. Yes.

Mr. UNTERMYER. Well—

Mr. SIELCKEN. Do you wish an intelligent answer from me?

Mr. UNTERMYER. Do you think that the amount of visible supply as compared with the crop has no bearing on the question of prices?

Mr. SIELCKEN. It depends, for the future.

Mr. UNTERMYER. Yes.

Mr. SIELCKEN. With regard to that, I beg to state here that the consumption of coffee, since those supplies you speak about, has doubled.

Mr. UNTERMYER. I am speaking of the proportion of the world's supply to the crop.

Mr. SIELCKEN. The proportion is regulated by how much is consumed. If the world consumes 10,000,000 bags, a visible supply of 4,000,000 bags is very good. If the world consumes 18,000,000 bags, as it does now, the difference in the supply is quite different.

Mr. UNTERMYER. You do not think they have any relation to prices—the visible supplies on hand?

Mr. SIELCKEN. The markets of the world, Mr. Untermeyer, I can not regulate, nor can anybody else. The markets of the world, whether in coffee or cotton or anything else, go more by the prospects and by the probable future production and consumption than by the immediate supply.

Mr. UNTERMYER. Suppose the world's visible supply to-day was 30,000,000 bags instead of 14,000,000 bags. Do you understand?

Mr. SIELCKEN. Yes.

Mr. UNTERMYER. So that you would have two years' supply ahead. Would that affect the price?

Mr. SIELCKEN. Why, of course; but you are stating—

Mr. UNTERMYER. Now, will you not answer my questions, because that is all I ask you to do?

Mr. SIELCKEN. Yes.

Mr. UNTERMYER. You do not admit, do you, that the fact that you have to-day a whole year's visible supply ahead has any effect on the price of coffee?

Mr. SIELCKEN. We have not.

Mr. UNTERMYER. On the 1st of January you had 13,500,000 bags, did you not?

Mr. SIELCKEN. May I instruct you a little?

Mr. UNTERMYER. No; I do not ask for any instruction at all.

Mr. SIELCKEN. But correct figures you want?

Mr. UNTERMYER. These figures say 13,578,000 bags.

Mr. SIELCKEN. But the committee wants to be correctly informed. The crop in Brazil comes in during the first six months of the year, and from the 1st of January to the 1st of July the crop decreases three or four million bags each year, because—

Mr. UNTERMYER. We are not speaking of that, but of the figures of the 1st of January, the only figures we have before us.

Mr. SIELCKEN. But the amount decreases.

Mr. UNTERMYER. What I want to know is this: On the 1st of January of this year you had practically a year's visible supply, did you not?

Mr. SIELCKEN. No; we did not.

Mr. UNTERMYER. You did not?

Mr. SIELCKEN. No, sir.

Mr. UNTERMYER. How many months' visible supply had you?

Mr. SIELCKEN. Eight months'.

Mr. UNTERMYER. You had eight months' supply. That is a very large supply, is it not?

Mr. SIELCKEN. No.

Mr. UNTERMYER. It is not unusual?

Mr. SIELCKEN. No.

Mr. UNTERMYER. It is not? Do you find in this entire list, in the 26 years, more than two periods in which it was as large as that?

Mr. SIELCKEN. The visible supply has increased, and so has the consumption.

Mr. UNTERMYER. Yes. If the natural causes created this rise in coffee, why did the Government go into this business at all?

Mr. SIELCKEN. The natural cause of small crops has existed only for two years, while in 1906 and 1907 the condition was different.

Mr. UNTERMYER. Then the purpose of the Government in going into this business was to maintain the price and to increase the price of coffee, was it not?

Mr. SIELCKEN. To prevent the country from being ruined through the low price of coffee.

Mr. UNTERMYER. To prevent the country being ruined? You know that, do you?

Mr. SIELCKEN. Yes.

Mr. UNTERMYER. You know what it costs to raise coffee, do you?

Mr. SIELCKEN. Yes.

Mr. UNTERMYER. Do you own any coffee farms?

Mr. SIELCKEN. I am on very close—

Mr. UNTERMYER. Do you own any coffee farms?

Mr. SIELCKEN. No.

Mr. UNTERMYER. Did you ever own any?

Mr. SIELCKEN. No.

Mr. UNTERMYER. Or did you ever raise any coffee?

Mr. SIELCKEN. No; but I do know what coffee costs, because I have been dealing in coffee for 30 years.

Mr. UNTERMYER. You know what it brings?

Mr. SIELCKEN. I know what it costs to raise it, since many years.

Mr. UNTERMYER. In 1896 the Brazilian coffee raisers existed on 5 and 6 cent coffee, did they not?

Mr. SIELCKEN. Will you please tell me when it was?

Mr. UNTERMYER. Yes; you know, do you not?

Mr. SIELCKEN. You mean in the last 10 years?

Mr. UNTERMYER. 1901, 1902, 1903, and 1904; 1907 and 1908.

Mr. SIELCKEN. That is exactly the statement I made to the committee—the lowest prices on record.

Mr. UNTERMYER. Yes. You say it costs how much to raise coffee?

Mr. SIELCKEN. It costs probably—the cost on different plantations is different.

Mr. UNTERMYER. That is the best answer you can give?

Mr. SIELCKEN. The cost of raising coffee changes, just as the cost of raising cotton changes.

Mr. BYRNES. Did you ask him how much it cost for the last crop? What is the cost of production?

Mr. UNTERMYER. There are no figures extant.

Mr. BYRNES. In his figures a while ago he said he knew.

Mr. UNTERMYER. How could he possibly know?

Mr. BYRNES. I understood him to say he knew.

Mr. SIELCKEN. Would you like to know?

Mr. PUJO. Yes; answer the member of the committee.

Mr. SIELCKEN. The cost of a crop of coffee changes, depending on the size of the crop. A large crop can be raised for less money than a small one.

Mr. BYRNES. I understood that; but what was the cost of production of the last crop?

Mr. SIELCKEN. The last crop was a small crop, only 8,000,000 bags, and it was an expensive crop.

Mr. BYRNES. How much did it cost?

Mr. SIELCKEN. To raise?

Mr. PUJO. By the pound?

Mr. BYRNES. By the pound?

Mr. SIELCKEN. I suppose 8 or 9 cents, by the pound.

Mr. UNTERMYER. The planters of Brazil in 10 years, from 1897 until 1907, did not average over 6 cents, did they?

Mr. SIELCKEN. I think not.

Mr. UNTERMYER. And in all that time it cost them how much?

Mr. SIELCKEN. It cost them—

Mr. UNTERMYER. Eight cents, did it?

Mr. SIELCKEN. No; I did not say so. I beg your pardon. I said a small crop cost that much. Last year was a small crop year. The crop was only 8,000,000 bags. In those years you mention they had large crops, and, as I explained to the committee, the rate of exchange had a great deal to do with the cost of the coffee.

Mr. UNTERMYER. What was the average cost of coffee during those 10 years when it brought about 6 cents?

Mr. SIELCKEN. In 1906, when I made the first advance to them on the consignments, they told me the average cost would be 7 cents a pound.

Mr. UNTERMYER. I understood you to say that the National City Bank had been induced by you to go into this business not for profit, but as a great act to promote the commerce of the United States; is that right?

Mr. SIELCKEN. I do say so. I repeat it.

Mr. UNTERMYER. Yes; what inducements did the Schroeders, who were their partners also, have for going into it—to assist the commerce of the United States?

Mr. SIELCKEN. Schroeders had been bankers of Sao Paulo for many years.

Mr. UNTERMYER. Then their purpose in being partners with the City Bank was what?

Mr. SIELCKEN. Partners with the City Bank? They were never partners. In all the loans that Schroeders have brought out in the State of Sao Paulo they had no partners. In this particular loan they desired the City Bank, because generally the American influence is recognized in politics in South America, and they said, "We would like to see the American flag covering this loan."

Mr. UNTERMYER. You mean the Schroeders would like to see the American flag?

Mr. SIELCKEN. Yes.

Mr. UNTERMYER. That is the reason they joined with the City Bank, is it?

Mr. SIELCKEN. They were induced more than if anybody else had joined it but the Americans.

Mr. UNTERMYER. Was that also true as to the \$75,000,000 loan, that it was all to help the commerce of the United States?

Mr. SIELCKEN. The \$75,000,000 loan was made under very different conditions.

Mr. UNTERMYER. Yes; but I want to know this: Was that also an act to aid the commerce of the United States?

Mr. SIELCKEN. Do you mean by the City Bank?

Mr. UNTERMYER. Anybody.

Mr. SIELCKEN. I only talked to the City Bank to aid the trade of the United States. I do not suppose an English banker thinks about the United States.

Mr. UNTERMYER. Yes; but there were not only English bankers in that loan, but French and Holland bankers and other bankers, were there not?

Mr. SIELCKEN. Mr. Untermeyer, there is no possible comparison between the two loans.

Mr. UNTERMYER. Will you not answer my question?

Mr. SIELCKEN. Nobody else does anything for the United States except an American.

Mr. UNTERMYER. What countries were interested—what bankers of different countries were interested—in the \$75,000,000 loan?

Mr. SIELCKEN. England, France, Germany, and Belgium.

Mr. UNTERMYER. And America?

Mr. SIELCKEN. Yes; and America.

Mr. UNTERMYER. Were those the only five?

Mr. SIELCKEN. Yes; officially, who took it.

Mr. UNTERMYER. And they got a 5 per cent bond from a government that you said had always paid its debts?

Mr. SIELCKEN. Yes.

Mr. UNTERMYER. And they got it at 85, did they not?

Mr. SIELCKEN. Yes.

Mr. UNTERMYER. They got most adequate security, did they not?

Mr. SIELCKEN. Yes.

Mr. UNTERMYER. They got these 7,000,000 bags of coffee besides the obligation of the Government, and the surtax?

Mr. SIELCKEN. Yes.

Mr. UNTERMYER. And the surtax amounted to what proportion of the loan?

Mr. SIELCKEN. The surtax?

Mr. UNTERMYER. Yes.

Mr. SIELCKEN. Five cents a bag. It amounted to \$10,000,000.

Mr. UNTERMYER. To \$10,000,000 a year?

Mr. SIELCKEN. \$10,000,000 a year; yes.

Mr. UNTERMYER. So that that was pretty good security in itself, was it not?

Mr. SIELCKEN. For the loan?

Mr. UNTERMYER. Yes.

Mr. SIELCKEN. For the service of the loan.

Mr. UNTERMYER. But the interest on the loan was about three and three-fourths millions, was it not?

Mr. SIELCKEN. Yes; everything together.

Mr. UNTERMYER. That would bring it up to about how much?

Mr. SIELCKEN. \$3,000,000.

Mr. UNTERMYER. \$3,000,000. So that there was a surplus of the surtax applicable to the principal, was there not?

Mr. SIELCKEN. Yes.

Mr. UNTERMYER. And then there was the obligation of the Government and the 7,000,000 bags of coffee?

Mr. SIELCKEN. Yes.

Mr. UNTERMYER. So that it was a good loan, was it not?

Mr. SIELCKEN. The second loan was the best loan I have ever known.

Mr. UNTERMYER. The best loan you have ever known?

Mr. SIELCKEN. Yes; the second, not the first.

Mr. UNTERMYER. That would depend on how high coffee was.

Mr. SIELCKEN. The first loan was an act of patriotism on the part of the City Bank.

Mr. UNTERMYER. You mean the loan of £3,000,000?

Mr. SIELCKEN. Yes.

Mr. UNTERMYER. On the obligation of the Sao Paulo government?

Mr. SIELCKEN. Yes.

Mr. UNTERMYER. And you say the Sao Paulo government's obligations—its bonds—have never been defaulted?

Mr. SIELCKEN. Yes.

Mr. UNTERMYER. Never; so that that was considered a prime bond in the market?

Mr. SIELCKEN. I say—

Mr. UNTERMYER. Will you not answer? Please answer my question.

Mr. SIELCKEN. In my opinion it was, but not with the City Bank. It had no such knowledge.

Mr. UNTERMYER. What I was trying to get at was this: They paid 93 for that bond, did they not, on the £3,000,000 loan?

Mr. SIELCKEN. Ninety.

Mr. UNTERMYER. They paid 90 for the bonds?

Mr. SIELCKEN. Ninety.

Mr. UNTERMYER. And how long did those bonds run?

Mr. SIELCKEN. Five years.

Mr. UNTERMYER. And then they got a commission besides, did they not?

Mr. SIELCKEN. No; that was included.

Mr. UNTERMEYER. It was 90 flat?

Mr. SIELCKEN. Yes.

Mr. UNTERMEYER. A five-year loan?

Mr. SIELCKEN. Yes.

Mr. UNTERMEYER. Was it payable in installments?

Mr. SIELCKEN. Yes; every year.

Mr. UNTERMEYER. So that there was an average time of $2\frac{1}{2}$ years, was there not, under the loan?

Mr. SIELCKEN. Yes.

Mr. UNTERMYER. And that would give an interest rate of 9 per cent on the loan, would it not?

Mr. SIELCKEN. It does not make that.

Mr. UNTERMYER. Wait a minute.

Mr. SIELCKEN. I can not figure it at that.

Mr. UNTERMYER. The average of the loan was $2\frac{1}{2}$ years?

Mr. SIELCKEN. Yes.

Mr. UNTERMYER. And the bonds were sold at 90?

Mr. SIELCKEN. Yes.

Mr. UNTERMYER. So that that was a discount of 10 points in $2\frac{1}{2}$ years, was it not?

Mr. SIELCKEN. Yes.

Mr. UNTERMYER. That is an average of 4 points a year, is it not? And, added to the interest at 5 per cent, does not that make it 9 per cent a year?

Mr. SIELCKEN. Perhaps it does.

Mr. UNTERMYER. You ought to know. You are a good calculator.

Mr. PUJO. Those are obvious propositions. Those are matters of deduction.

Mr. UNTERMYER. Getting 9 per cent per annum on their money on a prime loan—that you call an act of patriotism?

Mr. SIELCKEN. Yes; in 1906 and 1907, sir, when you could not get money at 9 or 10 or 12 per cent in New York City, against security, and much less in foreign countries.

Mr. UNTERMYER. All right. Did Schroeders have partners in the loan on their end?

Mr. SIELCKEN. All bankers put out a loan on the market.

Mr. UNTERMYER. And they got the same terms as the City Bank, did they not?

Mr. SIELCKEN. Yes.

Mr. UNTERMYER. And they considered it a good piece of business, did they not?

Mr. SIELCKEN. They understood Sao Paulo, and the City Bank did not.

Mr. UNTERMYER. Will you tell me, Mr. Sielcken, whether this section of the charter of the coffee exchange is still in existence? It is section 84, and it reads as follows:

Any member who shall himself, or whose partner or partners shall apply for an injunction or legal instrument restraining any officer or committee of the exchange from performing his or its duty under the by-laws and rules shall by that act cease to be a member of the exchange.

Mr. SIELCKEN. I never read that book.

Mr. UNTERMYER. Do you understand that if a member of the Coffee Exchange, of which you are a member, goes into court to protect himself that expels him from the exchange?

Mr. SIELCKEN. I do not know. I never read that. I suppose that if it is printed there, it is so.

Mr. UNTERMYER. That is all.

Mr. PUJO. Is there any member of the committee who would like to ask Mr. Sielcken a question?

Mr. BYRNES. I would like to ask you one or two questions, if you please.

Mr. SIELCKEN. Yes, sir.

Mr. BYRNES. Did I understand you to say that if your committee sold that 4,000,000 bags of coffee that you have on hand it would make no material reduction in the price to the consumer at that time?

Mr. SIELCKEN. I did not say that. I said the New York end of it, to-day; what I have here, if the New York stock would be sold to-morrow.

Mr. BYRNES. How much is that?

Mr. SIELCKEN. Nine hundred thousand bags, including what is coming; 600,000 bags.

Mr. BYRNES. Six hundred thousand bags?

Mr. SIELCKEN. Yes.

Mr. BYRNES. What is the price to-day?

Mr. SIELCKEN. The price of that coffee?

Mr. BYRNES. Yes; what does it cost, to sell it to-day, in the market?

Mr. SIELCKEN. 15 cents.

Mr. BYRNES. You told me a while ago that the cost of production was about 8 or 9 cents?

Mr. SIELCKEN. Yes.

Mr. BYRNES. Is that a fair profit, now, on 15 cents?

Mr. SIELCKEN. This was not produced now; this was produced six or seven or eight years ago.

Mr. BYRNES. What was the cost of production then?

Mr. SIELCKEN. Yes; but you asked what is the difference; what it cost to produce.

Mr. BYRNES. It would be sold at a fair profit now?

Mr. SIELCKEN. That has been carried for eight years.

Mr. BYRNES. It cost something to carry it?

Mr. SIELCKEN. I should judge so.

Mr. BYRNES. Every year you would carry it, then, you would have to get a higher price in order to get a fair profit?

Mr. SIELCKEN. If I want to get my money back?

Mr. BYRNES. If you kept it 25 years the price would go up still higher?

Mr. SIELCKEN. It would be 200 per cent higher.

Mr. BYRNES. Then, if selling now would make no material reduction, why do you not sell it?

Mr. SIELCKEN. It is not my coffee.

Mr. BYRNES. But your committee has that?

Mr. SIELCKEN. The committee has, by contract with the bankers, to sell a given quantity a year—600,000, 700,000, or 800,000 bags, according to the amounts of the crops. So much a year is sold by the committee, and no more.

Mr. BYRNES. And your committee can not sell this coffee?

Mr. SIELCKEN. We can sell a definite amount in one year.

Mr. PUJO. Does any other gentleman desire to ask Mr. Sielcken a question?

Mr. UNTERMYER. Does Mr. Sielcken want to say anything else?

Mr. PUJO. Have you anything else you want to say, Mr. Sielcken?

Mr. SIELCKEN. No; I am very grateful to you because you have permitted me to make some explanation, and all I can say is that I hope that the examinations into the affairs of a foreign country will be conducted in a friendly light, in a friendly way, and not in a criticizing way, because it does not become us, when a country is in great distress, to criticize.

Mr. UNTERMYER. Before you go, let me ask you this: Do you not understand that the purpose of this investigation has no relation at all to any foreign country, but that we are simply trying to establish the connection of our institutions with a product that our people are consuming? Do you not understand that that is our only purpose, and that if in that investigation it becomes necessary for us to examine into the origin of that transaction, that is a mere incident?

Mr. SIELCKEN. I do not consider it so, for the reason that what this country consumes and buys from a foreign country, the value of that is not made by any transaction of government; it is made, in the long run, by the law of supply and demand.

Mr. UNTERMYER. But suppose you and your firm were to have 5,000,000 pounds of coffee from Sao Paulo in your warehouses here; suppose you were to have it here, and you were to hold it and feed it out to the market, you understand, and regulate prices, do you not recognize that that would be a proper subject of inquiry?

Mr. SIELCKEN. What?

Mr. UNTERMYER. Do you not recognize that that would be a proper subject of inquiry?

Mr. SIELCKEN. No.

Mr. UNTERMYER. You do not?

Mr. SIELCKEN. No.

Mr. UNTERMYER. That is all.

(At 5.45 o'clock p. m., the subcommittee adjourned.)

Exhibits Nos. 1, 2, 4, and 8, referred to in the foregoing hearing, are as follows:

EXHIBIT NO. 2, MAY 16, 1912.

CONTRACT FOR THE ISSUE AND SALE OF £3,000,000 SAN PAULO STATE 5 PER CENT EXCHEQUER BONDS WITH SCHEDULED FORM OF GENERAL BOND AND DEFINITIVE BOND.

An agreement made this _____ day of December, 1906. between the government of the State of San Paulo (hereinafter called "the government"), by _____ of _____ of the one part and J. Henry Schröder & Co., of 145 Leadenhall Street, in the city of London, and the National City Bank, of the city of New York, in the United States of America (which bank is for the purposes of this agreement represented by Mr. Hermann Sielcken, of New York, in the city of London its duly authorized agent), the said J. Henry Schröder & Co. and the National City Bank being collectively hereinafter referred to as "the bankers" (which expression shall in this agreement mean the persons or person or corporation for the time being carrying on the business of the said J. Henry Schröder & Co. and the National City Bank, respectively) of the other part.

Whereas the government is about to issue a public loan for the nominal amount of £3,000,000 sterling, bearing interest at the rate of 5 per cent per annum and to be called "The San Paulo State 5 per cent exchequer bonds" (hereinafter referred to as "the said bonds"), duly authorized by law 984 of the said State dated the 29th of December, 1905.

Now, it is hereby agreed by and between the parties hereto as follows:

1. The government will forthwith create and issue the said bonds, which shall bear interest at the rate of 5 per cent per annum, payable half yearly, the first payment of interest for the full half year ending on the 1st of June, 1907, to be made on that date. The payment of the principal and interest of the said bonds shall be guaranteed by the government, and such principal and interest shall be secured by a first hypothecation mortgage or charge on a gold surtax of 3 francs per bag on all coffee exported from the State of San Paulo, which tax shall be levied and collected by the government during the continuance of the loan, and so that the government shall not during the continuance of the loan create or issue any hypothecation mortgage or charge on the before-mentioned surtax ranking in priority to or *pari passu* with the said bonds.

2. The said bonds shall be secured by a general bond, to be executed by or on behalf of the Government, and such general bond and the said bonds shall respectively be in the forms annexed hereto or in such other form, respectively, as shall be as near thereto as practicable and be previously approved of by the bankers. The general bond shall be retained by the said J. Henry Schröder & Co.

3. The said bonds shall be issued as to bonds for the nominal amount of £2,000,000 sterling in English currency (hereinafter referred to as "the English bonds"), in denominations of £1,000, £500, and £100, and be payable as to principal and interest at the countinghouse of the said J. Henry Schröder & Co. in London. The remaining bonds for the nominal amount of £1,000,000 (hereinafter referred to as "the American bonds") shall be issued in sterling in the like denominations and be payable in gold coin of United States gold currency equal to the present standard of weight and fineness at the rate of \$4.84 per pound sterling exchange and be payable as to principal and interest in such currency at the countinghouse of the National City Bank in New York.

4. On the Monday of each week during the continuance of the loan the Government shall pay the revenue derived from such surtax, free from all deductions whatsoever, to Messrs. Theodor Wille & Co., of Santos, as the agents of the bankers, and the amount so paid shall be remitted by them as to two-thirds

thereof to the said J. Henry Schröder & Co. for the service of the English bonds and as to the remaining one-third to the National City Bank for the service of the American bonds. The first payment of such revenue shall commence and be made on Monday, the 17th of December, 1906, and shall continue each week until a sufficient amount has been paid to provide for a full year's interest on the said bonds. The next payment shall commence and be paid on the first Monday in August, 1907, and shall continue each week until a sufficient amount has been paid to provide the interest on the said bonds for the year ending the 30th of November, 1908, and the necessary payment for the first redemption of bonds, which will take place on the 1st of December, 1908. On the first Monday in December, 1908, and on the 1st of December in each succeeding year during the continuance of the loan the said payment shall again commence and shall continue in each week in each year until a sufficient amount has been paid to provide for one year's interest on such of the said bonds as shall remain outstanding and the necessary payment for redemption of bonds in such year. In the event of the revenue derived from such tax being insufficient to meet any of the payments aforesaid the Government shall forthwith make up the deficiency out of its general revenues.

5. The said bonds are to be redeemed by not less than four equal annual installments, the first to be payable on the 1st of December, 1908. Redemption of the said bonds shall be effected as and when there shall be funds of the government available for the purpose by purchase by the bankers in the market below par with accrued interest for account of the government or by yearly drawings at par, the first drawing to take place in the first week in November, 1908. The bonds drawn will be paid on the 1st day of December, 1908, and each succeeding year. Such drawings shall take place on a convenient day to be fixed by the bankers at the counting houses of J. Henry Schröder & Co., in London, and the National City Bank, in New York, respectively, in the presence of a duly authorized representative and of a notary public. The denoting numbers of the bonds drawn from time to time shall be published as to those drawn in London in the Times and one other London daily paper, and as to those drawn in New York in two New York daily papers. The said coupons and redeemed bonds shall be canceled and forwarded to the treasury of the government.

6. The bankers hereby jointly and severally nominate and appoint the said Messrs. Theodor Wille & Co. and any member for the time being of that firm their and each of their attorneys and agents' attorney and agent in the State of San Paulo for the purposes of clause 4 of this agreement and to receive and give receipts for all moneys payable thereunder and generally to act in relation to the said loan and hereby grant to the said Messrs. Theodor Wille & Co. and any such member as aforesaid full power and authority to do all acts and things and to sign and execute all instruments, deeds, and documents for that purpose, and for the more effectually carrying into effect and giving full force and virtue to all or any of the provisions of this agreement, and appear before any court or authority in the said State, and to register any document or documents in such State in such manner in all respects as the said attorneys shall think fit.

7. The said bonds shall be signed free of charge by a special representative of the government in London, whose name the government will communicate to the bankers in due time and before the 1st of May, 1907. Such bonds shall be payable to bearer and shall have attached thereto such a number of coupons as will suffice for the payment of the interest until such time as the loan will be redeemed.

8. The government shall sell and the said J. Henry Schröder & Co. shall purchase in English currency at £93 for each £100 of the nominal amount thereof the English bonds, and the Government shall sell and the said National City Bank shall purchase in English currency at £93 for each £100 of the nominal amount thereof the American bonds.

9. The government shall pay or allow to the bankers $1\frac{1}{4}$ per cent on the total nominal amount of the said £3,000,000 loan, the same to be payable as to two-thirds thereof to the said J. Henry Schröder & Co., and as to the balance to the National City Bank, to cover all stamp duties payable in respect to the said bonds and the expenses to be incurred by the bankers in relation to the issue and placing of such bonds.

10. The government shall be authorized by the bankers to draw upon them or such other firm or company as they may designate at 90 days' sight for the sum of £1,752,500 part of the purchase price of the said bonds by bills on London as to £438,125 part thereof during December, 1906, and as to further

part thereof by like drafts for £438,125 each, on such date in each of the following months of January, February, and March, as the government shall select. And as to the balance of the said purchase price, namely, £1,000,000, the same shall be paid by the bankers in the proportion of two-thirds by the said J. Henry Schröder & Co., and as to the remaining one-third by the National City Bank in cash in London on the 31st of July, 1907, for the withdrawal of and against delivery and cancellation of bills for that amount issued by the Government and due on the day following such last-mentioned date.

11. The said J. Henry Schröder & Co. are hereby appointed agents in London of the government for the service of that portion of the loan represented by the English bonds for the whole period thereof and the National City Bank are hereby appointed agents in New York of the government for the service of that portion of the loan represented by the American bonds for the whole period thereof.

12. The said J. Henry Schröder & Co. and the National City Bank shall, as such agents, be respectively paid by the government 1 per cent on the nominal amount of the interest upon the English bonds and the American bonds, respectively, as and when the same shall be paid, and 1 per cent on the amount applied each year for the redemption of that portion of the loan represented by the English bonds and the American bonds, respectively.

13. The government will reimburse the bankers any expenses incurred by them, respectively, for advertisements, telegrams, correspondence, or otherwise, in connection with the service of the loan, including the payment of interest and redemption thereof.

14. The said J. Henry Schröder & Co. and the National City Bank may respectively deduct any moneys payable to them by the government under this agreement from the moneys from time to time remitted to them, respectively, for the service of the loan.

15. The government will at all times indemnify and keep indemnified the said J. Henry Schröder & Co. and the National City Bank, and each of them, from and against all claims, demands, actions, suits, and proceedings whatever, as may arise (other than from the direct negligence of the said J. Henry Schröder & Co. and the National City Bank or the said Messrs. Theodor Wille & Co., their agents, respectively), which may be made, instituted, or prosecuted by or on behalf of any holder of any of the said bonds for or in respect of any moneys at any time in the hands of the said J. Henry Schröder & Co. and the National City Bank or the said Messrs. Theodor Wille & Co., on their behalf, under this agreement or otherwise remitted to them, respectively, for or in connection with the service of the loan or otherwise for or in connection with this agreement or anything relating thereto.

16. And the government hereby undertake and agree with the bankers that during the continuance of the loan no future loan secured by any charge on any surtax or general tax whatsoever on coffee exported from the said State shall be made by the government unless the same shall provide to the satisfaction of the bankers for the repayment of the principal and the full interest of the present loan. And also that all future loans of any description at any time hereafter issued by the government shall be first offered for acceptance as to two-thirds thereof to the said J. Henry Schröder & Co. and as to the remaining one-third thereof to the National City Bank upon at least equal terms to those offered by any other authority, corporation, firm, or person.

17. The said J. Henry Schröder & Co. will use their best endeavors to obtain a quotation on the stock exchange in London for the said loan.

In witness whereof the said _____, on behalf of the government, _____, on behalf of the said J. Henry Schröder & Co., and the said Herman Sielcken, on behalf of the National City Bank, have hereunto subscribed their respective names.

[Form of general bond.]

REPUBLIC OF THE UNITED STATES OF BRAZIL, STATE OF SAN PAULO.

GENERAL BOND.

General bond of the government of the State of San Paulo, authorized by law No. 984, of the 29th of December, 1905, duly sanctioned by the Congress of the State of San Paulo, for the issue of this loan of £3,000,000 sterling, with

interest at the rate of 5 per cent per annum, and to be called "The San Paulo State 5 per cent exchequer bonds."

In the city of San Paulo, before me, the undersigned, _____, notary public, of the said city, duly admitted and sworn, appeared _____, and whom I certify that I know. The said _____ declared, on behalf of the State and government of San Paulo, that by the present instrument he declares and recognizes the said State bound in conformity with the following clauses, which are those of the loan contracted with Messrs. J. Henry Schröder & Co. and the National City Bank as the bankers under date the _____ day of _____, 1906.

In the city of London, before me, the undersigned, _____, notary public of the said city by royal authority, duly admitted and sworn, appeared Messrs. J. Henry Schröder & Co., of London, England, represented in this act by _____, partner in the said firm, whom I certify that I know, and also the National City Bank of New York, represented in this act by _____, whom I also certify that I know, pursuant to an authority granted to him by the National City Bank.

First. The loan is for the sum of £3,000,000 sterling, nominal capital represented by bonds to bearer in denominations of £1,000, £500, and £100, of which bonds for the nominal amount of £2,000,000 sterling shall be issued in English currency and be payable as to principal and interest at the countinghouse of Messrs. J. Henry Schröder & Co. in London, and the remaining bonds for the nominal amount of £1,000,000 shall be payable in gold coin of United States gold currency equal to the present standard of weight and fineness at the rate of \$4.84 per pound sterling exchange and be payable as to principal and interest in the like currency at the countinghouse of the National City Bank in New York. Such bonds shall bear interest at the rate of 5 per cent per annum, payable half yearly, the first payment of interest to be made on the 1st of June.

Second. Such bonds shall be in the form scheduled hereto, or as near thereto as practicable.

Third. The government will pay the principal and interest of the said bonds according to the tenor of this general bond and of the said bonds, and for the purpose of the service of the loan a gold surtax of 3 francs per bag on all coffee exported from the State of San Paulo (which tax shall be levied and collected by the government during the continuance of the loan) is hereby charged by the government by way of a first hypothecation, mortgage, or charge and so that the government shall not under the continuance of the loan create or issue any hypothecation, mortgage, or charge on the before-mentioned surtax ranking *pari passu* with or in priority to the present loan.

Fourth. On the Monday of each week during the continuance of the loan the government shall pay the revenue derived from such surtax levied and collected during the preceding week free from all deductions whatsoever to Messrs. Theodor Wille & Co., of Santos, as the agents of the bankers, and the amount so paid shall be remitted by them as to two-thirds thereof to the said J. Henry Schröder & Co. for the service of the English bonds, and as to the remaining one-third to the National City Bank for the service of the American bonds. The first payment of such revenue shall commence and be made on Monday, the 17th of December, 1906, and shall continue each week until a sufficient amount has been paid to provide for a full year's interest on the said bonds. The next payment shall commence and be paid on the first Monday in August, 1907, and shall continue each week until a sufficient amount has been paid to provide the interest on the said bonds for the year ending the 30th of November, 1908, and the necessary payment for the first redemption of bonds which will take place on the 1st of December, 1908. On the first Monday in December, 1908, and on the 1st of December in each succeeding year during the continuance of the loan the said payment shall again commence and shall continue in each week in each year until a sufficient amount has been paid to provide for one year's interest on such of the said bonds as shall remain outstanding and the necessary payment for redemption of bonds in such year. In the event of the revenue derived from such tax being insufficient to meet any of the payments aforesaid, the government shall forthwith make up the deficiency out of its general revenues.

Fifth. The said bonds are to be redeemed by not less than four equal annual installments, the first to be payable on the 1st of December, 1908. Redemption of the said bonds shall be effected as and when there shall be funds of the government available for the purpose, by purchase by the bankers in the market below par, with accrued interest, for account of the government, or by yearly drawings at par, the first drawing to take place in the first week in November,

1908. The bonds drawn will be paid on the 1st day of December, 1908, and in each succeeding year. Such drawings shall take place, on a convenient day to be fixed by the bankers, at the countinghouses of J. Henry Schröder & Co., in London, and the National City Bank, in New York, respectively, in the presence of a duly authorized representative and of a notary public. The denoting numbers of the bonds drawn from time to time shall be published as to those drawn in London in the Times and one other London daily paper, and as to those drawn in New York in two New York daily papers. The said coupons and redeemed bonds shall be canceled and forwarded to the treasury of the government.

Sixth. The said bonds shall be signed free of charge by a special representative of the government in London, whose name the government will communicate to the bankers in due time and before the 1st of May, 1907. Such bonds shall be payable to bearer and shall have attached thereto such a number of coupons as will suffice for the payment of the interest until such time as the loan will be redeemed.

Seventh. The payment of the bonds drawn is to be effected on the 1st day of December in each year, and interest upon the bonds drawn is to cease from that date unless from default of the government the principal should not be paid at that date.

Eighth. The bonds presented for payment are to have all the coupons not due on the date appointed for such payment, and in the event of one or more coupons being absent the amount of the same is to be deducted from the sum paid to the bearer of such bond.

Ninth. The bonds issued in English currency are to be paid in London in sterling money at the countinghouse of Messrs. J. Henry Schröder & Co. and those payable in American currency at the countinghouse of the National City Bank, in New York, in gold coin of United States currency equal to the present standard of weight and fineness at \$4.84 per pound sterling exchange.

Tenth. The coupons paid and the bonds redeemed are to be canceled and forwarded to the treasury of the State of San Paulo.

Eleventh. The payment of the coupons and the redemption of the bonds are to be exempt from every tax whatsoever, the government of the State of San Paulo binding itself to pay any dues, whether federal, state, or municipal, to which the said coupons or bonds may at any period become subject, as also to the payment of the coupons and bonds, both in time of war and in time of peace, whether the bearer be a subject of a friendly or a hostile state.

Twelfth. In the event of the decease of any holder of bonds of the present loan, the bonds are to pass to his heirs or representatives in accordance with the law of succession in force in the country of which the deceased holder was subject.

Thirteenth. Should any bonds or coupons of the loan be destroyed by any cause, the government of the State of San Paulo by these presents agrees to deliver to the holders new bonds or coupons upon payment of the expenses occasioned by their substitution, after having had all such evidence as they may deem expedient of the loss of the bonds or coupons and the rights of the claimant and after all necessary legal formalities shall have been complied with.

In faith and testimony, etc.

THE SCHEDULE.

PART I.—FORM OF ENGLISH BOND.

The San Paulo State 5 per cent exchequer bonds for £3,000,000 sterling, in denominations of £1,000, £500, and £100, as to bonds for £2,000,000 sterling, in English currency, and as to bonds for £1,000,000, in the same denominations, but payable in gold coin of United States currency equal to the present standard of weight and fineness at the rate of \$4.84 per pound sterling exchange.

The loan is authorized by law No. 984, of the 29th of December, 1905, duly sanctioned by the Congress of the State of San Paulo, and secured by a general bond, dated the ———, 1906, a copy of which is indorsed hereon.

The bonds are to be redeemed by not less than four equal installments, the first to be payable on the 1st of December, 1908, and redemption will be effected as and when there shall be funds of the government available for the purpose by purchase in the market below par, with accrued interest, or by yearly drawings at par, the first drawing to take place in the first week in November, 1908.

The interest on the bonds issued in English currency will be payable in London at the countinghouse of Messrs. J. Henry Schröder & Co. half yearly on the 1st of June and 1st of December in each year.

£———. Bond to bearer for £——— sterling. No. ——.

The government of the State of San Paulo will on the ——, 19——, or on such earlier day as the principal moneys hereby secured shall become payable according to the terms of the general bond, unconditionally pay to the bearer of this bond at the countinghouse of Messrs. J. Henry Schröder & Co., in London, the sum of —— pounds sterling and will in the meantime pay interest thereon at the rate of 5 per cent per annum by equal half-yearly payments, to be made on the —— day of —— and the —— day of —— in each year on presentation of the annexed coupon corresponding to such payment.

This bond is one of a series of bonds of like tenor and effect for sums amounting in the aggregate to £3,000,000, and all the bonds of this series shall rank *pari passu* without preference or priority one over another; and the holder of this bond and the holders of the other bonds of the same series are entitled *pari passu* to the benefit of the general bond (a copy of which is indorsed on the back hereof) and to the first hypothecation, mortgage, or charge thereby created for the purpose of the service of the loan on a gold surtax of 3 francs per bag, to be levied and collected by the government and paid over weekly, on all coffee exported from the State of San Paulo during the continuance of the loan.

In witness whereof the authorized representative of the government of the State of San Paulo has hereunto set his hand this —— day of ——, 19——.

NOTE.—The bonds of this series consist of—

(Payable in English currency.)

Bonds of £——— each, Nos. 1 to —————	£———
Bonds of £——— each, Nos. — to —————	—————
Bonds of £——— each, Nos. — to —————	—————
Bonds of £——— each, Nos. — to —————	—————

(Payable in American currency.)

Bonds of £——— each, Nos. — to —————	—————
Bonds of £——— each, Nos. — to —————	—————
Bonds of £——— each, Nos. — to —————	—————

3,000,000

Authorized Representative of the Government of the State of San Paulo.

Agents for the Loan.

The San Paulo State 5 per cent exchequer bonds for £3,000,000.

£———. Coupon for £———, bond No. ——, No. 1.

Six months' interest payable on the 1st of June, 1907, in London, at the countinghouse of Messrs. J. Henry Schröder & Co.

£———.

Authorized Representative of the Government of the State of San Paulo.

(NOTE.—A copy of the general bond will be indorsed.)

PART II.—FORM OF AMERICAN BOND.

The San Paulo State 5 per cent exchequer bonds for £3,000,000 sterling, in denominations of £1,000, £500, and £100, and as to bonds for £2,000,000 sterling in English currency, and as to bonds for £1,000,000 in the same denominations payable in gold coin of United States currency equal to the present standard of weight and fineness at the rate of \$4.84 per pound sterling exchange.

The loan is authorized by law No. 984, of the 29th of December, 1905, duly sanctioned by the Congress of the State of San Paulo, and secured by a general bond dated the ——, 190—, a copy of which is indorsed hereon.

The bonds are to be redeemed by not less than four equal installments, the first to be payable on the 1st of December, 1908, and redemption will be effected

as and when there shall be funds of the government available for the purpose by purchase in the market below par, with accrued interest, or by yearly drawings at par, the first drawing to take place in the first week in November, 1908.

The interest on the bonds payable in American currency will be payable in New York, at the countinghouse of the National City Bank, half yearly, on the 1st of June and 1st of December in each year.

£———. Bond to bearer for £——— sterling. No. ——.

The government of the State of San Paulo will, on the ——, 19——, or on such earlier day as the principal moneys hereby secured shall become payable according to the terms of the general bond, unconditionally pay to the bearer of this bond, at the countinghouse of the National City Bank in New York, the sum of —— pounds sterling in gold coin of United States currency equal to the present standard of weight and fineness at the rate of \$4.84 per pound sterling exchange, and will in the meantime pay interest thereon at the rate of 5 per cent per annum by equal half-yearly payments, to be made on the 1st day of June and the 1st day of December in each year, on presentation of the annexed coupon corresponding to such payment.

This bond is one of a series of bonds of like tenor and effect for sums amounting in the aggregate to £3,000,000, and all the bonds of this series shall rank *pari passu*, without preference or priority one over another, and the holder of this bond and the holders of the other bonds of the same series are entitled *pari passu* to the benefit of the general bond (a copy of which is indorsed on the back hereof) and to the first hypothecation, mortgage, or charge thereby created, for the purpose of the service of the loan on a gold surtax of 3 francs per bag to be levied and collected by the government and paid over weekly on all coffee exported from the State of San Paulo during the continuance of the loan.

In witness whereof the authorized representative of the government of the State of San Paulo has hereunto set his hand this —— day of ——, 190——.

NOTE.—The bonds of this series consist of—

(Payable in English currency.)

Bonds of £——— each, Nos. 1 to —————	£———
Bonds of £——— each, Nos. — to —————	—————
Bonds of £——— each, Nos. — to —————	—————

(Payable in American currency.)

Bonds of £——— each, Nos. — to —————	—————
Bonds of £——— each, Nos. — to —————	—————
Bonds of £——— each, Nos. — to —————	—————

3, 000, 000

Authorized Representative of the Government of the State of San Paulo.

Agents for the Loan.

The San Paulo State 5 per cent exchequer bonds for £3,000,000.

£———. Coupon for £——— (\$———), bond No. ——, No. 1.

Six months' interest payable on the 1st of June, 1907, in New York, at the countinghouse of the National City Bank.

£——— (\$———).

Authorized Representative of the Government of the State of San Paulo.

(NOTE.—A copy of the general bond will be indorsed.)

In faith and testimony whereof the said ——, on behalf of the government of the State of San Paulo, affixed his signature at the city of San Paulo before me, the notary, and the witnesses whose signatures are below written.

In faith and testimony hereof I have signed these presents and affixed my notarial seal the _____ day of _____, 190—.

In faith and testimony whereof the said Baron Bruno Schröder, partner in the firm of Messrs. J. Henry Schröder & Co., and the said Mr. Hermann Sielcken, on behalf of the National City Bank, affixed their signatures in the city of London, before me, the notary, and the witnesses whose signatures are below written.

In faith and testimony hereof I have signed these presents and affixed my notarial seal the 14th day of December, 1906.

J. HENRY SCHRÖDER,
By BRUNO SCHRÖDER.

NATIONAL CITY BANK (of New York),
By HERMANN SIELCKEN.

Witnesses:

WALPOLE GREENWELL,
FRANK DAWES.

[SEAL.]

JOHN D. VENN,
Notary Public.

No. 535.

Reconheco verdadeira a assignatura retro de John D. Venn, Taballião Publico d'esta Capital, e para constar onde convier, a pedido do mesmo passei a presente, que assignei, e fiz sellar com o Sello das Armas d'este Consulado da Republica dos Estados Unidos do Brazil em Londres, aos quatorze de Dezembro de 1906.

[SEAL.]

F. ALVES VIEIRA,
Consul Geruel.

Recebido., 11, 3.
Vieira.

A legalisação da firma consular é facultada ou na Secretaria de Estado das Relações Exteriores no Rio de Janeiro, ou em quaesquer das Repartições Fiscaes da Republica.

EXHIBIT NO. 4, MAY 16, 1912.

CONTRACT FOR THE ISSUE AND SALE OF £15,000,000 SAO PAULO STATE 5 PER CENT TREASURY BONDS 1908 WITH SCHEDULED FORM OF GENERAL BOND AND DEFINITE BOND.

An agreement made this _____ day of _____, 1908, between the Government of the State of San Paulo, in the Republic of the United States of Brazil (hereinafter called "the government"), represented by His Excellency Councillor Dr. Antonio Da Silva Prado, duly authorized for this purpose by procuracy of the government dated _____, 1908, or by M. Ferreira Ramos, duly substituted by power of attorney annexed hereto of the first part, J. Henry Schröder & Co., of 145 Leadenhall Street, in the city of London (hereinafter called "Messrs. Schröder," on behalf of themselves, the National City Bank of New York, and Messrs. S. Bleichröder, of Berlin, of the second part, and the Société Générale pour favoriser le Développement du Commerce et de L'Industrie en France, of Paris, France (hereinafter called "the Société Générale"), and the Banque de Paris, et des Pays-Bas,

Convention passée ce _____ mil neuf cent huit, Entre le Gouvernement de L'etat de San Paulo, dans la République des Etats-Unis du Brésil (ci-après dénommé "le Gouvernement") représenté par Son Excellence le Conseiller Docteur Antonio Da Silva Prado, dûment autorisé à cet effet par procuracy du Gouvernement daté _____, 1908, ou par procuracy de Monsieur Ferreira Ramos dûment substitué par pouvoir ci-joint d'une première part J. Henry Schroder & Co., 145 Leadenhall Street, dans la Cité de Londres, agissant (ci-après désignés "MM. Schröder") tant en leur nom personnel qu'au nom de la National City-Bank de New-York et de MM. S. Bleichröder de Berlin d'une seconde part et la Société Générale pour favoriser le Développement du Commerce et de L'industrie en France, à Paris, France (ci-après dénommée "La Société Générale") et la Banque de

of the third part, the said Messrs. Schröder and the said Société Générale and the Banque de Paris et des Pays-Bas being hereinafter collectively referred to as "the bankers," which expression and also the expressions "Messrs. Schröder" and "the Société Générale" and the Banque de Paris et des Pays-Bas shall in this agreement mean (both collectively and individually as the case may require) the persons or person or corporation or corporations for the time being and from time to time carrying on the business of the said J. Henry Schröder & Co., the said Société Générale pour favoriser le Développement du Commerce et de l'Industrie en France and the Banque de Paris et des Pays-Bas, respectively, the Société Générale and the Banque de Paris et des Pays-Bas being also hereinafter collectively referred to as "the French group."

Whereas the government is, for the purpose of redeeming or paying off the balance now outstanding of the issue of £3,000,000 of the State of San Paulo 5 per cent Exchequer bonds issued in 1906 and secured by general bond of the government, sanctioned by law No. 984, of the said State of San Paulo, dated 29th December, 1905, and for the purpose of repaying moneys advanced to and now owing by the government on security of coffee bought by the government and the expenses directly connected therewith, about to issue a public loan to be guaranteed as to principal and interest by the San Paulo Government and the Federal Government of the United States of Brazil (hereinafter referred to as "the Federal Government"), for the nominal amount of £15,000,000 sterling bearing interest at the rate of 5 per cent per annum and to be called "The State of San Paulo 5 per cent treasury bonds, 1908" (hereinafter sometimes referred to as "the said bonds" and sometimes as "the said loan"), which loan has been duly authorized by law No. 1,127 of the said State, dated the 25th day of August, 1908, and whereas the Government have offered the said £15,000,000 of bonds for sale to Messrs. Schröder and the latter have invited the French group to participate with them in the purchase of the said bonds to the extent of one-third, or £5,000,000 thereof, which they have decided to do.

Paris et des Pays-Bas d'une troisième part les dits MM. Schröder, la dite Société Générale et la Banque de Paris et des Pays-Bas étant ci-après collectivement désignés comme "les Banquiers," expression qui, ainsi que les expressions "MM. Schröder" La Société Générale et la Banque de Paris et des Pays-Bas et "le groupe français" signifieront à la présente Convention (à la fois collectivement et individuellement comme le cas pourra l'exiger) les personnes ou la personne, corporation ou corporations alors et de temps à autre conduisant les affaires des dits J. Henry Schröder & Co., de la dite Société Générale pour favoriser le développement du Commerce et de l'Industrie en France et de la Banque de Paris et des Pays-Bas la Société Générale et la Banque de Paris et des Pays-Bas etant ci-après désignées collectivement comme le groupe français.

Attendu que le Gouvernement dans le but d'amortir ou de rembourser le solde, restant dû actuellement, de l'émission de Lg. 3,000,000 de Bons du Trésor, cinq pour cent, de l'État de San Paulo, faite en 1906, les dits Bons garantis par l'Obligation Générale du Gouvernement sanctionnée par la loi 984 du dit État de San Paulo en date du 29 Décembre, 1905, et dans le but de rembourser les fonds avancés au Gouvernement et actuellement dûs par lui, contre la garantie du café acheté par le dit Gouvernement ainsi que les frais s'y rattachant directement, est sur le point d'émettre un emprunt public que sera émis, en principal et intérêt et garanti par le Gouvernement Fédéral des Etats Unis du Brésil (ci-après désigné le Gouvernement Fédéral) d'un montant nominal de quinze millions de livres sterling, rapportant intérêt au taux du cinq pour cent par an, et qui sera appelé "The State of San Paulo Five per cent Treasury Bonds, 1908" (désignés parfois ci-après comme "les dits Bons" et parfois comme "le dit Emprunt") emprunt qui a été dûment autorisé par la loi No. 1,127 du dit État, en date du 25 Août mil neuf cent, huit; et Attendu qu le Gouvernement a offert les dits Lg. 15,000,000 de Bons en vente à MM. Schröder et que ces derniers ont invité le groupe français à participer avec eux à l'achat des dits Bons, à concurrence d'un tiers, soit Lg. 5,000,000, ce qu'il a accepté.

Now, it is hereby agreed by and between the parties hereto as follows:

1. The Government will forthwith create and issue the said bonds, which shall bear interest at the rate of 5 per cent per annum payable half-yearly, the first payment of interest for the full half year ending on the 1st day of July, 1909, to be made on that date. The payment of the principal and interest of the said bonds shall be unconditionally guaranteed by the Government, and the payment of the said principal and interest shall also be unconditionally guaranteed by the Federal Government by guarantees indorsed on or appended to the general bond and to each of the said bonds as set out in the forms annexed hereto, and such principal and interest shall be secured (subject, only so long as any of the £3,000,000 5 per cent exchequer bonds remain outstanding, to the security therefor) by a first hypothecation mortgage or charge on the gold surtax of 5 francs per bag on all coffee grown or produced in and exported from the State of San Paulo, created by the said law No. 1127, of the 25th day of August, 1903 (which tax shall be levied and collected by the San Paulo Government and paid over by it to the Federal Government during the existence of the said bonds and paid over to the agents of the bankers by the Federal Government as hereinafter mentioned). This mortgage shall also be a charge on coffee amounting to 7,000,000 bags or thereabouts now belonging to the Government and which are now at ports in Europe and the United States of America subject to advances as aforesaid (which advances are to be paid off out of the proceeds of the said bonds (and on the proceeds of the sale of such coffee. The warrants or other documents of title representing the said coffee shall be handed to the bankers as trustees for the bondholders, who shall deliver the same to the committee mentioned in clause 9 hereof or its nominees for the purpose of being dealt with by the said committee for the purpose of carrying out the sale of such coffee as therein mentioned against payment of proceeds of such sales.

2. The said bonds shall be secured by a general bond to be executed by or on behalf of the Government and such general bond shall be in the form annexed hereto. The bonds shall be drawn up in accordance with the form

Il est dit, convenue et arrêté ce qui suit, entre les parties aux présentes:

Art. 1. Le Gouvernement créera et émettra immédiatement les dits bons, qui rapporteront intérêt au taux de 5 pour cent par année, payable semestriellement. le premier paiement d'intérêt, pour le semestre prenant fin le premier Juillet mil neuf cent neuf, devant être effectué à cette dernière date. Le paiement du principal et de l'intérêt des dits bons sera assuré inconditionnellement par le Gouvernement et le paiement de ce principal et intérêt sua également garanti inconditionnellement par le Gouvernement fédérale à l'endos ou à la suite du bon général et de chacun des bons ainsi que cela se trouve indisque sur les formes ci-jointes et ce principal et cet intérêt seront garantis (sous réserve seulement de la garantie affectée aux Lg. 3,000,000 de bons du trésor 5 pour cent, tant que des bons de cet emprunt resteront en circulation) par une première hypothèque ou charge sur la surtaxe or de cinq francs par sac sur tout le café cultivé ou produit dans l'Etat de San Paulo et exporté de cet état, créée aux termes de la dite loi No. 1127 du 25 Août mil neuf cent huit (taxe qui sera levée et encaisse par le Gouvernement de San Paulo par et versé par lui au le Gouvernement Fédéral pendant la durée de la circulation des dits bons et versée par le Gouvernement Fédéral aux agents des banquiers comme il sera ci-après mentionné). Cette hypothèque portera également sur le café, s'élevant à 7,000,000 environ de sacs, appartenant actuellement au Gouvernement et qui se trouve en ce moment dans des ports d'Europe et des Etats-Unis d'Amérique, sous réserve des avances comme dit ci-dessus (avances qui seront remboursées sur le produit des dits bons) et sur le produit de la vente du dit café. Les warrants ou autres titres de propriété, relatifs au dit café, seront remis aux banquiers, agissant comme fidé-commissaires des porteurs de bons, qui les délivreront au comité mentionné à la clause 9 des présentes ou aux personnes par lui désignées dans le but d'être utilisés par lui pour effectuer la vente du dit café comme il y est indiqué, contre paiement du produit de ces ventes.

Art. 2. Les dits bons seront garantis par une obligation générale, qui sera signée du Gouvernement ou en son nom, et cette obligation générale sera établie d'après la formule ci-annexée. Les bons seront établis d'après la for-

annexed hereto or in such other form respectively as near thereto as practicable which shall be previously approved of by the bankers and shall be free from all present and future taxes whatsoever whether federal or of the State of San Paulo. The general bond shall be delivered by the Government to and shall be retained by the said J. Henry Schröder & Co.

3. The said bonds shall be printed in both the English and French languages, and (or) such other language as the bankers may require and shall be issued in English, French, German, Dutch, and American currency, namely, in pounds, francs, marks, guilders, and dollars in denominations of £1,000, £500, £200, £100, £50, and £20 sterling or their equivalents in francs, marks, guilders, or dollars reckoned at the rate of exchange of francs 25-12, marks 20-40, guilders 12-05, and dollars 4-86, respectively, to the pound sterling, that is to say:

Bonds of	Francs.	Marks.	Guilders.	\$
£1,000	=25,120	=20,400	=12,050	=4,860
500	=12,560	=10,200	=6,025	=2,430
100	=2,512	=2,040	=1,205	=486
50	=1,256	=1,020	=602-50	=243
20	=502-40	=408	=241	=97-20

Two-thirds or 10,000,000 pounds nominal value of the said bonds representing those purchased by Messrs. Schröder shall be created in bonds of such of the above categories in the proportion which shall be fixed by the said Messrs. Schröder and shall be hereinafter called the "Schröder bonds." One-third or £5,000,000 sterling nominal of the said bonds being the bonds purchased by the French group under clause 12 hereof shall be issued in separate bonds of £20 and numbered consecutively from No. 1 to 250,000 and shall be hereinafter referred to as the bonds of the French group.

Each coupon will be payable for the bonds of:

	Francs.	Marks.	Guilders.	\$
£1,000 at	25 0 0=628	=510	=301-25	=121 50
500 at	12 10 0=314	=255	=150-625	=60-75
100 at	2 10 0=62-80	=51	=30-125	=12-15
50 at	1 5 0=31-40	=25-50	=15-0625	=6-075
20 at	10 10=12 56	=10-20	=6-025	=2-43

mule ci-annexée ou formule se rapprochant autant que possible, approuvées préalablement des banquiers et les dits bons seront exempts de toutes taxes présentes et futures quelles qu'elles soient, fédérales ou d l'Etat de San Paulo. L'obligation générale sera remise par le Gouvernement aux dits J. Henry Schröder & Co., qui la garderont par devers eux.

Art. 3. Les dits bons seront imprimés à la fois en Anglais et en Français et, ou dans toute autre langue, comme les banquiers pourront le demander et seront émis d'après les système monétaires Anglais, Français, Allemand, Hollandais et Américain, c'est-à-dire en livres sterling, francs, marcs, guilders, et dollars, en titres de Lg. 1,000, Lg. 500, Lg. 200, Lg. 100, Lg. 50, et Lg. 20 sterling ou de leurs équivalents en francs, marcs, guilders, ou dollars, calculés au taux du change de 25-12 francs, 20-40 marcs, 12-05 guilders, et 4-86 dollars, respectivement par livre sterling.

En conséquence, le montant nominal des titres est fixé comme suit:

Titres de Lg.	Francs.	Marks.	Guilders.	\$
1,000	=25,120	=20,400	=12,050	=4,860
500	=12,560	=10,200	=6,025	=2,430
100	=2,512	=2,040	=1,205	=486
50	=1,256	=1,020	=602-50	=243
20	=502-40	=408	=241	=97-20

Deux tiers ou Lg. 10,000,000 valeur nominale des dits bons représentant ceux achetés par MM. Schröder & Co. seront créés en titres de l'une des catégories ci-dessus dans la proportion qui sera fixée par les dits MM. Schröder & Co. et seront désignés ci-après comme les bons Schröder.

Un tiers ou Lg. 5,000,000 valeur nominale des dits bons, représentant ceux achetés par le groupe Français aux termes de la clause 12 des présentes seront émis en titres unitaires de Lg. 20 et numérotés consécutivement de 1 à 250,000 et seront désignés ci-après comme les bons du groupe Français.

Chaque coupon est payable: Pour les titres de:

Lg.	Lg.	Frs.	Mks.	Guild.	\$
1,000 par	25 0 0=628	=510 00=301-25	=121-50		
500 par	12 10 0=314	=255 00=150-625	=60-75		
100 par	2 10 0=62-80	=51 00=30-125	=12-15		
50 par	1 5 0=31-40	=25-50=15-0625	=6-075		
20 par	10 10 0=12-56	=10-20=6-025	=2-43		

in London, in pounds sterling, at the offices of Messrs. Schröder.
 in Paris, in francs, at the offices of the Société Générale, and the Banque de Paris et des Pays Bas.
 in Germany in marks,
 in New York, in gold dollars,
 in Holland, in guilders,
 at the offices which will be hereinafter appointed by the bankers.

The payment of the principal shall be made at the same countinghouses and on the same conditions.

4. On the Monday of each week, during the continuance of the loan, the Government shall pay in gold francs the revenue derived from the said surtax on coffee, free from all deductions whatsoever to the Federal Government for the purpose of being paid by the Federal Government to Messrs. Theodor Wille & Co., of Santos, or to such other firm of bankers or merchants in the State of San Paulo as the bankers may from time to time appoint in writing for that purpose as the agents of the bankers (who are hereinafter referred to as the agents of the bankers) and the amounts so paid shall be remitted by the agents of the bankers as to two-thirds thereof to Messrs. Schröder for the service of the Schröder bonds and as to the remaining one-third to the French group for the service of the bonds of the said group. The first payment of such revenue shall commence and be made on Monday, December 7, 1908, and shall continue each week until all the said bonds shall have been redeemed.

5. The Government hereby guarantees that the amount of the said surtax collected and/or the amount produced by sales of the said coffee now belonging to the Government as aforesaid shall not be less than 45,000,000 francs, gold, in any year so long as any of the said bonds shall be in existence and unredeemed. If, from any cause whatsoever, the payment of 45,000,000 francs, gold, applicable to any year mentioned above, should not be paid, the government of the State of San Paulo shall within eight days from the demand which will be made to it by the bankers by cable or registered letter to the treasurer of the State of San Paulo, immediately make up the deficit and pay the amount thereof to the agents of the bankers, who will remit the same to the latter; and if, from any cause whatsoever, the

à Londres, en livres, aux caisses de, Messieurs Schröder.
 à Paris, en francs, aux caisses de la Société Générale,
 et de la Banque de Paris et des Pays-Bas,
 en Allemagne, en marcs,
 à New York, en dollars, or
 en Hollande, en guilders
 aux caisses qui seront ultérieurement désignées par les banquiers. Le paiement du principal avoir lieu aux mêmes caisses et dans les mêmes conditions.

Art. 4. Le lundi de chaque semaine, pendant la durée de l'emprunt, le Gouvernement paiera en francs or le revenu obtenu de la dite surtaxe sur le café, exempte de toutes réductions de toute nature, au Gouvernement Fédéral, à charge par ce dernier de le verser à MM. Theodor Wille & Co., à Santos ou à toute autre maison de banque ou tous négociants, dans l'Etat de San Paulo, que les banquiers pourront désigner de temps à autre par écrit dans ce but comme leurs agents (et qui seront ci-après désignés comme "les agents des banquiers") et les sommes ainsi versées seront remises par les agents des banquiers à savoir: deux tiers de ces sommes à MM. Schröder & Co. pour le service des bons Schröder et l'autre tiers au groupe Français pour le service des bons dudit groupe. Le premier versement de ce revenu commencera et sera effectué le lundi sept Décembre mil neuf cent huit et continuera ensuite chaque semaine jusqu'à ce que tous les dits bons aient été remboursés.

Art. 5. Le Gouvernement garantit par les présentes, que le montant de la dite surtaxe perçu et ou le montant réalisé sur les ventes du dit café appartenant actuellement au Gouvernement comme dit ci-dessus, ne s'élèveront pas à moins de 45,000,000 de francs or, dans une année quelconque, tant qu'il restera des dits bons en circulation et non amortis.

Dans le cas où pour une cause quelconque le versement de Frs. 45,000,000 or applicable à une année mentionné ci-dessus n'aurait pas été effectué, le Gouvernement de l'Etat de San Paulo devra, dans les 8 jours de la demande qui lui sera adressée par les banquiers par avis télégraphique ou postal recommandé au trésorier de l'Etat à San Paulo, combler immédiatement le déficit et en verser le montant aux agents des banquiers qui le

government of the State of San Paulo shall fail to make such payment within the time aforesaid, then the Federal Government shall, in pursuance of its guaranty, within eight days after receipt of a request from the bankers addressed to the minister of finance at Rio de Janeiro, and sent by registered post or by telegraph, pay to the bankers, through the financial agents in London of the Federal Government, Messrs. N. M. Rothschild & Sons, the amount which may be required to make up the said payment of 45,000,000 francs gold.

6. The said bonds are to be redeemed by means of the application, half yearly, of the surplus of the revenue derived from the said surtax and the proceeds of the sale of the said coffee now belonging to the Government remaining after the payment of interest on the said bonds, the expenses of the bankers in reference to the service of the said loan and the working expenses of the committee referred to in clause 9 hereof in the purchase of the said bonds by the bankers at any time they may think fit (as to the Schröder bonds by Messrs. Schröder, and as to the bonds of the French group by the French group) in the market at any price below par (exclusive of accrued interest) for account of the Government or by half-yearly drawings at par to take place in the first week of every June and the first week of every December, the first drawing to take place, if necessary, in the first week of the month of June, 1909, and the second in first week of the month of December of the same year. The bonds drawn will be paid on the 1st day of July and 1st day of January following the drawings. Such drawings shall take place on a convenient day, to be fixed by the bankers at the counting house of Messrs. Schröder in London, in respect of the Schröder bonds, and at the banking house of the Société Générale de Paris in Paris, in respect of the bonds of the French group, in the presence of a duly authorized representative of the Government. For that purpose a drawing wheel shall be provided for the Schröder bonds and shall be deposited in London at the banking house of Messrs. Schröder & Co. Another drawing wheel shall be provided for the bonds of the French group and shall be deposited in Paris at the banking house of the Société Générale.

remettront à ces derniers et si pour une cause quelconque le gouvernement de l'état de São Paulo manquerait de faire ce paiement dans le temps mentionne le Gouvernement Fédéral sera alors tenu par suite de sa garantie au payer au banquiers par les agents financiers du Gouvernement Fédéral à Londres Messieurs N. M. Rothschild & Sons dans les huit jours de la réception d'une demande des banquiers adressée au ministre des finances à Rio de Janeiro et expédiée par lettre recommandée ou par le cable électrique le montant nécessaire pour compléter le paiement de Fcs. 45,000,000 en. or.

Art. 6. Les dits bons seront amortis en appliquant semestriellement le surplus du revenu obtenu de la dite surtaxe et du produit de la vente du dit café, appartenant actuellement au Gouvernement, restant disponible après le paiement de l'intérêt des dits bons, des dépenses des banquiers encourues pour le service du dit emprunt et des frais de fonctionnement du comité mentionné à la clause 9 des présentes, à l'achat des dits bons par les banquiers à toute époque, comme ils le jugeront bon (par les dits J. Henry Schröder and Co., en ce qui concerne les bons Schröder et par le dit groupe Français en ce qui concerne les bons dudit groupe) sur le marché, à tout cours au-dessous du pair (sans y comprendre les intérêts courus) pour le compte du Gouvernement, ou au moyen de tirages semestriels au pair devant avoir lieu chaque première semaine de juin et chaque première semaine de décembre, le premier tirage devant se faire, s'il y a lieu, dans la première semaine du mois de juin 1909 et le second dans la première semaine du mois de décembre de la même année. Les bons sortis au tirage seront remboursés les 1^{er} juillet et 1^{er} janvier qui suivront les tirages. Ces tirages auront lieu à un jour convenable, fixé par les banquiers, à la caisse de MM. Schröder à Londres en ce qui concerne les bons Schröder et à la banque de la dite Société Générale de Paris à Paris, en ce qui concerne les bons du groupe Français, en présence d'un représentant du Gouvernement dûment autorisé.

A cet effet, une roue de tirage sera établie pour les bons Schröder et restera déposée à Londres dans les caisses de MM. Schröder & Co. Une autre roue de tirage sera établie pour les bons du groupe Français et restera déposée à Paris dans les caisses de la Société Générale.

The denoting numbers of the bonds purchased or drawn from time to time, shall be published as to those purchased or drawn in London in the Times and one other London daily paper, and as to those purchased or drawn in Paris, in two Paris daily papers, and such papers in other foreign centers as the bankers may decide. The amount to be applied in each half year in redemption of the said bonds shall be such amount as the bankers shall declare is available after the payment or reservation from the said surplus of the half-yearly interest on the said bonds and the expenses above referred to and the bonds purchased by the bankers or drawn by virtue of the stipulations of this clause shall only be canceled when the current half-yearly interest on the said bonds shall have been paid, with the object that if the amount of the surplus available for the redemption of the bonds has been overestimated so as not to leave a sum sufficient for the payment of the interest and expenses, the difference can be obtained by means of the resale or hypothecation by the bankers of the bonds purchased or issued up to a sufficient amount. After payment of each half year's interest and expenses, all the bonds purchased or drawn remaining in the hands of the bankers shall be canceled and the Government will not be entitled to reissue those bonds or to make any fresh issue whatsoever of bonds in relation to this matter. The redeemed bonds with the unpaid coupons belonging thereto shall be canceled and forwarded by the bankers to the treasury of the Government and at its expense. Any of the said bonds which shall not have been previously redeemed as aforesaid shall be repayable and shall be paid off at par by the Government on the 1st day of January, 1919, and for this purpose the Government shall pay the necessary funds on or before the 1st day of October, 1918, to the agents of the bankers for remittance to the bankers as aforesaid. The Government may at any time, upon giving six calendar months' notice by advertisement in the daily papers aforesaid expiring on one of the dates fixed for payment of the interest, pay off the principal of the said bonds at par together with accrued interest.

Les numéros des bons rachetés ou sortis de temps à autre au tirage seront publiés, en ce qui concerne les bons rachetés ou sortis au tirage à Londres, dans le Times et un autre Journal quotidien de Londres et, en ce qui concerne les bons rachetés ou sortis au tirage à Paris dans deux Journaux quotidiens de Paris et dans tels Journaux d'autres villes étrangères que les banquiers pourront fixer.

La somme devant être appliquée chaque semestre au remboursement des dits bons sera le montant que les banquiers déclareront convenable après paiement ou réserve en dehors du dit surplus de l'intérêt semestriel sur les dites obligations et les frais précités, et les obligations achetées par les banquiers ou tirées en vertu des stipulations de cette clause ne seront annulées que lorsque les intérêts semestriels courants sur les dites obligations auront été payés, dans le but que si le montant du surplus utilisable pour l'amortissement des obligations a été estimé audessus de sa valeur de façon à ne pas laisser une somme suffisante pour le paiement des intérêt et frais, la différence puisse être obtenue au moyen de la vente ou de l'hypothécaion par les banquiers des bons achetés ou émis pour une somme suffisante. Après paiement de chaque intérêt semestriel et des frais, tous les bons achetés ou tirés restant entre les mains des banquiers seront annulés, et le Gouvernement n'aura pas la faculté d'émettre à nouveau ces bons ou de faire une nouvelle émission quelconque de bons relativement à cette affaire.

Les bons amortis, accompagnés des coupons impayés qui s'y rattachent, seront annulés et envoyés par les banquiers au trésor du Gouvernement et à ses frais.

Tous ceux des dits bons qui n'auraient pas été préalablement amortis comme dit ci-dessus, seront remboursables et remboursés au pair, par le Gouvernement, le 1^{er} janvier mil neuf cent dix-neuf et, dans ce but, le Gouvernement versera les fonds nécessaires, au plus tard le 1^{er} octobre mil neuf cent dix-huit, aux agents des banquiers qui les remettront à ces derniers comme dit ci-dessus. Le Gouvernement pourra, à toute époque, en en donnant avis six mois à l'avance par voie d'annonce dans les journaux quotidiens ci-dessus indiqués, ce délai expirant à l'une des dates fixées pour le paiement de l'intérêt, rembourser en totalité le principal des dits bons au pair y compris l'intérêt couru.

7. The bankers hereby jointly and severally nominate and appoint the said Messrs. Theodor Wille & Co., and any members or member for the time being of that firm or such other firm as for the time being may be appointed by the bankers under the provisions of clause 4 hereof, and any members or member for the time being of such firm, their and each of their attorneys and agents, attorney and agent in the Republic of the United States of Brazil for the purposes of clauses 4 and 6 of this agreement, and to receive and give receipts for all moneys payable thereunder, and hereby grant to the said Messrs. Theodor Wille & Co. or such other firm as aforesaid, and any such members or members as aforesaid full power and authority to do all acts and things, and to sign and execute all instruments, deeds, and documents for that purpose, and for the more effectually carrying into effect and giving full force and virtue to all or any of the provisions of this agreement and appear before any court or authority in the said Republic and to register any document or documents in such republic in such manner in all respects as the said attorneys shall think fit.

8. The general bond shall be signed at the same time as this agreement. With regard to the said bonds they shall be signed free of charge by a special representative of the Federal Government, and by a special representative of the Government in London and (or) in Paris whose names the Government will communicate to the bankers in due time and before the 1st of January, 1909. such signatures may be griffed. Such bonds shall be payable to bearer and shall have attached thereto such a number of coupons as will suffice for the payment of the interest until such time as the said loan will be fully redeemed. In the meantime the bankers are authorized to issue on behalf of the Government for their respective bonds scrip certificates to bearer.

9. A committee consisting of seven members, resident in the United States of America or Europe, or partly in one and partly in the other, shall be appointed, whereof four and their successors shall be nominated by Messrs. Schröder, two and their successors by the Société Générale, and one and his successor by the Government. That

Art. 7. Les banquiers désignent et nomment par les présentes, en même temps et individuellement, les dits MM. Théodor Wille & Co., et tous membres ou membre faisant alors partie de cette maison ou toute autre maison qui pourrait alors être désignée par les banquiers aux termes de la clause 4 des présentes et tous membres ou membre faisant alors partie d'une telle maison, comme leurs fondés de pouvoirs et agents, fondé de pouvoirs et agent dans la République des Etats-Unis du Brésil pour les besoins des clauses 4 et 6 de la présente convention et pour recevoir, en donnant reçus tous les fonds payables aux termes des présentes et ils donnent par les présentes, aux dits MM. Théodor Wille & Co., ou à toute autre maison et à tous autres membres ou membre, comme dit ci-dessus, plein pouvoir et pleine autorité d'accomplir tous actes et choses, signer et mettre à exécution tous instruments, actes et de donner toute leur et leur vertu, de façon plus efficace, à toutes ou à l'une quelconque des dispositions de cette convention, de comparaître devant tout tribunal ou toute autorité dans la dite République et d'y enregistrer tout document ou documents de la manière, à tous égards, que les dits fondés de pouvoirs jugeront convenable.

Art. 8. L'obligation générale est signée en même temps que le présent contrat, quant aux dits bons, ils seront signés, sans frais, par un représentant spécial du Gouvernement Fédéral et par un représentant spécial du Gouvernement à Londres et ou à Paris, dont les noms seront communiqué aux banquiers par le Gouvernement en temps utile et avant le 1er Janvier, 1909. Ces signatures pourront être autographiées. Ces bons seront payables au porteur et seront munis d'un nombre de coupons suffisant pour assurer le paiement de l'intérêt jusqu'à l'époque où l'Emprunt sera complètement amorti. En attendant, les banquiers sont autorisés à émettre, au nom du Gouvernement, pour leurs bons respectifs, des certificats provisoires au porteur.

Art. 9. Un comité composé de sept membres résidant dans les Etats-Unis d'Amérique ou en Europe ou en partie dans l'un et partie dans l'autre de ces pays, sera constitué comme suit: quatre membres de ce comité et leurs successeurs seront désignés par MM. Schröder, deux et leurs successeurs par la Société Générale et un et son

committee shall be invested with full powers of controlling the sale and liquidation of the said coffee now belonging to the Government as aforesaid, and other matters and things connected with the said coffee.

10. The Government shall not, while any of the said bonds shall be outstanding and unredeemed, purchase directly or indirectly any coffee for its account or create or constitute or pass any law or decree authorizing any new valorisation scheme in reference to coffee. It further undertakes not to make any modification in the present law relating to the surtax.

11. The Government shall not at any time if any of the said bonds shall be outstanding and unredeemed raise, procure, issue, or effect or guarantee any further loan or loans secured on surtax or general tax on coffee without first obtaining the consent thereto of the bankers, and the Government also undertakes for a period of two years from the date hereof not to issue or guarantee any external loan without having first obtained the consent of the bankers. The Government will use its best endeavors to arrange that the Governments of the States of Rio Minas Geraes and Espirito Santo will also pass laws limiting the amount of coffee to be exported from those States.

12. The Government shall sell and Messrs. Schröder shall purchase the Schröder bonds in English currency at the rate of £88 less £2 per cent for expenses for each £100 of the nominal amount thereof; that is to say, two-thirds, or £10,000,000, nominal value of the said bonds carrying interest from the 1st January, 1909, and the Government shall sell the bonds of the French group and the Société Générale and the Banque de Paris et des Pays-Bas shall each purchase half without joint responsibility in English currency at £88 less £2 per cent for expenses for each £100 of the nominal amount thereof, being the remaining one-third, or £5,000,000, nominal value of the said bonds carrying interest from the 1st January, 1909.

successeur par le Gouvernement. Ce comité sera investi de pleins pouvoirs pour opérer les ventes et la liquidation du dit café appartenant actuellement au Gouvernement comme dit ci-dessus et accomplir toutes affaires et choses s'y rattachant.

Art. 10. Le Gouvernement, tant qu'aucun des dits bons resteront en circulation et non amortis, s'interdit d'acheter, directement ou indirectement, tout café pour son compte ou de créer, rendre ou faire passer toute loi ou tout décret autorisant tout nouveau projet de valorisation relatif au café. Il s'engage également à n'apporter aucune modification à la législation existant actuellement en ce qui concerne la surtaxe.

Art. 11. Le Gouvernement, à aucune époque tant qu'il restera des dits bons en circulation et non amortis, ne fera n'émettra, n'effectuera, ou ne garantira aucun nouvel emprunt ou emprunts, garantis soit sur la surtaxe ou sur la taxe générale sur le café sans en avoir tout d'abord obtenu le consentement des banquiers. Il s'engage également pendant une durée de 2 années à compter des présentes à n'émettre ou garantir aucun emprunt extérieur sans avoir tout d'abord obtenu le consentement des banquiers.

Le Gouvernement fera tous ses efforts pour s'arranger de façon que les Gouvernements des Etats de Rio, Minas Geraes et Espirito Santo passent également des lois limitant la quantité de café à exporter de ces Etats.

Art. 12. Le Gouvernement vend et MM. Schröder achètent dans le système monétaire Anglais, les Bons Schröder à raison de Lg. 88 moins Lg. 2 pour cent pour les frais, pour chaque fraction nominale de Lg. 100 de ces bons, c'est-à-dire les deux tiers ou Lg. 10,000,000; en valeur nominale, des dits bons avec jouissance du 1^{er} janvier, 1909, et le Gouvernement vend et la Société Générale et la Banque de Paris et des Pays-Bas achètent chacune par moitié, sans solidarité, dans le système monétaire Anglais, les bons du groupe français à raison de Lg. 88 moins Lg. 2 pour cent pour les frais, pour chaque fraction nominale de Lg. 100 de ces bons, c'est-à-dire le tiers restant ou Lg. 5,000,000, en valeur nominale, de ces bons avec jouissance due 1^{er} janvier, 1909.

13. The Government shall also pay or allow to the bankers one pound per cent on the total nominal amount of the said loan of £15,000,000 for the stamps to which the said bonds (which are to be free from any Brazilian Federal or state stamp duty) may be subject abroad.

14. The purchase money for the said bonds (after deducting from the first installment thereof the amounts payable by the Government to the bankers under the last preceding clause hereof) shall be payable subject as hereinafter provided by the bankers in their respective proportions by the installments following, namely on the 18th day of December, 1908, 15 per cent per bond, on the 10th day of January, 1909, 15 per cent per bond, on the 4th day of February, 1909, 25 per cent per bond, and on the 4th March, 1909, 31 per cent per bond. The said purchase moneys shall be applied in the redemption of the balance now outstanding of the said £3,000,000 State of San Paulo 5 per cent exchequer bonds issued in 1906 and in the payment off and liquidation of the advances, loans, and other moneys secured on or owing in respect of all coffee belonging to the Government, and accordingly the bankers shall as and when the installments of their respective purchase moneys become payable as aforesaid apply the same in redeeming the said outstanding bonds either by purchase in the market at any price below par (exclusive of accrued interest) or by drawings at par or by exchange of the said outstanding bonds for the said bonds and in paying off the said advances, loans, and other moneys secured on or owing in respect of all coffee belonging to the Government at such times and in such manner as shall be directed by the committee, and the balance of the said purchase moneys shall be handed over to the San Paulo Government. The bankers shall determine the time and manner of effecting the redemption of the existing bonds subject to such redemption, being effected as speedily as in the opinion of the bankers shall be expedient, having regard to the interest both of the bankers and of the Government.

15. The bankers shall in respect of all moneys from time to time in their hands allow to the Government interest thereon at a rate per annum varying from time to time with and being

Art. 13. Le Gouvernement paiera ou allouera aux banquiers une livre pour cent sur le montant total nominal du dit emprunt de quinze millions de livres sterling, pour les timbres auxquels les dits bons. (lesquels n'ont à acquitter aucun timbre brésilien, ni fédéral, ni estadual) pourront être assujettis à l'Etranger.

Art. 14. Le prix d'achat des dits bons (après avoir déduit du premier acompte de ce prix les sommes payables par le Gouvernement aux banquiers, aux termes de la clause précédente des présentes) sera payable par les banquiers, sous réserve de se qui sera prévu ci-après, dans leur proportion respective, par acomptes et comme suit, à savoir :

le 18 décembre, 1908, Lg. 15% par bon.

le janvier, 1909, Lg. 15% par bon.

le 4 février, 1909, Lg. 25% par bon.

le 4 mars, 1909, Lg. 31% par bon.

Le dit prix d'achat sera appliqué à l'amortissement du solde, actuellement impayé, des dits Lg. 3,000,000 de bons du trésor, cinq pour cent, de l'Etat de San Paulo, émis en 1906 et au remboursement et à la liquidation des avances, emprunts et autres sommes garantis par ou dûs sur tout le café appartenant au Gouvernement et par suite les banquiers quand et comme les acomptes de leur prix d'achat respectif deviendront exigibles, comme dit ci-dessus, les emploieront au rachat des dits bons restant en circulation soit par voie d'achat sur le marché à tout cours au-dessous du pair (sans y comprendre l'intérêt couru) ou par voie de tirages au sort au pair ou d'échange des dits bons en circulation contre les bons actuels et au remboursement des dites avances, emprunts et autres sommes garantis par ou dûs sur tout le café appartenant au Gouvernement, à telles époques et de telles manières qu'indiquera le comité et le solde du dit prix d'achat sera remis au Gouvernement de San Paulo. Les banquiers détermineront l'époque et le mode d'amortissement des bons en circulation, cet amortissement devant toutefois s'effectuer aussi rapidement que les banquiers, à leur propre avis, le jugeront expédient en tenant compte à la fois de leurs intérêts et de ceux du Gouvernement.

Art. 15. Les banquiers, en se qui concerne tous les fonds qu'ils pourraient de temps à autre avoir en mains, alloueraient au Gouvernement, sur ces fonds, un intérêt annuel qui,

in the case of moneys in the hands of Messrs. Schröder $1\frac{1}{2}$ per cent below the rate of discount for the time being allowed by the governor and company of the Bank of England, but not exceeding $\text{£}4$ per cent per annum, and in the case of moneys in the hands of the French group at $1\frac{1}{2}$ per cent below the rate of discount allowed by the Bank of France, but not exceeding 4 per cent per annum, and the bankers shall be entitled in respect of all moneys from time to time advanced by them to the Government to interest at a rate per annum varying from time to time with and being $1\frac{1}{2}$ per cent above the rates of discount aforesaid, but not to fall below 5 per cent per annum.

16. Messrs. Schröder are hereby appointed agents in London of the Government for the service of that portion of the said loan represented by the Schröder bonds for the whole period thereof and the Société Générale and the Banque de Paris et des Pays Bas are hereby appointed agents in Paris of the Government for the service of that portion of the said loan represented by the bonds of the French group for the whole period thereof.

17. Messrs. Schröder and the Société Générale and the Banque de Paris et des Pays Bas shall as such agents be, respectively, paid by the Government 1 per cent on the nominal amount of the interest upon the Schröder bonds and the bonds of the French group, respectively, as and when such interests shall be paid and 1 per cent on the nominal amount applied each year for the redemption of the Schröder bonds and the bonds of the French group respectively.

18. The Government shall reimburse to the bankers any expenses incurred by them, respectively, for advertisements, telegrams, correspondence, or otherwise in connection with the service of the said loan, including the payment of interest and redemption of the said bonds.

19. The bankers may, respectively, deduct any moneys payable, respectively, by the Government under this agreement from the moneys from time to time remitted or paid to them, respectively, for the service of the said loan.

de temps à autre, suivra les fluctuations et sera pour les fonds entre les mains de MM. Schröder de $1\frac{1}{2}$ pour cent au-dessous du taux de l'escompte alors alloué par le Gouverneur et le Conseil de la Banque d'Angleterre, sans excéder Lg. 4 pour cent par an et, dans le cas de fonds aux mains du groupe français, de $1\frac{1}{2}$ pour cent au-dessous du taux de l'escompte alloué par la Banque de France sans excéder 4 pour cent et les banquiers auront droit sur tous les fonds qu'ils pourraient avoir avancé, de temps à autre, au Gouvernement, à un intérêt annuel qui suivra, de temps à autre, les fluctuations et sera de $1\frac{1}{2}$ pour cent au-dessus du taux de l'escompte comme dit ci-dessus mais sans pouvoir descendre au-dessous de 5 pour cent par an.

Art. 16. MM. Schröder sont nommés, par les présentes, agents à Londres du Gouvernement pour le service de la partie du dit Emprunt représentée par les Bons Schröder et pour toute leur durée et la Société Générale et la Banque de Paris et des Pays-Bas sont nommées par les présentes, agents à Paris du Gouvernement pour le service de la partie du dit Emprunt représentée par les Bons du Groupe français et pour toute la durée de ces derniers.

Art. 17. MM. Schröder et la Société Générale et la Banque de Paris et des Pays-Bas recevront respectivement du Gouvernement, en cette qualité d'agents, un pour cent du montant nominal de l'intérêt sur les Bons Schröder et les Bons du Groupe français respectivement quand et comme ces intérêts seront payés et un pour cent du montant nominal employé chaque année à l'amortissement des Bons Schröder et des Bons du Groupe Français respectivement.

Art. 18. Gouvernement remboursera aux banquiers tous les frais encourus par eux respectivement pour publicité, télégrammes, envoi de titres, correspondance ou autrement à l'occasion du service du dit Emprunt, y compris le paiement de l'intérêt et l'amortissement des dits Bons.

Art 19. Les banquiers pourront déduire respectivement toutes somme que le Gouvernement aurait à leur verser respectivement aux termes de cette convention, des fonds qui leur seraient remis ou versés respectivement, de temps à autre, pour le service du dit Emprunt.

20. The Government will at all times indemnify and keep indemnified Messrs. Schröder and the French group and each of them from and against all claims, demands, actions, suits, and proceedings whatever as may arise (other than from the direct negligence of Messrs. Schröder or the Société Générale and the Banque de Paris et des Pays Bas or the agents of the bankers, respectively), which may be made, instituted, or prosecuted by or on behalf of any holder of any of the said bonds for or in respect of any moneys at any time in the hands of Messrs. Schröder or the Société Générale and the Banque de Paris et des Pays Bas or the agents of the bankers on their behalf under this agreement or otherwise remitted to them, respectively, for or in connection with the service of the said loan or otherwise for or in connection with this agreement or anything relating thereto.

21. Messrs. Schröder and the French group will respectively use their best endeavors to obtain quotations on the stock exchange in London, and on the bourse in Paris, and at least two other bourses or stock exchanges respectively in addition to Paris and London for the Schröder bonds and the bonds of the French group respectively.

22. Messrs. Schröder and the Société Générale and the Banque de Paris et des Pays Bas, respectively, shall each be concerned with the said bonds purchased by them respectively; that is to say: Messrs. Schröder with the Schröder bonds, and the Société Générale and the Banque de Paris et des Pays Bas with the bonds of the French group; and neither of them shall incur any responsibility in regard to the said bonds purchased by the other.

23. In the event of any difference arising as to the meaning or construction of the general bond, the said bonds, or these presents, by reason of any discrepancy of language, the English text shall be the binding one.

24. All moneys paid by the bankers for the purpose of repaying advances on the coffee and/or expenses and/or service of the loan shall be remitted by them respectively to the different foreign centers where the same may

Art. 20. Le Gouvernement indemnisera et tiendra indemnes, à toute époque, MM. Schröder et el Groupe Français et chacun d'eux, de toutes revendications, demandes, actions, actions légales et procédures, quelles qu'elles soient, qui pourraient se produire (à l'exception de celles résultant de la négligence directe de MM. Schröder ou de la Société Générale et de la Banque de Paris et des Pays-Bas ou des agents des banquiers respectivement) qui pourraient être faites, intentées ou poursuivies par, ou au nom de tout détenteur de l'un quelconque des dits Bons pour ou au sujet de tous fonds qui se trouveraient, à une époque quelconque, aux mains de MM. Schröder ou de la Société Générale et de la Banque de Paris et des Pays-Bas ou des agents des banquiers agissant en leur nom en vertu de cette convention, ou qui leur seraient autrement remis respectivement pour ou à l'occasion du service de l'Emprunt ou, autrement, pour ou à l'occasion de cette Convention ou pour tout objet s'y rattachant.

Art. 21. MM. Schröder et le groupe Français feront respectivement tous leurs efforts pour obtenir l'admission des bons Schröder et des bons du dit groupe, respectivement, à la cote du stock exchange de Londres et de la bourse de Paris et d'au moins deux autres bourses ou stock exchanges respectivement en dehors de Paris et de Londres.

Art. 22. MM. Schröder et la Société Générale et la Banque de Paris et des Pays-Bas s'occuperont chacun respectivement des dits bons achetés par eux respectivement c'est-à-dire MM. Schröder des bons Schröder et la Société Générale et la Banque de Paris et des Pays-Bas des bons du groupe Français et aucun d'eux n'encourra de responsabilité au sujet de ceux des dits bons achetés par l'autre partie.

Art. 23. Dans le cas où une question quelconque serait soulevée quant à la signification ou l'interprétation du bon générale et des bons ou des présentes, par suite de quelque imperfection de langage, le texte anglais fera foi.

Art. 24. Toutes les sommes versées par les banquiers dans le but de rembourser les avances sur le café, et ou les frais et ou le service de l'emprunt, seront remises respectivement par eux dans les diverses villes étrangères où

have to be paid at the current rate of exchange ruling in London or Paris, as the case may be, on the day of remittance on such center.

25. Subject to the agreement of 1906, all future loans of any description, at any time hereafter during the duration of this loan, issued by the Government shall be first offered for acceptance, as to two-thirds thereof to Messrs. Schröder and as to the remaining one-third thereof to the French group, upon at least equal terms to those offered by any other authority, corporation, firm, or person; and no terms shall be accepted or firm offer made unless and until the same has first been offered to the bankers and refused by them.

26. In case and so often as any question shall arise concerning the meaning or fulfillment of this contract or any provision hereof or otherwise in connection with this contract or the said bonds, or any of them, or the mode and manner in which the obligations of the Government under this contract or in respect of the said bonds, or any of them, are to be carried out and enforced, then, upon the request of either party, such question shall be referred to and finally settled by arbitration in manner following—that is to say: One arbitrator shall be appointed by the Government, another arbitrator shall be appointed by Messrs. Schröder and the French group, and an umpire shall be appointed by such two arbitrators. Should one of the parties not have appointed his arbitrator, or if the two arbitrators fail to appoint such umpire within 40 days after their appointment, then the matters in dispute shall be referred to and finally settled by the Hague tribunal or (if that tribunal shall have ceased to exist) by arbitrators or an umpire to be appointed by the King for the time being of the United Kingdom of Great Britain and Ireland or, in default of such appointment, by the President for the time being of the Republic of France, and the decision so arrived at shall be final and binding on all parties.

27. If during the period of 21 days from the date hereof the stock and share markets of England and/or Europe and/or America shall, in the opinion of the bankers, be materially

ces sommes ont à être payées, au taux courant du change alors en vigueur, à Londres ou Paris, selon le cas le jour de la remise dans les dites villes.

Art 25. Sous réserve des dispositions de la convention de 1906, tous emprunts quelconques, qui seront émis par le Gouvernement à toute époque ultérieure, pendant la durée de cet emprunt seront tout d'abord offerts à l'acceptation de MM. Schröder, à concurrence des deux tiers de ces emprunts et du groupe Français à concurrence du tiers restant, à des conditions au moins égales à celles offertes par toute autorité, corporation, maison, ou personne et il ne sera pas accepté de conditions ou fait d'offre ferme à moins qu'elles n'aient et tant qu'elles n'auront pas été tout d'abord offertes aux banquiers et refusées par ces derniers.

Art. 26. Dans de cas et chaque fois qu'une question quelconque serait soulevée concernant la signification ou l'exécution de ce contrat ou de l'une quelconque de ses dispositions ou autrement au sujet de ce contrat ou des dits bons ou de l'un de ces derniers ou le mode et la manière dont les obligations du Gouvernement, aux termes de ce contrat ou à l'égard des dits bons ou de l'un de ces derniers doivent être remplies et observées, sur requête alors présenté par l'une des parties, cette question sera soumise à l'arbitrage et définitivement tranchée de la manière suivante, à savoir: Un arbitre sera désigné par le Gouvernement, un autre le sera par MM. Schröder et le groupe Français, et un surarbitre désigné par ces deux arbitres. Dans le cas où l'une des parties n'aurait pas désigné son arbitre, n'auraient pas désigné le surarbitre dans les quarante jours de leur nomination, les questions en discussion seront alors renvoyées au tribunal de La Haye et définitivement tranchées par lui ou (dans le cas où le dit tribunal aurait cessé d'exister) par des arbitres ou par un surarbitre qui serait désigné par le Roi régnant alors du Royaume-Uni de Grande Bretagne et d'Irlande ou, à défaut d'une telle nomination, par le Président alors en fonctions de la République Française, et la décision ainsi obtenue sera définitive et liera toutes les parties.

Art 27. Dans le cas où, pendant une période de vingt et un jours, (à compter de la date des présentes, les marchés financiers d'Angleterre et ou d'Europe et ou d'Amérique se trou-

affected by any financial or political crises, so as to render the issue of the said bonds to the public impracticable or inadvisable, the bankers shall have the right to terminate this agreement by giving written notice to the representative of the Government in London, or to the Government by cable, and in such case neither party shall have any claim against the other in respect of anything herein contained.

verait matériellement affecté, de l'avis des banquiers par des crises financières ou politiques quelconques, de nature à rendre l'émission publique des dits bons impraticable ou peu désirable, les banquiers auront le droit de résilier cette convention en donnant avis par écrit au représentant du Gouvernement à Londres ou au Gouvernement par câblegramme et, dans ce cas, aucune des parties ne pourra exercer de revendication contre l'autre du chef de l'une quelconque des provisions des présentes.

In witness whereof the said _____, on behalf of the Government; _____, on behalf of Messrs. Schröder; _____, on behalf of the Société Générale, and _____, on behalf of the Banque de Paris et des Pays Bas, have hereunto subscribed their respective names.

En foie de quoi, les dits _____, au nom du Gouvernement; _____, au nom de MM. Schröder; et _____, au nom de la Société Générale; et _____, au nom de la Banque de Paris et des Pays-Bas ont apposé, ci-dessous, leurs signatures respectives.

EXHIBIT NO. 8, MAY 16, 1912.

[Extract from the report of Dr. Olavo Egydio, secretary of finances of the State of Sao Paulo, to the president of the State, Dr. Manoel J. de Albuquerque Lins.]

VALORIZATION OF COFFEE.

By law No. 959 of October 3, 1905, the Sao Paulo State government was authorized to enter into an agreement with the Federal Government, and with the governments of other States interested in the growing of coffee, with the view of taking steps to bring about the valorization and propagation of the sale of this national product.

To provide the necessary funds for such a project, law No. 984 of December 29, 1905, paragraph 29, created a tax of 3 francs gold for every bag of 60 kilos exported. This surtax was afterwards raised to 5 francs by paragraph 2, of law No. 1127, of August 25, 1908.

In order to give effect to laws No. 959, of October 3, 1905, and No. 984 of December 29, 1905, the Sao Paulo government celebrated with the State governments of Minas Geraes and Rio de Janeiro, the agreement commonly known as the "Convention of Taubate"; which was signed at the city of that name on February 26, 1906, by Dr. Nilo Pecanha, representing the State of Rio de Janeiro; Dr. Francisco Salles, representing the State of Minas Geraes; and Dr. Jorge Tibirica, representing the State of Sao Paulo.

This convention was modified by a codicil dated Bello-Horizonte, July 4, 1906, and signed by the same gentlemen who had signed the agreement of February 26.

These acts were in due course approved by the legislative bodies of the three States concerned, as well as by the Federal Government.

With a view of defending the coffee interests of the State, seriously threatened by the depreciation of prices, which would be rendered more acute by the exportation and sale of the extraordinary crop of 1906-7, the Sao Paulo government anticipated the acceptance of the Taubate convention.

Thus, in August, 1906, purchases were initiated with a view of regulating the various coffee markets.

For that purpose, the State firstly contracted a loan of £1,000,000 with the Brazilianische Bank fur Deutschland, by means of discounting treasury bills in favor of the Direction Desconto Gesellschaft of Berlin, at 12 months date, falling due on August 1.

Afterwards, on December 3, 1906, a further loan of £3,000,000 was contracted, viz. £2,000,000 with Messrs. J. Henry Schroder & Co., London, and £1,000,000 with the National City Bank, New York, payable in five years paying interest at the rate of 5 per cent per annum and guaranteed by the special tax of 3 francs on every bag of 60 kilos of coffee that was exported.

Of this loan there remains deposited with the bankers, Messrs. J. Henry Schroder & Co., London, £1,000,000. for redeeming the respective bills at their due dates, representing an equal sum in favor of the Direction Desconto Gesellschaft, of Berlin.

On January 27, 1908, the State of Sao Paulo contracted a further loan of £3,000,000 with the Federal Government, payable in 15 years, paying 5 per cent per annum interest, and commencing from August 1, 1909.

Employing these resources, as also the proceeds of bills drawn on banking correspondents, to the value of 80 per cent more or less of the total value of coffee exported by the State, the Government intervened regularly in the markets of Santos, Rio de Janeiro, and Sao Paulo, as well as in Havre, Hamburg, and New York, thus becoming the holders, at the beginning of 1908, of a stock of 8,474,623 bags of coffee.

In spite of the immense difficulties daily encountered to sustain prices, by holding on to such an enormous stock, the Government never hesitated, and, supported by the loyalty of public opinion within the State, and ably seconded by all who were interested in the solution of such a momentous problem, it persevered in its plan, which had been adopted in favor of the vital interests of the agricultural and commercial interests of the State of Sao Paulo.

Having once attained the principal object of this campaign—that is, keeping beyond the insistent market offers the excess production of the immense crop of 1906-7—and once reestablished normal market conditions, it became necessary to consolidate the position just reached, adopting means which would enable the Government to hold its stock, keeping same out of the markets until such time as the necessities of the markets and consumption demanded.

By law No. 1127 of August 25, 1908, the following measures were authorized toward effecting this purpose:

1. To limit the exportation of coffee to 9,000,000 bags in 1908-9, nine and a half million bags in 1909-10, and 10,000,000 bags from 1910-11 onward.
2. To raise the surtax from 3 to 5 francs on every bag of coffee exported.
3. To authorize the raising of a foreign loan of £15,000,000 to consolidate the existing position which had been attained.

In execution of State law No. 1127, of August 25, 1908, the Government contracted, on December 11 of that year, a loan of £15,000,000 with the bankers, Messrs. J. Henry Schroder & Co., London; the Societe Generale of Paris; and the Bank of Paris et des Pays Bas, also of Paris.

This loan was realized at the rate of 85 per cent, having for its special guaranty the surtax of 5 francs per bag, collected on all coffee exported, and also the proceeds of sales of all State-owned coffee.

It was also guaranteed by the Federal Government, a guaranty conceded by virtue of Federal Law No. 2014, of December 9, 1908.

This loan was to be paid off within a period of 10 years.

After the realization of the loan of £15,000,000 a committee was constituted in Europe for the purpose of taking charge and selling the State-owned coffee, as per special contract drawn up in London on December 11, 1908.

This committee is composed of seven members, four of whom are nominated by Messrs. J. Henry Schroder & Co., London; two by the Societe Generale, of Paris; and one by the Sao Paulo government, the latter having a suspensive veto pending a final decision to be given by the Bank of England as arbitrator.

The functions of this committee are:

(a) Pay off through the bankers all funds or parts of funds due for advances made under the guarantee of the State-owned coffee, thereby freeing the said coffee from the onus of such hypothecation.

(b) Pay through the bankers all insurance, warehousing, and other expenses incurred in connection with the said stocks.

(c) Liquidate the stocks of coffee in the name and for account of the Sao Paulo government by means of public auctions or otherwise, being 500,000 bags in 1909-10, 600,000 bags in 1910-11, 700,000 bags in 1912-13, and afterwards at the rate of 700,000 bags annually. Beyond these minimum quantities, at any time before the commencement of the obligatory sales, the committee is authorized to supply the markets with whatever quantities that are required, taking for their basis the price of 47 francs (later changed) per 50 kilos for good average and 50 francs (later changed) for the quality known as "Havre Superior."

The committee was constituted in accordance with this contract and was made up as follows: J. Henry Schroder & Co., Theodor Wille, Hermann Sielcken, Eduard Bunge, Societe Generale, Visconte des Touches, and Dr. Francisco

Ferreira Ramos (later changed) as temporary representative of the Sao Paulo government.

Dr. Francisco Ferreira Ramos was later succeeded by Dr. Paulo da Silva Prado, who now represents the government on the committee.

Messrs. Theodor Wille & Co. represent the committee and also the bankers who issued the loan in the State of Sao Paulo.

	Bags.
During the campaign in defense of coffee the State of Sao Paulo bought, received, and warehoused for its account-----	10, 868, 266
It sold-----	3, 781, 894
Therefore there existed on Dec. 11, 1908-----	7, 086, 372
Delivered to the committee-----	6, 843, 152
Leaving-----	243, 220

This remainder of 243,220 bags was included in the contract to be liquidated as the government thought fit.

This coffee already is entirely sold, so that on the date this is written the Sao Paulo government possesses only the coffee deposited in the hands of the committee.

	Bags.
The committee organized to sell State-owned coffee received-----	6, 843, 152
Sold in 1910, as per contract-----	532, 829
Leaving on hand-----	6, 310, 132

Which are stored at the following ports:

	Bags.
Havre-----	1, 741, 576
New York-----	1, 461, 890
Hamburg-----	1, 433, 203
Antwerp-----	1, 055, 178
London-----	197, 790
Rotterdam-----	130, 191
Trieste-----	109, 807
Marseille-----	86, 781
Bremen-----	83, 907
	6, 310, 323

The statement of accounts relating to this colossal operation may be resumed as follows:

RECEIPTS.

Loans:

1906. Loan of £1,000,000 contracted with the Brazilianische Bank für Deutschland at exchange of 15½-----	15, 843 : 000\$000
1906. Loan of £3,000,000 contracted with J. Henry Schroder & Co., London and the National City Bank, New York-----	46, 089 : 000\$000
1907. Loan contracted with the Federal Government, £3,000,000-----	48, 000 : 000\$000
1908. Loan contracted with J. Henry Schroder & Co., Societe Generale, and the Banque de Paris & Pays Bas, £15,000,000-----	240, 000 : 000\$000
	349, 932 : 000\$000

Bills and advances:

Effected against coffee shipments-----	196, 057 : 315\$527
Net proceeds of surtax from 1906 to 1909-----	65, 804 : 122\$296
Sales of coffee in 1908-9-----	45, 935 : 133\$340
Supplies out of common fund-----	40, 288 : 080\$780

Rs----- 698, 016 : 651\$943

DISBURSEMENTS.

Loans:

Restitution of loan of £1,000,000 of the Brazillianische Bank for Deutschland -----	15, 483 : 000\$000
Restitution of loan of £3,000,000 of the loan of J. Henry Schroder & Co., London, and the National City Bank of New York -----	46, 449 : 000\$000
Restitution of £67,500 of the £3,000,000 of Federal Government -----	1, 080 : 000\$000
Restitution of £155,000 of loan of £15,000,000 -----	2, 480 : 000\$000
	65, 492 : 000\$000

Bills and advances:

Amount liquidated with valorization consignees and correspondents -----	191, 442 : 573\$640
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Coffee purchases:

Value of coffee bought from 1906-1909 -----	284, 808 : 906\$219
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Defense of coffee:

Difference of types of (valorization project) various loans (discounts), freights, insurance, buying and selling commissions, interest on advances, storage charges, and other expenses in connection with State-owned coffee... -----	156, 273 : 158\$084
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Rs ----- 698, 016 : 651\$943

Now that the coffee crisis from which we suffered for 12 long years has at last been overcome, and to the solution of which the efforts of the Federal Government, and especially of the Sao Paulo government, have so largely contributed, it is worth our while to pass in review a rapid history of this outstanding incident in our national life.

We possess in abundance documents containing all the details of this great struggle, but we prefer to employ the language of an illustrious foreigner who passed several months in Brazil studying this and other economic problems and who published a book on the result of his investigations.

We refer to M. Peire Denis and his much appreciated volume, *Brazil in the Twentieth Century*, where we read the following:

"In order to explain the intervention of the Sao Paulo Government in the coffee market, it is necessary to understand the supreme importance of coffee growing to the welfare of the State.

"Formerly Sao Paulo produced other commodities—sugar, cotton, etc.—but during the last 30 years all these have receded in favor of coffee.

"Everybody there depends upon coffee.

"Even the industries established within the State, as well as other branches of agriculture, can only subsist and prosper in proportion to the prosperity of coffee growing and the sale of the product.

"When the price of coffee drops the whole community suffers and not merely the individual, and the State resources are threatened, making it impossible to make ends meet.

"The export tax furnishes, in fact, two-thirds of the total revenue. That tax is in proportion to the price of coffee, following the market fluctuations.

"A crisis in the coffee trade, therefore, causes an immediate falling off in revenue. It is a public danger as well as a danger to individuals.

"Furthermore, it affects the fiscal equilibrium of the whole of Brazil. A country like Brazil, with but few accumulated economies, can not live without receiving annually from abroad a greater amount of gold than that which goes out. It is an indispensable condition toward being able to meet foreign engagements, thus maintaining the country's credit abroad and preventing its currency from deteriorating in value. Imported gold represents the value of national products sold abroad, and as coffee alone comprises the greater part of Brazilian exports, it is the gold received for such coffee that enables the country to pay to the foreigner in exchange for that which the national industry is incapable of producing.

"To suppress coffee exports is to profoundly injure the whole of Brazil, threatening its very existence. The coffee question is not a question affecting the States that produce that product alone, but the whole future of Brazil depends upon it, and therefore the part played by the Federal Government in the valorization plan is easily understood.

"From 1885 to 1896 coffee was sold at a good price. That was the truly prosperous period of agriculture, prices ruling about 70 francs per 50 kilos and sometimes rising as high as 120, or even 130 francs.

"The 1897 crop was a remarkably large one, and the world's stocks were immediately raised from five to six million bags. There was then a notable reduction in prices, which lasted till 1900, when they got firm once more. However, agriculture suffered but little during the first period of low prices.

"In the years 1897 to 1899 there was a great depression in exchange, and it so happened that although the price of coffee had dropped largely as regards its gold or selling price, it did not make such a notable difference in Brazilian currency prices.

"Due to this circumstance, the growers did not then feel the effects of the decline. It came some years afterwards, in 1901, when the world's total production reached 20,000,000 bags and with a world's visible supply of eleven and one-half million bags.

"Then prices fell to 30 francs per 50 kilos, and the decline continued during 1902 and 1903. There was, as a matter of fact, a small rise in values in 1904, which was further maintained in the following year.

"The price was now 40 to 50 francs per 50 kilos, but the stocks had been but little reduced, as in 1905 there was an accumulation of supplies of, say, 11,000,000 bags, or equivalent to seven-tenths of the world's annual consumption of coffee.

"It was under these conditions that in October, 1905, news from all parts commenced to pour in indicating prospects of a bumper crop in 1906, news which was later confirmed by the absence of frost and other unfavorable conditions, insuring perfect growth. It soon became evident that the rise of prices of 1905 could not be maintained, and calculations were wistfully made as to the probable world's consumption during the next few years and how long it would take to reduce the accumulation of stocks from the crop of 1906. Among these calculations there entered one favorable element which was absent when similar calculations were made in 1901. It was this: Since 1903 the Sao Paulo government had prohibited further planting.

"This was a very wise precaution, but it could not be expected to yield beneficial results immediately, as same could only be felt after sufficient time had elapsed, because the coffee plant does not commence to bear fruit for five or six years after planting of the young trees.

"The trees planted in 1902 did not yield a single berry until 1906, and this explains why the 1906 crop so far exceeded that of 1902, in spite of the prohibition to plant new trees.

"It was only after 1906 that the effects of the prohibition could become manifest.

"This law of restriction was only a palliative to prevent the crisis from becoming more acute. It did not supply the remedy, and more radical measures had to be resorted to.

"It is interesting to note some of the measures which were proposed, but not applied, in order to understand the atmosphere in which the ideas of valorizing coffee first breathed and flourished.

* * * * *

"All were agreed on one point, viz, that the actual Santos prices, so far from giving or guaranteeing a just return on the enormous capital employed on the plantations, did not enable the planter to live and pay his way, as the wages of his men, machinery, and transportation charges could not be materially reduced.

"Another point too, upon which all were agreed, was this: That the Government should take some steps—that it would not do to wait amidst the suffering and misery resultant from these circumstances for the process of natural selection to run its course—to eliminate the weakest on the principle of the case being a survival of the fittest.

"The Government of Sao Paulo did not hesitate, and the idea took root in the minds of some of the eminent men of the State that the best way out would be by valorization; that is, that the State should take upon itself to buy the excess of production, or surplus, keeping it out of the market for a requisite time until the reduction of stocks must perforce raise the price.

"It was reasoned that in the first place it is not true that the world's production is very large, taking an average year: but it is irregular, and one large crop gluts the market, leaving it to the deficits of following crops to normalize matters once more.

"It is also a law of experience that a large crop is always followed by a small one, sometimes by two or three small ones.

"To get over the crisis, therefore, it is only necessary to keep the surplus left by the "fat" years to be put on the market during the "lean" ones.

"It was argued that this operation would save the planters, and that there was every reason to expect it would be also profitable to those undertaking it.

"In the second place, it was felt that this sequestration of surplus of large crops should be undertaken by the Government, because private enterprise could not be relied upon to carry it out.

"It could not be expected that every planter would warehouse a certain portion of his coffee. The planters were, as a matter of fact, in a difficult situation, because up to the time of gathering their crop they live on credit, and must sell their coffee in order to pay their debts.

"Every planter has his commercial agent, who acts as an intermediate between the grower and the exporter, and known as a 'commissario,' who, were it not for lack of capital on the part of the planter, would have no cause for existence.

"This commissario is, before anything else, a banker, it hardly ever happening that the planter has sufficient funds of his own for running his farm without outside assistance.

"The months of the crops are to him, therefore, months of bills falling due and engagements to be met, thereby making the sale of his coffee an imperious necessity.

"During a few weeks every year arrivals of coffee flood the Santos market like an irresistible wave, upsetting the market and creating artificial prices, without consideration of the law of supply and demand. Was it not necessary that some public authority should remedy this evil by intervening in the market as a regulator?

"There was one great danger. The idea of such regulation was to raise prices.

"It was seen that the benefits accruing from a rise in the prices of Brazilian produce would also accrue to the competitors of Brazil in other coffee-growing districts of the world. Other places would, therefore, benefit gratuitously at the expense of the State of Sao Paulo, without taking any risk or incurring any of the expense entailed by valorization.

"It would not do for Sao Paulo to undertake the work at their own cost merely to enrich their competitors in Guatemala or Costa Rica.

"To prove that this fear existed in Sao Paulo, it is only necessary to refer to the trip made by Dr. Augusto Ramos, for the purpose of study, he being sent by the government to visit and report upon the situation in the other coffee-producing countries of South America.

"His work was published in book form by the secretary of agriculture in 1906.

"He found on all sides the same difficult situation, caused by low prices, as was the case in Sao Paulo, and that the advantage, from a physical point of view, rested with Sao Paulo, where the maturity was more regular and the crop less embarrassed by excessive rains. He also found that labor was scarcer and of a poorer quality than in Sao Paulo and that the organization and arrangement of the plantations were not so perfect. He concluded, therefore, that Sao Paulo could conserve the price of coffee, that it had a constant advantage over its most favored competitors, who would be eliminated one after another, the process of elimination having already commenced, and that no benefit would accrue by maintaining the price of coffee below 80 francs. The importance of that trip can not be overestimated.

"He persuaded the government of Sao Paulo that the business was possible. It was the foundation of valorization."

It would thus be seen from the above extract that the final intervention of the Sao Paulo government in the operation known as the "Valorization of coffee," produced such a notable repercussion all over the world, was nothing more or less than the sanction given to the almost unanimous opinion of the people of Sao Paulo, and that from its first application it produced benefits, veiled at first, but later on becoming so irresistibly manifest as to convince even those who had most stubbornly contested its advantages and practicability.

Not finding among the innumerable projects put forward and discussed a single safe and immediate solution of the coffee crisis, the Government decided

to commence by safeguarding its economic future, taking decisive steps to prevent the indefinite prolongation of low prices.

The cause of the low prices was the formidable disequilibrium between production and consumption, and as the latter could not be forced to show an increase in proportion to the expansion and development of the former it was decided to temporarily curtail, by legislation, the planting of new trees, and as consumption increased it was felt certain that commercial equilibrium would be restored and that those interested could again sell their coffee at remunerative prices.

This great measure would also inevitably give an impulse to the production of other commodities within the State, which until then had been neglected in favor of coffee.

It could also not help but improve the processes employed in the coffee industries themselves, which would now have to make use of more scientific methods for prolonging the life of the plant and increasing its production.

Legislating for the future, however, would not remedy the existing situation, which, owing to intolerably low prices, was passing through a crisis. Things would be worse still if, as might easily happen, there had been another crop of from twelve to thirteen million bags.

It was necessary therefore to intervene in another direction, and more radically. It was decided therefore to withdraw from the market all of the surplus coffee, which was the sole cause of the ruinous prices.

It was necessary, however, to proceed with great caution, in case the Government's action in curtailing the home market might give impulse and result in greater production on the part of other countries, thereby neutralizing the advantage which Sao Paulo hoped to reap.

It was known that if such occurred, it could only happen in other Latin-American countries, and in order to make investigations a special emissary was sent by the Government. In February, 1905, this emissary telegraphed his impressions from New York, which were of a tranquilizing nature, and confirmed the same later in his official report to the Government.

It was clear, therefore, that the valorization could be proceeded with without misgivings, and the Sao Paulo government then initiated operations on the lines indicated, taking every precaution possible to guarantee the success of the project.

The foregoing facts clearly demonstrate that Sao Paulo had taken every step possible to insure success and that it did not embark upon the plan as a thoughtless adventure, as some tried to make out.

There is no foundation whatsoever to the suggestion, which has sometimes been made, that the benefits which followed the Government's action were simply due to natural causes, and were not in any way influenced by such action.

What happened was just the contrary, as may be easily verified by examining the following table, showing the figures for the crops of four years preceding and of the four years succeeding the Government's action.

Four years preceding official intervention.

Years.	Crops.	
	<i>Bags.</i>	
1902-1903.....	16,655,000	} Average, 15,474,000 bags.
1903-1904.....	15,992,000	
1904-1905.....	14,445,000	
1905-1906.....	14,792,000	

Four years of intervention period.

Years.	Crops.	
	<i>Bags.</i>	
1906-1907.....	23,788,000	} Average, 18,418,000 bags.
1907-1908.....	14,882,000	
1908-1909.....	15,968,000	
1909-1910.....	19,059,000	

So far, therefore, from there having been a falling off in production, as has been suggested, there was a notable increase, a much larger increase, in fact, than was expected.

The Government's action was handicapped by an increase of nearly 3,000,000 bags to be dealt with.

In 1906 Sao Paulo was expected to produce twelve or thirteen million bags, but the crop turned out to be fifteen millions, thereby increasing the world's supply in that year to 24,000,000 bags.

But it did not cease there. In the following year the port of Santos received a further supply of nearly 9,000,000 bags, in itself nearly as large as the whole crop of 1901-2, which up to then constituted a record.

Greater difficulties still were caused by the crop of 1909-10, which contributed no less than 19,000,000 bags to the world's supply.

That is how natural causes influenced the situation. Instead of alleviating, they greatly accentuated the difficulties.

The most critical moment of valorization were the years 1906-7, when the markets of the world, as may be seen from the foregoing table, were flooded with the enormous quantity of 24,750,000 bags of coffee.

During that year, but only for a short time, prices fell at Havre to 35 francs.

Some years before, in 1902-3 and 1903-4, prices had fallen as low as 30 francs, owing to the great excess of production in those years over consumption.

Then the world's consumption was about 15,000,000 bags and the visible stock ranged between eleven and twelve million bags, the percentage of stock over consumption being 79 per cent.

In 1906-7 the world's consumption was about 17,000,000 bags, and the stock was 16,333,333, or a percentage of stock over consumption of 96 per cent.

Therefore, if in 1902-1904, with a percentage of stock over consumption of 79 per cent, prices fell to 30 francs, it may be easily imagined to what depths prices would have fallen in 1906-7, with the colossal percentage of 96 per cent.

It is evident that we would have seen for the first time prices fall below 25 francs, which would have been the ruin not of the planters alone, but of the whole State, because all of the great commercial and industrial interests of Sao Paulo are dependent upon coffee.

It is impossible to describe the situation which would thus have been created in the State, struggling with difficulties judged invincible, if the Government had merely taken steps of simple expediency, leaving the process of natural selection to do its work of destruction.

It would have been the ruin of the great coffee industry; it would bring about a complete disorganization of the commerce of Sao Paulo and the port of Santos, inseparably bound to the fate of coffee industry; it would have been the annihilation of those great transportation enterprises which are our pride; it would have meant the disnationalization of our territory, and, worse than all, it would have meant the death, commercially, of the present generation of Paulistas, upon whose shoulders of strength rests the richness and the prosperity of the State.

All honor, therefore, to Dr. Jorge Tibrica and his able secretaries, your excellency among them, for conceiving the idea of valorization of coffee by direct intervention and for standing by the entire population of Sao Paulo, then threatened with so much danger and ruin.

Results have proven that the steps taken were well considered. The coffee situation is now solid and not easily upset and will so continue indefinitely, provided the public authority is vigilant to see that the conditions which led up to the crises that we have left behind are not repeated.

It is not necessary to attempt an estimate of the results attained. Sufficient it is to say that the price of coffee in Santos is above Rs. 7\$000 per 10 kilos.

As to the liquidation of the compromises assumed by the State it may be affirmed that within two or three years they will be all paid off, leaving a considerable balance.

As a proof of this statement it is sufficient to say that the loan of £15,000,000 sterling will on January 1, 1911, be reduced to £10,000,000, not only by means of amortizations already made but also by the large balances which on that date we shall have in the hands of our bankers. The loan of £3,000,000 contracted through the Federal Government has already been reduced by amortizations to £2,800,000.

It will be thus seen that the obligations which weigh heavily directly upon the State treasury in this connection will on January 1, 1911, amount to about £13,000,000.

The Government stock of coffee in the hands of bankers was 6,842,374 bags, of which 500,000 bags were sold during the current year, leaving 6,300,000 bags on hand.

If we take as a basis the price of 66 francs per 50 kilos, now ruling at Havre, without taking into consideration the greater value of our coffee, which is nearly all composed of the higher grades, we have, at present figures, 6,300,000 bags of the approximate value of £20,000,000.

Deducting the £13,000,000 that remains to our debit from this £20,000,000 worth of coffee, we are left with a balance of £7,000,000 for the reduction of our floating debt and other compromises.

Economically, therefore, besides keeping millions from ruin, the operation was highly advantageous to the State from a financial standpoint.

The foregoing observations I have felt it my duty to make to your excellency on the occasion of presenting to you the accounts of this colossal operation, which the State decided to take up in obedience to the most exalted motives of patriotism.

These accounts are made up with great care and clearly demonstrate the perfect organization of the treasury.

We invite the examination of all, feeling sure that if errors be found in them the very nature of the operation and its magnitude will be considered only a small circumstance.

In conclusion, I may be allowed to put on record the thanks which are due to so many for the part they took in this memorable struggle, and to whom Sao Paulo shall ever be grateful. In the first place, a tribute is due to that eminent Brazilian, Dr. Alfonso Penna, back upon whom Sao Paulo shall ever look with everlasting gratitude for his relevant and efficient support. Thanks are also due to the State congress and also to the representatives of Sao Paulo in the Federal Congress, whose unflinching solidarity constituted an invincible and triumphant force.

I would also mention the name of my friend, Dr. Augusto Ramos, for the invaluable services rendered in studying the subject hereinbefore cited and for his persevering and intelligent campaign on behalf of valorization in the public press.

If I may be permitted to mention one house out of so many who took part in the operations and whose services to the State were most valuable, I would name that of Messrs. Theodor Wille & Co.

I can not bring this report to its conclusion without calling your attention to the dedication and zeal of the treasury staff and its illustrious chief, Col. Luiz Gonzaga Azevedo, whose competence and active intelligence so largely contributed to the results obtained, as well as that of Dr. Luiz Arthur Verella, the State financial attorney, whose assistance and study of the various contracts were most efficient, and to all those in the department of accounts whose duty it was to examine and write up all the accounts referring to the operation, often necessitating working at night, the chief of which, Mr. Carlos de Carvalho, deserves the highest possible compliments.

OLAVO EGYDIO, *Financial Secretary.*

Sao PAULO. *September 30, 1910.*

(The foregoing is a copy of English translation as rendered by the Brazilian Review in its issue of December 27, 1910.)