



Growing organically means the coop can obtain a higher price for the coffee by tapping into the fast growing market for organic foods in North America. And it protects the farmers from exposure to toxic pesticides. The coop will use the above-market premiums to advance their organic program, and to improve social, educational and medical programs in the region.

**Looking at 1989**

In 1989, on the planning front, we are weighing two directions: growth as a coffee & tea company versus growth as a more diversified company with food products other than coffee and tea. We are evaluating these options from a business perspective and on the basis of how each contributes to our goal of "opening doors for Third World farmers."

In 1989 we expect gross sales to be \$600,000 with a profit of \$10,000.

We will travel to Peru to visit the Ashaninkas farmers. We will attend the world alternative trading conference in Holland in May and be among the founders of the international trade association to be formed there. And we introduce our market report "Opening Doors," a communication vehicle for store managers—informal, detailed information about our work with Third World farmers.

**Notice of Annual Meeting: Wednesday, May 3, 1989, 4 PM** at the office of Equal Exchange, 443 Albany St., Boston, Massachusetts, 02118. Please let us know if you are planning to attend.

Third



Annual Report

March 6, 1989

(Drawings from Minka, Oct. 1984, Huancayo, Peru)



**Here's what we set out to do:** In last year's Annual Report we said "Our operational goals for 1988 are (1) to achieve financial breakeven while elevating managers' salaries to a new more appropriate level; (2) to build the sales base 50% to \$350,000; and (3) to prepare for important changes—equity campaign, personnel plan, new products, warehouse space—coming in 1989."

**In a nutshell, here's what we did do:** In 1988 we raised managers' salaries from \$12,000 to \$20,000 and increased sales 82% from \$231,000 in 1987 to \$421,000. We not only prepared for important changes, we made them—doubling our physical space, raising \$32,000 in new equity and \$34,000 in new debt, adding a new product line, and hiring a fourth full-time manager and one part-time intern. Financially, we fell just short of breakeven, losing \$3,287 on the year.

**Reasonable cause to celebrate.** 1988 was a strong year for Equal Exchange:

- We increased our base of wholesale accounts (food coops and stores) from 97 to 225;
- We halted the decline in distributor sales reported last year and ended the year with distributor sales 60% over 1987;
- We received generous support from the Adrian Dominican Sisters and several special shareholders amounting to \$66,000 in new working capital which enabled us to introduce Peruvian organic coffee and maintain our exceptionally low out-of-stock record;
- We staved off a major assault by U.S. Customs in late Spring as they threatened to completely shut off the importation of Nicaraguan coffee. Our public relations and lobbying effort helped stall and eventually stop the assault. And it led to

national coverage of Equal Exchange in the New York Times, the Christian Science Monitor, the Boston Globe and in Time Magazine. (See the 1988 Mid-Annual Report for details.)

•We introduced our third product line in October 1988, Peruvian organic coffee, which is doing very well.

There were disappointments too. Though the *Samusala* Tea line is worshipped and consumed with vigor inside Equal Exchange, it is selling slowly in the marketplace. The name has proven a poor choice, too difficult to pronounce, more difficult to remember. And the package is not competitive against tea industry giants like Twinings.

Also in 1988, we faced our first *bad debt* as two accounts were unable to pay due to insolvency—just a part of business, but always a rude awakening.

**Investing in equal exchange—what are we doing here?**

There is no cause for celebration in any of the three countries where Equal Exchange now trades. In Nicaragua, hurricane Joan ripped across the country last October destroying whole towns, agricultural crops and industry, and leveling parts of the capital city Managua. The economy is in shambles.

In Sri Lanka, the ethnic conflict continues to claim scores of lives each month. It is not clear whether the newly elected president and Parliament will be able to end the conflict.

In Peru, inflation and unemployment are rampant, hunger is widespread, the national debt is enormous, and the country is subsumed in a brutal civil war between the government and two revolutionary movements: the Maoist *Sendero Luminoso* (Shining Path) and the Marxist *Tupac Amaru*.

To avoid being overwhelmed by the gravity of affairs in these countries, as investors in and practitioners of *equal exchange*, we all must step back and take a long-term perspective.



Third World poverty developed over hundreds of years. In a short period of time the best a young and very small business like Equal Exchange can hope for is (a) to serve *symbolically* as a new direction for trade relations between the Third World and the developed world; and (b) to make a significant economic contribution toward the survival of trading partners our size—small farmers' cooperatives in need of markets and marketing assistance.

Your investment and belief in Equal Exchange in 1988 enabled us to make *Cafe Nica* a symbol of resistance. During the effort that stopped the Reagan administration from slamming the door entirely on Nicaraguan trade, *Cafe Nica* became a media star—"famous for fifteen minutes," in the words of Andy Warhol.

And your investment also enabled us to begin trading with the Ashaninkas, an association of coffee farmers in Peru.

**Introducing the Ashaninkas**

Equal Exchange's *smooth and rich* Peruvian coffee is grown organically by a farmers' cooperative officially called the Ashaninkas Association of Independent Coffee Producers. The cooperative is located in the mountainous rain forest in the center of Peru directly west of the capital city Lima. The nearest city is Satipo.



The Ashaninkas Association gets its name from the indigenous peoples of the area, the Ashaninkas Nation. Half of the cooperative's members are Ashaninkas people who live in villages organized communally. The other half are Peruvians who are newcomers to the region. Of the 155 members, 80 are active and certified for organic production by OCIA (the Organic Crop Improvement Association).

**EQUAL EXCHANGE, INC.  
BALANCE SHEET**

	12/31/89	6/30/89	12/31/88	
<b>ASSETS</b>				
<b>CURRENT ASSETS</b>				
Cash	\$21,451	\$7,162	\$29,270	
Accounts Receivable, Trade	\$48,926	\$41,520	\$31,193	
Less Allowance for Bad Debt	(\$980)	(\$1,744)	(\$1,529)	
Inventory, Goods for Resale	\$201,394	\$168,835	\$124,889	
Inventory, Supplies	\$0	\$0	\$636	
Prepaid expenses	<u>\$2,599</u>	<u>\$939</u>	<u>\$733</u>	
<b>Total Current Assets</b>	<b>\$273,390</b>	<b>\$216,712</b>	<b>\$185,192</b>	
<b>OTHER ASSETS</b>				
Equipment	\$8,365	\$6,616	\$5,725	
Less Accum. Depreciation	(\$3,116)	(\$2,417)	(\$1,763)	
Leasehold improvements	\$1,561	\$1,561	\$1,561	
Less Accum. Amortization	(\$1,218)	(\$705)	(\$533)	
Organizational Expenses	\$13,231	\$13,231	\$13,231	
Less Accum. Amortization	(\$662)			
Other Assets	<u>\$4,546</u>	<u>\$1,073</u>	<u>\$1,040</u>	
<b>Total Other Assets</b>	<b>\$22,707</b>	<b>\$19,359</b>	<b>\$19,261</b>	
<b>Total Assets</b>	<b>\$296,097</b>	<b>\$236,071</b>	<b>\$204,453</b>	
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>				
<b>CURRENT LIABILITIES</b>				
Accounts Payable, Trade	\$35,012	\$22,333	\$4,052	
Accrued Payroll Taxes	\$2,736	\$3,330	\$3,232	
Notes Payable: Bank L.O.C.	\$23,000	\$9,000	\$0	
: Computer	\$0	\$200	\$800	
: Other	<u>\$65,044</u>	<u>\$45,940</u>	<u>\$47,144</u>	
<b>Total Current Liabilities</b>	<b>\$125,792</b>	<b>\$80,803</b>	<b>\$55,228</b>	
<b>OTHER LIABILITIES</b>				
Note Payable: Computer	\$0	\$0	\$0	
Notes Payable: Other	<u>\$55,210</u>	<u>\$55,870</u>	<u>\$52,940</u>	
<b>Total Other Liabilities</b>	<b>\$55,210</b>	<b>\$55,870</b>	<b>\$52,940</b>	
<b>Total Liabilities</b>	<b>\$181,002</b>	<b>\$136,673</b>	<b>\$108,168</b>	
<b>STOCKHOLDERS' EQUITY</b>				
Paid in on capital stock common \$1.00 par value issued and outstanding:				
Series A (voting)	\$3	\$3	\$3	
Series B (nonvoting)	\$6,017	\$6,017	\$6,017	
Additional Capital: Series A	\$72	\$72	\$72	
: Series B	<u>\$136,115</u>	<u>\$136,115</u>	<u>\$136,115</u>	
Donated Capital	\$1,209	\$1,209	\$1,209	
Retained Earnings	(\$47,132)	(\$47,132)	(\$43,844)	
Profit or Loss This Year	<u>\$18,811</u>	<u>\$3,114</u>	<u>(\$3,287)</u>	
<b>Total Stockholders' Equity</b>	<b>\$115,095</b>	<b>\$99,398</b>	<b>\$96,285</b>	
<b>Total Liabilities and Stockholders' Equity</b>	<b>\$296,097</b>	<b>\$236,071</b>	<b>\$204,453</b>	



The Equal Exchange, Inc. 1989

# Annual Report

## The Short of It

In 1989, Equal Exchange earned a profit of \$23,730 on sales of \$660,000. Both our profit and gross sales were higher than we projected for the year. Sales of organic Peruvian coffee grew steadily. And we introduced *Cafe Libre* — “the anti-apartheid coffee” — a blend of Zimbabwean and Tanzanian coffees. Given an unusually high incidence of staff illness, and the consequent shortage of hands, it was a productive year we are very proud of.

## A new face for Nicaragua

On the day this report was drafted, Tuesday, February 26, it was announced that Violeta Chamorro had defeated Sandinista leader Daniel Ortega in their run-off for President of Nicaragua.

By all indications, the contras will be forced to lay down their weapons, ending at least their military fight. President Bush has announced the end of the U.S. trade embargo, halting the U.S. economic war against the Nicaraguan people. The U.S. government, having successfully destroyed the Nicaraguan economy, will now send aid and pose as its savior.

Assuming that the Sandinistas hand over the government as they have indicated all along they would, the end of eleven years of Sandinista rule raises many questions for Central America followers:

- What will become of the Sandinistas and the social and military organization they have so tirelessly built over the last decade?
- Can UNO (the National Opposition Union), a wide-ranging political coalition including conservative leaders on the one-hand, and socialists and communists on the other, achieve sufficient clarity and sustain enough unity to effectively govern?

- Assuming the contras are disbanded, the U.S. embargo is lifted, and economic aid flows freely toward the new victorious government in Nicaragua, will peace and renewed trade with the U.S. lift the Nicaraguan economy out of the doldrums? If so, at what cost to the Nicaraguan people? At what cost to the rural peasantry and the urban poor, the majority of whom have historically been the losers when free-market measures have been imposed suddenly on a developing economy?
- Could things really get much worse for the average Nicaraguan citizen?

Cafe Nica followers may be wondering what impact an end to the embargo will have on their morning cup of coffee. Equal Exchange hopes to deepen our trade with the peasant cooperatives formed during the ten years of the revolution. With the end of the embargo in sight, we will attempt to find one or two cooperatives with whom to trade directly. We would like to trade with a grassroots cooperative that is interested in growing coffee organically.

Stay tuned!

#### Cafe Libre — “the anti-apartheid coffee”

Mandela is free. The African National Congress has been legalized. The world is watching to see whether black majority rule in South Africa will be established through political negotiation, or whether it will be won as the result of continued violent confrontation.

In November 1989, Equal Exchange joined the European alternative trade groups in offering an anti-apartheid coffee which we are calling *Cafe Libre*. Cafe Libre is a blend of exceptionally rich coffees from two of the frontline states, Zimbabwe and Tanzania. For every pound Equal Exchange sells, we are setting aside twenty cents to support an organization fighting against apartheid. Our longer-range goal for Cafe Libre is to trade directly with a coffee cooperative in southern Africa.

The frontline states — Angola, Botswana, Mozambique, Tanzania, Zambia, and Zimbabwe — are those nations directly threatened by South Africa's economic and military attack against freedom for black Africans. The damage to their economies from South African aggression has been estimated to be \$6<sup>1/2</sup> billion pounds a year.

By selling a blend of the highest quality coffees available from southern Africa under the tradename Cafe Libre, we are inviting our customers to take a stand against apartheid through the act of purchasing and consuming their daily coffee.

### EQUAL EXCHANGE, INC. INCOME STATEMENT

	<u>1/1-6/30/89</u>	<u>7/1-12/31/89</u>	<u>Year Ending 12/31/89</u>
<b>SALES</b>			
Sales: Consumers	6,841	7,153	13,994
: Wholesale	137,890	160,893	298,783
: Distributor	127,538	165,600	293,138
: Manufacturers	11,031	43,155	54,186
: Misc	<u>0</u>	<u>0</u>	<u>0</u>
<b>Total Gross Sales</b>	<b>283,300</b>	<b>376,801</b>	<b>660,101</b>
Less: Total Sales Discounts	<u>6,183</u>	<u>6,375</u>	<u>12,558</u>
<b>Net Sales</b>	<b>277,117</b>	<b>370,426</b>	<b>647,543</b>
<b>Less: Cost of Goods Sold</b>	<b><u>188,204</u></b>	<b><u>261,409</u></b>	<b><u>449,613</u></b>
<b>Gross Margin on Sales</b>	<b>88,913</b>	<b>109,017</b>	<b>197,930</b>
Gross margin on brokerage	<u>1,108</u>	<u>0</u>	<u>1,108</u>
<b>Gross Mrgn. on Sales and Brokerage</b>	<b>90,021</b>	<b>109,017</b>	<b>199,038</b>
<b>EXPENSES</b>			
<b>Less: Total Operating Expense</b>	<b><u>84,797</u></b>	<b><u>86,121</u></b>	<b><u>170,919</u></b>
<b>Income (Loss) from Operations</b>	<b>5,224</b>	<b>22,896</b>	<b>28,119</b>
Plus Total Other Income	799	971	1,770
Less: Interest Expense	<u>2,225</u>	<u>3,934</u>	<u>6,159</u>
<b>INCOME (LOSS) PRETAX</b>	<b>3,798</b>	<b>19,933</b>	<b>23,730</b>
Less: Income Taxes	<u>683</u>	<u>4,236</u>	<u>4,919</u>
<b>NET INCOME (LOSS)</b>	<b>3,115</b>	<b>15,697</b>	<b>18,811</b>

- We will launch our second private placement offering in early summer. We seek to raise working capital to finance growth through 1993. This offering was planned to begin January 1, but was delayed due to staff illness.

Enclosed are samples of our new bin cards. Stores use these cards to label their bulk coffee bins. Our new graphic look was designed with assistance from Gunn Associates and our in-house designer, Sue Niewiarowski.

Thank you for your ongoing support and interest.



*The frontline states of southern Africa: Angola, Botswana, Mozambique, Tanzania, Zambia, and Zimbabwe.*

**Organic Peruvian coffee takes the lead**

In August 1989, Michael Rozyne visited the Ashaninkas Independent Farmers' Association in the jungle surrounding Satipo in central Peru. After rising from sea level to 16,000 feet, and then down again to near 4,000 feet on the journey to Satipo, Michael toured a number of the farms where Equal Exchange's organic coffee is grown. From his visit, we learned how the farmers' association has eliminated local merchants from the chain of trade, making it possible to pay farmers a slightly higher price for their coffee beans. The association has plans to purchase a truck this year, allowing them to make pick-ups directly from the farms and deliver supplies in exchange. Next year, the association plans to build its own warehouse on land it owns near the airport in Satipo.



The civil war in Peru has increased the danger for visitors to this region. It is unlikely we will be able to return to there in the near future.

On the homefront, organic Peruvian coffee is vying to become Equal Exchange's number one selling product, possibly surpassing Cafe Nica. Strong growth is projected for 1990.

**A change in Equal Exchange's capital structure**

With the approval of our shareholders, we have converted all common stock to preferred stock paying a 5% annual return, effective 1990. And to reward our founding shareholders for the faith they showed in Equal Exchange during the start-up years, we have revalued their stock from \$25.00 per share up to \$27.50.

Furthermore, we have adopted an internal capital accounts system of accounting designed for use by worker cooperatives. This system is modeled after the Mondragon cooperatives in the Basque region of Spain, and has been structured for U.S. use by the Industrial Cooperative Association of Somerville, Massachusetts.

Under this system, eligible worker-owners employed by Equal Exchange have their own internal capital account. At year's end, after the 5% preferred dividend has been paid to shareholders, remaining profits are divided: 80% is reinvested in the

business, and 20% is shared among employees. Part of the employee share is paid out in cash. The rest is allocated to employees' internal capital accounts to be paid out over time.

These changes more clearly define what financial expectation shareholders should have of Equal Exchange. They safeguard the business by holding back a significant share of profits for reinvestment in future alternative trade activity, and thereby reduce the need to constantly raise new capital by borrowing and selling stock. And in the best of years, financially speaking, these changes offer workers a reward for hard work.

**A glance at 1990: from the specific to the more general**

- Equal Exchange is fast outgrowing its warehouse space and will be moving sometime during the late spring or summer.
- Bookkeeping will be computerized in June. Long live manual labor!
- We intend to add Swiss water-processed decaffeinated organic Peruvian coffee by the fall.
- Our business projections for 1990 are \$925,000 in gross sales with a before-tax profit of \$20,000. This profit is a lower percentage of sales than the amount achieved in 1989 due to the cost of moving into a significantly larger space. We plan to hire two full-time employees, one in summer, the other in November, increasing our staff from 4.5 to 6.5 full-time equivalents.
- We will be visiting farmer cooperatives in Mexico (March) and in Zimbabwe and Tanzania (spring/summer) in search of new direct trade partners growing coffee.
- The most important part of Equal Exchange's R&D work is constantly improving our knowledge of what alternative trade is and learning how to do it better. In 1990, for the first time, we will allocate part of one staff person's time specifically for this purpose.
- We want alternative trade to be a familiar concept to millions of U.S. citizens by the turn of the century. To accomplish this, we are committed to growth of 40-50% per year throughout the next five years. The strategic debate that emerges from this commitment is whether to focus entirely on the specialty and natural food market for growth, or whether to develop a coffee we could sell through supermarkets.



the coffee. Suddenly, it was as if a revolver had been aimed directly at the heads of the four small companies importing Nicaraguan coffee via Holland and Canada.

Overnight we ourselves were "substantially transformed" from coffee distributors into media and Congressional organizers. Together with the other Nicaraguan coffee importers and a very active network of Central America solidarity organizations, we helped mobilize a nationwide urgent response.

Picture the Office of Foreign Assets Control, a middle level miniature bureaucracy within the U.S. Department of Treasury, located on Capitol Hill but set apart from Treasury in an adjunct office building. As a reporter for the New York Times put it, "they don't even get their windows washed on a regular basis." Here is where the ultimate authority over the Nicaraguan embargo rests—an office not unfamiliar with political jockeying, yet not especially interested in being dead center in the middle of a political conflict.

Phone calls from Congresspeople and reporters from Texas to Minnesota to Maine deluged the Office of Foreign Assets Control demanding to know why, at the very moment the Contras and the Sandinistas were sitting down to negotiate peace, the administration was preparing to lash out against Nicaragua by further tightening the embargo.

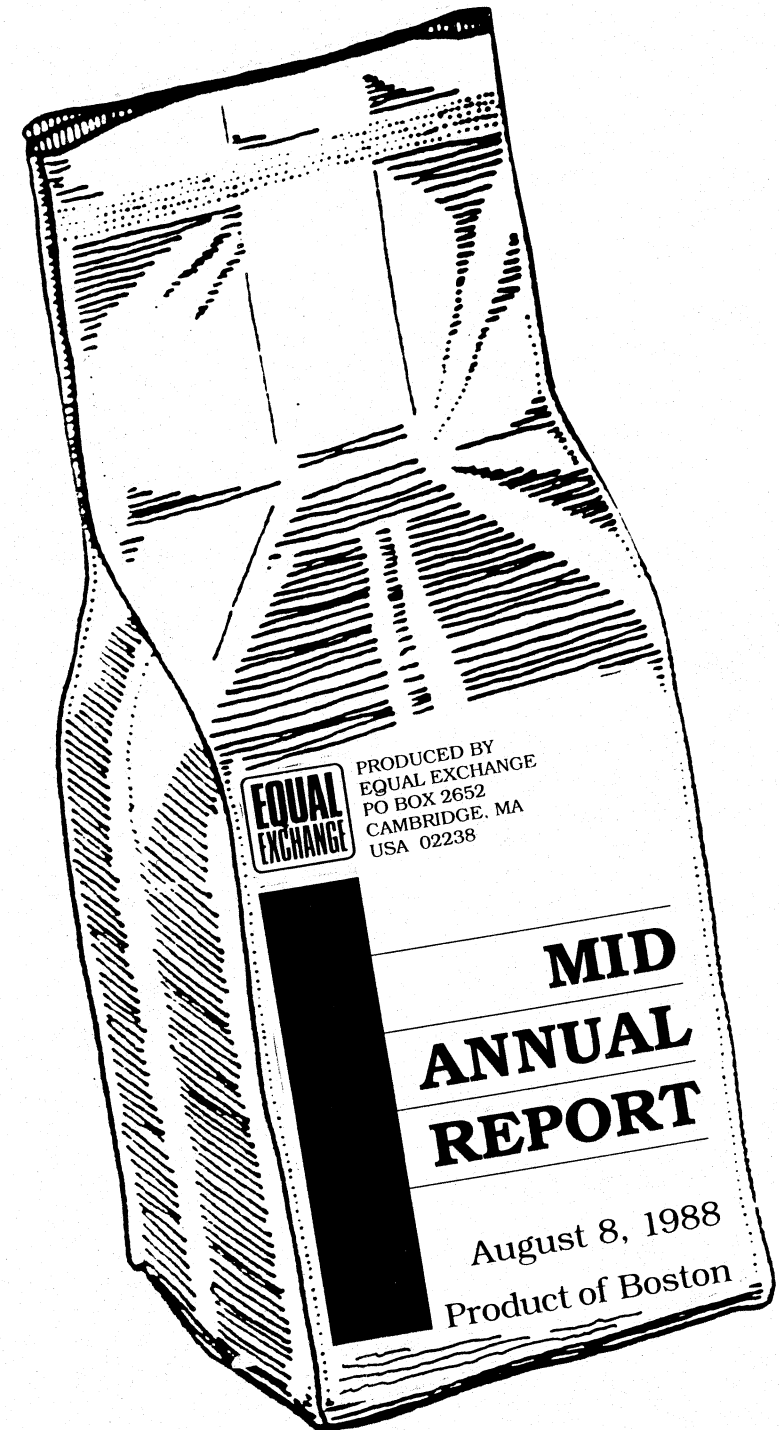
The story made its way to the daily papers of Los Angeles, Chicago, New York, and Boston. It was carried by AP wire to unknown numbers of smaller papers and radio stations across the country. And it ended up in Time Magazine.

Our unified effort was successful, at least, in temporarily halting the embargo clampdown. It was successful because the Central America solidarity network in the United States has been plodding its way toward peace for many years, inch by inch, raising the consciousness of U.S. citizens and policy-makers about the war in Nicaragua. But this particular effort was inspired by leadership from Congressional aide Jim McGovern and Congressperson Joe Moakley of Boston.

Is the danger over? Unfortunately not. Our struggle to conduct trade free of constant intervention by U.S. regulatory bureaucracies has moved to the Boston office of U.S. Customs. High-level officials there tell us they receive complaints from customers that our label is confusing. Because the vertical word "N-I-C-A-R-A-G-U-A" appears slightly larger than the horizontal words "Product of Canada," consumers get confused as to the country of origin of this product. We were initially asked to take "N-I-C-A-R-A-G-U-A" off the label altogether. We are in the process of a settlement which allows a less prominent "NICARAGUA" to appear.

We are under the microscope of the Reagan administration, proving one of our earlier advertisements to be true: "Cafe Nica, at last a coffee that keeps Ronald Reagan awake at night."

What is the impact of government intervention on the business? The impact is that we spend more time than we'd like to playing defense and less time organizing a strong offense. It adds to the cost of Nicaraguan coffee, and we are constantly devising ways to keep the cost down. But it is all part of the job of alternative trading. And we are proud and determined to keep the issue of the U.S. economic war against Nicaragua in the news and in the coffee departments of stores throughout the country.



*The News in Brief!*

## Six Month Review

**Financial**—Good, steady growth continued throughout the Spring. During the first six months of 1988 Equal Exchange lost <\$3,396.57> on gross sales of \$176,000, slightly better than was originally projected for this period. Essentially, we are operating at breakeven. And, if the Reagan administration does not eliminate trade with Nicaragua altogether (full story below), we expect to end the year with a small profit.

**Personnel**—long live the triumvirate: We are currently hiring a fourth manager, a sales manager, the first hired full-time employee to join the three co-founders at Equal Exchange. Six finalists are now being interviewed. We hope to make our selection in late August.

Summer intern Bill Lehmborg, senior at Bowdoin College (Brunswick, Maine), was invaluable to the workplace this summer—as an accounts receivable manager, warehouse shipper, and in his project identifying sources of development capital for our Third World trade partners.

**Brand new!!! organic coffee** from a cooperative in the Amazon jungle of Peru comes on board October 10! Test-marketing this coffee in parts of the East and Midwest only confirmed our high expectations for this product. Rich, mellow flavor. Certified organic. Produced by a cooperative comprised largely of indigenous tribal people of the Ashaninkas nation. We will be paying producers a price over the going market rate.

**Black pepper farmers in Sri Lanka** stand to gain a higher price and substantially increased market control if plans between Sarvodaya and Equal Exchange materialize. We're working on a five-year plan which includes trading directly with Sarvodaya spice farmers—a glimpse at the 1990's.

**Weather**—Boston, like Chicago and most of the country has been sweltering all summer—lots of sweat equity around here.

**Sports**—Equal Exchange co-founder Rink Dickinson is recovering from surgery on his knee due to an injury suffered playing basketball—back in the starting lineup September 1.

*Close to the Last Drop!*

## The Wrath of Mr. Reagan

If only market share were measured by the proportion of time a company commands from the ensemble of U.S. regulatory agencies! Why we'd be the envy of Juan Valdez.

The story begins March 28 when Equal Exchange learned the Reagan administration was quietly preparing to eliminate completely what little trade still remained with Nicaragua. The original embargo legislation, initiated May 7, 1985, allowed for the importation of Nicaraguan goods that were "substantially transformed in a third country." In our case that meant roasting and packaging

**WHY IS THIS MOUSE SMILING?**

**Dickinson with his beans**

**SANCTIONS** Dickinson with his beans

**DRUGS & POLITICAL CANDIDATES**

### SANCTIONS

## Close to the Last Drop

Even after President Reagan imposed a trade embargo against Nicaragua's Sandinista regime in 1985, Americans partial to that country's rich coffee could still find it in gourmet stores (at about \$7 per lb.). The Administration allowed the coffee to be sold because it did not enter the U.S. directly from Nicaragua: foreign firms roasted and packaged the beans, then delivered them to American companies. But now the Treasury Department is considering an outright ban as a way of further pressuring the Sandinistas to become more democratic.

Such a move would be devastating for the small companies that have been importing \$1.4 million worth of the coffee annually. Says Rink Dickinson, president of Boston-based Equal Exchange, which sells Nicaraguan coffee under its Cafe Nica label: "We feel the rug has been arbitrarily pulled out from under us." Sympathetic Congressmen are urging the Administration to drop the idea.

TIME, APRIL 25, 1988

### Business Notes



SANCTIONS Dickinson with his beans





# U.S. Moves to Ban Imports of Nicaraguan Coffee

By PETER T. KILBORN  
Special to The New York Times

WASHINGTON, April 4 — While the Nicaraguan Government and the contras are negotiating a peace settlement, the Reagan Administration is considering ways to tighten the trade embargo that it imposed on Nicaragua three years ago, Administration and Congressional officials say.

President Reagan ordered the embargo in May 1985 to disrupt the Nicaraguan economy and to put pressure on the Sandinista leadership. But one of the major Nicaraguan exports, coffee, continues to reach the American market. It is sold primarily by gourmet food stores and through churches and other nonprofit institutions that support the Nicaraguan Government.

The coffee enters the United States legally through third countries, which roast and package it. The primary sources for the beans are Canada and Belgium. The net trade restraints would also apply to Nicaraguan shrimps, another product that is processed and packaged in third countries.

#### A New Definition

Americans groups that import coffee, mostly small businesses and cooperatives, said the Administration, and previously listed the shrimps and coffee as the products of the third countries. The Administration will now redefine them as strictly Nicaraguan.

Administration officials declined to comment on the new policy, but they prepared a ruling to block imports of the coffee and shrimp. The value of the third countries is not clear, but in the case of the coffee, it does not appear to exceed a few million dollars.

Importers said that Belgium and Canada, in processing the coffee, had until now been considered the countries

## Administration wants to tighten a trade embargo.

of origin and therefore exempt from the embargo.

But the Office of Foreign Assets Control, the arm of the Treasury Department that enforces embargoes, has prepared a new ruling redefining the coffee as Nicaraguan. The regulation, which the Treasury Department can unilaterally adopt, would take effect 30 days after it is published in the Federal Register.

#### Not 'Sufficiently Transformed'

A copy of the ruling said, "For example, Nicaraguan coffee that is decaffeinated, roasted, ground and packaged in a third country will not be considered sufficiently transformed to lose its Nicaraguan identity."

The six-page document is signed by R. Richard Newcomb, the director of the Office of Foreign Assets Control. It has not been signed by Francis A. Keating, the Assistant Treasury Secretary for Enforcement, whose approval is required for the act to take effect.

A Treasury Department spokesman who declined to be named suggested that the office had only recently taken note of the imports. The spokesman said department officials had spotted a guest for a comment from the White House was unavailing.

#### Source Never Disclosed

One of the importers of the coffee, Jim Goetsch of Friends of the Third World, in Fort Wayne, Ind., said there had been no attempt to hide the origin of the coffee. The packages he sells read "Pure Nicaraguan Coffee Pro-

cessed in Canada," he said. "We're a nonprofit development agency," he said. "We work with Nicaragua in assisting them to market their coffee."

"Several years ago, when the embargo went into effect, the O.F.A.C. said it was legal if the coffee was roasted in another country," Mr. Goetsch said. "Then we called them and they said they have a new interpretation."

Michael Rozyne, one of three owners of Equal Exchange, a small business in Boston, said the Treasury office had also told him of its plans. He said his company sells coffee and tea to gourmet food stores.

The coffee is called "Café Nica." In smaller print, the packages say "Nica-

raguan coffee."

#### Very Little Trade

With the exception of American exports of medical supplies and other humanitarian goods, direct trade between the two countries has all but dried up. A study by Glennon J. Harrison, an economist at the Congressional Research Service, showed that the value of American trade with Nicaragua had declined from \$184 million in 1984, the year before the embargo was imposed, to \$3.9 million in 1986.

But trade with the United States, once Nicaragua's biggest customer, has been replaced by greatly expanded trade with Europe, Canada, Guatemala and the Soviet bloc.

# The New York Times

## Boston Sunday Globe

Founded 1872

WILLIAM O. TAYLOR, Chairman of the Board and Publisher  
 JOHN P. GIUGGIO, Vice Chairman      JOHN S. DRISCOLL, Editor  
 RICHARD C. OCKERBLOOM, President      BENJAMIN B. TAYLOR, Executive Editor  
 MARTIN F. NOLAN, Editor, Editorial Page

## Ideology and coffee beans

Just when the Reagan administration ought to be exploring ways to put its relationship with the government of Nicaragua on a new footing, it has come up with a ruling aimed at carrying economic warfare to a higher level.

The Treasury Department's Office of Foreign Assets Control, which enforces the embargo on trade with Nicaragua that President Reagan declared in May 1985, wants to close off a loophole through which a small amount of processed Nicaraguan coffee has trickled through to the US market legally.

This intensification of economic warfare — a substitute for the military attack Congress ended when it terminated military aid to the contra intervention force — is mean-spirited and foolish.

The 1985 embargo allowed imports of Nicaraguan products that had been "substantially transformed" in another country. A handful of US importers — usually churches and non-

profit organizations — bring in coffee that has been roasted and packaged in Holland and Canada. Nicaraguan coffee has been marketed as Café Nica by a fledgling company called Equal Exchange, which specializes in Third World agricultural imports. Its other products include organic coffee from Brazil and tea from Sri Lanka.

The new ruling reads: "Nicaraguan coffee that is decaffeinated, roasted, ground and packaged in a third country will not be considered sufficiently transformed to lose its Nicaraguan identity." The language echoes definitions of ethnic purity in the Third Reich.

The Treasury Department has deferred implementation until the end of the 60-day Nicaraguan cease-fire, passing the bean to the State Department for the attention of that versatile chief inspector for purity of ideology — and now perhaps coffee beans — Assistant Secretary of State Elliott Abrams.