Commonwealth Economic Papers: No. 8

# The Common Fund

Papers prepared for
Commonwealth Technical Group

## Volume 2: Papers prepared by the Commonwealth Secretariat

September 1977

Commonwealth Secretariat

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Commonwealth Secretariat
Marlborough House, London SW1

# CONTENTS

# PREFACE

Volume 1 of this series presented three papers prepared by private consultants for the Commonwealth Technical Group on the Common Fund. These papers dealt with selected operational aspects of the Common Fund as well as some of the wider issues which must be taken into account in determining the scope of the Common Fund. In this sense the papers in Volume 1 can be described as policy oriented.

The eight papers presented in Volume 2 are of a different character. The Economic Affairs Division was requested by the Technical Group to prepare a number of short papers summarising the stage of the dialogue and identifying some of the principal issues on which action appears to be necessary. The papers were intended to be largely of a stocktaking type - describing the existing situation and the path over which the dialogue had travelled. Their purpose was twofold - firstly, to present factual data and descriptions of the ongoing dialogue on aspects of the Common Fund and of the individual commodity negotiations which have been set in train following UNCTAD Resolution 93(IV); secondly, to identify some of the contentious issues before the international community in its continuing deliberations on the establishment of the Common Fund as a separate entity designed to play a key role in achieving the objectives of the Integrated Programme for Commodities.

With the agreement of the Technical Group, a selection of the papers prepared is being made available in this Volume to a wider audience.

The first paper describes the main issues on which the current negotiations are centred; it sets these issues against the background of the agreed objectives, structure and purpose of the Common Fund and draws attention to some of the possible consequences of alternatives now under consideration.

Paper two considers the case for the inclusion of "other measures" as part of the activities of the Common Fund in its Second Window and brings together some of the partial data on the costs of the several activities mentioned from time to time as falling within the scope of the Second Window.

The manner in which the proposals for a Common Fund have evolved over time is described in paper three.

The remaining papers present supporting data. Estimates of the cost of buffer stocks have been a contentious issue in the debate on the Common Fund; but each of the several estimates available is based on independent and not always consistent assumptions; the consequent results inevitably differ. The bases of a number of the cost estimates are given in paper four.

Commonwealth Heads of Government required the Technical Group to have particular regard to the position of the least developed and net importing developing countries; some considerations relating to these countries, in so far as the Common Fund is concerned, are outlined in paper five.

Under various proposals being considered for structuring the finances of a Common Fund, the resources available to existing commodity organizations have assumed considerable importance; data on the resources available to the Tin and Cocoa Organizations are given in paper six.

Paper seven describes the progress of negotiations on the Common Fund, highlighting the salient features of the negotiating positions of the Group of 77, the Group B and the Group D countries in so far as these are known.

The Integrated Programme for Commodities has two principal components - a series of international commodity agreements covering a range of commodities of export interest to developing countries and the Common Fund which is its integrating mechanism. The successful completion of the individual commodity agreements is a critical aspect of the Programme. Paper eight describes the progress (or lack of progress) achieved in the negotiations on individual commodities; the information given has been updated up to early October 1977 but may not fully reflect the current situation.

These papers, which were prepared as brief background material for the Commonwealth Technical Group on the Common Fund, are being published to assist the ongoing negotiations on the Integrated Programme for Commodities and the Common Fund.

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# Some of the Principal Issues in the Negotiations for a Common Fund

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# Some of the Principal Issues in the Negotiations for a Common Fund

Contents | Page No.

# Some of the Principal Issues in the Negotiations for a Common Fund

## Introduction

1. There is agreement by the international community to establish a Common Fund as a new entity to play a key role in achieving the objectives of the Integrated Programme for Commodities as set out in Resolution 93 (IV) at Nairobi. The objectives, functions, form, mode of operations and management of such a fund are still to be negotiated. Taking into account the evolution of the discussions so far, the main issues in the final negotiations and the ones to which the Technical Working Group may wish to pay particular attention would seem to be as given below.

## Politico-economic issues

2. In considering the issues related to the Common Fund, it would be unrealistic to ignore political questions as these inspire many of the technical arguments which are raised in objection against or in support of the Common Fund. The first issue is that the Common Fund as conceived by UNCTAD, represents the first major international facility in which the developing countries are expected to have a significant, if not a predominant voice. It is in fact seen by the developing countries as the first effective test of the concept of economic interdependence. The effectiveness of the Common Fund will therefore determine the content of this new experience in international economic management. The second is that the Integrated Commodities Programme including the Common Fund is an attempt to manage international commodity trade. A number of developed countries, which internally regulate their primary production sectors[1] and insulate them from other national and international forces and from monopsonistic practices that sometimes characterise the market for primary products, find difficulty in accepting regulation of international commodity trade. The Group must take a view on these issues.

## Objectives

### Buffer stocking

3. The Common Fund was proposed originally to finance buffer stock operations. Developing countries have proposed that it should finance other measures also which are intended to serve the objectives of commodity agreements.

4. The importance of the role of financing buffer stocks depends on the advantages of buffer stocking as a regulatory mechanism in commodity trade compared with other mechanisms and the range of commodities requiring control mechanisms for which buffer stocking is suitable. It is important therefore to give some thought to these issues.

5. Buffer stocking as a control mechanism could be undertaken internationally or nationally with international coordination. In other words International Commodity Agreements (ICAs) could undertake international buffer stocking, or stocking could be undertaken by national authorities with stocking policy being determined, coordinated and financed internationally through ICAs.

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1 The rationale and objectives of intervention by some developed market economy countries in their agriculture are dealt with by Professor Tim Josling in Price Stabilisation and Income Support Measures in Agriculture in the U.S., Canada, EEC and Australia: Lessons and Implications for the Regulation of International Commodity Trade, in Volume I of this publication.

6. In the preparatory meetings now being held for the negotiation of agreements for individual commodities, national buffer stocking has been looming larger than originally envisaged. It is therefore important to consider the financial implications of national as well as international stocking.

7. Financial implications are involved also whether the objective of ICAs should be "pure" buffer stocking or buffer stocking supplemented by other measures such as export quotas and production control. The use of supply management reduces the amount of financing required although it poses a problem about the adequacy of stocks to prevent the ceiling price being pierced. Whether "pure" or more inclusive types of buffer stock arrangements should be adopted is a matter for the ICA concerned. However, some consideration of this issue might be necessary in view of the effect on financial requirements.

Diversification and "other measures"

8. Many developing countries are firm in demanding that a Common Fund should have a facility to finance measures other than buffer stocking which would contribute to achieving the wider objectives of ICAs. The measures include diversification, research and development, productivity improvement, market promotion and the encouragement of processing facilities for natural products competing with substitutes.[1]

9. The argument has been raised that there already exist international financial institutions which are providing finance for these measures so that there is no need for duplicating institutions. However, duplication does not necessarily mean wasteful competition any more than the multiplicity of banks means a waste of economic resources. Besides, the important question is the overall objectives which are to be achieved by the ICAs. "Other measures" could be supportive of the pricing objectives and policies of ICAs. There is merit in looking at the need and scope of such "other measures" in relation to the price stabilisation policies and the wider objectives of ICAs.

10. Besides, there is the relevant fact that buffer stocking is a more suitable mechanism for the commodities of some exporting countries than for others. A widely supported commodity financing facility requires a balance of objectives and functions taking into account the varied requirements and interests of the important commodities for different developing countries. The proposal for other supportive measures therefore is construed as an important element in seeking to achieve the goals of the Integrated Programme for Commodities of which the Common Fund is a part.

Macro- economic effects

11. International inflation and international economic instability have become serious problems in recent times; there is increasing recognition that the comprehensive commodity policy that a Common Fund could help to bring about and support, could have significant favourable effects on these problems. Global economic management could be improved by an international device which could provide non-inflationary demand stimulation through developing countries during periods of recession. The Common Fund could also assist in recycling the surpluses of OPEC countries through utilising petro-dollar surpluses for investment in stocks of commodities exported by developing countries. These macro-economic considerations suggest that social returns to buffer stock investments financed through international

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1 See the paper on The Second Window for "Other Measures".

arrangements would far exceed direct commercial returns. If this is the case, it provides justification for the subsidisation of such investments through highly concessional loans to the Fund and the creation of international liquidity for soft on-lending to buffer stock schemes.

## Type of Common Fund

### Source of finance or pool of finance

12. Given a general indication of the range of commodities that might be suitable for buffer stocking and the scope of activities of the Fund, the very important issue of the type of fund that would be suitable to facilitate or provide financing for buffer stocks must be examined.

13. The developing countries have been supporting the proposal for a Fund as a principal source of finance. Many Group B countries have tended to favour a weak central facility - the pool of finance concept - in which ICAs would raise their financing independently of a common facility. ICAs would deposit their surplus funds with the Fund which, in turn,would lend to other ICAs in need of funds.Some variants of the pool idea admit of a Fund which would be a source also, although to a minor extent. The decision on the type of fund to be recommended would depend very much on how the advantages claimed for the source concept are viewed. The following advantages are possible:

(i) it would economise on the use of capital for buffer stocking because price cycles for individual commodities tend not to be synchronised;

(ii) funds could be made more readily available and at a lower cost because of the greater access to credit, and the spreading of risks involved in a multi-commodity operation;

(iii) the prior assurances on the availability of finance would facilitate the setting up of commodity agreements and the choice of buffer stocking as a control mechanism where this is a suitable device;

(iv) specialised buffer stock financing would encourage the development of expertise in financial management and of appropriate instruments for the maximum utilisation of potential sources of funds for this type of activity taking into account its special liquidity requirements;

(v) a common financing facility could provide support for commodities for which an ICA has not yet been established thus enhancing the catalytic role mentioned in(iii);

(vi) to the extent that the Fund earns surpluses it could make some provision to a Second Window for the financing of "other measures" and so enhance the effectiveness of the individual ICAs in reaching their global objectives;

(vii) it would provide greater scope than the pool concept for assisting in global economic management and promoting international economic stability;

(viii) it provides a firm basis for determining country participation in the management and control of the Fund.

14. Possible benefits from this central source concept could be compared with the advantages of the pool of finance concept. Capital savings are possible from the pool concept compared with the situation in which there is no central facility for independently financed individual commodity organisations. In a pooling arrangement their use of assets as collateral for loans would be analogous to that of the commodity bonds which have been discussed from time to time. The savings, however, are not likely to be as large as those from the source concept. The source type of Fund also offers possibilities of raising finance by rediscounting warehouse warrants or through the improved credit rating which the possession of such warrants could provide. It provides also greater scope for acquiring information and expertise on tapping capital markets and utilising whatever potential exists for raising capital for buffer stocks from such markets.[1] It is possible then that the source concept can lead to less demands for capital from individual member countries of ICAs. Prior and ready availability of finance make possible a catalytic role which would not be present in the case of the pool concept.

15. On the other hand, the pool concept may pose fewer management problems in the reconciliation of conflicts of interests between different commodities in terms of capital requirements and the need for maximum limits to borrowings by individual ICAs. Operating via the pool concept avoids the need for making assumptions of commodity coverage, country participation and estimates of capital requirements prior to the establishment of the Fund.

16. One of the possible reasons why the adherents to the pool concept arrive at their view is that they see the pool concept as a means of ensuring the autonomy of the individual ICAs vis-a-vis the Fund. As against this, however, it must be noted that the fundamental decisions which will affect the rate of stock accumulation or disposal will be taken by the ICAs within their provisions, but finance will have to be obtained from some source anyway; in these circumstances, it may be considered that the potential weakening of the ICAs by the central source concept is illusory and deviation from it could both increase costs to the individual ICAs and weaken the effectiveness of the buffer stock as a stabilisation mechanism.

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1 In this connection note may be taken of the fact that the Common Fund could itself issue an instrument to secure its borrowings from the market based on a composite of the stock warrants which individual ICOs pledge with it. Preliminary indications from bankers suggest that this could be quite feasible and simplify the operation of the Fund.

Variants of pool/source

(a) Absorption of existing agreements

17. Some variants of the type of fund proposed involve a mixture of the source and pool concepts. On the one hand, some existing ICAs utilising the buffer stock mechanism - the tin and cocoa agreements - have made their own provision for financing. The accommodation of these agreements within the source concept will involve some dilution of the concept since these organisations must be given the choice concerning the extent to which they would allow existing direct contributions to them to be handed over to the Common Fund or future contributions to be made directly to the Fund.

(b) Fourcade proposal

18. On the other hand, the proposal made by M. Fourcade, the French Minister of Economy and Finance, at UNCTAD IV involved elements of the pool and source types of funds. Under the proposal contributions would be made to individual commodity organisations; when a number of agreements have come into operation, surpluses would be pooled in a Central Fund which would facilitate transfers and use between the individual organisations according to their needs and surpluses. Additional resources could then be contributed directly to the Central Fund including loans from international organisations such as the IBRD, thus reinforcing the source element.

19. When the Central Fund becomes operational, to the extent that it is able to raise its own resources, it would reap the advantages of the source concept. However, initially the catalytic role would not be available and even eventually it seems that the Fund's own resources would be a minor part of total financing since they seem to be meant only for such special situations as exceptional financing needs and to help countries in difficult circumstances to meet their contributions to individual commodity organisations.

(c) United States position

20. While the US supports the pool concept, it seems that there is beginning to develop some acceptance of an element of the source concept, in that, consideration is being given to the provision of supplementary resources direct to the Fund through, for instance, a limited overdraft facility at the IBRD or IMF. This view allows the possibility of a Second Window with funds contributed voluntarily to be used as a source for non-buffer stocking measures.

21. Like the Fourcade proposal, this US view allows only a limited element of the source concept. However, it should be noted that the US is concerned that if buffer stock ICAs are to be established, financing must be adequate since inability to defend the floor price could encourage the adoption of supply management measures which the US now does not support.

22. The extent to which the source concept is included in the above proposals is limited. The important question though is whether its inclusion is so framed as to allow any advantages that might accrue from it to lead to its expansion. It may appear that the concept is being tried in too limited a form to allow this evolution.

## Capital requirements

23. Capital requirements of the Common Fund would depend on the type of Fund adopted since some capital saving (through off-setting) might be possible if the principal source of finance concept is adopted. The UNCTAD Secretariat estimated capital requirements assuming a principal source of finance type of fund. If the proposal to be adopted contains a large pool of finance element, appropriate adjustments may have to be made in the estimates of capital requirements.

24. The UNCTAD Secretariat has estimated capital requirements for buffer stocking and non-stocking activities at $6 billion of which amount about $3 billion would require to be called initially. The view has been expressed that capital requirements have been greatly underestimated. In the case of one product alone for instance - copper - estimates made by the US show that about $5 billion would be required whereas the UNCTAD estimates show the requirement at about $1 billion. While some margin of error in the estimate is to be expected and should pose no serious problems, a large one would have important implications for the viability and financial management of the Fund.

25. The Technical Group may wish to examine the basis on which the estimates have been made.[1] Inadequate financing for buffer stocks could paradoxically increase the amplitude of the swings in prices through the encouragement of speculation. At the same time, the estimates of minimum stock needs of individual commodity agreements must be assessed against the other elements of an ICA dealing with supply management and minimum purchases. However, the Group may wish to note that the forecasting of capital needs is inherently a hazardous exercise and that different assumptions can yield widely differing results.

## Capital subscriptions [2]

### Capital subscription/borrowing

26. In raising the $6 billion required, the UNCTAD Secretariat suggested a subscription/borrowing ratio of 1:2. Initially therefore, $1 billion would require to be raised as subscription and $2 billion as loans. The Group may wish to consider whether this ratio is appropriate in the light of potential sources of funds which might be available to the Fund, the kind of on-lending rate necessary and the interest burden which could be tolerated.

27. If a pool of finance type of fund is to be adopted, then the borrowing potential may be less and subscriptions may have to provide a higher proportion of the capital requirements.

### Burden sharing

28. In allocating the capital subscription, the criteria proposed include trade shares in the commodities covered and economic capacity as reflected by total GNP and GNP per capita.

29. The Technical Group may wish to give consideration to proposing alternative criteria taking into account differences that might be required in the pool or source concept. For instance, it might only be possible to take economic capacity into account in a very limited way in the pool concept.

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1 The bases of some of the estimates of the cost of buffer stocking are described in the Paper "Comparative Study of the Estimates of Capital Requirements for Buffer Stock Financing" in this Volume pp 49-78.

2 Financial considerations are discussed by CRU in A Common Fund - Financial Organisation, Operations and Management, in Volume 1 of this publication.

30. In examining criteria, consideration would have to be given to the following:

(i) the type of Fund to be adopted. (The type of Fund to be adopted might itself be influenced by the fact that some criteria such as economic capacity are easier to incorporate in one type than in the other);

(ii) the proposal that developing countries should have a substantial or majority voice in the management of the Fund;

(iii) the capacity of some countries to afford capital subscriptions in the convertible currencies required;

(iv) the possibility of accepting subscriptions in local currencies for some countries; and

(v) the need for importing countries to make a substantial contribution whether the pool or source type is adopted. In the case of the pool concept contributions would have to be made directly to the commodity organisations.

Borrowings

31. If the source of finance is to be the principal element the scope for borrowing might be substantial. Means will have to be found to facilitate such borrowings. The need for concessional borrowing would depend on what is deemed an appropriate on-lending rate and concessional borrowing requirements would determine the extent to which different sources are relied on. Borrowing in capital markets would be facilitated by guarantees or the extent to which stocks could be used as collateral. Since the stocks would be owned by the individual commodity organisations, the possibility of using warehouse warrants as collateral not only for borrowing from the Fund but also for loans by the Fund from capital markets would have to be explored. The particular liquidity requirements for financing buffer stocks would have to be taken into account.

32. The IBRD had agreed in principle to lend directly to the Tin Council but it is understood that the disbursement conditions were not found satisfactory. There is an IMF Buffer Stock Facility which lends to Governments in balance of payments difficulties to help meet their contributions to buffer stock commodity organisations. Important questions for the Group would be the extent to which the international financial organisations should be important sources of finance for buffer stock financing and whether such lending should be directly to the Common Fund or to commodity organisations as well as to member Governments.

33. If the Fund is predominantly a pool type, the scope for borrowing would be less but the individual commodity organisations would have to borrow from other sources such as the capital markets where Government guarantees and warehouse warrants could be used as security. The difficulties posed for such borrowing by the particular liquidity requirements for financing buffer stocks strengthens the case for a special central financing facility for buffer stocks.

Financing "other measures"

34. Under current considerations, a Second Window is proposed for financing "other measures"; this is because of different requirements in terms, conditions and periods of loans and because also of possible wide differences among participating countries in willingness to make funds available. Developed market economy countries are reluctant to create another facility for lending for these purposes. There is,however,among them some acceptance of a facility which would be financed by voluntary contributions. The developing countries perceive a more formal participation in the financing of these activities including possibly a specified proportion of resources from subscribed capital, transfers from the net income accruing from the Fund's buffer stock facility and voluntary contributions.

35. The Group will need to consider the scope for the Second Window receiving contributions as grants or soft loans from Governments and the basis on which such contributions could be organized. Capital subscriptions on the basis of pledges from groups of countries - developed, non-oil developing and OPEC - as in the case of IFAD could be considered as a possibility. Clearly however, the need for the funds will be determined by the objectives accepted for the Common Fund and on the resolution of source/pool conflict.

36. Assuming that a Second Window is agreed, the conditions under which on-lending will take place from the window would also have to be considered. Among the questions to be examined are:

(i) would loans and grants be made through commodity organisations or directly to Governments?

(ii) how should these loans be related to other institutional loans?

(iii) since concessional distribution of funds and lending for long periods may be necessary for some purposes such as diversification, what arrangements would be proposed for replenishment of these funds and how often should such replenishments take place?

Voting structure and management

37. The voting structure and management adopted would depend very much on whether the Fund is a source or pool type. The Integrated Programme is concerned largely with commodities of substantial export interest to developing countries, and it is seen as the first substantial reform in the implementation of a New International Economic Order. Developing countries, therefore, seek majority control of the Common Fund. Majority capital subscription would enable them to have this; equal capital participation by producing and importing countries based on trade shares and a significant capital subscription by OPEC could also yield this result. However, account has to be taken of the burden which such capital subscriptions may impose on the least developed countries. Besides, net importing developing countries may find a pure trade share criterion unacceptable also.

38. In view of the size of the capital subscription, economic capacity has been proposed as an important criterion in determining capital subscriptions to the Fund. But how large a divergence between capital subscription and vote allocation would developed countries be prepared to allow? An important

rationale for divergence between capital subscription and voting strength lies in the importance of raw materials and especially non-renewable raw materials in economic activity. The question is - what weight should be assigned to non-financial elements in determining voting structure assuming that there is agreement on the position that developing countries should exercise majority control. It should be noted that the developed countries have already exercised voting strength in individual commodity agreements without making any financial contribution to the Fund for buffer stocks. There is no new principle involved,therefore,in assigning majority control of the Common Fund to developing countries even if they do not subscribe the bulk of the capital.

39. In looking at the position of developing countries, account must be taken of the likelihood that Group D countries and China will be members of the Common Fund.

40. In IFAD there has been a complete departure from the principle of vote allocation according to capital subscription. Equality of representation in the Governing Council and the Executive Board have been granted to three categories of countries which are recognized - Category I (developed market economy), Category II (OPEC) and Category III (non-oil developing). Distribution of votes within categories takes into account capital subscription but in Category III complete equality is maintained but on a regional basis with equal representation for Africa, Asia and Latin America.

41. The example of IFAD may offer some useful guidelines and principles for the voting structure and management of the Common Fund. If the principle of majority control of the Common Fund by developing countries is accepted, this could be implemented through the usual allocation of votes in international financial organisations by the equality and proportionality principles. It would require however, the allocation of a greater proportion of votes on the equality principle than has been done in the past.

42. The above considerations relate to the principal source concept. If a pool type of Fund is adopted, since capital subscriptions are not made directly or substantially to the Fund, votes may be determined on the basis of capital subscriptions to the ICAs; in these circumstances, because of the traditional equal allocation of votes between exporting and importing countries in ICAs special arrangements will have to be devised to bridge any divergence between capital subscriptions and votes. It is perhaps pertinent to observe that the commodity problem has become such a symbol of progress in achieving a NIEO that, from a political standpoint, aside from economic considerations, the developing countries may find the pool concept totally unacceptable because it weakens central control and prevents the formation of a global view of the commodity problem.

43. Proposals made so far on voting structure have been based largely on the principal source concept and any deviation from this concept would require some basic rethinking on the voting structure that would be appropriate for this new international financial institution.

Relationship between the Common Fund and ICAs

44. Another important issue concerns the influence which the Common Fund should exercise over policies of ICAs, e.g. pricing policy. In considering this issue, a view has to be taken on the question whether Common Fund influences which could promote the adoption of some general principles in international commodity policy would necessarily be a bad thing.

45. The financing of "other measures" would have to be undertaken on a source basis, e.g. by direct contributions on a grant or concessional basis from Governments or organisations such as OPEC. If a pool type is therefore adopted for buffer stock financing, the two windows will require completely separate management. Thus instead of two windows, two loosely associated or affiliated institutions might be required.

Net importing developing countries

46. The terms of reference of the Group require it to give attention to special concessions which net importing developing countries may need under the Integrated Programme. Where net importing countries are also least developed, they would receive concessions if economic capacity is taken into account in determining capital subscriptions. Would additional incentives be needed for them to participate in the programme and in the Common Fund? Inflation is high not only in developed countries but in developing countries also. In fact in many developing countries, rates are even higher than in developed market economy countries. The favourable effects of stabilisation policies on inflation and security of supplies could therefore be of great benefit to net importing countries. However, the possibilities of such beneficial effects might not yet be fully recognised and might need to be spelled out.

47. The assumption behind the concern for net importing countries is that the Integrated Programme might be price raising. But would this necessarily be the case since importing countries have an equal voice in ICAs? The ICAs are, after all, concerned with pricing policy. The immediate concern is, however, with the Common Fund and this could be regarded as price stabilising and neutral on the question of the price trend. It could therefore be argued that if adverse effects are involved for net importing developing countries by the Integrated Programme, these would emanate at the level of ICAs and it is at this level that remedies should be sought. It is at this level also that some appropriate remedies are possible, e.g. rebates and concessional sales.

# The Second Window for "Other Measures"

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August, 1977.

## The Second Window for "Other Measures"

Contents | Page No.

## The Second Window for "Other Measures"

### General background

1. It has been widely recognised that stocking operations would be inadequate in many cases for the realisation of the objectives of the Integrated Programme for Commodities. Resolution 93 (IV) listed various non-stocking measures, the implementation of some of which requires financing. In the Manila Programme of Action[1] it was suggested that these "other measures" might be financed by the Common Fund as part of the Integrated Programme. These measures are of particular importance in the case of non-stockable commodities, but they appear to be also required in parallel with stocking operations in certain cases in order to achieve the objectives of Resolution 93 (IV).

2. A wide variety of "other measures" in support of the aims of Resolution 93 (IV) can be envisaged. The UNCTAD documentation on the financing of "other measures"[2] lays particular stress on diversification and increasing productivity so as to increase competitiveness with substitute (particularly synthetic) products; however there are others, some of a stabilising nature, others of particular relevance to the structural problems of particular commodities, which may be required. For jute and hard fibres, for example, supply management through production rationalisation and export quotas is seen as essential. For jute, tea and bananas diversification is needed and will be important, but expenditure on research and development has been identified as essential in the case of jute, hard fibres, tropical timber, cotton and vegetable oils. Promotional measures have been recommended for hard fibres and tea. Improvements in transport and marketing are needed for cotton, while improved shipping facilities are required for coir and tropical timber. Compensatory financing has been suggested for tropical timber, cotton (for the least developed countries), vegetable oils, coffee and bananas. Crop insurance has been suggested for banana producers. Assistance with the provision of storage facilities in developing producing countries can be envisaged for a number of important commodities. Finance for the processing of crops might be appropriate in some instances.

### Justification of "other measures" as part of the Common Fund

3. There is some misgiving in certain quarters, particularly developed countries, over the Common Fund becoming involved in "other measures". Against the background of Resolution 93 (IV), it is difficult to sustain arguments against the Common Fund being actively involved in financing such activities. Such arguments are sometimes couched in terms of the possible duplication of activities now being carried out by other

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1 TD/195, February 1976.

2 TD/B/IPC/CF/L.3, December 1976.

international financial organisations. But the argument is untenable. Carried to its logical conclusion, it would render redundant not only the regional development banks but also many of the other existing international organisations. But analogy does not provide the main rebuttal; the essential issue is whether it is feasible to construe the Common Fund playing its key role in the Integrated Programme for Commodities unless it is enabled to be active in the field of "other measures". It is suggested that while the extent of its financial involvement in "other measures" should and would be constrained by the availability of funds, the Common Fund should play a significant role.

4. In Resolution 93 (IV) the international community decided to come to grips with the international commodity problem, as part of its commitment to instal a New International Economic Order. In this connection, it agreed that: (i) a specific programme of action should be taken to sustain development and income in developing countries extensively dependent upon the production for export of primary commodities; and (ii) the Common Fund would be established as a key element in this programme and would serve to assist individual commodity organisations, comprising both producers and consumers, in achieving their long-term goals as enshrined in agreements. Therefore, to the extent that the attainment of such goals requires the introduction of "other measures", indeed to the extent that the price stabilisation and supply assurance goals normally included in such agreements require or can be facilitated by "other measures", then it would be inconsistent to argue that the Common Fund should not be actively concerned with such operations. Indeed, in some commodities of major export interest to developing countries, and which are included in the new open-ended list of commodities to be covered by the IPC, e.g. bananas, measures such as productivity improvements, diversification, market promotion and export receipt stabilisation would constitute important elements of an international agreement since buffer stocking is inapplicable as a price stabilisation device. In such commodities, producer/consumer co-operation would be concerned mainly with non-stocking measures; but action will be important also in cases where buffer stocking is a feasible stabilisation device. Over and above these technical points there is the further consideration that in the context of ensuring that the commodity problem is effectively tackled, it would be important to build into the arrangements for commodities surveillance mechanisms similar to those which have been included in other international systems; this is to ensure that action by one commodity organisation does not destroy economic prospects for another, as that would be an instance of beggar-thy-neighbour policies.

5. An integrated programme, of the kind to which the international community is already committed by Resolution 93 (IV), must include a range of commodities; it must cover those commodities for which buffer stocking is an effective price stabilisation device as well as those for which it is not. In individual cases, "other measures" will be of either limited or of overriding significance; but they must be covered and cannot be defined out of the scope of what is a key instrument in the overall programme.

6. The conclusion that the Common Fund should be equipped to assist individual commodity organisations in achieving their overall goals through providing support in managing buffer stocks and in introducing "other measures", should in no way be presumed to imply interference with the autonomy of the individual commodity organisations. The point is that the Common Fund must be equipped to assist in solving the commodity problem as a whole in a manner consistent with the wider interests of the international community as the international community has already decided.

7. In undertaking its role, the Common Fund must have access to finance. In this connection the reality is that "other measures" will require, in certain cases, financing on longer term than that required for buffer stocking. The nature and type of financing therefore will determine the extent of the role which the Common Fund will be able to play. Prudence will require, and financial management will dictate, that the financing available to the Common Fund for buffer stocking be kept separate and distinct from that required for "other measures"; such strict separation and management will be necessary to facilitate the fund raising activities of the Fund, especially for buffer stocks. For these practical reasons therefore the concept of a Second Window for "other measures" is sound; indeed it is the only feasible way of proceeding.

8. A realistic appraisal of the situation will reveal that the financing available to the Fund for "other measures" will be severely limited, at least in the early stages. Indeed given the reluctance of a certain part of the international community to concede the principle of the Fund being involved in these other activities, the result will be that such financing will be very limited indeed. The UNCTAD Secretariat[1], for example, has calculated that of the $ 6 billion which has been mentioned as the total resources which should be used as the target for the Common Fund, $ 1.0 to $ 1.5 billion might be available for "other measures" and for the stocking of commodities outside the "core" ten.

9. In these circumstances, the relevant question which falls for consideration by the international community is not whether the Common Fund should be actively involved in "other measures", but rather the modalities by which the productivity of the limited funds which might be made available to it for the purpose could be increased through appropriate co-ordinated arrangements with other sources of financing and expertise. Again, in advancing this proposition, the bogey of the autonomy of other agencies being impaired by the activities of the Common Fund, should be laid to rest quickly. What is at stake is how the Common Fund, with its exclusive interest in the problem of commodities, could maximise the beneficial effects of the activities of other agencies whose interests are not similarly exclusive. Joint participation with individual countries and with regional and international agencies in programmes of action designed to achieve specific goals in the field of specific commodities - without

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1 See TD/B/IPC/CF/L.2, December 1976.

deleterious effects on others-appears to be the route which should be prescribed.

10. In other words, given the limited amount of financing which would be available to the Common Fund for "other measures", there should be prescribed a limit to the extent of the financial involvement of the Fund in any specific programme. But to operate under this constraint, it will fall upon the Fund to mobilise other sources of finance and expertise, using its limited financial resources as a catalyst, to implement any specific measures which are, or are likely to be, encompassed within an individual commodity agreement.

11. In its activities related to the financing of buffer stocks, consideration is being given to the Common Fund playing a role in financing internationally coordinated national stocks within an international agreement and national stocks outside of agreements in at least two types of cases:

(i) where an international agreement is being negotiated;

(ii) where an international agreement is not likely because production of the commodity concerned is of interest mainly to the developed countries; cotton and groundnuts are cases in point.

The question naturally arises whether the Common Fund should also embark upon "other measures" in such cases. If it is conceded that the Common Fund, in the exercise of its functions under its Second Window, is expected to assist individual international commodity organisations in reaching their long-term goals in a manner which takes the wider international interest into account, then it would be difficult to justify extending the activities of the Fund into these two specialised areas.

Second Window will be small

12. If $ 1.0 billion were to be disbursed from the Second Window over, say, five years, this would only represent an annual investment of $0.2 billion a year. This amount may be compared with the total World Bank and IDA approved loans to agriculture of $ 1.63 billion in 1975-76, and a rough estimate of recent annual commodity diversification investment by the World Bank and other international financial bodies of $ 0.2 to $0.25 billion. The Asian Development Bank itself approved loans for agriculture in 1976 of $ 0.2 billion, and IFAD, investing primarily in food production in the poorest countries, is expected to approve annual loans of $ 0.3 - $ 0.4 billion in 1978 and 1979, i.e. more than the Second Window is likely to invest in a year in commodities.

13. Current thinking suggests that the amounts available to the Second Window could be increased by additional grants from member countries, by transfers from the Fund's net income and by borrowing on capital markets. It remains an open question whether such grant funds will be 'additional' or will be a diversion from other avenues of aid. Even if they are a transfer and not additional, it does not necessarily follow that there will be no net gain or loss in terms of world welfare. However, the reality is that such grants are likely to be small. Equally, in the early years of the Fund's life any operating surplus which the Fund would secure on its stocking activities would be both small and be required to support its buffer stock programme. Loans on the capital market would not be easy to raise in the early years either. One is therefore led to the conclusion that a modest Second Window is the only realistic expectation.

Costs and priorities in "other measures"

14. There is a wide variety of possible measures related to alleviating the commodity problem in developing countries, which may be included under the general heading of "other measures" and which would then qualify for support under the Common Fund. Among those which have been mentioned as warranting some priority attention - being related to the stabilisation of commodity prices and export income - are diversification, productivity improvement, the provision of storage facilities, research and development, market promotion, crop insurance and adjustment assistance.

15. There has been some attempt to study the financial requirements arising out of certain of these functions, and the costs which have been worked out are given later. In a very important sense,however, the estimates of costs are merely diversionary and are useful mainly as a ranking device. This is so because the commodity problem has several dimensions, each changing over time. It is neither possible nor useful to enter into extensive debate over the size of the figures and the basis of their estimation. The fact of the matter is that when an institution such as the World Bank was being set up, it was not based on a universally accepted estimate of the costs of world development and reconstruction; the institution was intended to mobilise resources to give a special thrust to the widely recognised need for reconstruction and development; the expectation was, and this has been borne out by the facts, that such an institution would be better able to mobilise resources, act as catalyst and speed up the processes of development. What became important then was a determination of priorities and the policies which should guide its operations. Such functions were left to the Executive Board which was able to respond to changing circumstances as the Board saw them.

16. This is the logic which might guide the establishment of the Second Window of the Fund i.e. an attempt might be made to assign broad priorities for the Fund, due regard being had to two important factors:

(i) the overriding purposes to be served by the Fund; and

(ii) the amount and nature of the resources which the Fund has available and is likely to raise.

17. The overriding purposes of the Fund have been fully set out earlier and in Resolution 93 (IV). With regard to the funds available, mention has already been made of the fact that the Second Window is likely to be a small facility, at least in the initial stages. Further, if it is not to be completely dependent on grant and grant-type funds, the nature of the projects which it finances must have a substantial bankable element. This is not to argue a case that the Second Window should not be used for projects which do not have an obvious and determinable 'pay-out' period. Rather, it is to suggest that: (i) the mix of projects in which it participates should generate confidence so that its market borrowing capability for the purpose would not be impaired; and (ii) the arrangements it concludes with other agencies interested in the commodity problem should be supportive of the long-term evolution of the Second Window.

Priorities

18. Given these considerations, there is prima facie indication that the priority areas for action in the Second Window should be (i) the provision of storage facilities for buffer stocks; this, in the normal course of events, should be a bankable project which should finance itself on normal development terms; (ii) productivity improvements; this should also be bankable, the increased yields being adequate to finance the costs; (iii) diversification; while this is not prima facie bankable, there is justification for the provision of blended loans i.e. a mixture of normal development loans and IDA type loans; (iv) research and development; this is not a bankable activity; but part of the commodity problem now existing derives from the fact that research and development expenditure on commodities of export interest to developing countries has been minimal in the past; estimates in respect of certain crops e.g. sugar, indicate that R & D expenditure on sugar cane has been about one-tenth of the expenditure on beet. As a long-term international development item of expenditure, such an investment is likely to yield bankable returns; from a national or project point of view, however, the returns cannot be asserted to be above the bankable line; (v) crop insurance; certain developing countries are particularly susceptible to damage by natural disasters; if commercial insurance is undertaken, the cost is likely to be excessive for such countries. Yet this is part of the international commodity problem and the associated poverty of large parts of the developing world. While therefore subsidised insurance rates may have to be provided to such countries - and to this extent the project is not bankable - it would appear that an international agency should be allowed to mobilise some grant funds for the purpose; (vi) adjustment assistance; in a sense this is an integral part of diversification and compensatory financing for export shortfalls. The absence of such assistance, however, results in continuing over-production of certain crops. The reality of the situation is that unless some form of support can be given to farmers during periods of transition from one crop to another, then it would be difficult to achieve the kind of change which the international community considers necessary. The problem, of course, is

faced quite commonly in the industrialised countries when technological improvements render workers redundant. This type of expenditure is, however, not bankable and calls for grants. It can be accorded a low priority by the Second Window to the extent that: (a) diversification funds are provided in adequate amounts and on long-term; and (b) the available compensatory financing facilities (IMF and STABEX) are liberalised both as to the amount of support provided and the terms on which they are made available [1]

19. Quite clearly, there will be a need for very careful appraisal of individual projects, within each of the above categories, to determine their economic and technical feasibility. But assuming that some grant funds can be mobilised by an international effort, an appropriate ordering of priorities and project mix could ensure that the Second Window working alongside other international and national agencies, could provide significant support for commodities even with limited resources. Indeed apart from research and development, market promotion and adjustment assistance, it is feasible to conceive the financing of projects by the Second Window being on a loan basis with some grant funds coming from Government subscriptions being used as a means of reducing interest costs.

Costs

20. As mentioned before, estimates of cost of the several areas of activity where the Second Window might become involved are not particularly useful as a basis for decision making at the level of principles and goals. Such estimates of costs have not been used as a basis for arriving at other recent international decisions e.g. the Oil Facility and the Supplementary Facility; nor does it appear to have influenced the decision as to the increase in the capital of the IFC. There is value in deriving an impression of the magnitude of the task and the kind of role which an international agency might play in alleviating the worst cases of hardship. It appears that this general approach has guided the preparation of certain crude estimates of costs for some commodities of importance to the poorest developing countries. UNCTAD and the World Bank have prepared some estimates and these are summarised below.

Costs of "other measures"

Diversification

21. There have been no systematic studies of the total finance required for diversification for the 18 commodities specified in Resolution 93 (IV). However, for four commodities, sisal, coir, tea and bananas, certain estimates have been made by the UNCTAD Secretariat. In respect of jute, while it is recognised that diversification would need to be under-

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1 In this connection, the Commonwealth Experts' Group made certain important and far reaching recommendations on the directions in which the IMF compensatory financing facility should be liberalised.

2 See Chapter VI, Possible Projects, in TD/B/IPC/CF/L.3

taken in India and Bangladesh, no estimates of costs have been made.

22. For hard fibres diversification financing for sisal was put at $96 million; vertical diversification for coir would require $15 million. For sisal the capital cost of diversification is based upon the assumption that producing countries would agree to reduce their production capacity by between 50,000 and 100,000 tonnes.

23. For tea the UNCTAD Secretariat quoted a World Bank Study which was based on the assumption that to freeze net (tea) capital stocks for three years would require a total diversification investment of $220 million.

24. For bananas, it was estimated that diversification projects would cost $ 100 million. To arrive at this figure it was assumed that banana export supplies would be reduced by 10 per cent from the 1973 level of world exports. This would have involved a fall in net export earnings of $ 50 million; to derive an alternative revenue on the basis of an average capital/output ratio of 2:1 would require an investment of $100 million.

25. These four commodities, jute, sisal, tea and bananas, appear to be the commodities most in need of diversification. The Coffee Diversification Fund served a useful purpose between 1968-73; at present it is difficult to see a need for further diversification in coffee; there does not appear to be a present need at this stage for diversification out of cocoa. For sugar there is need for diversification in certain developing countries, for instance, in the Caribbean; the main need for diversification may be said to be in developed countries out of beet sugar. Furthermore, sugar consumption is rising in developing countries and the view is held by some that further investment in sugar production may be required in the next five years if world shortages are to be averted.

26. As a working assumption the UNCTAD Secretariat had assumed that the Second Window would provide 60% of the financing required for diversification. The figures therefore emerge as follows:

Table 1 - Diversification expenditure

| | Total | Common Fund financing |
|---|---|---|
| | $ million | |
| Jute | .. | .. |
| Sisal | 96.0 | 57.6 |
| Coir (industrial diversification) | 15.0 | 9.0 |
| Tea | 220.0 | 132.0 |
| Bananas | 100.0 | 60.0 |

Productivity improvement

27. Current studies show considerable potential for productivity increase and yield improvements in two commodities, jute and rubber . For jute it has been suggested that a three year programme, covering one-half of world jute acreage, would cost $ 45 million. Moves to transfer some jute production from India to Bangladesh, since yields are better in the latter country, would from a world point of view represent an improvement in productivity; such a scheme has not, however, been costed. Nor have estimates of the costs of improving rubber yields, where the potential is considerable, yet been made. But these commodities by no means exhaust the list. There are a number of other commodities where productivity improvements could be secured; oilseeds and vegetable oils, for example, are among these. Although great improvements in yields have been recorded in palm oil output in South-East Asia, there is considerable scope for increasing production of copra in Asia and the Pacific. The application of more fertiliser to existing coconut trees and their replacement later with new hybrid varieties giving higher yields would greatly improve the competitive position of coconut oil vis-a-vis oils produced from temperate country oilseeds and of coconut oil based products vis-a-vis synthetic-based products. If one assumes that equal amounts of investment are applied to increasing yields for rubber and vegetable oilseeds as for jute, then the expenditure on the three commodities is estimated at $ 135.0 million, which would be spread over at least three years.

Research and development

28. With regard to research and development, the UNCTAD Secretariat postulate an expenditure of $ 10 million for jute; sisal R & D is put at $ 1.2 million, while for R & D on rubber , the figure is $ 4.1 million. All these figures are comparatively small and relate only to three commodities. In the negotiations on individual commodities attention has been drawn in several groups to the need for more expenditure on R & D. There is no accurate way of predicting the required expenditures on R & D. As a rough guide to a target one might postulate, as a reasonable hypothesis, that if one per cent of the 1972-74 average export value of the ten "core" commodities from developing countries might be spent on R & D financed by the Second Window, the cost would be some $ 186 million; similar expenditure on the remaining eight commodities would have been $ 73 million, making a total for the eighteen Nairobi commodities of some $ 260 million per year.

Crop storage

29. The provision of crop storage facilities in developing countries for buffer stock commodities is an integral part of buffer stocking whether these are international stocks, internationally coordinated national stocks or national stocks.

30. No estimates of the cost of providing such facilities appear to have been published by the UNCTAD Secretariat. For selected commodities

it is possible to derive some rough estimates of the likely cost of storage for that part of the total buffer stocks that might be held in the developing producing countries. These estimates, relating to sugar, sisal, jute, cotton, coffee and tea, have been derived by multiplying figures of rental costs provided by the UNCTAD Secretariat[1] by the quantities of the buffer stocks which would be held by developing producing countries on the basis of their share of world exports in 1972-74. The estimated capital costs may be derived very roughly by multiplying the annual costs by 10.

Table 2 - Estimated cost of storage in developing countries for selected "core" commodities

| | Stocks to be held in developing countries | Storage costs per year | Annual cost of storage | Capital costs |
|---|---|---|---|---|
| | thousand tonnes | $ per tonne | $ million | |
| Sugar | 3,167 | 9.60 | 30.4 | 304.0 |
| Sisal | 104 | 18.00 | 1.9 | 19.0 |
| Jute (fibre and goods) | 473 | 18.00 | 8.5 | 85.0 |
| Cotton | 309 | 35.00 | 10.8 | 108.0 |
| Coffee | 992 | 26.00 | 25.8 | 258.0 |
| Tea | 96 | 33.00 | 3.2 | 32.0 |

31. Only for sugar and coffee are the costs outstandingly high, mainly because of the need to hold relatively large stocks. Insofar as storage facilities already exist the need for finance would be reduced; if finance were to be made available only to the least developed countries costs could be further reduced.

Supply management measures

32. The direct financial costs of implementing supply management measures are small, being concerned mainly with expenditures on administration, control of supplies and verification of records of transactions. More significant under this heading, however, would be the provision of adjustment assistance required as the result of supply management schemes. In the

1 Second progress report on storage costs and warehouse facilities, TD/B/C.1/198, September 1975.

UNCTAD studies an unspecified amount of adjustment assistance is provided for India in respect of the cut-back in its jute production in favour of an expansion of its rice production. For three other commodities, however, sisal, tea and bananas, the costs of adjustment assistance on the assumption that the whole of it would be provided by the Second Window of the Common Fund, have been quantified. For bananas the sum involved is put at $ 100 million, representing $ 50 million for each of two years to compensate for loss of foreign exchange earnings. For sisal , on the assumption that there would be a loss of annual export earnings from $ 16 million to $ 32 million; adjustment assistance in two years would be $ 32 million to $ 64 million. For tea it is suggested that $35 million for adjustment assistance would be spread over 4 years. For these three commodities costed by the UNCTAD Secretariat the total cost (all to be financed by the Fund) would be in the range of $167-199 million.

Concluding observations

33. Clearly, the estimates of cost which have been developed so far are extremely sketchy, almost impressionistic. They are subject to a very wide margin of error. What they do, however, show is that the sums involved in supporting measures to ensure that consumers are assured of supplies and producers receive a reasonable return are not so inordinately high that a limited amount of funds available to the Common Fund for "other measures" activities would be derisory and be of limited effect. If the international community is determined to make a serious attack on the commodity problem, it is necessary to have a coordinated approach in which the several aspects would not be neglected because of a lack of meaningful support. In the final analysis the issue is one of political will, not finance. It is this which will determine whether the Common Fund will be structured to play a significant role in alleviating and eventually solving the commodity problem experienced by developing countries. Finance is only a small part of the problem.

# The Evolution of Proposals on the Constituent Elements of the Common Fund

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## The Evolution of Proposals on the Constituent Elements of the Common Fund

Contents | Page No.

## The Evolution of Proposals on the Constituent Elements of the Common Fund

### The role and conception of the Integrated Programme

1. The concept of an integrated programme for commodities was formally launched when the United Nations at its Sixth Special Session in May 1974 adopted its Programme of Action on the Establishment of a New International Economic Order[1] with which it was hoped to deal with the severe economic imbalance in the relations between developed and developing countries. Part of that Programme was a call for all efforts to be made for the amelioration of the terms of trade problem of the developing countries and the elimination of their chronic trade deficits. These efforts were to include:

(i) expeditious formulation of commodity agreements where appropriate, in order to regulate as necessary and to stabilize the world markets for raw materials and primary commodities;

(ii) preparation of an over-all integrated programme, seeking out guidelines and taking into account the current work in this field, for a comprehensive range of commodities of export interest to developing countries.

2. This Programme of Action had been adopted in response to the very serious concern about the prospects for the export trade of the developing countries. The growth in purchasing power of developing countries commodity exports in terms of imports of manufactures from developed countries had almost slowed to a halt in the early 1970s. Their purchasing power in terms of all imports (that is including food, fuels and raw materials) had shown a more favourable trend but with the OPEC oil price rises and the prospect of reduced sales of food on concessional terms this was no longer the case. Imbalances in the supply of and demand for commodities since 1972 had resulted in the unprecedented boom and excessive short term fluctuations in commodity prices. The earnings of the commodity exporters deriving from these fortuitous circumstances had provided some temporary respite to their difficulties, but the boom moved into reverse during 1974[2]; extra supplies generated by the price rises were coming onto the market and economic recession and inflation in the industrialized countries had set in so that both the volume and prices of developing countries' exports were being depressed. Thus even the limited capability to solve the long term structural difficulties in the developing countries, particularly in terms of their over-dependence on primary product exports, were being severely eroded. Moreover, the attitudes of consumers and exporters of commodities had been jolted by the commodity price boom, the food crisis, the low level of world stocks of essential foods and some industrial materials, and most of all by the OPEC action in quadrupling oil prices. Consuming countries seemed to be realising that they could no longer be complacent about supplies of raw materials; on the other hand, producing countries were fired by a fresh spirit of cooperation and determination to take the initiative in forcing the international community to finally take action on the commodity problem as they saw it.

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1 General Assembly Resolution 3202 (S-VI) Sect. 1, para. 3(a), (iv), May 1974.

2 See Appendix for terms of trade data for developing countries for the period 1960-1975.

3. Discussions had been taking place for some time within UNCTAD and elsewhere and in fact prior to the establishment of UNCTAD on individual commodities; but little positive results had emerged from these deliberations. Indeed in March 1973 the Committee on Commodities in UNCTAD had scheduled intensive ad hoc inter-governmental consultations on 15 commodities for 1973-74 [1]. The aim of these consultations was to present "concrete and significant proposals to Governments" in the early 1970s on measures to expand trade in products of export interest to developing countries and thus contribute to the growth of their foreign exchange earnings as well as to their increased participation in market growth by improving their access to world markets and securing stable, remunerative and equitable prices for primary products. However, apart from reaffirming the problems and making general recommendations which might be considered by Governments, little progress was achieved.

4. Thus the commodity by commodity approach to negotiations on this issue of market access and pricing policy for trade in primary products had again come to nothing. This continual failure to conclude meaningful arrangements for all but a handful of commodities and the view that a wide range of complementary objectives and techniques which could have been used in commodity arrangements had been largely neglected were the major initial justification for recommending a multi-commodity or integrated approach to international commodity policy. A major new initiative was required to try to solve the commodity problem and to make the long-overdue move from consultation to negotiation.

5. The UNCTAD Secretariat prepared a paper in 1973 on a possible outline for an Overall Integrated Programme for Commodities in response to the General Assembly Resolution[2]. The paper argued for an "overall" programme that would encompass all the main problem commodities of export interest to the developing countries, and which would be integrated by being devised as a unified "package" to be negotiated as such. The Programme would differ from the traditional commodity-by-commodity approach by:

(i) attempting to deal comprehensively with the commodity problems of developing countries;

(ii) being based on a common set of principles, objectives, techniques and guidelines;

(iii) providing for action to be taken on commodities in groups through measures such as multi-commodity buffer stocks and international deficiency payments;

(iv) taking action on individual commodities which would be more multi-dimensional than in the past.

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1 Committee on Commodities, Seventh Special Session, Resolution 7(VII), March 1973.

2 TD/B/498 August 1974.

A major new principle of the Integrated Programme was to be the recognition that cooperation between producers as envisaged in the Programme of Action could be a useful, even essential, prelude to negotiation of acceptable arrangements with consumers. This producer cooperation would not necessarily have the aim of exacting monopolistic prices from consumers, but would attempt to achieve arrangements which could raise prices to satisfactory levels, to get primary product export prices indexed to the prices of imports of essential goods, to improve the present systems of marketing and distribution, and to counter-balance the effects of oligopsonistic purchasing situations in certain commodity markets. It was, however, made clear that the new approach recognised the principles, as reflected in the Havana Charter[1], of cooperation between producers and consumers.

6. At this stage a system of international buffer stocks for commodities was seen as playing a significant role in the Integrated Programme. It was noted that in the past attempts to establish buffer stocks had foundered because of the unwillingness of developed countries to support internationally regulated stocks and contribute to their financing and of the inability of developing exporting countries to finance such stocks themselves. It was pointed out that the IMF Buffer Stock Financing Facility, designed to assist developing countries in making financial contributions to buffer stocks, had recently been established and that it was possible that OPEC funds could be mobilized to assist with long term loans to buffer stocking schemes or even as participating capital. However, the finance required for buffer stocks in the context of the Integrated Programme would be very substantial and the feasibility of establishing a "central pool of finance", which could minimize the capital costs involved and obtain loans more easily than could financial arrangements for each buffer stock, would need to be investigated. In later reports the Secretariat explained the concept of "central pool of finance".

7. In September 1974 the Trade and Development Board of UNCTAD at its fourteenth session[2] asked that these proposals for the Integrated Programme be further elaborated and submitted to the Committee on Commodities at its eighth session for its consideration. The Committee on Commodities was then to make its recommendations, including a time-table of work, for appropriate action by the Trade and Development Board at its sixth special session.

8. The UNCTAD Secretariat produced a series of papers on the major elements of the Integrated Programme [3]. Early action on international commodity stocks was viewed as the cornerstone of the Integrated Programme in that buffer stocks could exercise a continuing stabilizing effect on markets to benefit both producers and consumers. They could stabilize commodity export earnings and prices to the benefit of producers, while consumers would also enjoy stabilized prices and security of supplies. Buffer stocking schemes could aim to make financial profits on their operations, have the flexibility to adjust operations to extraordinary situations (which could, for example, mean mandatory temporary imposition of export quotas) and be able to provide incentives to stimulate resource shifts and mobilization policies designed to accelerate diversification of production and exports to solve cases of persistent over-production.

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1 The Havana Charter, with the International Trade Organization (ITO) as its administrative agency, was drawn up in 1948 under the auspices of the United Nations Conference on Trade and Employment. It contained detailed provisions relating to commodity agreements, restrictive business practices, economic development and employment. Although the establishment of the ITO was not approved and the Charter not formally adopted, the principles embodied in the Charter have continued to influence international commodity policy.

2 Trade and Development Board Resolution 124(XIV), September 1974.

3 TD/B/C.1/166 and Supplements 1-5.

9. A broad solution to the problem of financing these stocks (at that stage estimated at some $10.7 billion for the 18 commodities, including grains, which were likely candidates for inclusion in the Programme) was thus also a key element in the Integrated Programme, and a new approach was needed in view of the large amount of money involved. Stock operations had suffered in the past from the constraints imposed on them by the uncertainty about and instability of the financing available and its cost in terms of interest charges. Also the IMF Buffer Stock Facility had been little used during its first five years and had certainly not acted as a catalyst, as had been hoped, for the establishment of buffer stock schemes, particularly as importing countries were very reluctant to contribute to individual buffer stock finances. The establishment of a Common Fund within the Integrated Programme was therefore necessary.

The role of the Common Fund

10. The essential elements of such a Common Fund were seen as:

(i) the Fund should be constituted for the specific purpose of directly financing stocks for a number of commodities;

(ii) it should be supported by both exporting and importing countries so that an appropriate commitment to the financial arrangements would be shown by countries participating in the management of stocking arrangements (with the financial burden being eased, where appropriate, by assistance from international institutions);

(iii) it should be open to investment from sources other than Governments as major or supplementary sources of finance, which would mean that the stocking operations and rules of procedure provided for security and reasonable rates of return for investments;

(iv) it should be able to raise finance on terms comparable with other official international institutions;

(v) the balance of commitments to the Fund accepted by Governments and financial institutions would exercise a key influence on the objectives of international policy in the commodity field.

11. The UNCTAD Secretariat at this stage stated that the Common Fund was seen as a "common financial source" for commodity stocking schemes - that is, what came to be known as the "central source" of finance as the differing views on the Common Fund as a "pool" or "central source" of finance emerged. The justification for the establishment of such a Common Fund was argued at some length. Among the points advanced were:

(i) Government cooperation to harmonise stocking activities might increase their effectiveness at a considerably lower net cost to economies than their nominal financial requirements and could reduce public expenditures now incurred where income and price stabilization policies for producers or consumers are pursued in relation to unstable external markets;

(ii) the negotiation of commitments on commodity trade, including arrangements for stocks, could be greatly assisted and the differing national interests more easily reconciled in the larger context of a number of commodity negotiations initiated more or less concurrently, if there was a financial authority ready to support operational arrangements of an appropriate kind;

(iii) the Common Fund could act as a catalyst for the establishment of the Integrated Programme;

(iv) the proposals for large scale financing for commodity stocks had to be seen in the context of radical changes in the system of international payments, deriving from the oil, monetary and the food crises, where commodity stabilization schemes could have equilibrating influences;

(v) the financial analysis of a stock operation has to be measured not only in terms of the profit and loss on the stock, but also the hidden gains and losses in terms of its influence on national balance of payments, public expenditure on insulating domestic sectors from instability in domestic and external trade and its contribution to general policies of economic stabilization. (However, it was pointed out that it is not usually possible to make more than analytical assessments of changes in values of trade resulting from the generation and disposal of stocks). In this connection, attention was drawn to the fact that; (a) if schemes for a comprehensive range of commodities were studied concurrently there would probably be large offsetting financial implications to be taken into account with regard to the existing cost of stocking operations, the purposes they serve and the ways in which they might be modified by the introduction of other arrangements; (b) import demand for stocks at present can represent an unpredictable and sizeable drain on foreign exchange reserves of importing countries, particularly if payments for commodity stocks accelerate as a hedge against inflation and exchange rate changes;

(vi) the extent of Government assistance to agricultural and mining sectors, to importers and users of commodities, in ways that facilitate stockholding was already much wider than is generally considered to be the case;

(vii) the economics of stocking were greatly influenced by the variability in the terms of its finance. The greater the variation in the cost of money from place to place and from time to time, the more unlikely it is that the aggregate effect of decisions on stocks is the one needed in the global circumstances of the market. The differences between countries in credit availability, its cost and domestic financial arrangements make it difficult for developing producing countries to withhold supplies from weak markets. Thus weak bargaining power can be exploited and encourage the movement of supplies into inventories in more favourably financed, generally importing, hands;

(viii) importers have not generally accepted the view that they should help to finance stocks, taking the view that buffer stock schemes are primarily for the benefit of producers. This view is questionable when in fact the limited funds that producers can set aside make it more likely that stocks would be inadequate to hold floor prices in times of surplus;

(ix) the provision of finance on public financing terms through international financial institutions implicitly recognizes that stocking policies are in a category of economic activities whose financial viability should not be judged by market considerations of the operation alone;

(x) the fact that the IMF Buffer Stocking Facility was introduced in the hope that it would help individual countries to agree on action of collective benefit and that this had not happened, should not detract from the far-sightedness of the wider approach taken in the IMF to facilitate commodity stabilization. If the IMF initiative had been complemented by successful efforts by Governments to establish stabilization schemes, the Buffer Stock Facility would have been more intensively used;

(xi) finally, if stock management is planned as a key element of the Integrated Programme, the cost of stocks would need to be related to the whole of the benefits expected to accrue from all the provisions of the Integrated Programme and if stocking policies relate to a comprehensive enough "package" of commodities they will cater to a generality of interests in the primary producing and major consuming countries.

12. The general advantages of the Common Fund conceived as a central source of finance for stocking operations were summarized as follows:

(i) Greater weight would be attached by Governments to solutions to commodity problems if the source and cost of financing were assured.

(ii) The amounts of capital indebtedness outstanding is likely to be reduced in common financing for a number of commodities as compared with individually financed arrangements. The liquidity required in working capital and in contingency accounts in connection with each commodity handled should be less. The calling-up of funds should be more closely geared to operational needs, and the ratio of funds employed to assets called up would be higher in the case of commodity operations that did not coincide.

(iii) The spreading of risk through investment in a number of stocking operations would make it easier to attract financial resources by reducing the element of risk-bearing reflected in the interest rate, though the risk attached to investment in Government-sponsored individual stocking operations is also not likely to be high.

(iv) The management of stocking operations can concentrate in a more specialized manner on purely operational objectives through devolution of the financial management problems in seeking funds and in conducting operations to meet fluctuating and higher costs from commercial and other non-consolidated sources.

13. A basic tenet of the new approach of creating a Common Fund was seen as the necessity to strike a balance between, on the one hand, the origin of investment (with its implications for control of use) and, on the other, equitable sharing of the responsibility for commodity arrangements. The principles of the Havana Charter had been based on the desirability of balanced representation between exporters and importers, or producers and consumers, but gave no guidance with respect to the sharing of obligations between participants to provide resources for commodity agreements. In 1968 the principle of shared costs in buffer stock financing had been enunciated [1] but it was believed that access to the resources of the international financial institutions represented one means of moving in the direction of shared interest [2]. The funds these institutions [3] provide, however, are controlled through the weighted voting system of the institutions - that is, proportional to the financial subscriptions of their members. Thus, in practice, the position had been that exporters have

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1 Committee on Commodities, Decision 1 (III), November 1968.

2 Trade and Development Board, Resolution 19 (II).

3 The World Bank and IMF and the then envisaged International Trade Organisation were seen as linked parts of an international organisation dealing with problems of trade and payments.

been expected to finance commodity stocking schemes, partial loans for the purpose having been offered to them by the international community, and the principle of importer-exporter control has been retained. This had not predisposed Governments to enter stabilization schemes to a significant extent.

14. The UNCTAD Secretariat felt that this situation could be rectified by adopting a new approach which would abandon or at least modify the two attitudes commonly held as aims for commodity stock financing; namely, that the whole of the finance should be found directly by trading countries, and in broadly equal shares by importing and exporting countries, and that individual countries should contribute in direct proportion to trade shares. Instead, the new approach would be to agree, firstly, on the principle that exporters and importers, jointly, should assume an "appropriate" part of the financing of stocks, and they might both borrow for this purpose from the international financial institutions; secondly, that the contributions of individual trading countries might be determined in a flexible manner, taking into account circumstances other than their trade position; and, finally, associated funds should be sought through the attraction of investments to commodity stock financing. It was also mentioned at this point that supplementary sources of finance could be contemplated by means that would link buffer stocks to, and help them to support, other features of an integrated approach to commodities. This seems only to be a reference to the idea that international stocking arrangements could be used in a supporting role to take over deficits in fulfilment of the multilateral commitments envisaged as part of the Integrated Programme, with charges for such a facility being made to Governments along the lines of an insurance premium on commitments.[1]

15. The Committee on Commodities in the first part of its eighth session in February 1975 studied the proposals submitted by the UNCTAD Secretariat and considered that they provided a useful basis for further work on an Integrated Programme and resolved that further work on the programme should become a major focus of the work of UNCTAD on commodities. It decided to recommend to the Trade and Development Board at its sixth special session that the Committee on Commodities be convened in a resumed eighth session. The Committee on Commodities could then formulate suggestions, including suggestions for possible negotiation between producers and consumers, for arrangements on internationally traded commodities and recommend procedures which the Trade and Development Board, at its seventh special session, would be in a position to elaborate into detailed recommendations for appropriate action[2] The UNCTAD Secretariat, as far as the Common Fund was concerned, was to look particularly at the amounts, terms, techniques and prospective sources of finance for stocking operations. These aspects had been discussed in a preliminary way in preparation for this meeting of the Committee on Commodities and the suggestions will be outlined later.[3] However, in addition to these aspects the Secretariat in its next document.[4] also clarified and developed its proposals on the new approach which the Common Fund should adopt in terms of its operating principles.

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1 TD/B/C.1/166 para 38.

2 Committee on Commodities, Resolution 15 (VIII), February 1975.

3 See paragraphs 28,32,33,34 and 36.

4 TD/B/C.1/184, June 1975.

16. It was argued that the Common Fund could be related to the individual commodity organisations in one of two ways. Firstly, its relationship could be "at arm's length", with the management of the Fund kept completely separate from that of the individual commodity organisations, acting only on the application of the organisations and lending only on fixed interest. Secondly, an "integrated approach" could be adopted in which each commodity organisation would be actively engaged in managing the Fund, through membership of its Board of Directors, with the Fund, in addition to lending on fixed interest, participating in individual stocks. The second alternative was recommended in that it would bring to bear the needs and experiences of individual commodity markets on the operation of the Fund. It could lead to a desirable blend of national political concerns and commercial considerations. Also, although most of the finance extended to the commodity organisations would consist of fixed interest loans the possibility might be explored of the Fund having authority to provide finance by buying participations in individual commodity stocks operated by these organisations. This would enable the Fund to share in the results of trading operations, in terms of both profits and losses, directly and automatically. This could enhance the Fund's profitability prospects, but it would also increase the risks. However, the amounts used in this way could be gradually increased with experience and the Fund might even move on to selling individual or composite participations in individual stocks from its own portfolio to increase the resources available to it.

17. Another significant development in the concept of the Common Fund at this stage was its role as a catalyst in stimulating new commodity arrangements. It could be authorised to intervene for a limited period in individual commodity markets for which commodity arrangements did not yet exist to provide emergency price support when needed. The conditions for such direct intervention would include a request from producing countries accounting for more than one half of the total exports of that commodity, approval by a qualified [1] majority of the Board of Directors and the producing countries' agreement to initiate the establishment of a commodity organisation.

18. In the follow-up document elaborating the constituent elements of the Common Fund [2], the idea that the Common Fund's relationship with the individual commodity organisations should be along "integrated" lines with each commodity organisation actively engaged in the management of the Fund, and the Fund purchasing participations in individual stocks was omitted. It was stated, rather, that the UNCTAD Secretariat saw the Common Fund's primary function as lending monies to individual commodity organisations. These organisations would trade in individual commodities by buying and selling, and would own and dispose of the stocks. The exception to this principle would be the direct intervention of the Fund in commodity markets without commodity arrangements, outlined above. The UNCTAD Secretariat also explained why it recommended the Common Fund be negotiated as a central source of finance rather than a pool of finance (or a combination

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1 Such a qualified vote would be intended to provide protection of the interests of the consuming countries members of the Fund.

2 TD/B/C.1/196, October 1975.

of the two) for commodity stocking schemes. The central source concept of the Fund would be characterised by the following:

(i) Governments would subscribe to the capital of the Fund rather than to the individual commodity organisations.

(ii) The Fund would be the agency to borrow from the market, Governments and international financial institutions.

(iii) The Fund would lend the proceeds to individual commodity organisations as they needed resources for acquisition of commodities. The organisation would repay the loans as they acquired cash from selling the commodities.

(iv) The individual commodity organisations would have their own independent budgets, however, for financing administrative expenditures, storage costs and related expenses. The trading profits would accrue to the organisations and be their major source of income.

The main advantages of this type of Common Fund over the pool or source/pool combination were reiterated as creating the opportunity to obtain better terms of borrowing as it would pool and reduce the risks and as its bargaining power would be greater. It could help achieve maxmum financial savings for Governments as they would be called upon to contribute in cash only the net requirements of each individual stock. It could provide adequate emergency price support operations described earlier and it had a better chance of performing its proposed catalytic role in the establishment of commodity arrangements.

19. In September 1975 the United Nations General Assembly decided [1] that an important aim of UNCTAD IV should be to reach decisions on the improvement of market structures in the field of raw materials and commodities of export interest to developing countries, including decisions with respect to an Integrated Programme and the applicability of elements thereof. These decisions were to bear on appropriate stocking and other forms of market arrangements for securing stable, remunerative and equitable prices for these commodities and for promoting equilibrium between supply and demand, and on adequate international financing facilities for such stocking and marketing arrangements. This was followed up with the resolution by the reconvened eighth session of the Committee on Commodities [2] that intergovernmental discussions and detailed studies on the objectives, elements and principles, and possible procedures for the negotiation and implementation of the Integrated Programme had reached the stage where it was possible to take concrete decisions. It recommended to this end that the Trade and Development Board, at its seventh special session, should make detailed recommendations, for decision by UNCTAD IV, on the objectives, commodities to be covered, the international measures to

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1 United Nations, General Assembly Resolution 3362 (S-VII), Sect.1, para 3 (a) and (b), September 1975.

2 Committee on Commodities, Resolution 16 (VIII), December 1975.

be adopted and the follow-up procedures and time-table for the implementation of agreed measures with respect to an Integrated Programme and its applicability.

20. The outline of the underlying principles and the mode of operation of the Common Fund, which was submitted to UNCTAD IV for its consideration in view of these two resolutions, basically followed the final Secretariat proposals described above, although they were couched in less explicit terms. [1]

At UNCTAD IV in Nairobi an Integrated Programme for Commodities was adopted. [2] The Programme was to consist of two main elements: on the one hand, a series of individual arrangements to stabilise and strengthen the markets for a comprehensive range of commodities of export interest to developing countries within a common framework of principles, procedures and time-table; and, on the other hand, a Common Fund which would be the primary source of finance for the individual arrangements. As regards the Common Fund it was specifically agreed, inter alia, that steps be taken towards the negotiation of a Common Fund and the Secretary-General of UNCTAD was requested:

(i) to convene a negotiating conference open to all members of UNCTAD on a Common Fund no later than March 1977;

(ii) to convene preparatory meetings prior to the negotiating conference concerning, inter alia,

(a) elaboration of objectives;

(b) the financing needs of a Common Fund and its structure;

(c) sources of finance;

(d) mode of operations;

(e) decision-making and management.

22. A major development in the concept of the Common Fund at this stage was the extension of its function to the financing of measures other than buffer stocks or internationally coordinated national stocks. This had been called for by the developing countries in the Manila Programme of Action [3] and the Conference Resolution 93 (IV) listed various measures in addition to stocking for the realisation of the objectives of the Integrated Programme, some of which would have financial implications. This proposed multi-dimensional approach to commodity problems was based on the recognition that the efficacy of stocking arrangements would be enhanced if they were associated with other measures. Such measures would be of special interest to producers of commodities not easily amenable to stocking and would include such measures as the financing of diversification projects

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1 TD/184, March 1976.

2 Conference Resolution 93(IV), May 1976.

3 TD/195, February 1976.

and related adjustment assistance. It was assumed by the UNCTAD Secretariat, however, that stock financing would continue to be the main function of the Common Fund. 1 Otherwise the details of the Common Fund's role, operating principles, and financial and management structure were left open to further negotiation. The Secretary-General of UNCTAD in his report to the First Preparatory meeting did, however, stress that the Common Fund would be a practical demonstration of the will of the international community to achieve a more equitable balance of the economic relationships between the developed and developing countries, and should reflect this emphasis in its organisation and operation. The creation of the Common Fund should, however, be regarded not as a new exercise in international aid, but as a vital instrument in restructuring international trade in the interests of developed as well as of developing countries, since the Common Fund should benefit industrial importers over the longer-term in terms of stability and a more efficient global supply of raw materials.

23. After the Nairobi Conference the UNCTAD Secretariat prepared a series of papers which were intended to elaborate on the issues relating to the establishment and operation of a Common Fund which had been identified by the UNCTAD Secretary-General in his report to the First Preparatory meeting. The papers were meant to be illustrative only and examined the implications of the provisions of Resolution 93(IV). A summary is set out below of the discussions in these papers as they relate to the operating principles of the Fund and of the development of ideas on the technical aspects of the establishment of the Fund both before and after UNCTAD IV.

24. In the paper that dealt with the main issues concerning possible operating principles for the Common Fund 2 four general considerations as a background to the discussion were stressed:

(i) the agreed provisions on the mode of operations would need to be sufficiently flexible to allow the management of the Fund to pursue its activities in the light of experience and evolving needs;

(ii) the Common Fund would operate as a source of finance for individual commodity arrangements and would not in itself act as a commodity trading organisation;

(iii) the individual commodity bodies would not be under any compulsion to seek finance from the Fund, but would have its assistance available;

(iv) the relationship between the Common Fund and the commodity organisations using its financial resources would call for a careful balance of the wish of Governments members of a commodity agreement to ensure a proper independence in the negotiation and implementation of the agreement, and the need for the Fund, in its lending operations, to safeguard the viability of its own operations and ensure that its assistance would be in accordance with the Fund's own purposes.

1 Including temporary emergency price support operations in commodity markets for which no commodity arrangements existed, if this would further the objectives of the Integrated Programme.

2 TD/B/IPC/CF/L.5, January 1977.

Thus there would have to be a careful distinction between the criteria which the Fund used for its own management and operational decisions,and the criteria established by the commodity negotiations and governing bodies of commodity organisations for the conduct of agreements.

25. Since the Common Fund can be regarded as the integrating element of the Integrated Programme it might be envisaged that the articles of agreement establishing the Fund would specify that,in its operations,the Fund should be guided by the principles and objectives embodied in Resolution 93(IV). So, in determining loan arrangements with commodity organisations for buffer stocks and "other measures", a consideration would be whether the operations of these organisations were consistent with the basic objectives of the Common Fund. To this end, the Fund would have to set certain criteria to take into account, inter alia, the guidelines provided in Resolution 93(IV) on the negotiation of price levels, adequate buffer stock provisions, supply management measures and appropriate internationally coordinated national stocking operations, and on the inclusion of certain new elements in commodity agreements such as the expansion of processing in developing countries and improvements in marketing,distribution and transport systems. In addition, the Fund would have to decide the conditions for the envisaged emergency interventions in individual commodity markets for which no international arrangements existed.

26. As Resolution 93(IV) envisaged the Common Fund providing loans to commodity organisations to finance both international buffer stocks or internationally coordinated national stocks and other measures necessary to examine the impact of the extended functions of the Fund on the terms and conditions of its lending. It was pointed out that while buffer stock transactions would require short and medium term financing,basically of a revolving nature, other measures like diversification projects and adjustment assistance would call for long maturities. This raised two major issues: firstly, whether the Fund should operate with a system of differential interest rates according to the type of operations and/or borrowers being financed, and secondly, what lending rate would be adequate (either a uniform rate or the weighted average of the various rates). A number of approaches to these problems was discussed, but the UNCTAD Secretariat concluded that it would seem advisable to separate its operations into two accounts: one for buffer stock financing, and one for other operations. Moreover, given the proposed financial structure of the Fund and the likely average lending rate, the net income accruing to the Fund from its operations would be unlikely to reach such proportions as to allow substantial resources to be transferred to a "second account". The "second account" of the Fund would therefore have to rely on contributions from member countries.

27. It was suggested by the UNCTAD Secretariat that, as a general principle, the Common Fund's financing of operations other than stocking should take place within the framework of international commodity arrangements, although exceptional cases may warrant Fund financing even in the absence of an international agreement. In these cases eligibility criteria and approval conditions could be the same as those that would be used for the activities of the Fund with respect to the proposed temporary emergency price support for commodities which are not covered by an international agreement. An important advantage of Common Fund financing of these non-stocking activities was seen as the ability to coordinate these activities of the commodity organisations and to approach the problems on a global basis rather than on an ad hoc individual country/commodity basis.

<u>The Capital requirements of the Common Fund</u>

28. The original estimate of cost of establishing the Common Fund was based on an examination of the probable cost of acquisition of stocks for ten "core" commodities together with an allowance for price stabilisation

measures for eight other commodities (excluding grains).[1] The initial capital requirement of the Fund was put at a total of $3 billion. Of this total $1 billion would be provided as paid-up risk capital and $2 billion as loans. It was also proposed that Governments should undertake a further commitment of $3 billion - again with $1 billion in the form of paid-up capital and $2 billion as loans-making a total maximum commitment of $6 billion. The maximum capital requirement for the ten "core" commodities was estimated at $5.12 billion. The allowance for the eight other commodities was put at $1.7 billion which led to an overall total requirement of $6.8 billion for the Fund. When account was taken of the offsetting movements in the prices of the various commodities included in the programme, the total requirements for the Fund were scaled down to $6 billion.

29. These estimates were revised for the consideration of the preparatory meetings prior to the March 1977 negotiating Conference.[2] These new studies indicated that, taking into account, inter alia, the financial savings likely to be generated by offsetting price movements, about $4.5 to $5.0 billion would be sufficient to finance stocking activities for the same ten "core" commodities in the present and foreseeable future [3] and to achieve a very high probability of successful defence of the chosen price range. The estimates were based on four major assumptions: (i) all the ten "core" commodities would be covered by commodity agreements; (ii) the Common Fund would be the sole source of finance for these agreements; (iii) no measures other than stocking would be provided for in the agreements; and (iv) the price range in each agreement would be ± 10 per cent around a target price defined as either the 1971-75 average (in 1976 dollars) or the (projected) 1974-78 average (in 1976 dollars). Moreover, the method of calculation ensured that the required funds would exceed the indicated amounts only in the unlikeliest events; there thus remained a substantial probability that the full amount indicated would not be needed in actual operations. Indeed, the average amount required would be in the region of only $3.3 billion. In addition to the stocking activities in relation to the ten commodities, the revised estimates of the capital requirements of the Common Fund had to take into account the possibility that it might be called upon to support non-stocking operations for any or all of the eighteen commodities. Because of the open-ended nature of this provision in Conference Resolution 93 (IV) and the uncertainty stemming from the lack of knowledge of the amounts participating Governments might make available in the form of voluntary contributions to the envisaged "second account" for non-stocking operations, the UNCTAD Secretariat took, for working purposes, the difference of $1.0 - $1.5 billion between the aggregate sum earlier proposed for the Common Fund ($6 billion) and the revised estimate of the sum needed for stocking ($4.5 - $5.0 billion) as being available for other stocking and non-stocking operations.

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1 The ten "core" commodities are coffee, tea, cocoa, sugar, jute and jute manufactures, hard fibres and hard fibre manufactures, cotton and cotton yarn, rubber, copper and tin. Prior to UNCTAD IV the eight "other" commodities were selected vegetable oils and oilseeds (copra, coconut oil, groundnuts, groundnut oil and selected oilcakes), hides and skins, tobacco, pepper, wool, tungsten, lead and zinc. At UNCTAD IV the eight "other" commodities were specified as manganese, rock phosphates, iron ore, bauxite, tropical timber, meat, bananas and all vegetable oils (including olive oil) and oilseeds.

2 TD/B/IPC/CF/L.2, December 1976.

3 Until about 1982.

30. This second study of the cost of the Common Fund also indicated that although a commitment would be required from participating Governments and potential lenders to provide up to $5 billion for stocking the ten "core" commodities ($6 billion when other commodities are taken into account) a sum of $2.5 billion should be sufficient for stocking purposes alone for the first two years or so of operations and, allowing for non-stocking activities, a total of about only $3 billion might be required at the beginning of 1979. Thus it was suggested that it might be possible to phase the capital inflows to the Common Fund by raising one-half of the total in the initial phase, of which $1 billion would be paid-up capital and $2 billion loans, the remaining half to be paid in or raised later, as required, in the same proportions, possibly in staggered amounts over the course of several years. So the second study came out with much the same overall result in terms of capital requirements and phasing of contributions as did the first, although the constituent elements of the sums involved were revised and involved some considerable uncertainty as to the amounts required for the proposed financing of non-stocking activities.

31. Throughout, the major part of the capital for the Common Fund has been seen as loans carrying interest charges since the operation has been regarded as self-financing. It has been envisaged that the call-up of capital would be linked to the negotiation and operational requirements of the various international stocks to be set up. Thus the commitment of capital to the Common Fund would not involve Governments in setting aside large financial resources before the negotiations of the individual commodity schemes were completed, any more than it would in the case of direct contributions under ad hoc financing of such schemes.

The source of capital subscriptions to the Common Fund

32. The UNCTAD Secretariat initially envisaged two alternatives for the structure of the capital contributions to the Fund. The first was a tripartite structure in which countries exporting commodities within the scope of the Fund, importing countries and third countries, essentially the petroleum-exporting countries, would subscribe capital to the Fund in proportions to be negotiated. Individual countries would then be allocated shares in one of the groups. If the OPEC countries chose not to subscribe then the second alternative would be for proportions subscribed by the exporting and importing countries to be equal, or, as it was thought the exporters were likely to propose, with a majority held by them. [1] In the latter case, the importers' major interests could still be protected by their influence as lenders. If the proportions were to be equal it was thought that some major decisions might be shifted to the lenders or a general deadlock might develop, stifling the activities of the Fund. In the original recommendation to UNCTAD IV it was in fact proposed that the paid-up capital of the Common Fund should be subscribed by the importers and exporters, the proportions not being mentioned, and that certain countries in balance of payments surplus - such as certain petroleum countries - could extend long term loans to the Fund.

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1 A resolution of the Conference of Developing Countries on Raw Materials held in Dakar in February 1975 had called for the establishment of a Special Fund to finance buffer stocks of raw materials and primary commodities exported by developing countries, and invited all Governments of these countries to contribute to the Fund. Close relations between the Fund and the producers' associations were envisaged.

33. It was also recommended throughout that special measures in favour of the "least developed" and "most seriously affected" of the developing countries, as either exporters or importers of the commodities covered by the Integrated Programme, should be an accepted feature of the financial arrangements, including whole or partial exemption from the obligation to contribute to the capital of the Common Fund under certain circumstances. [1] It was felt that a system of reduced payments would be preferable to one of deferred payments in that they would not be of much relief to the least developed countries in view of their already heavy debt burden. These special arrangements for these countries were expected to be financed by assistance from the more prosperous countries.

34. It was initially envisaged that country trade shares in the "core" commodities likely to be covered by the Common Fund were likely to be one of the main factors in determining capital subscriptions, and argued that at this stage it was better to focus on the broad magnitudes involved resulting from this basis and the need to assist the least developed countries. However, the UNCTAD Secretariat did feel that the calculation of contributions could be based also on either per capita or total income levels, or both. If a country's share in the trade of the "core" commodities were very small it was suggested that their interest in the Common Fund would not be adequately measured by their current trade shares in that the trade structure of these countries could well change. It was,therefore,suggested that each country be liable to a minimum capital subscription and all countries of the United Nations could and would be expected to join the Common Fund.

35. The matter of the source of capital subscriptions to the Fund was further examined by the UNCTAD Secretariat for the preparatory meetings prior to the March negotiating conference. [2] Several approaches were put forward in the hope that they would provide a constructive basis for negotiations on country subscriptions to the Common Fund's capital. It was again suggested that the strict apportionment of subscriptions in accordance with prospective benefits (measured in the case of the Common Fund basically by trade shares) could be modified by incorporation in the calculations of a measure of "economic capacity" or "ability to pay" usually taken as GNP or GNP per capita. It was noted that this approach could be applied to a continuum of countries or to groups of countries, as Governments wished. Moreover, it might be appropriate, since the Common Fund would in the main spend convertible currencies, to include a measure of the size of participating Government's international reserves. It was pointed out that in building upon the approach of relating subscriptions to benefits from the Integrated Programme (that is, trade shares), account had to be taken of the growing recognition by wealthy countries of the global interdependence of nations and,in particular, of their own substantial dependence upon the continued and smooth supply of industrial raw materials and agricultural commodities at equitable prices. At the

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1 Probably if they were experiencing strained balance of payments situations.

2 TD/B/IPC/CF/L.4, January 1977.

same time, the poorer countries have demonstrated their willingness to pay the price necessary to ensure the success of such arrangements. The inclusion of a measure of a country's trade instability in the calculation of capital subscriptions, as a refinement of the measure of benefits (trade shares), was mentioned but not pursued because if the Integrated Programme were to be successful the inclusion of such a measure would become unnecessary over time. The suggestion by the developing countries that it may be useful to provide for a minimum equal contribution from all participating Governments as a demonstration of their equal commitment to, and participation in, the Fund, was recalled and it was pointed out that for only a very small number of countries would the contribution, or any of the methods of calcuation considered, fall short of $200,000. Setting any minimum could entail financial difficulties for the smallest and poorest of countries, especially those whose contributions would otherwise be less than this figure, but it ought to be possible for these countries to arrange for special consideration from other countries outside the framework of the Fund. The use of any of the approaches suggested may not correspond to the desires of Governments negotiating a Common Fund, but in international financial institutions the usual approach to resolution of this difficulty has been to start from a formula-based calculation of country contributions and to make ad hoc adjustments to take account of specific factors (including political ones) not contained in the formulae which affect individual or groups of countries.

36. The UNCTAD Secretariat has argued throughout that as vital as a formal agreement on capital subscriptions was an understanding on the sources of loans because a substantial part of the required borrowing would have to be arranged or be in reasonable prospect before the Common Fund could become a going concern. It was envisaged that the Fund would be authorised to borrow from all sources but initially the borrowing would be mostly from official sources in importing countries, the international financial institutions and the OPEC countries. In the earlier stages of the examination of this aspect of the Fund's financing, the possibility of using the IMF to provide resources, directly or by refinancing contributions made by IMF members, was particularly discussed. This approach had particular appeal in that the general activities of that institution support policies in the field of national balances of payments and the international monetary system related to objectives of trade equilibrium and stable international commodity conditions in an Integrated Programme. However, the prospect of substantial financial assistance through the IMF within the framework of an Integrated Programme implied major changes in the present basis for IMF operations. The use of World Bank funds was also mentioned but not discussed in any detail.

Decision-making within the Common Fund

37. The question of decision-making within the Common Fund was also examined by the UNCTAD Secretariat for the benefit of the preparatory meetings [1]. Two basic approaches to the allocation of voting rights were investigated: the assignment of votes to each country individually regardless of group membership or to certain groups of countries in given proportions. It was also necessary to look at the major issue of the principles to be used to assign voting rights to individual countries regardless of which basic approach was adopted. It was assumed for the discussion that no qualitative distinction would be made among the various possible categories into which capital subscriptions might be divided with regard to their (implicit) generation of voting rights. (Such a distinction might, for example, be applied to reduced contributions from the least developed countries - although the UNCTAD Secretariat proposed at an early stage that this should not be the case).

1 TD/B/IPC/CF/L.6, January 1977.

38. In relation to the assignment of votes to individual countries, regardless of group membership, it was suggested that, given the basic objectives of the Integrated Programme as defined in Conference Resolution 93 (IV), it would seem appropriate that the proportion of "equality votes" [1] in the total should be as high as possible. It was also suggested that it could be argued that since the major objectives of the Integrated Programme were to achieve stable conditions of commodity trade, one criterion in assigning votes should be the "trade dependence" of a country. It had to be borne in mind, however, that the Common Fund was conceived as a financial institution and that participating Governments paying in subscription capital might expect that their relative contributions be recognized to some degree in the assignment of votes in the institution. On the other hand, in the context of the joint attempt by developed and developing countries to achieve a new and more equitable international economic order, it could be argued that a complete severing should be made of the link between financial contributions and voting rights. Votes might then be apportioned on the basis of the equality principle and/or the trade dependence principle and/or some other basis, such as population. As regards the issue of what shares the various country groupings comprising the membership of the Common Fund would have in the total voting rights allocated under any of the principles discussed, which would be of fundamental importance for the control of the Fund, it was pointed out that it would be possible to determine the weights to be assigned to the various principles in such a way as to provide any one country group with any desired share in the total voting rights.

39. In connection with the division of countries into groups, particularly of exporting and importing countries, the UNCTAD Secretariat argued that since the interests of specific exporters and importers (as well as producers and consumers) of a given commodity would be taken into account directly at the level of the international commodity agreement, a more global view of the whole range of world commodity interests should regulate decisions in the Common Fund. On this basis, therefore, it would seem better to follow the more pragmatic course of merely allocating votes to individual countries according to the simple principles suggested. It would then be in the financial contributions to the Common Fund that any desire to achieve certain proportions between the obligations of exporters, on the one hand, and of importers, on the other, would be reflected and accommodated. The Secretariat stressed, however, that the vital interests of the developing countries in the Common Fund would require that an appropriate share of responsibility in policies and decisions affecting commodity trade, and in turn the decision-making process of the Fund, be secured by those countries.

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1 As opposed to votes allocated in proportion to the share of capital subscribed.

Appendix

The terms of trade of the developing countries [1]

1970 = 100

| | 1960 | 1961 | 1962 | 1963 | 1964 | 1965 | 1966 | 1967 | 1968 | 1969 | 1970 | 1971 | 1972 | 1973 | 1974 | 1975 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Major oil exporters | 98 | 98 | 100 | 100 | 102 | 100 | 104 | 104 | 107 | 105 | 100 | 115 | 113 | 127 | 337 | 318 |
| Other developing countries | 97 | 92 | 93 | 94 | 99 | 99 | 105 | 100 | 103 | 105 | 100 | 90 | 90 | 97 | 96 | 88 |
| Developed market economy countries | 96 | 97 | 98 | 97 | 97 | 98 | 98 | 99 | 99 | 99 | 100 | 99 | 100 | 99 | 87 | 89 |

1 Unit value index of exports divided by unit value index of imports.

Source: UNCTAD Handbook of Trade and Development Statistics, 1976.

## Comparative Study of Estimates of Capital Requirements for Buffer Stock Financing

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## Comparative Study of Estimates of Capital Requirements for Buffer Stock Financing

| Contents | Page No. |
|---|---|

# Comparative Study of Estimates of Capital Requirements for Buffer Stock Financing

## Introductory note

1. This paper attempts to bring together the principal estimates of stocking costs for the ten"core"commodities in the Integrated Programme for Commodities and their underlying assumptions and methods. The estimates considered are those made by:

(i) UNCTAD
(ii) OECD
(iii) Ministry of Overseas Development
(iv) Behrman
(v) Commodities Research Unit

2. In so far as the introduction of the buffer stock simply transfers holdings to the new authority no additional costs arise and the relevant measures involved might properly be taken only as the costs of the required increment in stock. However, the question of acquisition costs of the authority itself remains unaffected by this consideration. Moreover,the estimates of tonnages, prices and acquisition costs do not determine the total requirements since operational costs[1] and offsetting savings from common financing are also involved. In this paper,however,the main concern is with the estimates,their variability and the methods of their determination.

3. Estimates were made by considering a period likely to require maximum intervention and calculating directly the sales or purchases needed to achieve an assumed target price; more sophisticated econometric methods involving models and simulations were also used. Both presupposed a demand effect on price in defending the floor and a supply effect on price in defending the ceiling. The impact of buffer stock sales and purchases depends on the relevant elasticities. An elasticity response is assumed or derived from market responses in a base period. A price flexibility relation[2] may be applied to the percentage difference between market and intervention prices to establish the sales or purchases. These provide the basis for the estimate.

4. Central to the calculations is the long run equilibrium price. This is held to be an optimum in respect of allocative and distributive functions, though inequities and inefficiences in practice have directed attention to managed markets. However, provision is generally left, as in the tin agreement, for a central free range since costs of incorrectly determining this price or deliberately aiming off target imply greater capital needs. For this reason preferred estimators involve close approximations to this price to minimise costs.

5. The value of these procedures has been questioned on two main grounds. Firstly, there is the uncertain validity of the applicable relations assumption which allows elasticities and other market responses of the base period to be applied to the simulation period. It has been suggested that price flexibility, for example, cannot be applied indiscriminately from a base period to a simulation period since variable impediments to the quantity effect on price may predominate, as in forward markets or where there are

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1 Includes storage costs, interest and discount rates, trading profits etc.

2 Percentage change in price resulting from unit percentage change in quantity.

fixed price agreements. Secondly, there are constraints imposed by the dependence of estimates on assumptions, particularly in respect of the trend and structure of the model. These involve issues of econometric method, internal consistency and correspondence with economic theory.

6. The treatment and extent of error margins also raise difficulties. Alternative time paths for these major variables combined with associated corridors of uncertainty explain some of the diversity of results. The different standpoints on these issues are apparent in the OECD suggestion that the UNCTAD estimates might be seen "in a rather wider field of many kinds of uncertainties and arbitrary choices than would appear from the degree and kind of randomness allowed for in their model".

7. Uncertainty in respect of underlying trends and fluctuations limits the validity of the simulations while the trends used to approximate them are themselves dependent on the base period and type of function adopted. They reflect the past data which can prove a worse indicator of the timing and extent of change than simple market signals.

8. The sensitivity of the estimates to different assumptions and circumstances is evident from their differences. These were considerable, for example, for the copper estimates. Low levels were produced by UNCTAD, OECD, and Behrman; high levels by CRU and Smith/Schink. Their differences reflected the elements involved in the calculation including band widths and intervention rules and the issues of trend, time horizon and function; they involved also the initial stock assumptions, prices used for stock valuation and the financing arrangements which underlay the accounting viability of intervention. In particular, the estimates were conditioned by the choice of base period and the extension of its relations into the simulation.

9. Private stocking behaviour was a major parameter in the calculation consistently held to be constant. The copper market provided instances, however, where increased security of supply, in this instance arising from producer stocks, lowered private holdings. Increased supply security may even lead to a reduction in the norms for working stocks.

10. On the other hand, it is conceivable that intervention and greater price stability would facilitate private stocking since insurance by hedging might be less necessary. In the longer term the impact of stability on investment may affect the supply response and permanently affect the structure of the market. If stocking costs are to be minimised the base responses need to be continually updated. However, given a free central range left to market forces and adjustments, possibly triggered by consecutive selling and buying, intervention itself may be neutral in its effect on underlying trend.

11. The viability of intervention is important since continuing trading losses will require increased financing and affect the estimates of capital needs. CRU and Behrman produced negative present values in their simulations indicating a lack of viability in accounting terms. The criteria depended on the net present value of equity cash flows over the simulation. In large part these losses arose from the opportunity costs of capital. The principal offsetting factors were the stability in terms of price and possibly earnings and the assurance for planning given, though not perhaps equally, to participating countries. Redistributive effects provided a major additional factor. For the eight commodities dealt with Behrman calculated annual cash flows of 0.7 million 1975 dollars, largely from consumers to producers,

while greater sums in terms of increased GDP might accrue to developed countries through avoidance of inflationary effects on employment and output. These considerations of balance of advantage are relevant in assessing the capital costs of stockpiling.

## Estimates and assumptions

### General

12. The following section describes the main estimates and assumptions. The two major estimates of UNCTAD and OECD were not too dissimilar in respect of their mid points, but varied widely in respect of the uncertainty ranges adopted. The ODM values were relatively low; they had inadequate initial stocks and for substantial periods prices moved beyond their limits. The estimates illustrated a possible result of buffer stock intervention where the manager did not enjoy perfect foresight. The Behrman estimates were above those of UNCTAD and OECD. In comparison with UNCTAD data on a commodity basis the stock values of Behrman were greater, particularly for rubber; only two commodities, copper and tin, were exceptions to the rule. If, as was understood, a downward modification might be possible for the Behrman rubber figure then allowing for cotton and sugar the overall Behrman stocks might correspond more closely with those of UNCTAD. The CRU estimates produced an approximate level for copper using the 1974-75 recession to estimate the probable stocks that a buffer stock would need to keep prices within limits. This calculation confirmed an econometric simulation in which many alternative combinations of price band and initial stock were used.

13. A number of reasons have already been given for the differences between the real cost equivalents of the tonnage estimates in the calculations reviewed. Two, in particular, may understate these differences. Firstly, higher transaction and storage costs are associated with the higher tonnage estimates and, secondly, provision should be made for proportionate reserves to ensure against speculative attacks by the market.

14. The common approach of the models was to establish a range about an intermediate price itself within the extreme deviations and, no matter what the initial position, to provide for adjustments to contain the equilibrium. The limitations of buffer stock resources would tend to ensure these adjustments were made and its stabilising function maintained.

15. While stocks related to mid point estimates would be insufficient to meet all contingencies, future uncertainties compel a realistic approach. Assuming market signals cannot be disregarded in a viable operation it seems unlikely that intervention authorities would dissipate their resources. At the worst they would end up with all cash or all stock and the initial position of a free market would be restored. If the mid points of the UNCTAD and OECD models were accepted the overall requirements of 10"core"commodities would in terms of 1976 prices and dollars be in the region of 7 to 8 billion.

### Sensitivity of the estimates

16. The capital requirements of the"core"commodities were affected by a number of parameters, a limited number of which is reviewed here; those concerned were secular price trends, short period fluctuations, market speculation, holding time and cyclical movements.

17. Estimates of capital needs are sensitive to secular price trends. A general decline for a particular portfolio of commodities would place a severe burden on requirements for price support. Sudden changes in trend are not accommodated by the time variables in the models which represent only the influence of base period movements. An undetected increase in underlying prices would place market prices above the targets of the model and requirements for price support would vanish. Of the eight"core" commodities dealt with by Behrman only copper and tin showed a positive slope to the secular regression of deflated price on time. An increase in trend would be revealed by updating the calculation or by consecutive intervention to defend the ceiling.

18. The use of annual data tends to understate capital needs since within year price variations and the costs associated with these are ignored. For some commodities the estimates are likely to be particularly affected by this kind of short period fluctuation. Moreover, since the size of adequate stocks cannot be known with certainty in advance the estimates are dependent on the likelihood of speculative attacks. Only the financing of very large stocks could overcome this problem.

19. Capital needs are responsive to holding times for stocks. Longer times would increase requirements and reduce the rate of return. On the other hand, wider band widths would reverse this relationship. Five year holding times were thought possible for products reflecting general cyclical movements since purchases early in the cycle might need to be held through most of the period until prices recovered. Models incorporating lag structures may indicate long holding times while demand and supply relationships may also result in long periods when the buffer stock neither buys nor sells.

20. Estimates of acquisition costs are particularly sensitive to the timing of buffer stock programmes in relation to general movements. They would be least at the bottom of the cycle. The reverse situation would obtain in an upswing. At this period also the need for stocking might appear less urgent.

UNCTAD estimate

21. This description relates to the main simulation by UNCTAD yielding estimates of maximum stocks necessary to maintain prices within plus or minus 10% of 1971-75 average prices and 1974-78 average prices, both in terms of 1976 constant dollars. A simpler approach was also adopted to estimate the savings arising from Common Fund financing and for this purpose it was understood that linear trends were taken for supply, demand and price: the simulation period was 1957-73 and a zero price band for both fixed and variable target prices was used.[1]

22. The major UNCTAD estimates for the ten"core"commodities based on 1971-75 prices shown in Appendix table 1 ranged between 6.1 and 7.4 billion 1976 dollars without common financing and between 4.6 and 5.5 billion dollars allowing for offsetting savings. The costs in Appendix table 2 which were based partly on prices projected up to 1978 were somewhat smaller. The three major commodities were copper, sugar and coffee, the costs for which at the 80% confidence level were in billion dollars 1.6, 1.4 and 0.9, respectively: the commodities next in importance were cotton 0.6, cocoa 0.5 and rubber 0.4. The smallest costs were those for tin, tea

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1 Document TD/B/IPC/CF/L2 dated 29th December 1976. The major simulations appeared in annex II; the others in annex I.

and sisal each of which was less than 0.2 billion dollars. It should be noted that the lower limits of the price bands were used for valuation.

23. The UNCTAD model covered the ten "core" commodities whose relations were described by the structural equations, and an identity equation containing the term for buffer stock purchases. The model was described as a simultaneous system; ordinary least squares estimates were used. The model appeared as an auto-regressive system. The supply equation was made stochastic by the addition of a normally distributed random variable with zero mean and standard deviation equal to that observed in the 1953-73 base period. Monte Carlo simulations were performed for the 1979-83 period, yielding 1,500 values of the main variables.

24. To start the model forecasts were made of initial prices and growth rates of demand; the model was not used to estimate these initial values. The stock estimates were expressed in terms of 80 per cent and 95 per cent confidence limits.

25. A simplified general indication of the equations is given here in terms of the explanatory variables only, without co-efficients.

| UNCTAD equation number | |
|---|---|
| (4) | $d_t = f\,[y_t + p_t + \angle\, y_t + d_{t-1}]$ |
| (annual) (8) | $q_t = f\,[p_{t-1} - p_{t-2} + z_t + q_{t-1}]$ |
| (perennial) (14) | $q_t = f\,[p_t - p_{t-1} + \underline{p_{t-k-1}} - \underline{p_{t-k-2}} + q_{t-1}]$ |
| | N.B. The underlined terms were dropped. |
| (16) | $p_t = f\,[s_t + d_t + p_{t-1} + p_{t-2}]$ |
| (17) | $s_t \equiv s_{t-1} + q_t - d_t + \lambda w_t$ |

$d_t$ = consumption

$y_t$ = income

$p_t$ = price

$q_t$ = production

$q_t^*$ = planned production

$z_t$ = exogenous variable (s) influencing $q_t^*$

$s_t$ = stocks, including those held by the stocking authorities, at end of period

$w_t$ = net purchases for stock by the stocking authorities during period

$\lambda$ is an adjustment factor (see below)

26. Difficulties have arisen with the identity equation as given here. It is possible to interpret $s_t$ and $-\lambda w_t$ so that it can be written as indicated below.

$w_t$ = Net purchases for stock by the stocking authorities during period t

$-\lambda w_t$ = That part of $w_t$ not yet moved into warehouses

$s_t$ = Stocks in warehouses at end of period; includes that part of $w_t$ moved into warehouses

$q_t$ = Production in period t

$d_t$ = Demand in period t

$s_{t-1} - \lambda w_{t-1}$ = Total stocks at beginning of period

Identity equation : Total stocks $= s_t - \lambda w_t \equiv s_{t-1} - \lambda w_{t-1} + q_t - d_t$

$\lambda$ is defined by UNCTAD in the context of the demand equation (para. 7 of document L2) as the coefficient rate of adjustment which is normally $0<\lambda<1$. Here $\lambda$ is defined as $-1<\lambda<0$.

27. In addition to this basic system additional equations describing the financial operations of the commodity organisations were formulated. These were used to assess the viability of the arrangements and the savings possible from common financing.

28. The parameters were estimated on the basis of annual data. Their signs were mainly as expected. The magnitudes also seemed reasonable. The statistical fit of the equations was in general acceptable.

29. The models were subject to continued revision and re-specification and the caution was given that they should not be taken as being in any sense final.

The following additional assumptions were evident:

(i) Perfect foresight (The minimum adequate initial stocks to keep prices within limits were known. The trend also was known).

(ii) Applicable corresponding relations (i.e. the elasticities etc. of the base period were applicable to the simulation period).

(iii) Adequate initial stocks.

(iv) No supply management.

(v) Ten "core" commodities were covered. The base period was 1953-73; the simulation period 1979-83. Target prices were (i) 1971-75 average and (ii) 1974-78 average. These were deflated (1976 dollars). The price band was plus or minus 10 per cent.

(vi) No forward operations.

(vii) The models made no allowance for the absorption by the international stock to be set up of part or all of those existing or privately held stocks which were in excess of normal requirements. It was assumed no more than normal stocks would be in the system in 1979

OECD estimate

30. The mid point estimates of OECD for the ten"core"commodities produced a total of $8.3 billion at 1976 prices. Coffee, sugar and copper were the main items at 3.4, 1.3 and 1.0 billion dollars respectively; these were followed by cotton 0.9 and cocoa 0.6. Costs for the remaining commodities each equalled 0.4 billion dollars or less. Details of costs are given in Appendix table 4 in terms of January-March 1976 and 1976-81 prices.

31. The econometric method adopted by OECD attached uncertainty ranges to the estimates taking into account stochastic elements for a greater part of the model than in other simulations. The assumption was made that deviations from secular trends of supply and demand might be considered as random normal variables. Extreme deviations which intervention could not reasonably hope to contain were defined. A target range was established with acceptable deviations. This represented about half the original range.

32. Such a reduction was not necessarily desirable since it might leave excessive fluctuations for cocoa, rubber and copper. Moreover, for tea, cotton and jute, the deviations might be too small.

33. The estimated tonnages were valued at January-March 1976 prices and at forecast prices for 1976-81. This calculation reflected OECD hypotheses on the price targets. It assumed also that in a six year period 1976-81 deviations would cumulate on one side of the trend line during a cyclical upswing or downswing.

34. In arriving at forecast prices a view was taken of moderate increases for copper, tin, cotton and apparently for tea and jute. Declines were forecast for sisal, sugar and cocoa. Rather higher prices were anticipated for coffee and apparently rubber. These assumptions were thought to be conservative.

35. OECD suggested a number of commodities viz. cotton, sugar and hard fibres, might be omitted from a hypothetical calculation. For the remaining commodities a target range of 20% could be applied to a group with substantial fluctuations; for the others a 10% range was envisaged. The general approach to the estimating problems involved may be judged by the extract from the OECD document given here.

36. "All relationships between variables on commodity markets have more or less sizeable margins of error, and these margins are cumulative. Depending on which ranges one admits, and which mid-point estimates one takes for granted, various interval widths result for the buffer stock estimates. Uncertainty ranges may thus be narrowed down or expanded.

37. The method used for OECD Secretariat estimates is based on differences between output and consumption on the one hand, and the width of price fluctuations on the other. In a first approach to 10 commodities the model uses not more than three variables and their relationships. With less of a time constraint, the method may perhaps be refined somewhat. This would require other explanatory variables, e.g. stock figures, data on market intervention, if any, and on the details of price formation. However, such additional information may not be available for all 10 commodities. On the other hand, even the variables used have deficiencies. Consumption is quite often not directly available, but has to be imputed by using gross imports, or imports corrected by stock changes, or other proxies.

Prices may give a general indication rather than correspond to those actually used in contracts.

38. Buffer stock estimates still face another problem which makes them hypothetical: they are made without taking account of the situation at the time such stocks are to be introduced, and of the reaction of market participants to their being set up. If a high producer surplus overhangs the market, the initial size of the buffer stock may well have to be larger than what is necessary over a period of a full cycle".

Ministry of Overseas Development estimate [1]

39. The ODM stock estimates for seven "core" commodities, cotton, tea and sugar being excluded, produced a total of 0.5 billion dollars when moving averages were used and 2.2 billion dollars when linear trends were adopted. On the basis of the latter data the costs taken for cocoa were the main item at 1.0 billion dollars followed by coffee and rubber both at 0.4 and sisal at 0.3. Costs of the remaining commodities were less than 0.1 billion dollars. Details of the costs were given in Appendix table 5 in terms of prices equal to the mean of market and intervention levels.

40. The basis of calculation of the ODM estimates was as follows: The percentage by which historical market price exceeded or was less than the simulated buffer stock intervention price was calculated. A fixed price elasticity estimated for the commodity in question was applied to this calculated percentage to yield the percentage change in quantity required to move from the market price to the intervention price. The percentage change in quantity was applied to an estimate of the quantity of world exports of the commodity in question to yield the amount to be bought or sold. The amount to be bought or sold was valued at the average of the market price and the intervention price.

41. The 1 and 2 simulations shown in Table I were based on the cost of maintaining prices within + 10% of the trend over varying periods between 1957 and 1975 depending on the commodity. ODM1 used moving averages of lengths between 36 and 60 months. ODM2 used a linear trend through the period of the data. Both therefore assumed perfect foresight on the part of the buffer stock manager.

42. Estimates were made of the number of months the buffer stock would have been unable to hold these target prices due to a lack of stocks.

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1 Source: unpublished paper.

Table I - ODM stock estimates: periods when target prices were not held

| | ODM1 | ODM2 | |
|---|---|---|---|
| | No. of months unable to hold target price | No. of months unable to hold target price | Total number of months in simulation |
| Cocoa | 4 | 17 | 232 |
| Coffee | 7 | 6 | 222 |
| Jute | 7 | 12 | 242 |
| Sisal | 11 | 62 | 231 |
| Rubber | 4 | 13 | 171 |
| Copper | 14 | 31 | 159 |
| Tin | 11 | 23 | 159 |

43. It will be apparent that the estimates are considerably lower than any of the others noted in this paper. This is for two reasons. Firstly, the other estimates assume that the buffer stock manager has access to all the stocks he will need throughout the period, whereas in the ODM estimates the buffer stock manager is constrained by the amount of stock he has previously acquired. This has the result that for several commodities the buffer stock manager is inactive for quite some time at the beginning of the given period and frequently finds that he has insufficient stock to maintain the ceiling price. Secondly, the use of moving averages calculated on a monthly basis in ODM1 means that the type of stabilisation aimed for is essentially short run, and the target prices move much more closely in line with the historical market prices than they do under other methods of determining the trend prices.

44. The conclusions to be derived from the ODM work are, therefore, that there is a significant trade-off between stabilisation aims and size of buffer stock required in the practical situation without perfect foresight; even the limited stabilisation aims pursued may not always be achievable in the short run at least.

45. Thus the ODM work does not provide estimates of the necessary sizes of buffer stocks to achieve price stabilisation, but is aimed more towards a study of the practical problems of running buffer stocks. It is therefore not comparable with any of the other estimates noted in the paper.

Behrman estimate

46. The tonnage estimates of Behrman given in Appendix table 6 when valued at 1976 prices indicated a total for the eight "core" commodities, sugar and cotton being excluded, of over $9 billion in respect of the 15 per cent band width. Of this total coffee alone amounted to 4.1 billion dollars while the costs for rubber and cocoa were 2.7 and 1.1, respectively. The copper estimate was relatively low, 0.7 billion dollars, and the costs of each of the remaining commodities were 0.25 billion dollars or less.

47. The bases of the simulations were the simple existing econometric models developed previously. These had supply, demand, price and stock change relations; some relevant elasticities derived from these are given below. Income elasticities were also derived and a variable pattern of response was found for individual countries. In some cases the supply and demand equations were disaggregated into developed, developing and centrally-planned groups; this was necessary because of country differences in market response.

48. The operational rules considered two price bands around the real secular trend based on a 25 year period. The coverage included 8 "core" commodities and five others though only the former are considered here. Sugar and cotton were excluded from the simulations.[1]

49. The basic methodology was common in many respects to that in the other calculations reviewed. The relationships derived from the basic period were applied to the simulation period. Using differences between actual and market prices, the calculated trend levels and the market responses arising from the model, estimates of maximum stock tonnages were derived.

50. In addition to the behavioural equations a simple identity equation[2] was used which included the buffer stock sales or purchases variable. Through changing these sales or purchases the buffer stock agency could alter private stock levels, demand and production, although primarily with lags, to keep prices as determined simultaneously by the next relationship within a desired percentage of trend.

51. The shape of the equations reflected the market structure. Simultaneous and recursive relations were incorporated and the parameters involved adjustment and expectational processes.

52. A simplified indication of the supply equation for one commodity viz. cocoa was given elsewhere[3]; this involved expectational processes since responses in variable factor usage to the expected product to factor prices were included. The cocoa price equation used as an explanatory variable the private stock/demand ratio; a secular trend was also incorporated. The corresponding demand equation was a function of deflated price, and involved both current and lagged values; for developing and centrally-planned countries per capita income was also used as an explanatory variable.

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1 There were particular problems in simulating the marked price fluctuations common in the sugar market and reasons also for suspecting the price equation for cotton. See 'Econometric models of world agricultural commodity markets'. F. Gerard Adams and Jere R. Behrman.

2 Private stocks (end period) equals production minus demand for current use minus buffer stock purchases or sales plus private stocks (beginning period).

3 See page 67.

53. The outcome of the calculation implied that buffer stock programmes affected production levels by the long run price elasticity of supply derived from the model. Similarly it affected demand through the three categories of price elasticity generally calculated.

The following were among the assumptions made:

(i) Applicable corresponding relations.

(ii) A non-stochastic model.

(iii) A simulation period long enough to cover the cycles of the commodities but not so long that success in achieving price stability would lead to structural changes and increased investment and supply capacity.

(iv) Adequate initial stocks.

(v) No supply management.

(vi) Perfect foresight.

(vii) Annual averages for price and other variables.

(viii) Seventeen commodities were covered. The eight"core" commodities were considered in this paper. Sugar and cotton were excluded. The base period covered 1950-75; the simulation period ten years, 1963-72. The target prices were secular trends (1950-75) in real terms. Two band widths were adopted: plus or minus 5 per cent and plus or minus 15 per cent.

(ix) Rates and charges of UNCTAD in real terms were used for calculating present discounted values.

(x) A single operating rule for intervention was used. (Alternatives were possible; an inverse relation could be established, for example, between floor price and buffer stock size.)

(xi) The initial stock was valued at 1962 prices; the final stock at 1973 prices. This caused an upward bias in present discounted value.

54. The sensitivity of the model to a number of variables was examined. In particular, the major determinant of viability was found to be the price bands and the valuation of terminal stocks. Reducing price bands from 15% to 5% more than doubled the negative present discounted value of equity flows. Reducing discount rates had a similar if far smaller effect. The present discounted value of buffer stock operations for the eight"core" commodities excluding the values of terminal stocks was negative. It was positive only when they were included and valued at the price in the post terminal year. The 1973 valuation reflected the high prices that year, but in practice the stocks could not have been sold at those levels since the market would have fallen under the pressure of supplies. In order for the operations including sales of terminal stocks to have a zero present discounted value the sales would need to have been made at prices about two thirds of actual 1973 prices. Even this would have been unlikely and a realistic conclusion was that, allowing for the likely prices that could have been obtained for terminal stocks, losses would have been incurred.

55. The relevant elasticities in the calculations are given below

Table II - Price elasticities of the Behrman model

| | Price elasticity of supply 1 | | Price elasticity of demand |
|---|---|---|---|
| | Short term | Long term | |
| Cocoa | .0 | .3 | - .3 |
| Coffee | .0 | .3 | - .2 |
| Tea | .1 2 | .2 2 | - .1 |
| Sugar | .0 2 | .2 2 | - .0 |
| Cotton | .1 2 | .1 2 | - .4 |
| Jute | .2 | .2 | - .0 |
| Sisal | .1 | .2 | - .0 |
| Rubber | .0 | .4 | - .5 |
| Copper | .0 | .1 | - .4 |
| Tin | .0 | .2 | -5.0 |

1 All countries.

2 Developing countries.

Commodities Research Unit estimate for copper

56. The two approaches adopted by CRU in estimating stock requirements for copper are reviewed here; both were of the same order of magnitude though the second produced a somewhat smaller figure in excess of 2 million tonnes. Details are given in Appendix table 7.

Approach 1.

57. The CRU direct method was designed to ensure sufficient stocks to deal with the worst post-war cycle for copper. Three elements entered into the calculation. It was assumed the authority would need to hold all stocks other than working stocks. These were taken as the difference between stocks at December 1975, the bottom of the cycle, and those in May 1974, the top of the cycle. It was assumed that normal financing of these stocks arising from speculative forward purchases would vanish since the stabilising operations would destroy the contango. The buffer stock would need to hold 1.1 million tonnes.

58. The higher price that the authority maintained would have two effects. Firstly, production would increase; the extra volume that the buffer stock would need to hold was taken as the actual fall in output in 1975 plus an allowance for increased mine capacity. Modifications were made for percentage utilisation and for secondary metal. The output increase amounted to 1.4 million tonnes. Secondly, consumption would fall. Also assumed were (i) a price elasticity of demand of -0.2, subsequently changed to -0.05, (ii) a support price determined arbritarily and smaller than the one dollar per lb. thought necessary to allow new investment and (iii) the consequent percentage rise from historic prices. Over the 18 month recession the consumption fall was put at 0.7 or 0.2 million tonnes. The total holding of the buffer stock would then need to equal 3.0 or 2.5 million tonnes depending on the consumption level chosen.

Approach 2.

59. The CRU econometric model consisted of two components one of which was a conventional supply, demand and price equation system and the other a financial model. The discount rates and financial structure were major elements in the determination of profitability. This was particularly true for the valuation of terminal stocks, since the simulations ended before the recession was over and in every experiment stocks were heavy. Initial stocks were valued at the initial central support price.

60. The base period was 1961-75, quarterly data being used. A constant price structure was maintained in order to abstract from the actual changes in price formation in the LME. This ensured the extent of intervention depended on the supply and demand position independently of the time period.

61. The support price was determined by simple regression. An exponential trend was fitted to deflated price. A moving average was not chosen since it was thought the result would be unduly influenced by the low prices in the early part of the period and subsequent very high prices; this pattern was attributed to the producer pricing policies of those years. Fourteen simulations were performed in the model, the last two relating to quantity stabilisation. In the first six experiments initial stocks were inadequate. It was assumed that the UNCTAD level of 0.8 million tonnes would be enough. Experiments 1 and 2 assumed zero and 0.8 million tonne stocks, respectively. A single plus or minus 10 per cent band width was used. In

the following four experiments it was again assumed that 0.8 million tonnes would be enough but actual initial stocks equalled only 0.2 million tonnes of metal. The GSA (the United States stockpile) was assumed to release metal as it did historically. Four band widths from 15 per cent to 1 per cent were used. In all six simulations the buffer stock was exhausted.

62. The second set of experiments assumed adequate initial stocks in terms of cash and metal; six different band widths were used. In experiment 13 the financial facility was fixed high enough to ensure adequate stocks; in experiment 14 it was set at half the experiment 14 facility. These last two simulations were national quantity stabilisation schemes; both proved less profitable than the other arrangements.

63. The CRU model was thought to understate the estimates for three main reasons: (i) it was not stochastic (ii) it did not fully take into account speculative stocks outside the LME and (iii) the simulation ended in 1975 whereas the recession continued into 1976 when it would have been necessary for increased stocks to have been accumulated if price support was to continue.

64. The issue of sensitivity of the models to varying assumptions and conditions was dealt with in a number of experiments. The CRU model tested these aspects more systematically than any other, though both CRU and ODM simulated the effects of inadequate initial stocks. Some of the results are presented here. CRU found that even by widening the bands present values of equity cash flows never became positive. Varying band width had little effect on price stabilisation since in the inadequate stock experiments when the stock was exhausted the closer the bands the greater the price movements in the uncontrolled market.

65. The inverse relation between price bands and stocks appeared clearly. At a plus or minus 15 per cent band 1.6 million tonnes stock were needed; at a 1 per cent band the level rose to 2.5 million tonnes. Such volumes were not physically available at the beginning of the simulation period.

66. The narrower the price bands the less profitable was the intervention. This situation arose from the small profit margins when transactions took place inside close bands; also from the higher stock levels needed when there was excess supply. However, if initial stocks were inadequate the effect was small. Moreover, given wide price bands the authority remained inactive over a long period while still incurring overhead costs.

67. The characteristics of the CRU model reflected particularly the magnitude of the disturbances in 1974-75, the target price adopted and the extent to which the buffer stock became responsible for former private holdings.

68. In a similar way it was evident that a previous estimate for copper based on the Fisher-Cootes-Bailey model also reflected heavy purchases in the recessionary years in the first part of the base period. This estimate produced results of some 4 million tons at a plus or minus 10 per cent band width and even larger stocks within narrower bands.

Considerations of trend

69. The theoretical central prices of the models followed the time path implicit in the concept of long run equilibrium price. This might be distinguished from series constructed to approximate the ideal though none is known with certainty in advance. In an ex post simulation a minimum variance trend requiring minimal capital resources for the buffer stock could be fitted to a historic time series. A regression over the total period would reflect the length of that period. Many other trends were possible with different functions and periods. Moving averages were commonly adopted.

70. The suitability of the different targets was not predictable and experience of their use differed. The smaller estimates of ODM used moving averages of between 3 and 5 years depending on commodity: the periods involved varied within 1957 and 1975. Their larger estimates used a linear trend. The resulting stock estimates varied widely: for coffee they rose by a factor of more than 13. Estimates based on three to five year periods for seven"core"commodities increased ten times by using ten to fifteen year periods.

71. In the Smith-Schink study on copper five year lagged moving averages produced poor estimates. Results appeared better when a price target fixed for a long period was adopted.

72. Alternative target rules approximating closely to underlying trends and therefore requiring little intervention and relatively small stocks could only be established with good ex ante expectations of the long term movements, notwithstanding a number of possible techniques, including that of spectral analysis, for separating long run fluctuations.[1]

73. A procedure was devised by ODM (a variable parameter crawling peg system)[2] allowing for frequent constant adjustments of target limits with periodic changes to the constant adjustments depending on the number of consecutive months of buffer stock intervention. In exceptional periods of price deviation this system brought targets close to underlying trend but the time lag was considerable. It was thought, therefore, provision should also be made for non-automatic adjustments.

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[1] Initial application of spectral analysis to tin prices has been examined by the Commonwealth Secretariat.

[2] This system used the formula: new percentage adjustment = $\frac{2 \times z}{y}$

x = Initially allowable percentage adjustment to target.

y = Fixed number of months.

z = Number of months consecutive selling or buying in same direction.

74. The identification of trend in the absence of perfect foresight presented a major problem since the costs of error were high. The Behrman simulation explored the consequences of establishing off trend targets. The targets were increased by 2 per cent. This was equivalent to indexation if the actual trend was - 2 per cent; less if below this rate or more if above this rate. The conclusion was that maximum stocks were at least doubled and generally increased by a factor of five or more.

75. The UNCTAD calculations of AnnexI(L2) used a fixed real target and a moving average real target. In relation to the savings from common financing the first was found "unsustainable" because of the lack of offsetting price movements. The second was feasible. In the major Annex II calculation a return was made to a fixed real target: this would not necessarily coincide with the underlying trend. [1]

76. The dependence of the target prices on base periods and on a change from nominal to real terms was considerable. The UNCTAD choice of 1970-74 average nominal prices was a conservative one. The 1972-74 average, for example, would have produced a much higher figure. Moreover, by using real prices a fall of over 20 per cent in the value of money would have led to an increase of over 25 per cent in deflated terms.

77. In the UNCTAD model issues of trend arose again in considering the absence of provisions for target prices beyond 1983. Without indication of intervention for that period the long term capital needs of the proposals could not be assessed. A number of possible arrangements were proposed. If a new target was adopted based on a pre-1983 average it would reflect a period when prices had been managed by intervention; such a target might increasingly be unrelated to underlying trends. Alternatively a new target might be established related to underlying trend if this were possible to determine: this procedure implied discrete jumps at each review. In either case in so far as there were growing disparities between targets reflecting inflation rates, on the one hand, and underlying trends, on the other, capital requirements of a buffer stock would be understated if the off trend objective was pursued.

78. The assessment of trend is significant not only for intervention capacity and associated stock sizes but in determining the relative benefits of intervention arrangements to producers and consumers. When market prices trended downwards and fell below the secular trend aimed at by the buffer stock, support of the floor was necessary: producers benefited from intervention of this kind for rubber, coffee, cocoa and, to a lesser extent, tea. In contrast when prices trended upward, as for tin and copper, producers needed intervention less: in fact attempts to impose a ceiling would deprive them of high market returns.

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1 The use by UNCTAD of a fixed real target was equivalent to a zero secular trend in real prices; this procedure contrasted with that of Behrman who used real prices but stabilised around the long run real trend which was determined by market forces and varied accordingly.

Conclusion

79. In reviewing the four major global estimates relating to the "core" commodities, it is clear that the ODM calculation is relevant most to the operational aspects of buffer stock financing. The simulated conditions of insufficient resources compelled the adoption of trends closely reflecting actual market prices. The stabilisation achieved was consequently limited, the buffer stock being ineffective for long periods. Given the existing negative secular trends in real prices for most of the "core" commodities, the disadvantages of such partial stabilisation indicate the need for more capital than that assumed in this calculation.

80. In contrast, the other major estimates were concerned more with assessing the likely costs involved, implicitly assuming that in the trade-off between degree of stabilisation and stock size, the need for effective arrangements would weigh more heavily in the balance. For that reason they were intended to be large enough for the buffer stock always, or with a high degree of probability, to keep prices within the defined bounds.

81. The UNCTAD calculation represented an attempt to quantify the costs in order to assess the capital needs of the Integrated Programme for Commodities while that of OECD and Behrman appeared as a response to provide an independent view. UNCTAD utilised a base period not much less than that of Behrman. However, in respect of error margins its estimates were more narrowly derived than those of OECD. They provided for capital sufficient to meet the needs of what was taken to be a 95 per cent confidence level since the insurance costs of providing against more exceptional conditions would have raised the estimates to far higher levels. UNCTAD included a stochastic element in supply only, whereas OECD took into account other random variability also. The Behrman estimates were not stochastic and ignoring disturbance terms was not considered misleading since the underlying relations had relatively small unexplained variances. If a rigorous probability treatment typically gave as wide an error margin as that of OECD, its utility would be minimal. The need to obtain a basis for effective decision compelled a pragmatic approach, the simplest being conditional acceptance of the mid point estimates. In any event certain factors could not easily be accommodated within probability intervals, the ability to regain trend, for example; this latter problem was avoided by assuming perfect foresight.

82. Difficulties in assessing the data were attributed to the statistical procedures adopted though the 1976 UNCTAD model represented a major advance on the earlier estimates and was accompanied by a detailed exposition to demonstrate both results and associated precision. While put forward as an illustrative model, the explanatory power of the structural equations as measured by $R^2$ appeared generally high. Exceptions were apparent, however, for jute supply and for the price equations of rubber and fibres. In this context it is instructive to compare the cocoa supply equations adopted by Behrman with that of UNCTAD. The former involved a function of lagged price, time and two disturbance terms; the latter involved current and lagged prices and lagged production. Their respective $R^2$ values were .94 and .91 respectively.

83. Problems arose from the use of OLS estimators in an autoregressive simultaneous system though the practice of UNCTAD in this respect was common in econometric modelling and any other procedure would have been not only costly but might have produced results little different. In principle

such estimators would be acceptable in particular circumstances e.g. in a recursive model. They might also be appropriate for structural equations calculated separately. However, their inappropriate use was held to explain disparities between demand and price relationships in the structural equations. In general the significant relationship in the price equations was with current demand. In the demand equations the significant relationship was a lagged price effect for five of the ten commodities. For the remaining five commodities other variables appeared to have significant explanatory power; income for tin, rubber and jute and lagged demand for tea and sisal. Substitution effects were not explicitly accounted for, but might also be important.

84. Notwithstanding the differences in the bases of the estimates, a reconciliation has been shown to be possible between all three.[1] Such agreement cannot of itself be taken as confirmation of their validity and it has been held that individual UNCTAD estimates may be too low by a factor of three or more (CRU) while the Behrman view also was that the UNCTAD global levels might be too low. The OECD data implied underestimates by UNCTAD particularly if the extreme points of their error ranges were used in the comparison. This lack of agreement,and notably the high and low points of the OECD study, demonstrate the limitations of a fixed view of capital requirements. The results, if accepted as maxima, do not indicate the costs generally to be expected; these must be less. They serve rather to indicate the importance of access to finance and its possible extent in some circumstances.[2] They have implications also for stabilisation policy in terms of price band, target price and supply management. Finally, they are relevant to the conclusion that decisions involving risk and without guarantee of viable return may need to be made on the basis of uncertain estimates of the kind reviewed here.

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[1] See page 53.

[2] The third level of finance referred to in para. 3.26 of the Common Fund, Report of the Commonwealth Technical Group.

Appendix

Table 1 - UNCTAD: stock estimates: using 1971-75 average prices (in 1976 dollars) and ± 10% band width: period covered 1979-83

| Ten "core" commodities | Stock requirements | | Value of required stock at lower limit of price range | |
|---|---|---|---|---|
| | confidence limits | | confidence limits | |
| | 80% | 95% | 80% | 95% |
| | million tonnes | | billion 1976 dollars | |
| Cocoa | 0.32 | 0.38 | 0.51 | 0.61 |
| Coffee | 0.52 | 0.61 | 0.86 | 1.02 |
| Tea | 0.09 | 0.12 | 0.15 | 0.18 |
| Sugar | 3.78 | 4.61 | 1.40 | 1.71 |
| Cotton | 0.44 | 0.56 | 0.64 | 0.81 |
| Jute[1] | 0.46 | 0.49 | 0.30 | 0.31 |
| Sisal[1] | 0.10 | 0.11 | 0.09 | 0.09 |
| Rubber | 0.55 | 0.66 | 0.40 | 0.49 |
| Copper | 0.86 | 1.03 | 1.61 | 1.94 |
| Tin | 0.03 | 0.04 | 0.17 | 0.24 |
| | 7.15 | 8.61 | 6.14 | 7.40 |
| Total assuming common financing | | | 4.58 | 5.52 |

1 Fibres and goods.

Table 2 - UNCTAD: stock estimates: using 1974-78 average prices (in 1976 dollars) and ± 10% band width: period covered 1979-83

| Ten "core" commodities | Stock requirements | | Value of required stock at lower limit of price range | |
|---|---|---|---|---|
| | confidence limits | | confidence limits | |
| | 80% | 95% | 80% | 95% |
| | million tonnes | | billion 1976 dollars | |
| Cocoa | 0.38 | 0.46 | 0.63 | 0.77 |
| Coffee | 0.56 | 0.68 | 1.03 | 1.26 |
| Tea | 0.09 | 0.11 | 0.12 | 0.14 |
| Sugar | 3.88 | 4.73 | 1.59 | 1.93 |
| Cotton | 0.40 | 0.50 | 0.54 | 0.67 |
| Jute[1] | 0.40 | 0.42 | 0.17 | 0.17 |
| Sisal[1] | 0.14 | 0.15 | 0.08 | 0.09 |
| Rubber | 0.61 | 0.75 | 0.48 | 0.59 |
| Copper | 0.72 | 0.85 | 1.15 | 1.37 |
| Tin | 0.03 | 0.04 | 0.21 | 0.27 |
| Total | 7.21 | 8.69 | 5.99 | 7.25 |
| Total assuming common financing | | | 4.39 | 5.31 |

1 Fibres and goods.

Table 3 - UNCTAD: stock estimates: illustrative estimates (December 1974 and June 1975)

| Ten "core" commodities | Stock requirements | | Low | | High | | Finance needed for stock acquisition [3] |
|---|---|---|---|---|---|---|---|
| | Low | High | At average 70-74 nominal prices | At average 70-74 real prices | At average 70-74 nominal prices | At average 70-74 real prices | |
| | million tonnes | | billion dollars | | | | |
| Cocoa | 0.25 | 0.30 | 0.28 | 0.35 | 0.34 | 0.42 | 0.33 |
| Coffee | 0.60 | 1.20 | 0.73 | 0.95 | 1.46 | 1.90 | 1.10 |
| Tea | 0.04 | 0.09 | 0.05 | 0.06 | 0.10 | 0.13 | 0.09 |
| Sugar | 3.00 | 5.50 | 0.73 | 0.85 | 1.35 | 1.56 | 1.20 |
| Cotton | 0.54 | 0.54 | 0.55 | 0.69 | 0.55 | 0.69 | 0.60 |
| Jute [1] | .. | .. | 0.10 | 0.10 | 0.19 | 0.19 | 0.16 |
| Hard fibres | 0.12 | 0.18 | 0.05 | 0.06 | 0.08 | 0.09 | 0.06 |
| Rubber | 0.35 | 0.38 | 0.18 | 0.22 | 0.19 | 0.24 | 0.21 |
| Copper | 0.56 | 0.74 | 0.83 | 1.07 | 1.10 | 1.41 | 1.10 |
| Tin | 0.03 | 0.05 | 0.14 | 0.18 | 0.24 | 0.30 | 0.27 [2] |
| Total | 5.49 | 8.98 | 3.64 | 4.53 | 5.60 | 6.93 | 5.12 |

1 Fibres and goods

2 Includes existing contributions of producers to International Tin Agreement.

3 Arbitrary figure between 1970-74 nominal and real levels.

Table 4 - OECD: stock estimates: period covered 1976-81: target ranges for price variation covered half original ranges 2

| Ten "core" commodities | Stock requirements | | | Acquisition costs | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | | Jan-Mar 1976 prices | | | 1976-81 average prices | | |
| | Mid point | Low | High | Mid point | Low | High | Mid point | Low | High |
| | million tonnes | | | billion dollars | | | | | |
| Cocoa | 0.32 | 0.10 | 0.53 | 0.53 | 0.17 | 0.89 | 0.50 | 0.16 | 0.85 |
| Coffee | 1.08 | 0.55 | 1.61 | 2.32 | 1.18 | 3.46 | 2.32 | 1.18 | 3.46 |
| Tea | 0.07 | 0.06 | 0.09 | 0.09 | 0.07 | 0.11 | 0.10 | 0.09 | 0.13 |
| Sugar | 5.21 | 2.32 | 8.10 | 1.64 | 0.73 | 2.55 | 1.56 | 0.70 | 2.43 |
| Cotton | 0.50 | 0.20 | 0.80 | 0.76 | 0.30 | 1.21 | 0.83 | 0.33 | 1.32 |
| Jute | 0.37 | 0.65 | 1.09 | 0.26 | 0.20 | 0.33 | 0.35 | 0.26 | 0.43 |
| Hard fibres | 0.15 | 0.12 | 0.18 | 0.08 | 0.06 | 0.09 | 0.06 | 0.05 | 0.07 |
| Rubber | 0.32 | 0.20 | 0.44 | 0.25 | 0.16 | 0.35 | 0.29 | 0.18 | 0.40 |
| Copper | 0.73 | 0.26 | 1.20 | 0.91 | 0.33 | 1.50 | 1.42 | 0.51 | 2.34 |
| Tin 1 | 0.05 | 0.04 | 0.06 | 0.33 | 0.26 | 0.39 | 0.43 | 0.34 | 0.51 |
| Total | 9.30 | 4.50 | 14.10 | 7.17 | 3.46 | 10.88 | 7.86 | 3.80 | 11.94 |

1 Including an estimate for existing tin buffer stock.

2 The mid,low and high points relate to the "uncertainty ranges".

Table 5 - ODM: stock estimates: periods between 1957 and 1975 depending on commodity: ± 10% band width

| Seven "core" commodities | Moving average trend | Linear trend |
|---|---|---|
| | billion dollars | |
| Cocoa | 0.28 | 1.00 |
| Coffee | 0.03 | 0.40 |
| Jute | 0.005 | 0.03 |
| Sisal | 0.02 | 0.25 |
| Rubber | 0.08 | 0.40 |
| Copper | 0.06 | 0.09 |
| Tin | 0.01 | 0.08 |
| Total | 0.48 | 2.24 |

Table 6 - Behrman data: stock estimates: using 1950-75 prices (secular trend): period covered 1963-72

| Eight "core" commodities | Maximum stocks | |
|---|---|---|
| | Band width | |
| | 15% | 5% |
| | million tonnes | |
| Cocoa | 0.56 | 0.93 |
| Coffee | 1.30 | 3.10 |
| Tea | 0.16 | 0.53 |
| Jute | - | 0.01 |
| Sisal | 0.23 | 0.39 |
| Rubber | 3.43 | 4.32 |
| Copper | 0.51 | 1.34 |
| Tin | 0.02 | 0.03 |
| Total | 6.21 | 10.65 |

Table 7 - Commodities Research Unit: copper stock estimates [1]

| | Initial Endowment | Maximum stock held | Width of price band (per cent) |
|---|---|---|---|
| | million tonnes | | |
| **Earlier estimate** | | | |
| (published March 1976) Direct method | | 3.0 | |
| **Later estimate** | | | |
| Direct method | | 2.5 | |
| Econometric method | | | |
| International buffer stock simulation | | | |
| Experiment No 7 | 0.8 | 1.6 | 15.0 |
| " " 8 | 1.2 | 1.7 | 10.0 |
| " " 9 | 1.2 | 1.7 | 7.5 |
| " " 10 | 1.5 | 1.8 | 5.0 |
| " " 11 | 1.6 | 1.9 | 2.5 |
| " " 12 | 1.8 | 2.1 | 1.0 |
| National quantity stabilisation stockpiling scheme | | | |
| Experiment No.14 | 1.3 | 2.2 | |

1 Based on assumption of adequate initial stocks/resources.

N.B. The experiment numbers given are those of CRU.

Table 8 - Stock tonnages in terms of 1976 and 1977 prices [1]

| | 1976 prices | | Jan-May 1977 prices (in 1976 dollars) | | |
|---|---|---|---|---|---|
| | Interval estimates | | Interval estimates | | |
| | billion dollars | | | | |
| UNCTAD | | | | | |
| 10"core" commodities | 6.22 | 7.56 | 7.83 | 9.42 | 80% or 95% confidence level |
| 8"core" commodities | 4.48 | 5.36 | 6.38 | 7.61 | |
| OECD | | | | | |
| 10"core" commodities | 4.05 | 12.63 | 5.57 | 17.17 | Limits of uncertainty ranges |
| 8"core" commodities | 3.11 | 9.15 | 4.80 | 14.30 | |
| Behrman data | | | | | |
| 8"core" commodities | 9.15 | 18.11 | 13.48 | 28.20 | 15% or 5% band widths |
| ODM data | | | | | |
| 7"core" commodities | 0.48 | 2.24 | (0.71) | (3.29) | Moving average and linear trends |
| Further estimates [2] | | | | | |
| 10"core" commodities | 9.8 | | 13.2 | | |

1 In general the data have been revalued by the Commonwealth Secretariat at the prices indicated. This procedure was applied, for example, to the UNCTAD tonnages in Appendix table 1. N.B. ODM used an average of market and intervention prices: for indicative purposes the January-May 1977 figures shown here were calculated by multiplying the 1976 ODM estimates by the percentage increase of January-May 1977 market prices (deflated) over 1976 market prices.

The data does not necessarily represent acquisition costs. Nor does it allow for savings from common financing.

2 Indicative only: includes some mid point estimates.

Table 9 - Further estimates of buffer stock tonnages and values for the 10"core" commodities

| | Quantity | Value | Source |
|---|---|---|---|
| Cocoa | 1. 250,000 tonnes | 1 $312 million<br>2 $862 million | International Cocoa Agreement<br>Tonnage specified in the agreement. |
| Coffee | 1. 15 - 25 million bags<br>(900,000 - 1,500,000 tonnes) | 1 $2,827 - 4,712 million<br>2 $5,244 - 8,741 million | International Coffee Organisation<br>This total related to a possible International Guarantee Stock to be held in exporting countries. It represented one third to one half of annual demand of 50-60 million bags. |
| Tea | 1. 70,000 - 140,000 tonnes | 1 $108 - 215 million<br>2 $200 - 400 million | Based on 10% to 20% world trade levels. |
| | 2. 50,000 tonnes | | Tea Trade Committee (unofficial estimate) |
| Sugar | Minimum stock 1,750,000 tonnes<br>Additional stock 720,000 tonnes<br>2,470,000 tonnes<br>1. Total stock range<br>1,920,000 - 2,470,000 tonnes | 1 $492 - 632 million<br>2 $351 - 452 million | International Sugar Organisation<br>These estimates were proposed in the negotiations for a successor agreement to that covering the period 1968-73. The minimum stock would be held at all times though available for release when prices rose: it represented 14.6% of exports. Developing countries proposed a lower figure of 10% of exports; this was used in the lower limit of the range given here. The additional special stocks were to be built up when quotas were reduced and were to be released when quotas were increased. The total represented 6% of exports. The total stock range derived in this way corresponded to a range of 16-21% of world exports of 12 million tons. |
| | 2. (i) 3,000,000 tonnes | | (i) Estimate proposed by United States after breakdown of ISO talks in May. The stock is to be held by exporters and financed by export levy. |
| | (ii) 2,000,000 - 2,500,000 tonnes | | (ii) Estimates on above basis proposed by some producers. |
| Cotton | 1. 350,000 tonnes = 2.5 million bales | 1 $966 million<br>2 $955 million | UNCTAD<br>These estimates thought too low. |
| | 2. 3.0 million bales | $700 million. Plus carrying cost of $75 million per year. | Assuming price range 50-75 cents per lb. |
| Jute | 1. 500,000 tonnes (fibre and goods) | $136 - 182 million<br>1 $148 million<br>2 $139 million | UNCTAD<br>September 1976<br>Excluding carrying costs.<br>The tonnage estimate represents a theoretical volume which it might be necessary to purchase in a limited period.<br>Relevant considerations for the jute estimates were as follows:<br>1. World output 3 million tons (including output of a major producer that did not participate significantly in world trade).<br>2. World output 2 million tons (excluding output of this producer).<br>On this figure the stock output ratio was 10%. Allowing for jute goods the ratio was over 20%.<br>3. World trade 0.7 million tons |
| | 2. 154,000 tonnes (fibre)<br>181,000 tonnes (goods)<br>335,000 tonnes<br>This level would rise to 495,000 tonnes with reduced price range and increased level of confidence. | | February 1977 |
| | 3. 175,000 - 200,000 tonnes (fibre)<br>225,000 - 250,000 tonnes (goods)<br>400,000 - 450,000 tonnes | $130 - 150 million. | |

Table 9 - Further estimates of buffer stock tonnages and values for the 10"core"commodities (contd.)

| Quantity | | Value | Source |
|---|---|---|---|
| Sisal and Henequen | 1. 150,000 - 180,000 tonnes | 1 \$70 - 84 million<br>2 \$71 - 85 million | UNCTAD<br>November 1976 |
| Rubber | | | UNCTAD |
| | 1. 350,000 tonnes | 1 \$274 million<br>2 \$261 million | Producer estimate<br>A lower price was envisaged based on production costs. The ceiling price would be set so as to maintain the competitive position of natural rubber. |
| | 2. 400,000 tonnes | 1 \$313 million<br>2 \$298 million | Alternative estimate: based on past supply/demand imbalances which ranged from -3% to +5%. |
| | 3. 350,000 tons | £.140 million | Association of Natural Rubber Producing Countries<br>Valued at £400 a ton. |
| Copper | 1. 700,000 tons | £.560 million | German Development Institute 1975<br>Valued at £800 a ton |
| Tin | 1. 40,000 tonnes | 1 \$306 million<br>2 \$365 million | International Tin Agreement<br>Tonnage specified in the agreement. |
| Total 10"core"commodities 3 | | 1 \$9,800 million<br>2 \$13,200 million | |

1 Based on 1976 market prices.

2 Based on January-March 1977 market prices (in 1976 dollars).

3 Indicative only. Where tonnage ranges given mid points were used. Based on first estimated tonnages given in the table for each commodity, with the exception of copper for which CRU estimates were used taking the following ranges:
1 \$2,820 - 3,173 million, 2 \$2,632 - 2,961 million.

N.B. Many of the estimates given here arose from the UNCTAD Preparatory Meetings held in connection with the Integrated Programme for Commodities.

The Least Developed Countries and the Common Fund

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## The Least Developed Countries and the Common Fund

| Contents | Page No. |
|---|---|

# The Least Developed Countries and the Common Fund

## Introduction

1. In this note we examine the justification for and feasibility of providing the least developed countries with preferential measures in the context of the establishment and operation of the Common Fund within the Integrated Programme for Commodities.

## Trade position

2. The situation of the least developed countries as regards their trade in the 18 commodities specified for action under the Integrated Programme is given in Tables 1-4 and may be summarised as follows:

(i) The average annual value of exports of the 10 "core" and the 18 Nairobi commodities from the least developed countries amounted to US$1,134 and US$1,423 million in 1970-75 and accounted for 44 and 56 per cent, respectively, of their total export earnings in those years.

(ii) Of the six groups into which the developing countries have been categorised for the purposes of this study, the least developed countries are the most dependent on the 18 commodities.

(iii) Of the twenty nine least developed countries under review only five had substantial trade surpluses in the 18 commodities and the export earnings of each of these depend to a large extent on only 2 or 3 commodities. These countries are Uganda whose major exports have been coffee and cotton fibre, Sudan (cotton fibre and groundnuts), Bangladesh (jute fibre and manufactures), Tanzania (coffee and cotton fibre) and Ethiopia (coffee and oilseeds). Their dependence on the 18 commodities ranged from 49 per cent for Tanzania to 83 per cent for Uganda and Sudan. Although most of the remaining countries in the "hard core" group had much more modest trade surpluses it is important to note that many of the smaller least developed countries in terms of population are the most dependent on the listed commodities in the Integrated Programme for their export earnings. For example, for Burundi, Western Samoa, The Gambia, Chad and Benin no less than 87, 86, 83, 78 and 65 per cent, respectively of their average annual exports consisted of the 18 commodities in 1970-75. Moreover, these smaller countries' exports also very often consist of only one or two commodities.

(iv) The concentration of the least developed countries' exports is illustrated by the fact that, in 1970-75, coffee, cotton fibre, vegetable oilseeds and jute fibre and manufactures alone accounted for 83 per cent of their average annual total sales of the 18 commodities. (Similarly, sugar alone represented 50 per cent of their imports of these commodities.)

(v) The least developed countries' exports of the 10 "core" and total 18 commodities represented only 5 and 3 per cent, respectively, of the total world exports of these commodities on average in 1970-75. However, their share in world exports amounted to 35 per cent for jute fibres and manufactures combined,20 per cent for hard fibres and their manufactures together, 12 per cent for cotton fibre, 11 per cent for coffee, 8 per cent for tea and 7 per cent for bauxite.

(vi) In common with all the developing countries, the least developed countries imports of the commodities were low in 1970-75, with an annual average of US$245 and US$308 million, or only 6 and 8 per cent of their total import bill being attributable to the 10 "core" and total 18 commodities respectively.

(vii) Of the twenty nine least developed countries only four (Afghanistan, Yemen Democratic Republic, Yemen Arab Republic and Lesotho) had overall trade deficits in the 18 commodities in 1970-75 and in no case did the 18 commodities represent more than 15 per cent of total imports. On the other hand, three-quarters of the least developed countries are importers of sugar (especially Sudan), and several are importers of tea and vegetable oils and oilseeds.

(viii) The least developed countries' imports of the 10 "core" and 18 commodities represented 1.0 and 0.6 per cent respectively of the total world imports of these commodities on average in 1970-75, with their largest shares in world imports being in tea at 6 per cent and in sugar at 3 per cent.

Safeguards and structure

3. At UNCTAD IV, in addition to a wide array of special measures to assist the least developed and island and landlocked developing countries, which are in keeping with the spirit of the provisions of the Integrated Programme in favour of all developing countries, it was also thought necessary to add the two special "safeguard" clauses for the least developed countries with regard to the Integrated Programme:

(i) The interests of developing importing countries, particularly the the least developed and most seriously affected among them, and those lacking in natural resources adversely affected by measures under the Integrated Programme, should be protected by means of appropriate differential and remedial measures within the Programme.

(ii) Special measures, including exemption from financial contributions, should be taken to accommodate the needs of the least developed countries in the Integrated Programme for Commodities.[1]

Implicit in these provisions for the least developed countries is the concern and doubt about the fundamental objectives of the Integrated Programme as expressed in Resolution 93 (IV), particularly as regards prices and the extent to which they will be reflected in the operation of the Common Fund, which has now come to be seen as the centre piece of the Programme. An immediate aim of the Programme is clearly price stabilisation viz., to "achieve stable conditions in commodity trade which would be remunerative and just to producers and equitable to consumers", but it is also apparent, although not explicitly stated, that it is expected that the arrangements for commodities should improve the real income which developing countries receive from commodity exports by some form of indexation of commodity export prices

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1 UNCTAD Resolution 93 (IV), section III, paras, 3 and 4, May 1976.

to import prices of manufactured goods from developed countries, however limited any such adjustment formula may perforce become in the ultimate negotiations. There is also considerable anxiety about the cost of the Common Fund to the developing countries in view of their desire to obtain a major, if not majority, role in the decision making of the Fund. Thus the least developed countries have been deemed eligible for special differential and remedial measures within the Programme to help them cope with the possible economic burden, if any, arising from the establishment and operation of the Common Fund either in terms of increased prices for their imports or in terms of capital subscription commitments for countries already carrying heavy debt loads.

4. Given the trade position of the least developed countries in the Integrated Programme for Commodities, summarised above, it would appear that these countries are likely to gain relatively more from the operation of the Integrated Programme than any other group of developing countries in that many of them rely very heavily for their export earnings on the commodities currently envisaged for the Programme, while the significance of their imports of these commodities is very minor in aggregate. Moreover, the international community has committed itself to giving special consideration to the very poorest countries and the cost of doing so, as far as the Common Fund is concerned, say for example by giving total or partial exemption from subscriptions to capital, is likely to be low.

5. However, this general conclusion is subject to a number of reservations. Only if the Common Fund is the central source of funds for the international commodity agreements and has means to specify that, in determining loan arrangements with commodity organisations, a consideration would be whether the operations of these organisations were consistent with the basic objectives of the Common Fund, namely the principles embodied in Resolution 93 (IV), can the needs of the least developed countries be safeguarded at the outset and with the minimum of negotiation and, possibly, disagreement. It has been envisaged by the UNCTAD Secretariat that Governments would subscribe capital to the Common Fund rather than to the individual commodity organisations, although the optimal relationship of the Common Fund to the organisations has not yet been fully worked out. The main advantage of having the capital subscribed to the Common Fund ex ante to the conclusion of the individual commodity agreements has been the possibility that the Common Fund could act as a catalyst in the process of commodity negotiations, but it could also mean that any special provision for the least developed countries in terms of reduced capital subscriptions could be made once-and-for-all. These countries would share in any benefit accruing to developing exporting countries through the buffer stock operations of the commodity organisation using whatever pricing policy may be eventually followed. As importers the least developed countries would benefit from stabilisation of the prices of commodities, and as they are very much the minor importers of these commodities and, therefore, unlikely to be able to negotiate favourable price deals in the world market, their gains from price stabilisation could outweigh any losses from higher prices. This could be achieved at minimum cost not only to least developed countries but also to all other participating countries, for the Common Fund as a central source of finance is expected to effect maximum financial savings on buffer stocking operations when a number of commodities are involved. By spreading the capital costs according to some formula based primarily on aggregate trade shares in all the commodities to be covered, and on some "ability to pay" principle, the burden on other developing countries, which would be involved if similar capital subscription reductions were applied within individually financed commodity agreements, can also be minimised.

Contributions

6. Some indication of the relative scale of the contribution to the capital of the Common Fund to which the least developed countries may be liable, assuming all member countries of the United Nations participate, is shown in Table 5, where the percentage share of the developed and developing countries, by income category, has been calculated on the assumption that country subscriptions would be determined according to some formula based on trade shares and/or "ability to pay". The formulae used in the table represent, of course, only the simplest of the combinations of factors which could be adopted. The "ability to pay" element could be based on formulae which range from simple per capita incomes to some means of extending the progressive element built into the United Nations system of assessing the contributions of its members. Similarly, the trade share element could be represented by countries' participation in total world merchandise trade or total primary commodity trade. The weight given to the "ability to pay" element is especially uncertain at this stage, as are the implications if countries do not agree to participate in the Common Fund. However, it remains clear that the capital subscription to which the least developed countries may be liable is unlikely to exceed a maximum of about 3 per cent of the total. Of a total capital contribution to the Common Fund of $1 billion this would represent just $30 million, and the least developed countries' share could be very much lower the greater the weight given to the "ability to pay" principle or the wider the trade coverage taken into account.

7. It has been suggested by the Group of 77 that it may be useful to provide for a minimum equal capital contribution to the Common Fund from all participating Governments as a demonstration of their equal commitment to, and participation in, the Fund. The setting of any minimum could entail financial difficulties for the smallest and poorest of developing countries, especially for those whose contributions would otherwise be less than the minimum. It was felt, however, that rather than providing for a total or partial exemption of the least developed countries under this category of contribution, it ought to be possible for these countries to arrange for special consideration outside the framework of the Common Fund for payment of their subscription by developed or developing countries in a position to do so.

8. Thus, if it were agreed that the least developed countries should be wholly or partially exempted from capital subscriptions (other than the minimum to be paid by all countries) the burden on the rest of the international community, in terms of the shortfall in the Fund's capital which would have to be made good, is likely to be minimal. Moreover, it would seem reasonable to expect that the developed and the OPEC countries would be able to shoulder this extra cost with little difficulty so that the remaining developing countries need not be involved in any subsidisation. It might be argued that only the net importing developing countries should be eligible for such special consideration and in this case the costs of so doing would, of course, be even lower. It needs to be emphasised, however, that the prospects for ensuring that the least developed countries' interests are properly catered for would be maximized only if the source type of Common Fund is established, where an integrated global approach to the commodity problems of all countries is accepted and acted upon.[1]

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1 A source fund would be in a better position to incorporate concessional elements than financing based on individual commodity organisations. A source type of fund is also more amenable to incorporating measures other than buffer stocks which could be geared to giving special attention to the problems of least developed countries.

9. As far as the relationship of the individual commodity agreements to the Common Fund is concerned, it was originally recommended by the UNCTAD Secretariat that an "integrated approach" could be adopted in which each commodity organisation would be actively engaged in managing the Fund through membership of its Board of Directors. This approach was favoured because it would bring to bear the needs and experiences of individual commodity markets on the operation of the Fund and could lead to a desirable blend of national political concerns and commercial considerations.[1] The approach was, however, dropped in favour of the management of the commodity organisations and the Common Fund being kept completely separate, with the Fund only lending to the organisations as they needed resources for their buffer stocking or other activities and only at their own application.[2] Nevertheless, as the UNCTAD Secretariat has pointed out, it remains to be decided how the crucial balance can be struck between the wish of members of a commodity agreement to ensure a proper independence in the negotiation and implementation of the agreement, and the need for the Common Fund, in its lending operations, to safeguard the viability of its own operations and ensure that its assistance would be in accordance with the Fund's own purposes. This means that a careful distinction will have to be made between the criteria which the Fund would use for its own management and operational decisions and the criteria established by the commodity negotiations and governing bodies of commodity organisations for the conduct of agreements.[3] Since the Common Fund has come to be regarded as the integrating element of the Integrated Programme, the Articles of Agreement establishing the Fund may specify that in its operations the Fund should be guided by the principles and objectives contained in Resolution 93 (IV). So, in determining loan arrangements with commodity organisations for buffer stocks and other measures, a consideration would be whether the operations of these organisations were consistent with the basic objectives of the Common Fund.

Special measures

10. The uncertainty surrounding this issue leaves the least developed countries' position rather ambiguous in as much as it might be necessary to take account of their particular difficulties by the inclusion of differential provisions in commodity agreements, as provided for in Resolution 93(IV), albeit in quite a general way. For example, an individual commodity agreement might need to make special provision for assisting the least developed countries to acquire storage facilities. Again where one or several least developed countries are net importers of a particular commodity, it may be possible to enable them to have access to supplies at concessional prices. The point is that, without clarification of the extent to which the principles and objectives of the Common Fund and the Integrated Programme can be reflected in the individual commodity agreements, both the means and, possibly, the justification for providing for the least developed countries' interests within the Common Fund and the commodity agreements must be in doubt. The specific provision of special measures for the least developed countries as such has certainly not been a feature of any commodity agreements to date except in so far as certain exemptions from conditions have been granted to countries whose participation in the trade in the commodity concerned has been very small. The uncertainties and complexities of guaranteeing some sort of safeguard or special measures within (or outside) commodity agreements would be compounded if a non-source type of Common Fund were to be established or if commodity agreements were to be individually financed.

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1 TD/B/C.1/184, June 1975.

2 TD/B/C.1/196, October 1975.

3 TD/B/IPC/CF/L.5, January 1977.

11. Other major reservations regarding the potential for the least developed countries to derive maximum benefit from the operation of the Common Fund are the implications of the limited success and progress so far of the series of discussions on individual commodity arrangements and the doubt about, and probable limitations on, the Fund's financing of measures other than buffer stocking. Several commodities of particular export interest to the least developed may not prove suitable for buffer stocking, or indeed may not be amenable to a commodity agreement at all. For example, sales of vegetable oilseeds and oils feature in the exports of several of the least developed countries, but it has long been recognized that the complexity of the market for these commodities would represent serious difficulties for the negotiation of a meaningful and comprehensive agreement to deal with price instability, and the possibilities for establishing international buffer stocks are negligible. In the First Preparatory meeting on cotton it became clear that there are considerable differences of opinion on the advisability of attempting to establish an international buffer stock for this commodity. Furthermore, although the uncertainties remain regarding the significance of price enhancement objectives which may be included in individual commodity agreements, the potential for price protection in the sense that it might be justified by imbalances in markets for manufactured goods, will vary between commodities. The importance of the least developed countries in world exports of jute (and the dependence of Bangladesh on jute for two-thirds of its export earnings) and hard fibres, which face strong competition from synthetics, is notable in this regard. Thus, even though many of the commodity agreements eventually negotiated can be expected to rely on buffer stocking to stabilise prices, it would appear likely that the arrangements for several of the commodities in which the least developed have a particular interest may need to contain measures other than international buffer stocking schemes as either alternative or complementary provisions.

12. The proposed Common Fund financing of "other measures" provides good scope for giving attention to the interests of least developed countries and, indeed, of providing additional flexibility to the whole Integrated Programme. For jute and hard fibres, for instance, special attention could be given to diversification, productivity improvement, research and development, and processing needs for these commodities. For a commodity such as cotton fibre, for which a meaningful commodity agreement may not be concluded and the market for which is dominated by large high income producers who are able to carry stocks, the possibility of the Common Fund lending finance for national stocks in least developed producing countries at favourable interest rates, could prove particularly beneficial in enabling these marginal producers to cope better with fluctuating prices, as opposed to trying to stabilise prices at the world level. It seems certain that the amount of money which the Fund will be able to make available for these measures will be very limited and the criteria adopted for their inclusion restricted, but for these very reasons this does seem to be one area where the peculiar needs of the least developed could and should be taken into account.

13. In conclusion, the establishment of the Common Fund is certainly likely to prove to be of considerable benefit to the least developed countries, whether net importing or exporting, provided that a global and integrated approach to the commodity problem is accepted. The deep rooted problems of the least developed countries need to be tackled on a wide front, of course, and the Common Fund's operations cannot be the principal means to achieve the vital economic growth required by the very poorest countries, but it should be able to make a valuable contribution.

Appendix

Table 1 - The importance of the 18 commodities of the UNCTAD Integrated Programme in the total trade of the developed and developing countries, by income category [1]

Average 1970-75

(US$ million)

| | Imports | | | | Exports | | | |
|---|---|---|---|---|---|---|---|---|
| | 10 "core" commodities 1 | 18 commodities 2 | Col.1 As percent of total imports | Col.2 As percent of total imports | 10 "core" commodities 3 | 18 commodities 4 | Col.3 As percent of total exports | Col.4 As percent of total exports |
| Developed countries Total | 17,913 | 39,613 | 4.4 | 9.7 | 4,737 | 17,075 | 1.2 | 4.4 |
| -with per capita income in 1973 | | | | | | | | |
| 1 Above $4,000 p.a. | 10,520 | 21,413 | 4.1 | 8.3 | 2,985 | 11,998 | 1.1 | 4.6 |
| 2 Below $4,000 p.a. | 7,393 | 18,200 | 4.9 | 12.0 | 1,752 | 5,077 | 1.4 | 4.1 |
| Developing countries Total | 2,973 | 4,947 | 3.0 | 5.1 | 17,521 | 24,953 | 16.2 | 23.1 |
| 1 Major petroleum exporters | 655 | 1,022 | 2.8 | 4.3 | 1,404 | 2,095 | 2.7 | 4.0 |
| 2 Fast-growing exporters of manufactures | 565 | 1,246 | 2.9 | 6.4 | 424 | 662 | 3.2 | 5.1 |
| 3 Other countries with p.c. income in 1973 above $400 p.a. | 767 | 1,249 | 2.5 | 4.1 | 9,277 | 13,231 | 37.0 | 52.8 |
| 4 Countries with p.c. income in 1973 between $200-400 p.a. | 413 | 608 | 3.5 | 5.1 | 3,158 | 4,962 | 34.3 | 53.9 |
| 5 Countries with p.c. income in 1973 below $200 p.a. (excluding "hard core" least developed countries) | 328 | 514 | 4.1 | 6.5 | 2,124 | 2,580 | 34.7 | 42.2 |
| 6 "Hard core" least developed countries | 245 | 308 | 6.0 | 7.5 | 1,134 | 1,423 | 44.3 | 55.7 |
| Total | 20,886 | 44,560 | 4.1 | 8.8 | 22,258 | 42,028 | 4.5 | 8.5 |

1 Excluding centrally planned economies p.c. - per capita p.a. - per annum.

Table 2 - Balance of trade of the "hard core" least developed countries in the 18 commodities of the UNCTAD Integrated Programme

Average 1970-75

(US$ million)

| | Coffee | Tea | Cocoa | Sugar | Rubber | Jute Fibre | Jute Manufactures | Hard Fibres | Hard Fibre Manufactures | Cotton Fibre | Cotton Yarn | Copper | Tin | Total 10 "core" commodities | Manganese | Rock Phosphates | Iron Ore | Bauxite | Non-coniferous Timber | Vegetable Oils | Vegetable Oil-seeds | Meat | Bananas | Total 8 other commodities | Total 18 commodities |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Afghanistan | | -12 | | -14 | | | | | | +13 | | | | - 13 | | | | | | -4 | +5 | | | + 1 | -12 |
| Bangladesh | | +24 | | -5 | | +118 | +119 | | | -40 | | | | +216 | | | | | | -23 | -19 | | | -42 | +174 |
| Benin | +1 | | +8 | -4 | | | | | | +10 | | | | +15 | | | | | | +6 | +4 | | | +10 | +25 |
| Bhutan | | | | | | | | | | | | | | | | | | | | | | | | | |
| Botswana | | -3 | | -3 | | | | | | | | | | -6 | | | | | | | | +12 | | +12 | +6 |
| Burundi | +22 | | | -1 | | | | | | +1 | | | | +22 | | | | | | | | | | | +22 |
| C. African Emp. | +9 | | | -1 | | | | | | +8 | | | | +16 | | | | | +5 | -1 | -1 | -1 | | +2 | +18 |
| Chad | | -1 | | -8 | | | | | | +24 | | | | +15 | | | | | | | | +5 | | +5 | +20 |
| Ethiopia | +77 | -1 | | +4 | | -2 | | | | +3 | | | | +81 | | | | | | | +26 | +5 | +1 | +32 | +113 |
| Gambia | | | | -1 | | | | | | | | | | -1 | | | | | | +9 | +15 | | | +24 | +23 |
| Guinea | | | | -4 | | | | | | -1 | | | | -5 | | | | +17 | | | +4 | | | +21 | +16 |
| Haiti | +19 | | | +4 | | | | +2 | | | | | | +25 | | | | +8 | | -4 | | | | +4 | +29 |
| Laos | | | | -1 | | | | | | | | | +2 | +1 | | | | | +5 | | | -1 | | +4 | +5 |
| Lesotho | | | | -3 | | | | | | | | | | -3 | | | | | | | | | | | -3 |
| Malawi | | +17 | | | | | | | | +3 | | | | +20 | | | | | | | +7 | | | +7 | +27 |
| Maldives | | | | | | | | | | | | | | | | | | | | | | | | | |
| Mali | | -2 | | -9 | | | | | | +14 | | | | +3 | | | | | | +2 | +6 | | | +8 | +11 |
| Nepal | | -1 | | -2 | | +3 | | | | | | | | | | | | | | | | | | | |
| Niger | | | | -4 | | | | | | +1 | | | | -3 | | | | | | +5 | +12 | | | +17 | +14 |
| Rwanda | +17 | +2 | | | | | | | | | | | +5 | +24 | | | | | | | | | | | +24 |
| Sikkim | | | | | | | | | | | | | | | | | | | | | | | | | |
| Somalia | | -2 | | -5 | | | | | | | | | | -7 | | | | | | -2 | | | +11 | +9 | +2 |
| Sudan | -6 | -15 | | -53 | | | | | | +197 | | | | +123 | | | | | | +8 | +84 | +7 | | +99 | +222 |
| Tanzania | +53 | +8 | | -7 | | | | +34 | +10 | +46 | | | | +144 | | | | | +1 | -1 | +12 | | | +12 | +156 |
| Uganda | +179 | +15 | | -1 | | -1 | | | | +44 | | | | +236 | | | | | | -1 | | | | -1 | +235 |
| Upper Volta | | | | -4 | | | | | | +5 | | | | +1 | | | | | | -1 | +5 | | | +4 | +5 |
| W. Samoa | | | +2 | -1 | | | | | | | | | | +1 | | | | | | | +4 | | | +4 | +5 |
| Yemen (PDR) | | -3 | | -9 | | | | | | +5 | | | | -7 | | | | | -2 | | | | | -2 | -9 |
| Yemen (Arab R) | +1 | -2 | | -14 | | | | | | +3 | | | | -12 | | | | | | | | | | | -12 |
| Total | +372 | +24 | +10 | -146 | - | +118 | +119 | +36 | +10 | +336 | - | - | +7 | +886 | - | - | - | +25 | +9 | 7 | +164 | +27 | +12 | +230 | +1,116 |

Table 3 - The importance of the "hard core" least developed countries' trade in the 18 commodities of the UNCTAD Integrated Programme in their total trade

Average 1970-75
(percentages)

| | Exports | | | | Imports | | | |
|---|---|---|---|---|---|---|---|---|
| | 10 "core" commodities | 18 commodities | Individual commodities | | 10 "core" commodities | 18 commodities | Individual commodities | |
| Afghanistan | 9.4 | 13.0 | Cotton fibre | 9.4 | 13.1 | 15.2 | Sugar<br>Tea | 7.1<br>6.1 |
| Bangladesh | 72.6 | 72.6 | Jute fibre<br>Jute manufs. | 32.6<br>33.0 | 5.6 | 10.7 | Cotton fibre<br>Veg. oils | 4.9<br>2.8 |
| Benin | 42.2 | 64.5 | Veg. oils<br>Veg. oilseeds<br>Cotton | 13.4<br>8.9<br>22.3 | 3.7 | 3.7 | Sugar | 3.7 |
| Bhutan | 3.2 | 4.1 | Jute fibre | 3.2 | - | - | Sugar | - |
| Botswana | - | 21.8 | Meat | 21.8 | 3.0 | 3.0 | Sugar | 3.0 |
| Burundi | 88.5 | 88.5 | Coffee | 84.6 | 2.8 | 2.8 | Sugar | 2.8 |
| C. African Emp. | 43.6 | 56.4 | Coffee<br>Non-conif.timber | 23.1<br>12.8 | 2.4 | 9.5 | Sugar | 2.4 |
| Chad | 64.9 | 78.4 | Cotton fibre | 64.9 | 11.4 | 11.4 | Sugar | 10.1 |
| Ethiopia | 42.4 | 58.6 | Coffee<br>Veg. oilseeds | 38.9<br>13.1 | 1.3 | 1.3 | Jute fibre | 0.9 |
| Gambia | - | 82.8 | Veg. oils<br>Veg. oilseeds | 31.0<br>51.7 | 3.0 | 3.0 | Sugar | 3.0 |
| Guinea | - | 20.5 | Bauxite | 20.5 | 6.3 | 6.3 | Sugar | 5.0 |
| Haiti | 47.2 | 64.2 | Coffee<br>Bauxite | 35.8<br>15.1 | - | 6.5 | Veg. oils | 5.2 |
| Laos | 28.6 | - | Tin | 28.6 | 1.4 | 2.8 | Sugar | 1.4 |
| Lesotho | - | - | - | - | - | 4.8 | Sugar | 4.8 |
| Malawi | 21.3 | 28.7 | Tea | 18.1 | - | - | Veg. oils | - |
| Maldives | - | - | - | - | - | - | Sugar | - |
| Mali | 37.8 | 59.5 | Cotton fibre | 37.8 | 11.7 | 11.7 | Sugar | 9.6 |
| Nepal | 73.2 | 7.3 | Jute | 7.3 | 4.6 | 4.6 | Sugar | 3.1 |
| Niger | 1.9 | 34.6 | Veg. oilseeds<br>Veg. oils | 23.1<br>9.6 | 5.2 | 5.2 | Sugar | 5.2 |
| Rwanda | 82.8 | 82.8 | Coffee | 58.6 | - | - | Sugar | - |
| Sikkim | - | - | - | - | - | - | Sugar | - |
| Somalia | - | 25.0 | Bananas | 25.0 | 8.0 | 10.3 | Sugar | 5.7 |
| Sudan | 55.0 | 82.7 | Cotton fibre<br>Veg. oilseeds | 55.0<br>23.5 | 15.1 | 15.1 | Sugar<br>Tea | 10.8<br>3.1 |
| Uganda | 82.9 | 82.9 | Coffee | 62.4 | 1.0 | 1.5 | Veg. oils | 0.5 |
| U.R. Tanzania | 45.2 | 49.4 | Coffee<br>Cotton fibre | 15.9<br>13.8 | 1.3 | 1.6 | Sugar<br>Veg. oils | 1.3<br>0.4 |
| Upper Volta | 20.8 | 41.7 | Veg. oilseeds<br>Cotton fibre | 20.8<br>20.8 | 5.2 | 6.5 | Sugar | 5.2 |
| Western Samoa | 28.6 | 85.7 | Veg. oilseeds | 57.1 | 4.5 | 4.5 | Sugar | 4.5 |
| Yemen (PDR) | 3.7 | 3.7 | Cotton fibre | 3.1 | 7.3 | 8.4 | Sugar | 5.1 |
| Yemen Arab R. | 57.1 | 57.1 | Cotton fibre | 42.9 | 13.4 | 13.4 | Sugar | 11.8 |
| Total | 44.3 | 55.7 | | | 6.0 | 7.5 | | |

Table 4 - The importance of the "hara core" least developed countries in the world trade in the 18 commodities of the UNCTAD Integrated Programme

Average 1970-75

(US$ million)

| | Exports | % of world total | Imports | % of world total |
|---|---|---|---|---|
| **10 "core" commodities** | | | | |
| Coffee | 379 | 10.5 | 7 | 0.2 |
| Tea | 67 | 8.4 | 40 | 4.9 |
| Cocoa | 10 | 0.7 | - | - |
| Sugar | 8 | 0.1 | 154 | 2.5 |
| Rubber | - | - | - | - |
| Jute fibre | 121 | 63.7 | 3 | 1.7 |
| Jute manufactures | 119 | 23.7 | - | - |
| Hard fibres | .36 | 22.5 | - | - |
| Hard fibre manufactures | 10 | 14.5 | - | - |
| Cotton fibre | 377 | 12.4 | 41 | 1.5 |
| Cotton yarn | - | - | - | - |
| Copper | - | - | - | - |
| Tin | 7 | 0.5 | - | - |
| Total | 1,134 | 4.5 | 245 | 1.0 |
| **8 other commodities** | | | | |
| Manganese | - | - | - | - |
| Rock phosphates | - | - | - | - |
| Iron ore | - | - | - | - |
| Bauxite | 25 | 6.9 | - | - |
| Non-coniferous timber | 11 | 0.5 | 2 | 0.1 |
| Vegetable oils | 31 | 1.1 | 38 | 1.5 |
| Vegetable oilseeds | 180 | 4.6 | 20 | 0.5 |
| Meat | 30 | 0.4 | 3 | - |
| Bananas | 12 | 2.0 | - | - |
| Total | 289 | 1.3 | 63 | 0.3 |
| Total 18 commodities | 1,423 | 3.0 | 308 | 0.6 |

Table 5 - Share of developed and developing countries, by income category, in the subscribed capital of the Common Fund under alternative formulae

(percentages)

| | Based on trade share in 18 Nairobi commodities [1] | Based on trade share in 10 Nairobi commodities [1] | Based on scale of assessment for the UN for 1977 [2] | Based 70% on col.1 and 30% on col.3 | Based 70% on col.2 and 30% on col.3 |
|---|---|---|---|---|---|
| | 1 | 2 | 3 | 4 | 5 |
| Developed countries Total | 58.5 | 44.8 | 68.7 | 61.6 | 51.9 |
| -with p.c. income in 1973 | | | | | |
| 1. Above $4,000 p.a. | 34.5 | 26.7 | 46.1 | 38.0 | 32.5 |
| 2. Below $4,000 p.a. | 24.0 | 18.1 | 22.6 | 23.6 | 19.4 |
| Developing countries Total | 30.8 | 40.5 | 7.9 | 23.9 | 30.7 |
| 1. Major petroleum exporters | 3.2 | 4.1 | 2.1 | 2.9 | 3.5 |
| 2. Fast growing exporters of manufactures | 2.0 | 2.0 | 0.9 | 1.7 | 1.7 |
| 3. Other countries with p.c. income in 1973 above $400 p.a. | 14.9 | 19.8 | 3.0 | 11.3 | 14.8 |
| 4. Countries with p.c. income in 1973 between $200-400 | 5.7 | 7.1 | 0.7 | 4.2 | 5.2 |
| 5. Countries with p.c. income in 1973 below $200 p.a.(excluding "hard core" least developed countries) | 3.2 | 4.8 | 0.9 | 2.5 | 3.6 |
| 6. "Hard core" least developed countries | 1.8 | 2.7 | 0.6 | 1.4 | 2.1 |
| Centrally planned economies Total | 10.7 | 14.7 | 23.1 | 14.4 | 17.2 |
| Total | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |

1 Average of combined import and export values in 1970-75.

2 Scale of assessement recommended for 1977-79 by the UN Committee on Contributions and accepted by the General Assembly for 1977.

A Note on Resources of the Existing Buffer Stock Commodity Organisations

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August, 1977.

## A Note on Resources of the Existing Buffer Stock Commodity Organisations

Contents | Page No.

## A Note on Resources of the Existing Buffer Stock Commodity Organisations

### The International Tin Agreement

#### Introduction

1. Finance for the International Tin Council has been provided by producers on a mandatory basis; there has been also limited voluntary producer contributions and since the Fourth Agreement voluntary consumer contributions. The principle of mandatory consumer contributions is now gaining wide acceptance notably in the context of the UNCTAD negotiations. Finance from international agencies has been generally limited.

2. Commercial credit has been used to a relatively minor degree though its extensive use in the latter part of the Fourth Agreement indicated the importance of this new direction in financing and provided the International Tin Council with considerable practical experience. Previously its use had been discouraged by high interest rates and the tendency to resort to export control. However, borrowing is likely to become increasingly important in the future operations of the Agreement.

#### Producer contributions

3. The buffer stock under successive agreements has depended mainly on compulsory contributions from producing countries made in tin metal or in cash, the cash equivalent being calculated at the floor price. The floor price for this purpose was that at entry into force of the agreement under the first four agreements and at the date on which the amount was called under the Fifth Agreement. Contributions are paid in convertible currency in proportion to export quotas, in turn related to recent production levels. In the Fourth Agreement producers provided £27 million.

4. In addition to mandatory contributions producers have on occasion provided voluntary contributions. In 1958 they provided £1.1 million in this way to a special fund at the disposal of the buffer stock manager. The Congo contributed £120,000, Malaysia £506,000 (in the form of a bank guarantee), Bolivia £276,000, Nigeria £72,000 and Thailand £99,000. These voluntary contributions were legally separate from the mandatory contributions.

5. A review of producer contributions over the five agreements is given in Table 1 followed by details relating to the Fourth Agreement. Indications of contributions in the current agreement are given in Table 4; these are based on percentages which were subject to amendment in the light of recent production data. They may be taken as illustrative of the position.

#### Consumer contributions

6. The Netherlands and France contributed a total of £1.9 million to the buffer stock in the Fourth Agreement. In the Fifth Agreement contributions equal in size to those of producers were invited from consumers. A number of undertakings were given. If all consumers contributed, the total buffer stock fund would amount to 40,000 tonnes.

#### Income from trade and investment

7. The International Tin Council has consistently shown a surplus on its trading operations. This rose sharply in the last year of the Fourth Agreement when heavy sales of tin and a substantial run-down of stock levels were achieved at favourable prices. Receipts from investment also provided a significant part of buffer stock finance. In the Fourth Agreement the excess of income over expenditure was reported as £34 million.

## Commercial credit

8. Commercial credit was first obtained in 1968. Overdraft facilities of £6 million were negotiated with a commercial bank. A merchant bank provided drawing facilities of £0.5 million while a short term loan of £0.8 million was obtained from a metal dealing firm. These resources were adequate to purchase over 10,000 tons and a net profit of £40,000 was realised. However, interest rates were high and discouraged such operations.

9. The principle of commercial credit on the security of tin warrants was legalised from the Second Agreement and in 1966 the Council paid a commitment fee of £112,500 for the right to draw up to £10 million during the life of the agreement from a consortium of sterling banks in London. This was not drawn upon.

10. Lines of credit were arranged under the Fourth Agreement beginning with a sum of £5 million in December 1971; subsequently this was increased to £8 million (end 1972) and to £16 million (end 1974). At the end of 1975 further credit facilities of £20.5 million were negotiated bringing the total up to £36.5 million. From October 1975 to April 1976 this stand-by facility was used and after meeting interest and commitment fees a significant profit was made. This was the first time commercial credit had been used so extensively to support buffer operations.

11. In general the Council paid interest on advances at 3/4 of one per cent above LIBOR and the security offered was tin pledged by the Council to the bank "having a value of not less than 125 per cent of the principal amount of the loan, either warehoused in the name of the bank or represented by warrants or bills of lading...". If, at any time, the value of the tin pledged fell below 125 per cent of the principal amount of the loan, the Council might be required to pledge additional tin to make good the deficiency; if, at any time, the value of the tin pledged exceeded 125 per cent, tin pledged in excess was to be released to the Council. A similar facility for drawings of up to £3 million was granted by a merchant bank. The collateral available for such loans was more than adequate. For example, in June 1975 the tonnage of tin held in stock by the Council was 11,800 tonnes. At the floor price in force at the time the amount of tin necessary to cover 125 per cent of £16 million would have been just over 7,000 tonnes, or nearly 60 per cent of the stock held.

12. The interest rate paid by the International Tin Council, for loans provided under the stand-by facility extended by London banks, was around 7 per cent in addition to a commitment fee on the undisbursed amount of the loan. In view of the liquidity needs of buffer stock operations this fee may become important since the amounts committed, but undisbursed, may on average be much larger than the amounts disbursed. This fee, expressed in terms of an equivalent interest rate on withdrawals, was one-eighth of 1 per cent. Over long periods the Council made little use of the facility. Allowing for this the fee would bring about an interest burden of about 1.1 per cent in addition to the 7 per cent nominal interest rate.

International agencies

IMF buffer stock facility

13. Since the IMF buffer stock financing facility was set up in 1969 five members purchased a total of SDR 30 million (Table 3). The IMF met the demand for resources under this facility and its compensatory financing facility without recourse to borrowing. Buffer stock drawings diminished after the early 1970s. Drawings are at present significant only for Bolivia whereas previously they were important also for Malaysia, Indonesia, Thailand and Nigeria. When used to their maximum in 1972 they accounted for nearly three quarters of producer contributions.

14. The IMF does not provide loans directly to an international buffer stock. It lends to countries which contribute to a buffer stock. The amount lent by the IMF is governed by the country's quota and the rules for drawings. A further limitation is that such drawings are treated as ordinary short term lending subject to repayment after three to five years.

The World Bank

15. The possibility of direct financing of tin buffer stocks by international agencies had been under investigation for some years. In the early 1960s, informal talks took place with the World Bank, though such a possibility then lay outside the charter of the Bank; the matter was left subject to review. In May 1975 a Working Party was appointed to consider IMF and IBRD proposals, but no satisfactory arrangements could be arrived at.

16. It seemed that the major difficulty encountered was that of guarantees for the proposed loan: some countries, though members of the International Tin Agreement, could not be considered by the World Bank as guarantors because they were IDA recipient countries; others, as developed countries, were not entitled to borrow from the Bank. Therefore,in the case of a direct loan to the Tin Council, the loan would be considered as divided conceptually into portions attributable to a restricted list of eligible countries which would be expected to share proportionately in the necessary guarantees of the loan. The terms suggested were a 15-year maturity, including a five-year grace period, and, at the time (May 1975), an interest rate of $8\frac{1}{2}$ per cent per annum on funds disbursed and outstanding together with a commitment charge of 3/4 of one per cent per annum on amounts not disbursed. The loan agreement would have provided for renewal or termination at the end of each International Tin Agreement but the amortization was fixed at 15 years even though the Tin Council might have surplus liquidity in times of high demand for tin.

## Statistics

Table 1 - Buffer stock positions (producer contributions) 1956-81

| | Initial position | | Final position | |
|---|---|---|---|---|
| | thousand tonnes | £ million | thousand tonnes | £ million |
| 1st Agreement | 27 | 17 | 28 | 20 |
| 2nd Agreement | 20 | 15 | 20 | 19 |
| 3rd Agreement | 20 | 20 | 20 | 28 |
| 4th Agreement | 20 | 27 | (16) | (60) |
| 5th Agreement | 20 | (72) | | |

Table 2 - Fourth agreement: producer contributions

| | thousand tonnes | £ million |
|---|---|---|
| 1971-72 | | |
| Initial contribution | 7.5 | 10.1 |
| Subsequent contribution | 5.0 | 6.8 |
| Balance June 1972 | 12.5 | 16.9 |
| 1972-73 | | |
| Subsequent contribution | 5.0 | 6.8 |
| Balance June 1973 | 17.5 | 23.6 |
| 1973-74 | | |
| Refund | 7.5 | 10.1 |
| Balance June 1974 | 10.0 | 13.5 |
| 1974-75 | | |
| Subsequent contribution | 10.0 | 13.5 |
| Balance June 1975 | 20.0 | 27.0 |
| 1975-76 | | |
| Balance June 1976 | 20.0 | 27.0 |

Table 3 - Fourth agreement: total contributions and IMF buffer stock drawings

| | 1972 | 1973 | 1974 | 1975 | 1976 |
|---|---|---|---|---|---|
| | £ million | | | | |
| Producer contributions[1] | | | | | |
| Australia | - | 1 | 1 | 1 | 1 |
| Bolivia | 3 | 4 | 2 | 5 | 5 |
| Indonesia | 2 | 3 | 2 | 3 | 3 |
| Malaysia | 8 | 11 | 6 | 12 | 12 |
| Nigeria | 1 | 1 | 1 | 1 | 1 |
| Thailand | 2 | 3 | 2 | 4 | 4 |
| Zaire | 1 | 1 | - | 1 | 1 |
| Total | 17 | 24 | 14 | 27 | 27 |
| IMF buffer stock drawings[2] | 12 | 9 | 3 | 3 | - |
| Drawings as a percentage of producer contributions | 71 | 37 | 21 | 11 | - |
| Consumer contributions[1] | | | | | |
| France | 1 | 1 | 1 | 1 | 1 |
| Netherlands | 1 | 1 | 1 | 1 | 1 |
| Total all contributions | 19 | 26 | 16 | 29 | 29 |

[1] Twelve months ending June of year shown.

[2] End year shown.

Table 4 - Fifth agreement: producer contributions

| | Percentages | Value in[1] £ m. |
|---|---|---|
| Australia | 4.37 | 3.1 |
| Bolivia | 18.06 | 13.0 |
| Indonesia | 13.71 | 9.9 |
| Malaysia | 43.60 | 31.4 |
| Nigeria | 4.17 | 3.0 |
| Thailand | 12.55 | 9.0 |
| Zaire | 3.54 | 2.6 |
| Total | 100.00 | 72.0 |

[1] Based on initial floor price.

Table 5 - Buffer stock finance 1956-76

| | First agreement | Second agreement | Third agreement | Fourth agreement |
|---|---|---|---|---|
| | £ million | | | |
| Contributions | 16.0 | 14.6 | 20.0 | 28.9 |
| End positions | 20.3 | 19.3 | 27.6 | 63.2 |
| Surplus: | | | | |
| from interest | 1.4 | 4.7 | 4.8 | 4.8 |
| from trade | 3.0 | 0.1 | 2.9 | 29.5 |
| Total | 4.4 | 4.8 | 7.6 | 34.3 |

Table 6- Fourth agreement: income and expenditure

| | 1972 | 1973 | 1974 | 1975 | 1976 |
|---|---|---|---|---|---|
| | £ million | | | | |
| Income | | | | | |
| Sales | 3.3 | 19.1 | 30.5 | 14.6 | 122.3 |
| Interest receipts etc. | 0.3 | 0.6 | 2.4 | 2.7 | -0.9 |
| Total | 3.6 | 19.7 | 32.9 | 17.3 | 121.4 |
| Expenditure | | | | | |
| Purchases plus stock changes | 3.3 | 17.1 | 24.1 | 14.3 | 99.4 |
| Operating costs etc. | 0.1 | 0.5 | 0.2 | 0.4 | 1.3 |
| Total | 3.4 | 17.6 | 24.3 | 14.7 | 100.7 |
| Earnings | 0.2 | 2.1 | 8.6 | 2.6 | 20.7 |

## The International Cocoa Agreement

### Introduction

17. The 1972 International Cocoa Agreement (ICCA) effective since 30 June 1973, provided for the establishment of a maximum buffer stock of 250,000 tonnes of beans or about one-sixth of the world crop. This provision has been renewed in the 1975 ICCA which entered into force on 1st October 1976. The proposed buffer stock could not, however, be established because market prices have remained well above the floor of the Agreements price ranges.

18. The 1972 ICCA also provided for the establishment of a Buffer Stock Fund, to be raised from a levy of one US cent per lb on all cocoa (including cocoa products) first exported or imported by a member The levy has so far been maintained unchanged under the new Agreement although the International Cocoa Council has the authority to effect a reduction in the levy or to suspend it altogether. Since the levy has to be paid on first cocoa exports from members and on first cocoa imports by members (i.e. from non-members) the direct burden of the levy has fallen almost wholly on producers (Table 7).

### Administrative arrangements

19. Operations of the buffer stock fund are in the hands of a buffer stock manager who is appointed by the International Cocoa Council and who acts in accordance with the rules established by the Council. The Finance Committee of the Council approves the types of investment in which buffer stock assets are held.

20. The Fund acts through agents in member countries. The agents issue cocoa export stamps, covering a range of denominations from 50 kg to 500 tonnes, which are used to validate ICCO certificates. This procedure ensures that agents obtain payments of levy contributions or an irrevocable guarantee for payment thereof within three months from the date of supply of the stamps. In countries where the certifying agency happens to be a government agency or organization, such a guarantee is not required. Because of the deferred payments by certifying agencies, some delays occur in the transfer of levy to the Fund authorities in London but on the whole the system has proved effective.

### Buffer Stock Fund

21. Contributions to the Buffer Stock Fund, which depend on exportable production of producing members and import demand by consuming members, at the expiry of the 1972 ICCA (on 30th September 1976) totalled US$82.6 i.e. about US$27½ million a year. With the accrual of further contributions from the levy and net interest earned the resources of the Buffer Stock Fund at the end of 1976-77 (30th September) are expected to reach US$122 million, which will be available for purchases, if any, during the 1977-78 season. At the current minimum price of 39 US cents per lb, stipulated in the 1975 ICCA, these funds would be sufficient to purchase over 142,000 tonnes of beans. Recent studies have indicated that stock purchases of 50,000 tonnes might prove sufficient to hold prices even in the context of a favourable production outlook and a pessimistic consumption forecast. Such a small size of buffer stock is considered sufficient in the near future because in the event of a price decline from levels almost three times the intervention limit a substantial restocking by manufacturers would be expected. For the long-term however it should be noted that the UNCTAD Secretariat's estimate of maximum stocking requirements of a cocoa buffer-stock is over 300,000 tonnes.

## Available resources

22. Assuming that the International Cocoa Council revises the ICCA price range upwards and a stock of 50,000 tonnes is purchased in the 1977-78 season at say 78 US cents per lb or double the existing floor level of 39 US cents, it would require an expenditure of US$86 million from the Fund. This will leave a balance of US$ 36 million from the US$ 122 million accumulated up to 30th September 1977. Allowing for contributions (from the levy) of US $27.6 million in 1977-78 and an interest income of US$ 9.3 million, liquid resources of the Buffer Stock Fund at the end of 1977-78 season would total US$ 73 million, which would be in addition to the buffer stock of 50,000 tonnes of beans. If members of the International Cocoa Council so decide, these surplus funds could , subject to appropriate liquidity and withdrawal guarantees,be made available to the proposed Common Fund.

## Statistics

Table 7 - Buffer stock contributions

| | 1973-74 | 1974-75 | 1975-76 | 1976-77 2 |
|---|---|---|---|---|
| | million $ | | | |
| Brazil | 5.0 | 5.5 | 5.0 | 2.5 |
| Ghana | 7.7 | 8.6 | 8.7 | 5.5 |
| Ivory Coast | 4.3 | 5.2 | 5.1 | 4.5 |
| Nigeria | 4.7 | 5.8 | 4.8 | 2.7 |
| United Republic of Cameroon | 2.4 | 2.5 | 2.0 | 1.5 |
| Consumer countries 1 | 1.1 | 1.1 | 1.0 | 0.6 |
| Others | 0.6 | 0.7 | 0.8 | 0.5 |
| Total | 25.8 | 29.4 | 27.4 | 17.8 |
| Percentage supplied by producer countries | 96 | 96 | 96 | 97 |

1 Australia, Austria, Belgium/Luxembourg, Canada, Finland, France, German Federal Republic, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, United Kingdom.

2 Up to end of June 1977.

Table 8 - Analysis of buffer stock contributions and interest received (June 1977)

| Contributions and interest | | |
|---|---|---|
| | | million $ |
| **Contributions** | | |
| Quota year | 1973-74 | 25.8 |
| | 1974-75 | 29.4 |
| | 1975-76 | 27.4 |
| | 1976-77 | 17.8 |
| Net interest to date | (1973-77) | 8.9 |
| Total | | 109.2 |

1 Up to June 1977.

Table 9 - Investment account (June 1977)

| Buffer stock investment with banks | | |
|---|---|---|
| | | million $ |
| Total short term | (1 - 3 months) | 40.5 |
| Total medium term | (3 - 6 months) | 49.5 |
| Total long term | (6 - 12 months) | 16.9 |
| Total | | 106.9 |

Table 10 - Possible purchases from buffer stock fund resources

| | 1973-74 | 1974-75 | 1975-76 | 1976-77 |
|---|---|---|---|---|
| Capital available (million $) | 27 | 56 | 89 | 122 |
| Minimum prices (c. per lb) | 23 | 29.5 | 29.5 | 39 |
| Possible purchases (000 tonnes) | 53 | 86 | 137 | 142 |
| - As percentage of maximum buffer stock provided in the agreements viz.250,000 tonnes. | 21 | 35 | 55 | 57 |

# The Progress of Negotiations on the Common Fund

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July, 1977.

## The Progress of Negotiations on the Common Fund

Contents

## The Progress of Negotiations on the Common Fund [1]

### Overall review

1. Agreement on Resolution 93(IV) at Nairobi was the beginning of a process of international deliberations on the institution of the elements of the Integrated Programme for Commodities. The Resolution endeavoured to expedite matters by setting a timetable for the completion of negotiations, but this has not proved an altogether effective device. The United Nations Negotiating Conference on a Common Fund, held in March 1977 in keeping with the schedule, took place against a background of persisting disagreement on fundamental issues, to which a series of three preparatory meetings and the Conference itself provided no resolution. The Conference therefore was able to reach no conclusion other than to reconvene in November 1977. Further, the progress made so far in the series of preparatory meetings, intended as a prelude to the international agreements on individual products, the servicing of which would be the principal function of the Common Fund, allows limited room for optimism as to the number of such individual commodity agreements which may be concluded by the scheduled target date, i.e. the end of 1978.

2. Crucial to the failure of the UNCTAD Conference and preparatory meetings was the lack of agreement on the role of the Common Fund within the Integrated Programme for Commodities. Issues in the debate extended not only to the substance of these doubts, but also to the propriety of alternative views on the part of countries which had consented to the terms of Resolution 93(IV). In the eyes of developing countries the meaning of the Resolution was clear and unequivocal - it was a decision to adopt the Integrated Programme for Commodities of which the Common Fund was a central and key component; there had been two years of discussion of the concept of a Common Fund, but after Nairobi there could no longer be uncertainty as to the nature of the Fund intended, i.e. a central source of finance. In the preparatory meetings and Conference, however, developed countries maintained that there was no commitment to this concept of the Common Fund, and that it was proper and necessary to consider both alternative forms of the Fund and alternative approaches to the Fund. Within the ranks of Group B countries there were, nevertheless, well-known differences of attitude, resulting particularly from hard-line attitudes adopted by the United States and West Germany. The change of administration in the United States early this year brought expectations of more accommodating policies in that country, of which there was some reflection in the UNCTAD negotiations. Meanwhile, EEC governments, pursuing the attainment of an agreed stance upon the Common Fund, were able before the end of March to state their joint support for "a" Fund. Nevertheless, the March conference broke up far from agreement on the text of commitment in principle to the Common Fund put forward by the Group of 77.

3. Since March a better prospect for efforts to reach world agreement has been given by the endorsement of the creation of a Common Fund by the Downing Street summit meeting of leading industrial countries and by the agreement at CIEC that a Common Fund should be established as a new entity to play a key role in achieving the agreed objectives of the Integrated Programme for Commodities. These decisions do not adumbrate any particular form of Common Fund, nor do they specify purposes and objectives, negotiations upon which are left to the resumed conference. At the same time, the starting base of discussion will have moved forward, which should clearly enhance the prospect of successful negotiations.

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1 This paper deals with the progress of negotiations up to the March UN Negotiating Conference on the Common Fund and with positions as known up to mid-July.

## Discussion since UNCTAD IV

4. The nature of the discussions at the preparatory meetings and March Conference did not enter into any substantial consideration of, or negotiation upon, the detail of the operations of a Common Fund. Instead, primary attention continued to be devoted to the nature and objectives of the Fund. Consequently, the further elaboration by the UNCTAD Secretariat in documents issued for the preparatory meetings and the Conference[1] of their views on financial requirements, operations and management of the Fund remained in the background.

### Position of Group of 77

5. At the outset of the discussions, the Group of 77 made it clear that their views on the Common Fund remained basically those expounded in the Manila Declaration and during the Nairobi Conference. The Group has not taken issue in any substantial way with the basic ideas proposed by the UNCTAD Secretariat. The Group's position on major points emerged as follows:

(i) The task before the meetings had been clearly defined in Conference Resolution 93(IV), and any examination of approaches which did not fall within the broad context of a Common Fund was therefore ruled out.

(ii) The nature of the Common Fund referred to in Resolution 93(IV) was not in doubt, following two years discussion of UNCTAD proposals putting forward the concept of the Fund as a central source of finance, not a pool.

(iii) The 77 were convinced that the Common Fund constituted the central integrating element of the Integrated Programme for Commodities as a whole, providing operational strength, linking interests of producers and consumers, and facilitating a co-ordinated approach towards an international commodity policy. The availability of finance through the Common Fund would allow international arrangements for individual commodities to be unhampered by the kind of financial constraints encountered in previous approaches. Thus it would bring new dynamism to efforts to restructure world trade, to diversify production and expand processing of primary products in developing countries. In making possible the achievement of greater equity in economic relationships between developing and developed countries and between producers and consumers of commodities, the Fund would be an important means for the realization of the New International Economic Order.

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1 TD/B/IPC/CF L.2, L.3, L.4, L.5, L.6 and L.9.

(iv) The fundamental objective of the Common Fund was to serve as the main instrument for obtaining the objectives of the Integrated Programme for Commodities. Its main purpose was to finance international commodity stocks and/or coordinated national stocks, and also to finance other necessary measures. The Group realised the Fund could not finance all the measures under the Integrated Programme.

(v) Financing needs of the Fund should be met partly through capital subscriptions by Governments and partly through borrowing. The Group recommended a minimum equal rate of capital subscription for all member Governments as a demonstration of equal commitment, and an additional amount assessed for each Government according to agreed criteria; special measures should be taken to exempt the least developed countries from the need to make a financial contribution. Provision should be made for the voluntary transfer to the Common Fund of monies belonging to any international commodity agreement already in existence.

(vi) The mode of operations of the Fund should be in keeping with relevant provisions of Resolution 93(IV). Modes of operation were linked to the objectives of the Fund. The Group made specific reference to section 1 of the Resolution (where price stabilisation operations are envisaged at price levels which would be "remunerative and just to producers and equitable to consumers"). The Group also made specific reference to the need to protect the interests of developing importing countries adversely affected by measures taken under the Integrated Programme.

(vii) The Fund should function as a viable institution, and earn a net income.

(viii) The Fund would act as a financing agency, extending loans to commodity organisations, and would only intervene directly in the market in exceptional circumstances, and on request by a significant number of developing producing countries.

(ix) The Fund should have separate accounts for the two broad areas of operations, namely financing of buffer stocks and financing of "other measures".

(x) The Group held firmly that the Fund should also be a source of finance for "other measures", either in cases where necessary because commodities were not suitable for stocking, or as additional parts of a total package; "other measures" could include diversification, productivity improvement, market promotion, research and development, transport, marketing and distribution. As a general principle, the financing of "other measures" should be within the framework of international commodity arrangements, but in exceptional circumstances the Fund might intervene directly in the market of a commodity for which there was no existing commodity arrangement.

(xi) The distribution of voting rights should be such as to give developing countries a decisive role in the decision-making and management of the Fund. This would be achieved by distributing a greater proportion of votes on the equality principle.

6. The consistency of the approach of the 114 countries which are members of the Group of 77 has been a feature of the negotiations so far. Not only has the Group had a clear standpoint on the major issues, but it has held to a basically unchanged view as to the totality of functions envisaged for the Fund since the Manila Declaration. In this period, individual country standpoints have not surfaced in public discussion, and instances of reservations by particular countries have been rare; this is especially because of the adopted system in international negotiations of Groups and spokesmen in which discussion of individual countries' standpoints and the harmonisation of Group policy takes place in private sessions. It is worthy of note that among the proposals submitted by Governments to the Secretary-General of UNCTAD, in line with section iv, paragraph 3 of Resolution 93(IV), was a communication from Malta, which while endorsing fully the views of the Group of 77 on all major issues, stressed the need for non-restrictive attitudes to measures to protect the interests of net importing countries if adversely affected by measures under the Integrated Programme. Another communication from Colombia repeated the reservation made by that country at Nairobi; namely that the Common Fund might not be "suitable for financing stocks of commodities that have always been characterised by structural over-production", and suggesting the exclusion of coffee from the proposed range of commodities to be covered. A third such communication, from Argentina, drew attention, inter alia, to principles relating to the Common Fund adopted by the Group of 19 in the Conference on International Economic Co-operation (CIEC); the communication referred to the participation of international financial institutions in the financing of the Fund, and to the understanding that the structure of the Fund should provide for the contribution of the petroleum-exporting countries. In a statement to the Geneva Conference, the Director-General of the OPEC Special Fund said that although the Special Fund might finance the contributions of OPEC member countries, it was the countries themselves who would participate in any Common Fund that was established, on the basis assigned to them; special arrangements might be made to ease the burden on the poorest countries, and loans to the Common Fund might be considered as possibly a sound investment of liquid assets. Sr. Guerrero of Venezuela subsequently confirmed that OPEC will be contributing a substantial sum to the Fund over and above member countries' contributions, possibly as a capital subscription or as "soft" loans. More recent reports indicate that while members of OPEC individually and as a group might be willing to consider loans including concessional loans to the Common Fund, they would not be willing to provide capital subscriptions except as individual participants on criteria applicable generally.

7. China, speaking separately in UNCTAD, has without exception given its thorough endorsement to the Group of 77 position while castigating alleged delaying tactics of both Group B and Group D.

Position of Group B

8. In sharp contrast with the position of the developing countries, it was apparent when discussions on the Fund were resumed at the First Preparatory meeting in November last year that attitudes of the developed countries were still characterised by a marked diversity, and that, at this stage, there had been little change since Nairobi. Thus, within the EEC both extremes of view were represented. At Nairobi the Netherlands, on behalf of a group of countries, (Austria, Belgium, Canada, Denmark, Finland, Greece, Ireland, Italy, Luxembourg, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland and Turkey) had strongly welcomed Resolution 93(IV), and France also had given an unqualified endorsement to the Resolution. The United Kingdom, however, had entered a reservation noting that there were "differences of view on the objectives and modalities of a Common Fund" and that further preparations should precede negotiations on a Fund. West Germany had reiterated a belief in the market economy and explained that in assenting to the Resolution it had not agreed to the New International Economic Order; it would, however, take an active role in meetings and negotiations to determine which commodity agreements should be reached and whether a Common Fund would be the best means of financing buffer stocks. It did not believe in the creation of a "dirigistic mechanism for centralized management"; it rejected the concept of indexation and did not believe that arbitrary intervention with regard to prices, production structures and trade patterns was a suitable means of furthering the growth of the world economy or increasing the share of the developing countries in world trade. Japan withdrew from making any reservation at Nairobi, but was generally critical of the Common Fund proposals. Strong views were expressed by the United States, who saw the first need as the determination of the problems and measures for individual commodities, i.e. whether agreements or other arrangements were required; a Fund might have advantages as a linking of financial resources of individual buffer stocks, and the United States agreed to participate, without commitment, in preparatory meetings to examine whether further arrangements for the financing of buffer stocks, including common funding, were desirable. Canada expressed willingness to examine sympathetically the concept of a Common Fund and to look at proposals in the light of results of commodity consultations and negotiations, while Australia pledged full participation in deliberations and negotiations but could not say in advance of such deliberations and negotiations what might be the most appropriate course to follow.

9. These attitudes were reflected in statements by Group B members at the outset of the First Preparatory meeting. Norway, speaking for Finland and Sweden, declared support for the Common Fund, with functions to finance not only buffer stocks but also "other measures". Australia saw the preparatory meetings as providing an opportunity for examination of the range of approaches to the financing of buffer stocks; questions to be considered included the precise role and purpose of a Common Fund and the extent to which lack of finance had in the past been a constraint to the setting up of commodity agreements. Australia was concerned at proposals for the Fund to have an interventionist role in commodity councils, and had difficulty with proposals that the Fund should finance other measures than stocking operations. Canada also wished for consideration of other possible solutions, and was willing to consider the Common Fund as one of a number of possible measures; proposals submitted by Canada suggested discussion of mandatory producer-consumer financing of buffer stocks, a central fund involving linkages between established buffer stocks, and increased participation of existing international financial institutions in the financing of buffer stocks.

West Germany and the United States reaffirmed that their Governments had not accepted the principle of a Common Fund. The spokesman for Group B referred to this range of views, and put forward the position of the Group that it had come to the meetings to examine the different approaches, of which the UNCTAD proposals were one. France and Switzerland gave support to the consideration of all options. The Netherlands, on the other hand, reiterated its support for the Common Fund.

10. Group B therefore faced the preparatory discussions with no internal accord on the fundamental issue of acceptance of the concept of a Common Fund. Moves towards such accord took place away from the Geneva forum, and as has been noted, affected the stance of the Group in the latter stage of the March Negotiating Conference. The lack of commitment to the principle of the Fund on one side set out of balance the whole process of the negotiations; while the Group of 77 participated in the expectation of negotiation and decision, the professed aim of Group B was to examine and discuss. This did not entirely prevent consideration of the constituent elements of the Common Fund; the situation, however, where the need for consideration of alternative approaches was brought into the discussion did not promote detailed examination of the operational proposals as elaborated by the UNCTAD Secretariat. Group B positions on major issues arising under the various headings are noted below; these are based on statements by the spokesman, and discussion or position papers issued in the course of the meetings and Conference.

(i) Objectives.

The Group did not recognise the integrative aspect of the Common Fund and regarded the commodity councils as the building blocks of the Integrated Programme for Commodities, the integrating element being the mix of measures and financing techniques. The Group recognised merely the need for some financing device to facilitate setting up buffer stocks. As alternatives, the Group referred, in a discussion paper submitted to the Second Preparatory meeting, to joint importer-exporter financing of individual agreements. For a Common Fund approach, the Group outlined concepts by "functions" - clearing, which would provide a facility for funds of buffer stock organisations in surplus to be made available to other such organisations temporarily in need of liquidity - pooling, a central facility exercising managerial control over surplus buffer stock funds deposited with it, the effectiveness of such a system being dependent on there being several commodity arrangements, with differing trade cycles, to be serviced in this way - guaranteeing of loans, as a way of increasing the ability of commodity councils to borrow from the market (Government guarantees given directly to commodity councils would appear to sidestep the question of a Fund) - direct lending from own resources of borrowed money or direct Government contributions. Under this last system (most nearly identifiable with the UNCTAD proposals) the Group recognised that a proven financial institution might be able to borrow from the market and on-lend to commodity councils at better rates than the commodity councils could get, one reason being the spread of its risks over various commodities.

The Group recognised the importance of measures other than buffer stocking operations, but thought that the need and scope for a Common Fund in this context should be further explored, taking account of existing international machinery to support such measures. The Group questioned the precise meaning and context of "other measures" and their relationship to trade stabilisation.

(ii) Mode of operations.

If "other measures" were to be financed through a Common Fund, there should be a separate account for such operations. A Common Fund should provide financial economies in comparison with separately financed buffer stocks, and should function as a financially viable operation. It should respect the autonomy of individual commodity organisations in policy or management decisions, and allow automatic and non-discriminatory access to its funding mechanism to those organisations associating with it. Intervention in the market could only appropriately be undertaken by individual commodity organisations and the Common Fund should not therefore intervene directly.

(iii) Financing needs and structure.

Taking the proposals as set out in the UNCTAD documentation, the Group had doubt on the validity of the aggregate figure quoted ($6 bn.). However, there was also the uncertainty as to what agreements would be concluded and when. The Group thought the credit-worthiness of the Common Fund and its ability to operate on a viable basis needed very careful examination in the light of market interest rates and the need for collateral or guarantees.

(iv) Sources of finance.

No specific capitalisation for a Common Fund had been agreed upon. As regards capital subscriptions the Group was concerned at the generous exemption clauses. It doubted whether it was plausible to envisage borrowing from other international organisations.

(v) Decision taking and management.

The Group believed in equality, rather than a decisive role for one of the groups.

11. Progress towards an agreed position, and the emergence of better prospects of a positive attitude towards the Common Fund on the part of Group B countries have now materially changed the background to the international discussion. Some impact of these developments was experienced in the course of the March Conference. On the one hand, the first indications came of the new United States Administration's attitude, which it appeared might be more favourable to commodity agreements as a means to reduce price fluctuations. At the Conference, the United States delegate declared that his country had no a priori objection to a "Common Fund for

individually agreed buffer stocks" and was ready to negotiate, without commitment, on possible objectives and elements of such a fund; although many decisions on the structure and operations of a Common Fund could only be made when the results of work on individual commodities were clearer, this was no reason to delay consideration of a Common Fund. Meanwhile, in the context of both the Geneva discussions and the North/South dialogue, greater urgency devolved upon EEC countries to agree their position on the Common Fund. Positive results of this pressure were not apparent till early March when the Council of Foreign Ministers announced a compromise which would allow a joint position to be taken, details of which were not made public. At the Geneva Conference the initial statement by the EEC could go no further than a declaration of intention to participate fully in the negotiations, which "would give an answer to the question whether or not agreement could be reached between developed and developing countries on the establishment of a Common Fund, of whatever kind". A further meeting of the EEC Council in Rome later in the month was followed by a statement by the EEC at Geneva that the Ministers had agreed "that there should be commodity price stabilisation agreements where appropriate and that there should be a Common Fund". This statement was generally taken as signifying that the opposition in principle of the West German Government to a Common Fund of any kind had been withdrawn, although it was known that more wide-ranging proposals, relating to export earnings compensation, were being advanced by that country as a basis for the EEC position in the North/South dialogue. There was no precise indication of the type of Common Fund intended. At the Geneva Negotiating Conference the adjustments of position still left wide differences within Group B, reported to range from the Scandinavian countries, nearest to the developing countries in viewpoint, through the EEC countries, now willing to accept that there "should" be a Common Fund, although probably rather different from that intended by developing countries, to the United States and Japan, going no further than accepting that there "could" be a fund of some sort. The Group was unable therefore to support the draft decision submitted by the Group of 77 in the closing stages of the Conference in an endeavour to obtain a clear commitment from the negotiating parties to a Common Fund "as a main instrument" and as the "central source of finance".[1]

Position of Group D

12. Statements by Group D countries at Geneva gave support in principle to the idea of a Common Fund in the framework of the Integrated Programme. They remarked that the problem of stabilisation of capitalist commodity markets was entirely the concern of the world capitalist economy, since trade between the socialist countries was conducted on a long-term, planned and stable basis. However, they were in favour of measures to stabilise commodity markets, both because of understanding of the problems of developing countries and because socialist countries were themselves exporters and importers of commodities. Nevertheless, in his initial statement at the First Preparatory meeting, the Group spokesman took note of other representatives' statements that the final attitude of their countries would be determined after the final completion of work, which he thought was logical and natural. At the second meeting he observed that the size of the Fund could only be determined when needs had been realistically assessed and economically justified, and in particular he sought details from the Group of 77 as to what they thought the "other measures" ought to be. This point was taken up again at the third meeting, when Group D observed that a large number of measures were envisaged, all of which the Fund could not and should not finance; the Group of 77 recommended that some of

1 See TD/IPC/CF/CONF/8, page 18.

these measures should be financed by a Common Fund, and were asked why and to what extent. Group D countries were not willing to accept that matters were sufficiently clarified for the March Conference to be a meeting of plenipotentiaries, authorised to sign an agreement. The position of Group D was finally in some doubt, therefore, especially as no response was made in support of the Group of 77 draft decision inviting a clear commitment to the Common Fund. Consequently, China's concluding remarks at the Conference included a reference to "sham support to the Common Fund given by a super-Power which opposed it in reality".

13. The March Conference therefore reached no agreement, but was concluded by a Chairman's summing up which noted a "large consensus that a Common Fund should be established .... as a main instrument", and in the light of this, there was agreement that the "Conference reconvene at the plenipotentiary level to complete its work". The date for the Conference to reconvene has been set for 7 November, 1977. The United States and EEC delegates stated that they did not regard this as a definite commitment to establish a Common Fund by November.

Developments in CIEC

14. Subsequent to the UNCTAD negotiations progress towards unanimity of approach between developed countries advanced a further stage in the deliberations preceding the climax of the CIEC in Paris and in the agreements reached at the final stage of that Conference, 30 May-2 June, 1977. The 7-8 May Downing Street summit meeting of seven industrial nations (United States, Japan, West Germany, France, Britain, Canada and Italy) was able to record agreement to work "to secure productive results from negotiations about the stabilisation of commodity prices and the creation of a Common Fund for individual buffer stock agreements and to consider problems of the stabilisation of export earnings of developing countries". A somewhat different formula of agreement emerged from the Paris Conference, in which the participants were eight industrialised (EEC, United States, Canada, Switzerland, Sweden, Australia, Japan, Spain) and nineteen developing countries (Algeria, Argentina, Brazil, Cameroon, Egypt, India, Indonesia, Iraq, Iran, Jamaica, Mexico, Nigeria, Pakistan, Peru, Saudi Arabia, Venezuela, Zaire, Zambia and Yugoslavia),[1] as follows:

> "D. Action in Support of Negotiations within the Integrated Programme including its Common Fund
>
> The Conference on International Economic Cooperation, in concluding its work for action in the field of Raw Materials intended inter alia to improve structures of international commodity markets, calls for speedy and effective progress in implementing the Integrated Programme for Commodities, including the negotiations of a Common Fund pursuant to UNCTAD Resolution 93 (IV).

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1 Extract from Annex to Final Report, Chapter II, Raw Materials and Trade. Note that brackets and parentheses indicate non-agreed text: [ ] indicates G 19 proposals; ( ) indicates G 8 proposals.

The participating countries in CIEC consider that /the full/ (such) implementation /of that Resolution/ is a vital element in the cooperation between developed and developing countries for /the establishment of the New International Economic Order/ (a more just and equitable economic order) and for the successful implementation of the results of CIEC.

The participating countries in the CIEC agree that a Common Fund should be established as a new entity to serve as a key instrument in attaining the agreed objectives of the Integrated Programme for Commodities as embodied in UNCTAD Resolution 93 (IV). They also agreed that the specific purposes and objectives of a Common Fund, as well as its other constituent elements, will continue to be negotiated in UNCTAD. The participating countries in the CIEC pledge themselves to secure a successful conclusion at the forthcoming resumed session of the United Nations Negotiating Conference on a Common Fund scheduled for November 1977 at plenipotentiary level.

The participating countries in CIEC reaffirm their commitment to adopt appropriate measures and procedures for attaining the agreed objectives of the Integrated Programme for Commodities in the context of the on-going negotiations within UNCTAD on individual commodities.

They declare their willingness to make all efforts for the success of the negotiations being undertaken in UNCTAD within the timetable agreed to in Resolution 93 (IV)".

It may be noted that the agreement refers to "a key instrument" but leaves the specific purposes and objectives to be negotiated under UNCTAD. In one important respect the final wording falls short of the proposal of the 19 developing countries; the words "and function as the central source of finance for specific objectives and purposes" do not appear. Some differences as to the significance of the agreement appear to exist, since West Germany is reported to have told its EEC partners that it does not regard this statement as any advance on its previous position. Mr. Richard Cooper, U.S. Under Secretary of State for Economic Affairs, was of the opinion that agreement on the establishment of the Common Fund constituted progress, but pointed out that there were "still quite different concepts of just what such a Common Fund could and should do".

Present attitudes

15. Since recent progress towards agreement has depended significantly upon new policy orientations on the part of some Governments, it is relevant to note the present positions of the major negotiating participants. The Report of the House of Lords Select Committee on Commodity Prices, Chapter IX,[1] reviewing Britain's policy in the post-war period, noted the importance of the Wilson Kingston initiative as resulting from the call for "fresh impetus" to efforts to secure commodity agreements rather than from any radical departure from previous policies. The Committee was critical therefore of the cold welcome given until recently by Britain to the UNCTAD Secretariat's proposals, and in particular of the reservation to Resolution 93 (IV). Strong criticisms had earlier been expressed also by the House of Commons Committee on Overseas Development,[2] which spoke

1 Select Committee on Commodity Prices, Vol. I, HL 165-i, 18 May 1977.

2 Second Report from the Select Committee on Overseas Development, HC 222 (1976-77) 2 March 1977.

of a total failure to follow through the constructive initiative of Kingston. However, the Lords Committee detected a marked change of attitude in the less negative line now being taken, and quoted a statement by the Department of Trade, 14th April, 1977, referring to the Group B position paper (Annex II to TD/IPC/CF/CONF/8) presented at the Geneva Negotiating Conference, of which the Department said "its essential substance is broadly acceptable to the European Community and to the United States". The Select Committee found the position paper in line with its own view of the aim of further negotiations. It may be noted that the position paper speaks of "the financing of buffer-stocks ...... to stabilise prices around the longer-term market trends". British views expressed at the Commonwealth Heads of Government meeting in June 1977 attached significance to this principle.

16. The West German Government, as reported in March, appeared to have conceded the possibility of a Common Fund for price stabilisation of commodities, although its preferred emphasis would be on stabilisation of export earnings. Proposals by the West German Government envisaged a compensatory credit scheme for any developing country whose combined earnings from a list of about twenty-five commodities fell below a base level. There would be no interference with the market price mechanism, but the system would be compatible with any price stabilisation agreements for individual commodities that might be worked out. Credits could be linked to all the commodities on the list and not to individual commodities. Because credits would be repayable, the system would, in West Germany's view, provide incentives to change, such as towards a higher degree of processing in exports. The estimated $5 billion required for the scheme would be lent by an existing international agency, such as the World Bank. As many countries as possible should participate in the funding of the scheme, particularly the oil exporters, and the involvement of COMECON countries was also desirable. At the Paris Conference on International Economic Cooperation the EEC in fact submitted a proposal for the study of the globalisation of the Lome Convention's Stabex Scheme and of West Germany's suggestions, together with a parallel study by the Joint Development Committee of the IBRD and IMF of developing countries' needs and the form that international action could take. The proposal gained the agreement of the Group of Eight; compensatory financing, however, was among the headings on which CIEC was unable to record final agreement.

17. While the EEC has not publicly outlined the kind of Common Fund that enabled the Council of Ministers to reach unanimity in their March meetings, it is widely believed that what is envisaged is an arrangement of the clearing-house or pooling type, though the Community would be prepared to discuss whether a Common Fund should have resources of its own. An essential of the compromise between the opposing positions of West Germany and the Netherlands was reported to be agreement that the Common Fund should stabilise commodity prices around the long term trend, and not be used to raise prices.

18. In a speech to the Council of the Americas on 27th June, Mr. Bergsten, US Assistant Secretary of the Treasury for International Affairs, outlined the Administration's new initiatives on international commodity policy. These included a "positive and open" attitude towards the negotiation of individual commodity agreements to stabilise prices around their market trends and agreement in principle to the establishment of a common funding arrangement to assist in the financing of buffer stocks as a part of individual commodity agreements. The primary purpose of the United States in pursuing international commodity agreements is to reduce the risk of inflationary pressures at home. It would look positively, if discriminatingly, at proposals which might achieve greater stability through cooperation between producing and consuming countries, but the policy would be to separate out and reject the category of measures designed to effect income transfers and to oppose measures whose effect would be to

raise prices, such as indexation. Price stabilisation agreements should operate to the maximum extent possible through buffer stocks, rather than production controls or export quotas. Mr. Bergsten referred to the CIEC agreement on a Common Fund and stated his Government's support for an arrangement whose purpose would be to facilitate the financing of buffer stocks by (i) reducing the total cost of financing the several buffer stocks which may be negotiated, and(ii) providing some emergency financing in extreme situations when most commodity prices are falling. Financial savings could arise through the pooling principle. The Administration did not, however, support the UNCTAD proposals for a $6 billion fund which would (i) be the principal source of financing for individual commodity agreements, (ii)finance measures other than buffer stocks,(iii) have considerable control over operations of individual agreements,(iv) be authorised to intervene directly in markets where no agreement existed. It rejected the premise that it was necessary to put funding in place to permit the conclusion of international agreements on particular commodities. The United States would be prepared to negotiate on the creation of a Common Fund at the same time that individual agreements were being negotiated, but believed that financial pooling could be activated only after individual agreements had come into effect. It was the technical and political difficulty of negotiating effective commodity agreements, not inadequate financial support for buffer stocks, which was the primary barrier to progress. The United States would not support any notion of a Common Fund which involved income transfer activities and could be used to raise prices above long-term market trends; such a scheme would run counter to US fundamental objectives, be inordinately expensive, require continual replenishment, duplicate existing international institutions, and disrupt markets. Mr. Bergsten quoted the following principles for a type of Common Fund which the United States could support:

(i) the arrangement must be financially viable;

(ii) its financial activities must apply only to buffer stocks, not to other commodity related activities;

(iii) it should facilitate the financing of individual agreements by providing savings over separately financed buffer stocks;

(iv) each member agreement must retain exclusive authority over all matters relating directly to the commodity it covers, including questions of financing.

19. The United States recognised also the need for export earnings stabilisation for producing countries, to stabilise development in those countries. Referring to suggestions made by the EEC for the expansion of Stabex to a wider list of commodities and to all developing countries, Mr. Bergsten said the United States had agreed to further consider problems of stabilisation of export earnings, but saw no need for steps to be taken unless there was a clear demonstration that the liberalised compensatory financing facility of the IMF was inadequate.

Summary

20. The lengthy meetings in UNCTAD earlier this year brought no positive result. The March Negotiating Conference on a Common Fund, however, while unable to proceed, following disagreements basically on objectives, did produce a consensus for resumption in November. Recent developments have since brought changes in the position of developed countries. The basic acceptance in principle at CIEC of the Common Fund represents important progress and should give new impetus to the forthcoming resumed negotiations. The CIEC agreement, however, leaves all determinations on the nature and purposes of the Fund to the Geneva Conference, calling for considerable efforts if the successful outcome to which the CIEC participants have pledged themselves is to be achieved. The will to make progress will need to find expression both in the resumed Common Fund negotiations and in the parallel procedure of discussion and negotiation of individual commodity agreements. Targets remain as set at Nairobi.

Individual Commodity Agreements - Progress of Negotiations

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August, 1977.

## Individual Commodity Agreements - Progress of Negotiations

Contents

## Individual Commodity Agreements - Progress of Negotiations [1]

Review

1. This paper describes, in respect of the commodities covered by the Integrated Programme for Commodities:

(i) The state of progress of negotiations towards international agreements (ICAs).

(ii) The kinds of measures being considered, in particular, the need for buffer stocking and "other measures" that could require Common Fund financing.

(iii) Attitudes of the principal proponents and opponents.

(iv) Prospects of successful completion.

The treatment of the three commodities for which agreements are already in existence (coffee, cocoa and tin) is intended to clarify features in those agreements for which the Common Fund would have relevance.

2. In the effort to speed progress, bearing in mind the target date of December 1978 for completion of agreements, UNCTAD has revised its schedule for forthcoming meetings. By March 1978 preparatory meetings will have been held on five further commodities (iron ore, phosphate, meat, bauxite, tea) in addition to the nine for which meetings are already in course (copper, jute, hard fibres, rubber, tropical timber, manganese, cotton, vegetable oils and sugar). This leaves bananas for which the UNCTAD preparatory meeting date in 1978 is still unspecified. Reviewing progress in July, the Secretary-General of UNCTAD reported limited achievement, with work still in the preliminary stage in most commodities. He looked forward, nevertheless, to a new and more constructive approach to commodity discussions, following the expression of support for a Common Fund by the developed countries.

3. As a result of the consultations between Governments in July, there is now some room for optimism as to the outcome of the Sugar Conference which is being resumed in September. As regards the preparatory discussions on other commodities, the UNCTAD Secretary-General thought in July that only in the case of rubber could Governments perhaps be said to have reached the stage of focusing on clearly defined measures for an agreement. This reflects the encouragement provided by the existing rubber producers' scheme which aided understanding of the issues. Recommendations on the elements of an agreement on natural rubber are to be made by a small group of producer and consumer countries to the next preparatory meeting in March. Better prospects for an agreement on jute have arisen at the Fourth Preparatory meeting in July. Although the form of any market stabilisation scheme has still to take shape, it is hoped that proposals on the elements of an agreement may emerge from a working group by January. For tea and bananas there have been preparatory discussions under FAO auspices, and there is to be further consideration in each case in that forum before the negotiations are taken up in UNCTAD next year. The resolution of differences between producers is still a necessary step for the success of arrangements for tea. As regards bananas, consensus has been reached between exporting and importing countries as to the nature of a possible agreement, and the FAO Group hopes to be able to present an advanced working draft in the

1 Up to end of August, 1977, but giving in some cases details up to early October.

latter half of 1978 for negotiation in UNCTAD. Progress on other commodities for which meetings have so far been held is not encouraging. A great deal of work has been done on copper, but present activity in the preparatory meetings is still of the nature of fundamental studies; developed countries are not yet convinced that a case has been made out for an international agreement or for any particular mechanisms, and have been unable to accept that a negotiating conference should be held in the latter part of 1978. After one meeting, alternatives for cotton are being considered in view of the inability of producers to agree on the desirability of buffer stocks. For hard fibres, vegetable oils and tropical timber initial discussions have done no more than to set out areas for study with a view to determining problems and their suitability for international action; these commodities are, therefore, at some distance from the negotiating stage. Both producers and consumers of manganese were also impressed with the need at this stage to identify problems, while international stockpiling had no appeal for producers; the question of a further meeting on manganese has been left unsettled. Of the commodities on which preparatory meetings have yet to be held, little can be said of prospects. However, in three cases (bauxite, iron ore and phosphates) existing arrangements for cooperation between producers may have cleared some ground for the approach to international agreements. Meat faces special problems; developing countries are seeking to rationalise world production and trade patterns, but quick progress is not expected in view of the rigidities of protective policies in consuming countries.

4. Even including commodities which are already the subjects of international agreements, the number of those for which international buffer stocking is in practice or seen as appropriate is limited, e.g. cocoa, tin and rubber; however, while the present coffee agreement does not at present provide for such measures, certain coffee producing countries are now, following recent downward pressure on world coffee prices, initiating moves towards international stocking arrangements. Producing countries would favour international buffer stocks for copper, cotton and jute, but have not met agreement on the part of consuming countries. Suggestions for international stocks have been made also for tea and hard fibres (sisal), but these have not so far been given full consideration in the international arena. The latest proposals for sugar envisage in effect national stocks in exporting countries, supported by international funds. The alternative of some form of international financial support for national stocks held by producers may provide the solution on which a jute agreement will be reached; similar suggestions have been made for hard fibres and vegetable oils. Supply management (export quotas) reinforcing stocking arrangements is incorporated in the cocoa and tin agreements and is proposed as a feature of agreements on sugar, rubber, jute, tea, cotton, hard fibres and copper. Export quotas have to date been the main instrument of stabilisation in the coffee agreement, and might fill the basic role in any banana scheme. For certain minerals (iron ore and manganese) where stocking is less appropriate because of a high degree of flexibility of production, and phosphates, regulation of exports and/or export prices may be employed. Multilateral supply and purchase commitments are also thought suitable by the UNCTAD Secretariat for these minerals, together with copper and bauxite, and also for cotton, hard fibres and jute. While the need for production policies may be implicit in supply management measures, direct references to rationalisation of production and diversification are less frequent. The rubber working group is examining supply rationalisation as a contingency measure in support of floor or ceiling prices, and banana producers have accepted in principle the need to adjust production to meet demand and price objectives. Jute producers would contemplate rationalisation of production only in support of an international agreement where there was harmonisation

of synthetics production. The coffee agreement no longer has a diversification fund, though members may obtain technical and financial assistance and are expected to cooperate to ensure a balance of world supply and demand. Cocoa agreement members have a similar obligation. Compensatory financing and related needs, such as crop insurance and adjustment assistance, have figured among proposals for certain commodities only (tea, cotton, vegetable oils, bananas, tropical timber, iron ore). Various other measures feature more generally in existing agreements and proposals, e.g. the promotion of consumption, and related aspects such as removal of obstacles to consumption and limitation of substitutes; development of processing and access for manufactured goods; studies and research ; and the need for information collection and dissemination.

5. Considering the discussions so far, it can be observed that in the context of individual commodities, "other measures" have not been a contentious issue, in marked contrast to the Common Fund debate. Developing countries have, however, frequently insisted that the role of "other measures" be regarded as supportive of the main instruments of price stabilisation and have resisted suggestions (e.g. for jute and cotton) that "other measures" could be contemplated in isolation. It is upon the questions primarily of the kind of international action needed to achieve stabilisation, and upon the appropriateness of buffer stocking as a mechanism, that differences of view are impeding progress in the commodity discussions. Doubts on these issues may in general be identified with developed consuming countries (although in the case of cotton and copper they are shared by some developing producing countries). Some European consumers, however, (Scandinavia, Netherlands) are generally favourable in attitude, while certain important consumer countries have taken positions which vary from case to case; e.g. the adverse stand taken by the United States on cotton, hard fibres, and indeed to date on jute, contrasts with its anxiety to reach an agreement on sugar and a willingness to concur in the proposals for rubber. Japan also appears able to be less negative on rubber than other commodities. From such instances it appears that countries are still more motivated by individual interests than by the wider advantages of a restructuring of commodity trading as advanced in the context of the New International Economic Order. The Soviet Union and East European countries have followed a detached line, apparently supporting stabilisation in principle while declaring either that it concerns only the trade of Western countries (rubber) or asserting that contributions to buffer stock financing should be voluntary (sugar, cotton).

## Edibles

### Bananas

6. The FAO Study Group on Bananas later redesignated as the Intergovernmental Group on Bananas (IGG), was set up in 1966 to consider problems of the world banana economy and measures to solve them. Following a recommendation in April, 1975 by the Sub-group of Exporters of the IGG, the FAO established a Working Party of the whole Group to study the possibility of negotiating an international banana agreement with a view to improving banana prices on the basis of regulating supplies to importing countries.

7. At the Working Party meeting in July 1976 agreement between importing and exporting countries was reached that bananas could be covered by an international agreement, which might, inter alia , include the following elements:

(i) Establishment of production and export goals compatible with banana requirements.

(ii) Provision for the examination of appropriate economic measures designed to secure prices remunerative to producers and reasonable to consumers.

(iii) Improvement of the quality of bananas.

(iv) Plans to increase consumption.

(v) Diversification schemes.

8. The Second Session of the Working Party in May-June 1977 reaffirmed that the essential basis for an international agreement would be for producing countries to undertake to adjust their production objectives to a level which would be compatible with aggregate requirements for exports plus domestic consumption. Exporting countries accepted this principle, noting that they would need the assistance of importing countries in assessing the market and selling agreed quantities. The Working Party agreed in principle to endeavour to develop an export quota type of agreement designed to achieve specified price objectives, and to safeguard the interests of preferential suppliers. It was unanimously agreed that increasing consumption was one of the best means to achieve a balance between supply and demand. As regards additional elements of a possible agreement, the Working Party recognised the importance of diversification, and agreed on cooperation in this area and in the field of research and documentation. Although the Working Party's attention was directed to compensatory financing and to crop insurance and "reserve production" schemes, there were no recommendations on these subjects.

9. From the Session of the Working Party there emerged a request to the FAO Secretariat to draw up detailed draft proposals for a possible international agreement; this means calling a meeting as soon as practicable of the Sub-group of Exporters to examine a mechanism for setting individual export quotas, and seeking the advice of technical experts on practical aspects of the alternative approaches to a price and quota mechanism. After sufficient elaboration of a working draft in the Sub-group, the Working Party should meet again, preferably in the first half of 1978, to be followed by a session of the full Intergovernmental Group.

10. The FAO Working Party recorded its anticipation that during the second half of 1978 it should be able to present, through the Intergovernmental Group, an advanced working draft which could form the basis for negotiation in UNCTAD of an international agreement on bananas.

Cocoa

11. After a number of abortive attempts in the 1950s and the 1960s the International Cocoa Agreement (ICCA) between cocoa exporting and importing countries, which was negotiated in December 1972, finally came into force on 30th June 1973. After renewal in 1975 without major alterations the Agreement entered into force on 1st October 1976 for a further period of three years with the possibility of a two year extension if the International Cocoa Council (ICCO) - the administrative authority of the Agreement - so decides. Like its predecessor the 1975 ICCA includes major exporting and importing countries except the United States - the world's largest importer.

12. The Agreement is intended to alleviate economic difficulties arising from imbalance of production and consumption of cocoa; it aims to reduce price fluctuations for cocoa, to stabilise and increase export earnings of cocoa producers, to assure adequate supplies, and to expand consumption.

13. For the purpose of price stabilisation, the Agreement established an export quota and buffer stock system, linked with a minimum and maximum indicator price range. Before the beginning of each quota year the overall export quota is determined by the Council and is distributed pro rata to those exporting members with basic quotas (i.e. producing 10,000 tonnes or more of ordinary cocoa annually), the distribution being revised annually according to a member's average production in the preceding five years for which final figures are available. The provision to establish a buffer stock of a maximum of 250,000 tonnes of beans, (which could not be realised under the 1972 ICCA because of shortage of cocoa supplies) has been renewed under the new Agreement. The price range set in 1975[1] was 39-55 U.S. cents per lb., compared with 23-32 cents set in 1972, revised to 29½-38½ cents in 1974.

14. Finance for buffer stock operations has been raised from a levy of one US cent per lb on all cocoa first exported by member countries(exluding exports of fine or flavour cocoas) or imported by member countries from non-members. Under the current Agreement the Council has authority to effect a reduction in the rate or to suspend the levy altogether; funds temporarily surplus to buffer stock requirements may be suitably deposited in importing and exporting member countries. The current annual intake of this Fund, which has to date accumulated US$110 million, is put at US$26 million.

15. Operational procedures for dealing with buffer stocks were strengthened under the 1975 Agreement. Cocoa held in the buffer stock will be the property of the International Cocoa Organisation and under its control. Furthermore, it will be sold through normal channels mainly to firms and organisations in importing member countries and will have to be stored in such locations as will facilitate immediate ex-store delivery to buyers. Previously producers were entitled to an initial payment of 10 US cents per lb f.o.b. on delivery of cocoa beans or up to 15 per cent if the Council so decided and to a complementary payment on the sale of the cocoa beans. Under the 1975 ICCA, they have a choice either of accepting the current market price (i.e. presumably not less than the floor price of 39 US cents per lb) as full payment on delivery or of accepting an initial payment of 25 cents and a complementary payment equivalent to the sale proceeds less the initial payment and costs of handling and maintenance. The efficiency of these recommendations has not been tested because of the shortage of supplies.

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[1] See below for the revised range newly negotiated under the new Agreement.

16. Under the 1975 Agreement the price range must be reviewed before the end of the first year, and again, if the Agreement is extended, by the end of the third year. In discussions this year producers at first requested a new range of 75-91 cents per lb., while consumers offered 52-68 cents; the gap was narrowed in July, when producers lowered their proposed levels to 73-89 cents while consumers raised their suggested levels to 57-75 cents. Current market prices remain far higher (about 195-200 cents per lb).

17. In relation to the Integrated Programme for Commodities and the Common Fund, the question arises of what relationships are to be expected between a new institution and the established organisation of the ICCA. While it would be quite possible to continue an entirely separate existence, certain of the advantages seen for the Fund are dependent on the participation of a number of commodities. The International Cocoa Organisation itself might benefit from participation through the possibility of greater access to capital.

18. Attitudes of cocoa producers and consumers have not been established, nor perhaps is it reasonable to expect their views to crystallise before a Common Fund of some kind is in existence. Some opinions have been expressed that individual commodity interests might be unwilling to accept participation in the Common Fund, for fear of some loss of autonomy, or see little advantage in it, where, as in the case of cocoa, the individual commodity organisation has made some provision for its financing needs. Cocoa is in the exceptional position of having built up large funds, sufficient it would appear to meet conceivable stocking needs in the foreseeable future. Cocoa producers may therefore be somewhat uninterested in the proposals.

19. Apart from the instruments of price stabilisation (buffer stocks, price range, export quotas) certain other supporting measures, analogous to those being considered in the context of the Common Fund, are features of the present ICCA. These include recognition of the necessity of keeping production in reasonable balance with consumption (Article 50). The Agreement, however, does not specifically refer to diversification, but rather gives emphasis to expansion of consumption, by removal of obstacles and a promotion programme, and by measures to check use of cocoa substitutes (Articles 51-53). The need for extension of processing and development of markets for manufactured products is also recognised (Article 54). Information exchange, and research and development needs are other activities already within the agreed framework of operations; the Council is to promote studies of production and distribution, and opportunities for new end-uses, which would include uses of waste products (Articles 57 and 58). Finances raised by the levy are reserved solely for buffer stocking purposes; requirements for other purposes would come from a separate administration budget. Supplementary finance for such supporting measures from the Common Fund could be of significant value to Governments.

Postscript.

20. The International Cocoa Organisation's Council at a meeting in London on 20th September, 1977 approved a buffer stock price range of 65-81 US cents per lb.

Coffee

21. Coffee, the top ranking agricultural export of the developing countries, has for long suffered from severe price instability, caused mainly by large annual variations in supplies arising from natural disasters and other difficulties. Export earnings from coffee were affected by the declining trend in prices until the late 1960s, which was largely a reflection of increased supply from Brazil, the country which alone normally accounts for some three-tenths of world output and one-fifth of world exports of coffee. Early attempts to stabilize coffee prices on the international markets were made by Brazil in the beginning of this century; these not only included restrictions on new plantings but also state-financed "valorisation" schemes, under which surplus coffee from bumper crops was purchased and held as buffer stocks. Subsequently joint efforts to stabilise prices were made by coffee producers in Latin America and the proposal for establishing an international buffer stock of coffee was mooted in 1957, much before the first International Coffee Agreement was concluded in August 1962.

22. The 1962 International Coffee Agreement (ICA) had a goal of achieving a reasonable balance between supply and demand through a system of export quotas linked with changes in indicator prices and alleviating hardships caused by surpluses and price fluctuations. However, the Agreement did not provide for the establishment of an international buffer stock despite the desire for this by Brazil and Colombia - holders of most of the world's coffee stocks in the producing countries. Instead, the International Coffee Council - the administering body of the Agreement - was required to take measures to collect information on levels of inventories in both exporting and importing countries and to establish a policy regarding these stocks for compliance and implementation by the member countries. The Agreement was renewed in 1968 with similar provisions regarding policy relative to stocks and stipulated that producing member countries would ensure that adequate facilities exist in their respective countries for the proper storage of coffee stocks. Following the failure of producers and consumers to agree on the indicator price level for 1971-72 and the suspension of export quotas in December 1972, most coffee producing countries combined(in Cafe Mundial and Cafe Otros Suaves) to achieve their price objectives by regulation of exports and retention of supplies. These efforts broke down through difficulties deriving from inadequate national storage facilities and the need for foreign exchange.

23. At the time of negotiations for the 1976 ICA, the producers desired to complement export quota/indicator price mechanisms of the previous Agreements with internationally financed stocks of between 10-20 million bags. Studies of the year to year variations in world production of coffee made by the International Coffee Organisation in 1975 indicated that within this range, a level of 15 million bags could, at most times, be regarded as a reasonable average for a reserve stock and that the existence of such a stock would generally help to achieve price stability. A high degree of international coordination of national actions and policies towards the achievement of agreed price objectives would, however, require a smaller reserve stock.

24. Despite these efforts the 1976 ICA, which was negotiated against a background of doubts concerning the adequacy of world supplies to meet demand in the immediate future, has renewed provisions for the establishment of a policy relating to stocks and the creation of proper storage facilities in producing countries but has not included any specific recommendation regarding the role of an international buffer stock of coffee, its financing or its operations. However, the International Coffee Council has been instructed

to study the feasibility of supporting the objectives of the Agreement by an international stock arrangement. The new Agreement is more flexible in that it permits the market to operate without quotas while prices are above agreed levels but it continues to provide inter alia for the introduction of quotas (adjusted according to the level of indicator prices and distributed in part according to member countries' stock levels) to prevent serious declines in prices, rationalisation of production and promotion of consumption.

25. The chances for the appearance of a large surplus for building up an international buffer stock in the medium-term (up to 1980) appear remote. It is possible, however, that a sizeable proportion of the existing stocks in producing countries and a modest one from bumper crops in others (wherever and whenever they appear) would spill over into such a facility should it come into existence. On the basis of its storability without loss of value in the medium term,and stocking operations already undertaken by Brazil and Colombia,together with a tendency for fluctuations in other countries' production to increase in magnitude,an international buffer stock arrangement would be appropriate for coffee and would help reduce supply and price fluctuations.

26. The UNCTAD Secretariat's most recent proposals envisage a buffer stock of about 10 million bags(60 kg),operating in conjunction with supply management measures(export quotas).The proposed Common Fund would not only offer financial assistance for buffer stocking operations but could also help with other measures. Such measures referred to in the 1976 ICA include diversification in support of production policies; the promotion of coffee consumption (for which the Agreement established a specific fund); the removal of obstacles to consumption; restraints on substitutes and mixtures; increased industrialisation and export of manufactured products; information collection and exchange; and studies, e.g. on opportunities for new end-uses and the practicability of establishing minimum export standards.

27. In recent weeks there has been a proposal from Mexico to establish a coffee price stabilisation fund within the framework of the ICA, which has met with approval from other Latin American coffee producers. A meeting in August between Bolivia, Brazil, Colombia, Costa Rica, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua and Venezuela, and Ivory Coast as observer, agreed on outlines for a fund to finance international coffee stocks in order to counter excessive price fluctuations; both exporting and importing member states of the International Coffee Organisation would contribute to the fund. The scheme is being studied by the ICO.

## Meat

28. A preparatory meeting to discuss international action on meat under the Integrated Programme for Commodities will be held in December 1977.

29. Features of the world beef market are that two major importing areas, the United States and Japan, are mainly or entirely supplied by developed exporting countries, while the third, the EEC, is predominantly supplied by developing exporting countries. This can be explained by traditional links and by the effect of health and sanitary regulations. In recent years a situation of depressed demand and over-supply have led to restrictive actions by importing countries which have greatly distressed traditional exporters. In the case of the EEC this amounted to a total ban on imports from third countries. These events have highlighted the need for international action directed particularly to access to markets, stabilisation of supplies and prices and greater coordination of national policies. The special patterns of trade, the heterogeneous nature of meat, the non-existence of a representative international market, are reasons to expect that any international agreement on meat will be of non-conventional character. Primarily a link is needed to reconcile domestic agricultural policies with a rational international trade policy. High levels of agricultural protection have been responsible for the transfer of world production to relatively inefficient and protected producers from relatively efficient producers elsewhere. This is a primary issue in any endeavour to rationalise world production: a second is the need to provide assurances of sufficient supply in all circumstances from more distant producing countries. Thus important objectives are:

(i) Efficient allocation of resources in the world meat economy.

(ii) Improvement of market access.

(iii) Long-term market and price stability.

(iv) Assurance of supplies.

(v) Special measures for developing exporting and importing countries.

(vi) Cooperation and consultation among Governments on issues affecting meat policy.

30. An approach to the problem of long-term security of access for exporters, for example to the EEC market, and of assurance of supply to importers suggested by the UNCTAD Secretariat could be based on the idea of a self-sufficiency ratio; this would govern the level of importation, with voluntary restraints on the part of exporters over the agreed amount, and non-commercial disposal of any excess domestic production. Difficulties of access arising from disease regulations should be met in two ways; first by efforts to eradicate disease, and second by intensified examination of the regulations in order to eliminate elements of hidden protection. Surpluses in meat production might usefully be diverted through the inclusion of meat as an element of food aid.

Sugar

The May 1977 negotiations.[1]

31. The United Nations Sugar Conference held in Geneva from 18th April to 27th May, 1977 had before it a draft text of a new Sugar Agreement which had been prepared by the Secretariat of the International Sugar Organisation to serve as a working document for the negotiations. The draft Agreement proposed a quota type Agreement supported by minimum stocks to be held by exporting members (possibly with some financial assistance under certain circumstances) and a balancing system of purchase and supply commitments in high and low price situations.

32. The European Economic Community had made it clear that it could only contemplate membership of an Agreement based on a system of nationally held buffer stocks rather than export quotas - a position in which it stood alone. The Conference participants were fully aware of this difficulty but felt that this should not necessarily preclude the conclusion of an effective Agreement in which the EEC would not participate.

33. A major developed consumer whose position had not been made clear during the preparatory discussions proposed after the Conference had opened that the new Agreement should contain provision for the establishment of special stocks in exporting countries, partially financed by the importing members, in addition to minimum stocks as contained in the draft text. This country made certain other proposals too but it was this insistence on special stocks, originally put at 2 million tonnes, in addition to 2 million tonnes minimum stocks, which was a major departure in concept from the draft Agreement, and proved very difficult to accommodate. There was disagreement also on several other issues; in fact the Conference was faced with the task of coming to an accord on the basic principles of a new Sugar Agreement rather than negotiating the details of the draft text. In the event the working groups established by the Conference were unable to make much progress because of the proliferation of alternatives which had to be included in their reports.

34. During the final week of the Conference the Chairman, after consultation with a group of major sugar importers and exporters, produced new tentative compromise proposals. These covered quotas and price levels and included provision for both minimum and special stocks; the former (1.75 million tonnes) to be held by exporting countries at all times and released when sugar prices went above specified levels, and the latter (up to 720,000 tonnes or 6 per cent of quotas) to be built up in addition to minimum stocks as quotas were reduced below certain levels and then used to help exporting members meet their commitments when export quotas were again raised in response to rising prices.

35. Various objections were raised to these suggestions. The exporters, including the large developing exporters, were opposed to the idea of large stocks whether designated minimum or special stocks. They agreed that the stocks would act as a psychological depressant on the world market and reduce the scope for exporting countries cutting back production or increasing domestic consumption, which would not be the case when quotas were cut. Exporters still were unwilling to hold

[1] Negotiations were completed on Oct. 7 for a new Agreement. The main features are provided in the postscript to this section: see para 46.

stocks larger than those negotiated under the 1968 Sugar Agreement, i.e. minimum stocks at 10 per cent of individual basic export tonnages. The question of finance for these stocks was equally contentious. Two of the largest developed importers were not willing to help finance part of the stocks held in exporting countries, arguing that these stocks would be self-financing. The importing country which had proposed the establishment of special stocks and the EEC both offered finance, but the latter was conditional upon an Agreement without export quotas which had no chance of acceptance by the Conference. Among the exporters there were also differences in the degree of opposition to the stocks - one large Asian exporter, for example, would hold minimum stocks only with financial assistance.

36. The 11-21 cents per lb price range proposed by the Chairman commanded fair support, but some exporting countries, including a large developing centrally planned exporter, who had proposed 15-25 cents per lb., thought the minimum was too low. Further difficulties arose over questions of quota determination and allocation.

37. The Chairman therefore drew up revised compromise proposals which it was agreed would act as a working base for discussions in London in the second half of July. It would then be decided whether a second negotiating Conference would be convened in the autumn.

38. These revised proposals differed from the first in a number of respects: notably (i) the size of minimum stocks was left open to negotiation (with no change for special stocks); (ii) the size of the global quotas was no longer specified; (iii) the price range was retained, but with alterations to the quota adjustment linkages. An important addition was a section on financing to enable provision to be made for a member who might require assistance for the purpose of holding stocks to obtain cash from a Fund to be established by the International Sugar Organisation by means of contributions from members; the Fund would be empowered to borrow from the Common Fund when established.

39. The reaction to the document at the final Executive Committee and Plenary meetings was mixed. A large developing centrally planned exporter, in particular, felt that the document left too many questions unanswered, especially on the allocation of quotas and the minimum price. A large developed exporter, on the other hand, thought the document would serve as a useful focus to achieve further negotiations. Another, a medium sized exporter, saw difficulties and discrepancies in the proposed framework but was eager to cooperate to achieve a new Agreement. Certain European countries were disappointed that this Conference had not been able to set a precedent of progress for the discussions on other commodities in the UNCTAD Integrated Programme but supported the suggested procedure for continuing the negotiations. The small exporters were very concerned that they should be involved in the discussions in London so that their interests could be reflected in any final framework; they had not been involved in the preparation of either of the two compromise documents although as a group they accounted for a considerable share of the world sugar supplies. Several countries, including some major exporters and importers, doubted that the Conference had made significant progress towards a new Agreement but there was a general consensus that the procedure proposed by the Chairman should be accepted and every effort made to finally achieve a new Sugar Agreement.

40. Before adjourning, therefore , the Conference endorsed the proposal for the Chairman to proceed to consultations with Governments in the light of which he would decide whether the Conference should be reconvened.

London consultations, July 1977.

41. Representatives of 20 Governments, as well as of the IMF and the UNCTAD Secretariat, met in London for consultations, 20-29 July 1977. Following the meeting the Chairman reported sufficient progress to justify his belief that a new International Sugar Agreement with economic clauses could be negotiated in 1977. The Conference is, therefore, being reconvened for 12-30 September 1977.

42. A major feature of the London consultations was the emergence of a new proposal from a major developed consumer which is seen as a possible answer to differences between consumer and producer countries on the question of stocks and their financing. This country is now suggesting a reserve stock of 3 million tonnes, nationally held (by exporting countries) but internationally financed. Stocks would remain the property of the country holding them, but the costs of carrying them (possibly including interest costs on the value of the sugar) would be met from funds produced by a levy on all sugar traded on the free market. This would be paid by importers or exporters, directly to the ISO, on all imports from members and non-members and on exports to non-members. There would be no distinction between minimum and special stocks. Reported reactions to the proposal are not unfavourable, except that producers are understood to be unwilling for stocks to go above 2 million tonnes or at most 2.5 million tonnes. The rate of levy would depend on the size of reserve stocks and various other factors, and could range up to a maximum of $6-7 per tonne if the stocks were accumulated within one year.

43. At the consultations there was also a narrowing of differences over an acceptable price range. The highest proposal was reduced to 13-23 cents per lb (as against 15-25 cents per lb at the May negotiations, and the Chairman's proposal of 11-21 cents per lb).

44. Discussion of quota mechanisms revealed almost unanimous acceptance that the quota system should not apply throughout the price range; it appeared that a mechanism applicable only in the lower half of the price range would be acceptable to a majority of countries. The desirability of basic export tonnages in the first two years of the Agreement was generally recognised, together with the need for some sacrifices by exporting countries if the total was to correspond with prospective free market requirements. The part played by special arrangements in the world sugar market was also discussed, and the need agreed for them to be recognised in any new Agreement. It was felt that questions of market access, currently under discussion in the GATT multilateral trade negotiations, should also be included in the topics for the resumed Conference.

45. The Chairman's view was that representatives at the July consultation had moved nearer to each other on most of the major issues, and if the same spirit was revealed in Geneva, there would be a successful outcome of the renewed negotiations.

Postscript. International Sugar Agreement concluded.

46. The resumed negotiations in September were successful in concluding a new International Sugar Agreement which will come into force on 1st January, 1978, and operate for five years. The principal features of the new Agreement are as follows:

(i) A price range of 11-21 cents per lb with quotas to be suspended when the price increases to 15 cents and reimposed when it moves down to 14 cents.

(ii) A total of basic export tonnages subject to quota adjustment of 15,905,000 tonnes for the first two years of the Agreement.

(iii) The basic export tonnages to be subject to a maximum quota cut of 15%, except that in the first year they may be automatically reduced by a further 2½%, and in the second year similarly further reduced if the Council should think it necessary. However, those exporting countries whose exports to the free market amount to more than 60% of their production will not be subject to the additional 2½% quota cuts; rather an equivalent amount will be deducted from the basic export tonnages of those countries less dependent on the free market (which will represent about another 1% of their basic export tonnages). This exemption from quota cuts is to be made good by the beneficiaries when quotas are increased in response to rising prices or whenever quota shortfalls of exporting members are reallocated.

(iv) The basic export tonnages are to be renegotiated after two years, but if this renegotiation is not successful a fallback formula to determine basic export tonnages on the basis of relative export performance will be applied in each of the remaining three years.

(v) Minimum reserve stocks of 2.5 million tonnes will be established in exporting countries during the first three years of the Agreement pro rata to basic export tonnages (with certain exemptions for small exporters). A Stock Financing Fund, financed by a levy on all imports of sugar and exports to non-member countries, will make interest free loans to members to cover the operating costs of holding the reserve stocks. The stocks will be released in three equal tranches when the price rises to 19, 20 and 21 cents per lb.

47. Rather than be a full member of the Agreement the EEC offered to impose what it saw as equivalent restraints on its exports of sugar to the free market and to hold 225,000 tonnes of sugar in addition to the 2.5 million tonnes of reserve stock to be held by other exporters. The restraints, however, would not apply to an amount of exports equal to its imports under the Lome Convention. This limitation was not acceptable to the other participants and it was agreed that the terms of the EEC's accession to the new Agreement be renegotiated at a later date.

## Tea

48. Considerable efforts have been made by FAO and UNCTAD to establish a long term international Agreement for tea in recent years. In the second half of the 1960s these efforts were based on the idea of an export quota scheme and in Mauritius in 1969 an informal arrangement was made to that effect under the aegis of FAO. However, export quotas were too liberal to have a lasting effect on market prices, although for a while the arrangement in itself provided a boost. The arrangement lapsed after 1975-76. The main reason for the failure of these efforts was the difference of opinion between the established producers in Asia and relatively new producers in Africa and Latin America. The latter see tea as a means of economic diversification and rural development and as such consider any long-term commitment to export quotas as an implied threat to their future tea expansion programmes. Attention has, therefore, been switched from a purely export quota scheme to a multi-dimensional programme, including a minimum price arrangement, coordination and regulation of marketing, generic promotion, a market intelligence service, and rationalisation of marketing and transportation.

49. At the most recent meeting of the FAO Intergovernmental Group on Tea (held in London in February 1977), which was the first meeting of the Group since UNCTAD IV, the opportunity for the Group to clear preliminaries for a negotiation on tea within the Integrated Programme for Commodities was recognised. The arrangements for the UNCTAD Preparatory Meeting on Tea, now scheduled for 4 - 13 January 1978 are being undertaken in close collaboration with FAO.

50. The meeting had before it new proposals from FAO for an international tea agreement incorporating a "stand-by" export quota scheme. The sensitive nature of the question of export quotas was reflected in the proposals, which suggested careful elaboration of the circumstances in which they should be introduced, including exemption for smaller producers; such a scheme would specifically not include provision for restrictions on plantings. The proposals also recognised the role of an internationally managed stocking arrangement to supplement a "stand-by" quota scheme, which could be expected to result in some increase in supplies of tea remaining in exporting countries. While the Group acknowledged that, if it was agreed to include provisions for supply management in an international tea agreement, they should be of a "stand-by" type, they did not give fuller consideration to the proposals. The Group, however, agreed in principle on the following objectives of an international programme for tea, and an ad hoc Working Party of 14 tea producing countries was asked to consider and recommend measures and techniques in accordance with UNCTAD Resolution 93 (IV) to achieve them:

(i) To improve, in real terms, export earnings from tea and returns to growers.

(ii) To cater and provide for the special needs of smallholder tea growers.

(iii) To create stable conditions in the international tea trade, while avoiding excessive price fluctuations by promoting and maintaining equilibrium between supply and demand within an expanding world tea trade.

(iv) To ensure that the prices of tea in international trade are just and remunerative to producers and equitable to consumers.

(v) To take account, in establishing price objectives for tea, of changes in the world monetary system and the rate of world inflation.

(vi) While avoiding excessive accumulation of stocks in importing countries, to assure them of regular supplies of tea.

(vii) To improve access to tea markets by the removal of tariff and non-tariff barriers, as well as internal and transit taxes, and to expand demand for tea in both traditional and new markets by removing all obstacles to tea consumption.

(viii) To provide and strengthen statistical and market intelligence on tea.

51. In a document giving consideration to these objectives circulated by FAO for the September meeting of the Working Party, it is suggested that the feasibility of applying some system of international stock management to tea should be investigated. If it was found feasible to put such a system into effect as a first defence against a fall in prices, the need for application of a stand-by quota system could be delayed, though it would be in any event desirable for an agreement to provide for an export quota system on a contingency basis. The application of either system would require the setting of price objectives and the adoption of indicator prices.

52. Other elements of an international tea programme set out in the recent FAO document include promotion of tea consumption, improvements in market access, improvement in marketing, compensatory financing, market intelligence and studies, and measures for the improvement of tea production and coordination of national production policies. The possibility of finance from the Common Fund is suggested in particular for consumption/ promotion activities and for studies to examine specific problems of tea producers.

53. These proposals reflect basic elements of a programme for tea similar to those which have been advanced by UNCTAD. With the retiming of the UNCTAD preparatory meeting to allow for a meeting in FAO in September and October of the ad hoc Working Party and the Intergovernmental Group on Tea, the course of meetings leading to negotiations in UNCTAD was fully coordinated. Prospects of eventual agreement appear to continue to rest with producing countries, with considerable significance attaching to the acceptability or otherwise of a "stand-by" quota system for African and Latin American producers. On the side of consuming countries, the United Kingdom and EEC are favourably disposed both to the "stand-by" proposals and to the suggestion for examination of buffer stock feasibility. The United States might be expected to support an agreement which does not artificially cut production, and has not opposed export quotas.

Vegetable Oils and Oilseeds

54. The FAO Intergovernmental Group on Oilseeds, Oils and Fats, set up in 1965, has been the main forum for the discussion of the problems and possible solutions in the oils and oilseeds sector. The Group normally meets once a year, and is supported in its work by a Statistical Sub-group.

55. The main problems in the oils and oilseeds sector for developing countries have all been discussed in the Intergovernmental Group. They are:

(i) The complex inter-relationships between the markets for the various oilseeds, vegetable oils and oilcakes which make the traditional international commodity arrangements, such as export quotas, minimum and maximum prices and multilateral contracts, inappropriate.

(ii) The weakness of many developing countries in marketing their products vis-a-vis the sophisticated market organisations and superior market intelligence at the disposal of developed countries. Developing countries are also handicapped in market research and development.

(iii) Access to markets. There are tariffs in developed countries, especially on vegetable oils, and these escalate in respect of the degree of processing of the product. Non-tariff barriers consist of sanitary requirements and agricultural support programmes of importing countries for competing goods.

(iv) The high degree of instability of export earnings and export unit values.

(v) The falling real prices of oils and oilseeds since the early 1960s.

(vi) Competition from synthetic products for certain oils and in certain areas of consumption.

(vii) Developing importing countries - especially the least developed and most seriously affected - have low per caput consumptions of vegetable oils. They face serious difficulties in raising their domestic production and in endeavouring to increase their imports on concessional terms.

Solutions to problems along the lines of Resolution 93 (IV).

56. The paper prepared jointly by the FAO and UNCTAD for the preparatory meeting on oils and oilseeds held in Geneva late in June 1977 examined some possible solutions under the following headings:

(i) Improved national stocking and storage policies. Since international buffer stocks (even for lauric oils) had been shown by earlier studies in FAO to present serious difficulties, it was suggested that international action be directed to improving national stocking and storage policies, and their harmonisation if possible. For technical oils (linseed, castor and tung) their special characteristics suggested that stocking measures and export quotas might be beneficial.

(ii) Financial and technical assistance should be made available to establish and improve storage facilities and stocking policies in developing countries. There should also be closer cooperation among all countries in the operation of these policies.

(iii) Reference prices could be established for edible vegetable oils exported by developing countries; a fall in world prices below these would result in a proportion of exportable supplies from developing countries being bought for delivery to developing importing countries. Appropriate financial arrangements would be needed, both for the purchases of the oils and to assist in the provision of storage facilities in the developing importing countries. (The UNCTAD/FAO document makes no suggestions, however, regarding the sources, e.g. the Common Fund, which might finance these arrangements).

(iv) In the sphere of market access developed countries should impose no new barriers to imports from developing countries; furthermore the GSP should be extended to allow free access for all oilseeds and oil products. Non-tariff barriers and domestic price support schemes should be phased out in accordance with a timetable.

(v) Further consideration should be given to schemes for compensatory finance in stabilising export earnings, e.g. the possible extension of the EEC Stabex scheme to all developing countries. Such schemes would not supplant the need to continue to seek market and price stabilisation.

(vi) The competitive position of developing countries should be strengthened through improved market intelligence, research and trade promotion; additional assistance in the field of production, storage and processing methods; and an improvement in the competitive position of natural products relative to synthetics.

Progress of negotiations.

57. At the preparatory meeting in June developing producing countries broadly endorsed the possible solutions in the paper presented to the meeting jointly by UNCTAD and FAO, but without elaborating upon any of them. The consuming countries noted that owing to the complexity of the vegetable oils and oilseeds group it might be necessary to start from fairly modest beginnings and to build up from that position over time; they considered that the question of security of supplies should also be among the objectives of any international arrangement.

58. The United States, as a significant exporter and importer, thought that the complexity and interchangeability of vegetable oils made international

commodity arrangements with price and/or stocking operations questionable, but agreed that more attention should be focused on improving storage facilities and coordinating national stocks.

59. In its consideration of follow-up action the preparatory meeting recommended that a Second Preparatory meeting (now to be held 13-17 February 1978) should consider and make recommendations broadly along the lines set out in headings (i) to (vi) in the preceding section. Heading (iii) was re-drafted to read "Promotion of purchases from exporting developing countries for delivery to net importing developing countries" (i.e. the allusion to the establishment of reference prices was ommited). In addition, a new aspect of the problem was delineated for study, viz. "Analysis of the infrastructure of the vegetable oil processing industry as well as factors affecting location of processing facilities and their effect on the export earnings of developing countries".

60. In brief, a Second Preparatory meeting is to examine all the issues touched upon at the recent meeting, and also to analyse the infrastructure of the vegetable oil processing industry. Little that was new emerged from the preparatory meeting and unless the Second Preparatory meeting is prepared to be a good deal more selective in suggesting measures for further study and international action, it is difficult to see any degree of success rewarding the deliberations in the sphere of oils and oilseeds.

Olive oil

61. The First Preparatory meeting noted that olive oil is at present the subject of an international commodity agreement, due to expire in December 1978. There is to be a preparatory meeting in September, followed by a United Nations conference on olive oil in the first half of 1978.

62. The existing Olive Oil Agreement does not have economic clauses, but attention has been given to market intelligence, trade promotion etc. Because varying yields create marked fluctuations in annual production, the Olive Oil Council is continuing its work on the possibility of buffer stocks to help stabilise supplies.

## Fibres

### Cotton

63. The International Cotton Advisory Committee is the intergovernmental organisation for consultation on international problems concerned with cotton. Over the past ten years the question of price stabilisation has been raised frequently at its plenary meetings and while a consensus seems to exist on the desirability of reducing price fluctuations, no programme of action has emerged from these discussions.

64. The problems of cotton accounting for sharp price fluctuations are:

On the demand side.

(i) Cotton has suffered heavy losses in its relative share of the world textile market as a result of competition from synthetics. However, the recent rise in the cost of producing synthetic fibres has arrested the swing away from the natural fibre, temporarily at least.

(ii) Instability of demand mainly related to the textile cycle.

(iii) Variations in inventories largely related to consumption variation.

On the supply side.

(i) The diversity of producing countries and lack of coordination between them has resulted in a tendency to over-production which in turn has a depressing effect on price.

(ii) Export supply and crop variations partly as a result of cotton's susceptibility to weather and disease.

Suggested approach to the problems along the lines of Resolution 93 (IV).

65. The documents prepared by the UNCTAD Secretariat in consultation with FAO for the preparatory meeting on cotton suggest measures bearing in mind the need:

(i) To avoid periodic wide swings in cotton prices.

(ii) For cotton to remain competitive with other fibres in terms of both prices and quality.

(iii) For cotton to remain a profitable and attractive crop to producers thus ensuring adequacy of world supplies.

The measures are:

(i) An international buffer stock or coordination of national stocks. The stocks would be controlled and operated internationally but located in major exporting and importing countries. They would hold a representative sample of different grades of cotton thereby reducing the complexity of stocking operations. To be effective the stock would need to have the support of the two largest exporting countries - the Soviet Union and the US. A buffer stock of at least 550,000 tonnes is envisaged to maintain prices within a range of ± 10 per cent around a pre-determined target price (an estimate UNCTAD now thinks is on the low side).

(ii) Supply management measures. Production controls and/or export quotas are advocated as temporary measures, and are seen in a supporting role, rather than as alternatives, to a buffer stock scheme.

(iii) A system of multilateral supply and purchase commitments covering a significant proportion of the world cotton trade could contribute to the achievement of the price stabilisation objectives, though it would be difficult to implement unless embodied in a formal commodity agreement.

(iv) In addition to the measures to stabilise prices there will be need for some form of compensatory financial assistance for the least developed countries to prevent fluctuations in export earnings.

(v) Increased processing of cotton by developing countries into manufactured goods for export combined with international action for the reduction and removal of barriers to trade which cotton goods face in most developed markets.

(vi) Improvements in the marketing, transport and distribution systems for cotton in developing countries.

(vii) Provision for the coordinated stimulation of cotton research, development and promotion.

(viii) Development of universal standards for cotton.

Progress of negotiations.

66. The main achievement of the First Preparatory meeting on cotton in June was the decision to meet again at expert level to study cotton's problems in depth. The following guidelines were set for the discussions at the experts' meeting:

(i) To analyse the current problems of cotton markets and in particular the reasons for recent excessive price fluctuations.

(ii) To analyse the structure of prices and costs of production and their inter-relationship.

(iii) To examine measures to stimulate demand for cotton in consuming countries, to encourage research and market promotion and to improve industrialisation of raw cotton in producing countries.

67. In the light of their findings the experts are required to recommend to a further preparatory meeting appropriate measures required to achieve the objectives of Resolution 93 (IV). The date of the next meeting will be 6 - 10 February 1978.

68. The question of buffer stocks figured prominently in the discussions at the First Preparatory meeting. However, unlike the case of jute, the attitudes were not rigidly split between producers and consumers, with the former in favour of buffer stocks and the latter against. It emerged from the discussions that among producers there were groups with differing views.

69. A major developed producing country which accounts for about a fifth of world production is opposed to buffer stocks. It regards the problems associated with a buffer stock as being so formidable as to make the scheme technically and economically not a feasible proposition. In its view there is no adequate justification for an international buffer stock for cotton, arguing that cotton price fluctuations are less accentuated than the Secretariat document suggests and in fact play a useful role in allowing the long-term adjustment of world cotton demand and supply. It also maintains that the export earnings of developing countries from cotton have increased in recent years.

70. The ICAC in a rather simplistic argument has also given a rebuff to the buffer stock issue. It has concluded that a buffer stock might help to stabilise prices but while it exists it must have a depressing effect on prices. Therefore it would possibly be of most benefit to consumers who do not favour buffer stocks in any case. The ICAC has long advocated the less troublesome course of more research into production methods and intensifying market research.

71. A leading socialist producing country (whose cotton exports go mainly to other centrally planned countries under stable price conditions) stated its support in principle for the establishment of a buffer stock; it insists however that the financing of the stock should be a purely voluntary affair which presumably means that it is not interested and will not be contributing.

72. Most Central American producers are opposed to buffer stocks but those in South America along with most African, Asian and Arab producers came out strongly in favour of price protection through stocking. They argue: that it would be used to defend a minimum price that would be remunerative to the majority of developing countries - a factor which would permit them long term cotton planning; that in periods of surpluses and declining prices the withholding of stocks would be the only readily available solution to bring about corrective action; that a stocks system would also prevent prices from reaching levels which would endanger the competitiveness of cotton vis a vis man-made fibres; that the stabilisation of prices through stock operations would bring an element of stability in export earnings; and that an international stocking system would be less expensive than the current situation where countries are holding stocks and financing them themselves.

73. However, even developing countries were not unanimous on the need for the establishment of international reserves. Some stressed that a necessary first step in any international action should be an in-depth analysis of the structure and deficiencies of the current cotton market while others (Central American countries) felt that the establishment of buffer stocks did not respond to a real market need.

74. On the consumer side, a group of major developed consuming countries has not taken any definite position. It expressed concern over the large fluctuations in cotton prices in recent years but felt that the search for a solution should be preceded by an identification of specific problems affecting the cotton market. However, within the group, some countries are known to be more favourably inclined to buffer stocks than others. In one, in particular, traders are opposed to buffer stocks because of the many varieties of cotton, the number of its end-uses and the non-standardisation of price structure. A leading Far Eastern consumer was also open-minded at the meeting, maintaining that a sound cotton trade required stabilisation and improved competition with man-made fibres. The Scandinavian countries also stressed the detrimental effects of cotton price fluctuations to both producers and consumers.

75. The fact that producers are split over the need for an international buffer stock and that the two countries which account for 40 per cent of world production are opposed to the idea does not augur well for the successful outcome of the negotiations. The remit to the expert level meeting, calling for studies in depth, would appear to be an avoidance of confrontation on the issues of market stabilisation, and tantamount to a rejection of the complex of measures as detailed in UNCTAD's original proposals. It remains to be seen whether some alternative measures may be found, which might involve less interference with the free market and therefore prove more acceptable. Consideration is being given in UNCTAD to possible alternative suggestions.

Hard fibres

76. The main forum for the discussions of this sector has been the FAO Intergovernmental Group on Hard Fibres which was established in 1966. For sisal and abaca, informal arrangements between producers and consumers involving the fixing of indicative prices and the allocation of export quotas have been in operation for some years and the situation in the coir industry has been kept under constant review. For some periods, target prices and export quotas could not be fixed, while for others the market prices could not be kept within the indicative range.

77. Problems faced by hard fibres and products:

(i) Instability of prices and supplies.

(ii) Competition from synthetics which has been responsible for the continuous market losses suffered over the past decade.

(iii) The need for increasing productivity and reducing production costs.

(iv) The need for market and product promotion.

(v) The need for research and development.

Suggested solutions to the problems along the lines of Resolution 93 (IV).

78. In preparation for the first meeting held in December 1976, UNCTAD and FAO jointly produced three papers to identify the essential elements of an international agreement for each of the three fibre groups and products covered, viz:

Sisal and Henequen:

(i) An international buffer stock or co-ordination of national stocks.

(ii) Export quotas.

(iii) A system of multilateral supply and purchase commitments.

(iv) Target prices for raw fibre and for a range of agricultural twines.

(v) Production management and adjustment measures.

(vi) Joint marketing efforts for agricultural twine.

(vii) Trade liberalization and removal of restrictive practices.

(viii) Research, development and promotion.

Abaca:

(i) The fixing of maximum and minimum target prices; the former at a level at which abaca can compete with synthetic substitutes, while the latter should correspond to the level considered remunerative for efficient growers. Provision for regular price reviews is seen as essential.

(ii) The establishment of a fibre buffer stock in the Philippines which produces almost all the abaca traded internationally, maintained with international assistance.

(iii) Rationalisation of production.

(iv) Multilateral supply and purchase commitments.

(v) Export quotas.

(vi) Regular surveys of projected trade requirements.

(vii) Research and development.

Coir:

(i) Multilateral supply and purchase commitments. Coir is not produced in an organised manner but on a cottage industry basis. Both producers and consumers face the problems of instability and fluctuations in demand, supply and prices. In these circumstances a system of multilateral supply and purchase commitments within the framework of an international commodity agreement is considered the best method of improving the situation.

(ii) Consultation between producing and consuming countries to fix ceiling and floor prices.

(iii) The fixing of target prices for fibre yarn and products with appropriate review procedures.

(iv) Since the actual level of production is only a third of the potential and since production can be increased even at short notice, the role of international stocking as a stabilizing measure is not considered very significant.

(v) Production management and adjustment measures.

(vi) Research and development programmes.

(vii) Joint promotional campaigns by producing and consuming countries.

(viii) Transfer of appropriate technology from developed to developing countries.

(ix) Trade liberalization ensuring easy access to world markets.

(x) Improvement of shipping facilities.

Progress of negotiations.

79. The First Preparatory meeting on hard fibres and products was held in Geneva between 6-10 December 1976. A second meeting at the level of governmental experts is now scheduled for 3-7 October and a further preparatory meeting for 16-20 January 1978.

80. The main achievement of the first meeting was to set the guidelines for the discussion at governmental experts level whose task it is to identify and assess appropriate measures and techniques and recommend an action programme designed to implement the objectives of Resolution 93(IV):

(i) To achieve stable conditions in trade in hard fibres and products, including avoidance of excessive price fluctuations, at levels which would be remunerative and just to producers and equitable to consumers, and promote better equilibrium in and improve conditions of supply and demand.

(ii) To improve and sustain the real income of individual hard fibre producing countries through increased export earnings.

(iii) To consider the harmonization of the production of synthetic substitutes in developed countries with the supply of hard fibres and products from developing countries.

(iv) To improve the competitiveness of hard fibres and products through reduction in the cost of their production, improved methods of cultivation, processing, modernization of the hard fibres industry, diversification of hard fibre products, diversification in land use etc.

(v) To launch and continue a comprehensive and purposeful programme of research and development aimed at increasing the yield and improving the quality of hard fibres, increasing the efficiency of production processes of hard fibres products, bringing about technical improvement in the existing hard fibres products and finding new end-uses for hard fibres.

(vi) To expand the market for hard fibres and products through, inter alia, effective market promotion programmes.

(vii) To increase participation of producing developing countries in processing and manufacturing in the hard fibres sector with a view to promoting their industrialisation and increasing their export earnings.

(viii) To seek to improve access to markets for hard fibres and hard fibres products of developing countries bearing in mind the needs and interests of developing countries.

(ix) To promote reasonable and equitable freight rates and improve the transport system so as to provide regular supplies to markets and effect savings in the cost of the products marketed.

81. In considering measures and techniques, the experts' meeting to give priority to an appropriate system of buffer stocks and /or any other appropriate measures in relation to the commodities concerned.

82. Much time was spent on definition of the objectives listed above. In particular, attention focussed on the paragraph relating to the harmonisation of production of synthetics with that of hard fibres. Most developed countries had reservations about the paragraph and although no changes were made in the text, several said in turn that they lacked the authority to compel companies to take the harmonisation measures envisaged. One, in particular, said categorically that there was no possibility whatsoever of interfering with research and development or investment and production by independent enterprises. Two leading developed countries also doubted whether the meeting of governmental experts would be in a position to assess and recommend detailed action with regard to the fixing of equitable freight rates and the improvement of the transport system generally.

83. Little consideration at all was given to the substantive issues involved or to the differing proposals for the three separate fibre groups put forward in the FAO/UNCTAD papers.

84. These envisaged a full-scale international buffer stock scheme (or coordination of national stocks) only for sisal/henequen; the stock would be aided in defence of the target price range by export quotas, multilateral commitments, and structural adjustment by means of coordinated planting policies. Difficulties were foreseen for producers in agreeing a target price, since with rising costs the price at which sisal fibre is competitive with polypropylene was no longer considered remunerative by all producers.

85. A group of major consuming countries expressed the view that a strengthening and extension of the present FAO informal arrangements on indicative price was the most appropriate way of stabilizing the sisal/henequen market but thought that account should be taken of the market for both fibre and processed goods and to this end an indicative price should be fixed also for baler twine. However, producing countries pointed out that the question of the establishment of an indicative price for natural baler twine was linked to that of competition with synthetics and required the acceptance by producers of synthetic fibres of similar indicative prices for their own baler twine and specific quota systems for both the natural and synthetic products.

86. For abaca, the fact that 90 per cent of exports come from the Philippines was taken in the discussion papers as a reason for limiting suggested international action to fibre originating from that country and in effect maintaining with international financial assistance a national stock, which would have a stabilising influence on supplies and prices of fibres from other countries; a wide range of complementary measures was put up for consideration. For coir, the best method of meeting problems of instability of demand, supply and prices was seen to be a system of multilateral supply and purchase commitments, though the possible usefulness of international or national stocks to meet unusual situations was admitted. Again a wider range of other measures was contemplated.

87. The current situation with regard to an international agreement in hard fibres is therefore that little progress has been made apart from establishing the brief of the expert group meeting. This is to study appropriate measures and to prepare an action programme for the preparatory meeting to be held in January. The outlook for this meeting is not encouraging, particularly since developed countries were disposed only to examine the problems, and were resistant to any commitments to particular solutions which they regarded as prejudging the issue; while some were willing to give consideration to harmonisation of synthetic production with that of hard fibres, they would in practice be unable to implement the kind of measures envisaged.

Jute

88. Discussions on the problems confronting the jute sector have been held since 1964 in the FAO Intergovernmental Group on Jute, Kenaf and Allied Fibres. Although from the very beginning the Group has striven to establish a formal international agreement for jute, success has been limited to the one-sided effort of exporting countries in maintaining prices for considerable periods within recommended indicative ranges, under the informal arrangements established by the Group. The question of international buffer stocks or the coordinating of national stocks was examined by the Group, especially between 1968 and 1970, but no progress was possible because of the unwillingness of consumer countries to provide finance.

89. The principal problems confronting the sector have been identified as follows:

On the demand side. (i) Competition from synthetics. Despite high energy costs polypropylene has remained an effective competitor with jute, displacing it in nearly all existing end-uses. This has led to a sharp contraction in the volume of world trade in jute fibre and products.

(ii) Trade barriers. Jute products are at a competitive disadvantage because of quantitative trade restrictions which have limited usage of jute and accelerated the shift to synthetics. A number of markets have been irretrievably lost; however, the benefits of trade liberalisation are still estimated to be substantial.

(iii) Instability of supply and prices. The inability to maintain a long-term stable supply of jute has led to a decline in demand in favour of synthetics which can ensure stable prices and supply.

(iv) Weak marketing and distribution systems. The marketing and distribution systems for jute and jute products are weak and compare starkly with the more developed systems of the man-made fibre industry.

On the supply side. (i) In addition to weather, transport difficulties and strikes, a major determinant of supplies of jute fibre and products is the ratio of jute prices to those of other crops, particularly food crops which in certain areas can be cultivated on the same land.

Suggested approach to the problems along the lines of Resolution 93(IV).

90. The UNCTAD Secretariat's view is that the competitive challenge of synthetics is fundamental to the definition of objectives for an international agreement on jute. Price objectives, therefore, while aiming to minimise short-term fluctuations, to provide remunerative levels for producers, and to ensure long-term balance between supply and demand, should aim to keep jute competitive with synthetic substitutes. While a buffer stock would be an effective mechanism to achieve price stabilisation, the need for competitiveness would require other action to improve productivity and achieve cost reductions. Another major objective would concern stability of supplies, which would be

met to a large extent by the operation of a buffer stock, but might well require harmonisation of national production policies, in view of the flexibility of land usage for jute and other crops. There was also the need for jute products to have technical characteristics adequate for modern market requirements, for which substantial research and development effort was required. Disadvantages in market access, affecting jute unfavourably in competition with synthetics, were being discussed in the multilateral trade negotiations.

91. The proposals set out for the preparatory meetings by UNCTAD, in consultation with FAO, include the following essential elements:

(i) The establishment of an international buffer stock in which all significant jute producing and consuming countries should participate with the objectives of achieving stable conditions in trade in jute and jute products and of improving and sustaining the real income of jute producing countries. Latest estimates indicate a stock of 335,000 to 495,000 tonnes to keep prices within a band of 10-15 per cent, with a 90-95 per cent level of confidence: the suggested size for consideration of Governments is 400,000 to 450,000 tonnes. The target price for jute manufactures, it is suggested, should be fixed at a level competitive with synthetic products at the time of establishment of the buffer stock. For raw jute the target price might be at the indicative price level as last agreed by the Intergovernmental Group. For both raw jute and products a range of 10 per cent (plus or minus 5 per cent of the target price) could be considered, or possibly 15 per cent for raw jute and products other than carpet backing. Stocks would be held mainly in producing countries where costs are lower. As a less effective alternative to a centrally operated international buffer stock, a scheme for coordination of national stocks could be considered.

(ii) Measures to supplement the buffer stock including export quotas and a system of multilateral supply and purchase commitments.

(iii) Supply management through production planning could be introduced to supplement the buffer stock in correcting actual or forecast imbalance between supply and demand.

(iv) Production rationalisation and diversification assistance. This would include related questions of cost reduction measures in jute agriculture and manufacturing.

(v) The improvement in the quality and flow of information and the strengthening of procedures for consultation on market conditions are a prerequisite for the successful functioning of the market regulation mechanism.

(vi) Research and development for increasing productivity in jute cultivation and the manufacture of jute goods, product development, intensified marketing and promotion efforts.

(vii) Harmonisation of production of synthetics in developed countries with production of jute and limitations on further research and expansion of production capacity of synthetic substitutes.

(viii) Financial requirements. On the assumption of a buffer stock of 400,000 - 450,000 tonnes, including 175,000 - 200,000 tonnes of raw fibre and 225,000 - 250,000 tonnes of jute goods, at representative prices, a range of $130-150 million is estimated as the finance requirement for stock acquisition; carrying costs (storage costs and interest charges) would be about 11-12 per cent of the total value in stock. An estimate made in 1970-71 of an $11 million annual budget for a full scale research and development programme would now need revision. Estimates of the modernisation and rehabilitation measures necessary to make the industries in India and Bangladesh viable and to achieve the cost reductions required for competitiveness have been put, on an indicative basis, as high as $ 250-350 million.

Progress of negotiations.

92. So far there have been four preparatory meetings, of which the second and third were at the level of Government experts. Progress has been slow, but the fourth meeting in July was able to approve recommendations submitted from the expert level meetings and to proceed to set up a Working Group to prepare draft proposals on the elements of an international arrangement or arrangements on jute and jute products. The Working Group will meet in December 1977 and at the end of January 1978, following which there will be a further preparatory meeting.

93. At the First Preparatory meeting an action programme was agreed which set as a main objective "to achieve stable conditions in trade in jute and jute products, including avoidance of excessive price fluctuations, at levels which would be remunerative and just to producers and equitable to consumers, and to ensure regular and adequate supplies of jute and jute products, to be achieved, inter alia, by means of appropriate systems of buffer stocks and/or other measures". Other objectives included improvement of export earnings, improved competitiveness through cost reduction for jute and products, research and development to increase yields and efficiency of production, market promotion, market access, regularity of transport at lower cost, and harmonisation of production of synthetics and substitutes in developed countries with the supply of jute and jute goods.

94. On the fundamental issue of methods of market stabilisation basic differences of attitude have been shown by producing and consuming countries. Leading developed consuming countries have been opposed to the idea of an international buffer stock as the main answer to producers' problems, and have been unable even to give support in principle. Two, in particular, expressed doubts as to whether there was any real problem of price instability. Consumers were therefore disposed to attach significance to other measures, e.g. production planning, diversification, intensified research, development and marketing programmes, which they saw as possible alternative solutions. As regards buffer stock arrangements they expressed their fear that the fixing of a known floor price for jute would

enable synthetics manufacturers to know the lowest price at which they could remain competitive and thereby manipulate their selling prices accordingly; that the buffer stock could not maintain the price of jute within the agreed competitive range in the face of possible substantial rises in the prices of competing crops (i.e. rice or cassava) if the buffer stock floor price were linked to remunerative prices for the growers; that jute was a perishable commodity and there was a serious problem of maintaining the quality of stocks held in buffer stocks in producing countries; that if the jute market continued to decline, any attempt to maintain prices at pre-determined levels would lead to heavy financial losses; that producer countries' views as to the future course of polypropylene prices were over optimistic.

95. Better prospects, however, of some eventual agreement on stabilisation methods emerged from the Fourth Preparatory meeting, following more positive statements from consuming countries. A major developed consumer made it clear that it had an open mind on the subject of stabilisation, and had in progress a thorough study on the subject. A group of major consuming countries admitted that there should be action on market stabilisation, which might be in the form of a strengthening of the indicative price system; they went on to say that they would be disposed to take account of difficulties this might cause to producing countries, and suggested that participants consider the possibilities of giving financial support to producers holding stocks.

96. In regard to other measures, producing countries have maintained the view that such measures could at best have a marginal impact, but could advantageously be used in support of an international buffer stock. The various supply management measures (production planning, production rationalisation and diversification, export quotas) were seen as able to be considered only within the framework of an international commodity agreement and harmonisation of synthetics production. Strengthening of indicative pricing arrangements was regarded by producers as inefficient. They also regarded the coordination of national stocks as operationally and financially less efficient than an international buffer stock. Consuming countries held that multilateral supply and purchase commitments would be too risky in view of fluctuations in demand. Discussion of market access revealed differences of opinion as to progress in removal of obstacles, the impact of remaining restrictions and the contribution these were making to the continued decline of jute consumption. Producing countries welcomed the fact that consuming countries were willing to cooperate in the field of research and development. The necessity for cost reduction measures and modernisation in industry and agriculture was stressed by producing countries; some consuming countries acknowledged the need for action, after studies in depth, but not all were convinced of adequate benefits therefrom. Nevertheless, research and development and cost reduction were, with market stabilisation, the areas in which the Fourth Preparatory meeting was able to accept recommendations from the experts' meetings.

97. Jute International [1], the long projected development and promotion body largely modelled on the International Wool Secretariat, is seen by most as the vehicle for carrying through and coordinating the research programme - indeed it already has a carefully thought out comprehensive programme although many of the UNDP proposals now need to be updated. It was hoped by the EEC that Jute International would come into being as soon as possible; pending its establishment some interim body might be considered.

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1 The decision to establish Jute International which has been under discussion for seven years, was taken by Bangladesh, India and Nepal in October 1976 but the constitution has not yet been signed.

98. Most developed consuming countries believe that harmonisation is impossible given the size and importance of their synthetic fibre industries. One of the largest man-made fibre producers is strongly opposed to any move which would force it to restrain its industry, while others pointed out that either they do not have the mandate to compel firms to restrain production and research or they do not have the authority to achieve the harmonisation envisaged or the power to interfere with research, development, investment and production by independent enterprises. The feasibility of use of other devices of indirect control e.g. disincentives to invest, excise duties, the restriction of financial aid to industries, the withdrawal of financial incentives, to prevent further expansion of capacity etc., has not been considered.

99. While the Fourth Preparatory meeting agreed on a recommendation calling for the collection and exchange of information on the competition of synthetics with jute products, and for regular consultations to be held on the issues, it was not able to make progress on an action programme, merely noting statements of the contrasting positions. In these, developing producer countries sought measures to prevent indiscriminate expansion of synthetics industries, with a view to co-existence; developed consuming countries repeated their view that the competitiveness of jute must be improved within the jute sector, rather than by measures affecting other industries.

100. More positive attitudes on the part of some consuming countries at the Fourth Preparatory meeting have given rise to better hopes of eventual agreement on international arrangements for jute. Producing countries regard a market stabilisation system based on buffer stocks as an indispensable element of any agreement, and have been equally convinced as to the relative efficiency of an international stock over any coordination of national stocks. However, they have welcomed the more concessionary attitude of a major group of developed countries to financial support for producers' stocks, and the new attitude of a leading developed consuming country towards stabilisation. This gives reason to expect that the two Working Group meetings may be able to agree on proposals for some form of market stabilisation measures, possibly involving national stocking arrangements with some form of international financial support, even if a full-scale international stocking scheme proves unattainable in the short term.

## Metals and minerals etc.

### Bauxite

101. In November 1973 a meeting of six bauxite producing nations [1] took place in Yugoslavia to discuss the formation of an Intergovernmental Bauxite Association. Another meeting was held in March 1974 in Conakry, Guinea, at which Sierra Leone joined the other six and Algeria, Cameroon, Ghana and Mali sent observers. This meeting ended with the setting up of the IBA, the seven participants being the founder members and the Dominican Republic, Ghana and Haiti admitted later.

102. The IBA came into being formally on 29 July 1975 with the following objectives:

(i) To promote the orderly and rational development of the bauxite industry.

(ii) To secure for member countries fair and reasonable returns from the exploitation, processing and marketing of bauxite and its products for the economic and social development of their peoples bearing in mind the recognised interests of consumers.

(iii) Generally to safeguard the interests of member countries in relation to the bauxite industry.

103. In theory, membership of the IBA is not restricted to bauxite producing countries who are net exporters of the commodity but it is likely that in practice it will be restricted to such countries with the added proviso that they also wish to optimise government income from the exploitation, processing and marketing of bauxite and its products.

104. The IBA has produced a short-term pricing policy for bauxite and is currently working on a long-term policy.

#### Negotiations in UNCTAD.

105. A preparatory meeting on bauxite under the Integrated Programme for Commodities is not scheduled to be held before December 1977. No documentation for this meeting has as yet been issued.

106. In earlier consideration of this commodity the UNCTAD Secretariat has pointed out that the structure of the bauxite industry (with production extensively from "captive" mines, and in all cases by large enterprises with differing financial arrangements with Government, including State ownership) meant that developing countries were interested in returns to the economy from exploitation of bauxite resources rather than in nominal prices; these returns might be in the form of royalties, tax revenues, local expenditure of companies and profits from joint ventures, as well as returns from sales. The principal objective of international action would be to raise returns from bauxite and to secure a smooth and expanding rate of exploitation, involving a requirement that aluminium manufacture should be less subject to phases of over and under capacity. A second objective would be to expand the degree of processing in developing countries.

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1 Australia, Guinea, Ghana, Jamaica, Surinam and Yugoslavia.

107. Issues to be taken up in preparation for an international agreement could include:

(i) Information and appraisal. There would be a function for the IBA in improving knowledge among producers of conditions of contracts and arrangements, to strengthen their negotiating position.

(ii) Supply management. A system of multilateral commitments, based on forward appraisals of prospects for aluminium and bauxite, appeared to be suitable and could embrace the bilateral contractual arrangements that are the norm of the industry. These could facilitate short-term planning of the rate of extraction from existing capacity and be extended to give indications of longer-term requirements for investment and exploitation of new deposits.

(iii) Processing. Inhibiting factors needed to be identified as the first step; there was need for study and discussion in an international forum.

## Copper

108. Member countries of the Intergovernmental Council of Copper Exporting Countries (CIPEC) have since late 1974 adopted a number of measures to stabilise prices (initially a reduction in the volume of exports, followed by a reduction in production by 15 per cent). Following a request from these countries, UNCTAD convened a Consultation on Copper in March 1976 to examine the problems of the world copper market and the possibility of international action. The Consultation showed a consensus in favour of maintaining contacts between producers and consumers, and proposed a permanent consultative body to develop information, review trends and study problems, particularly price problems, with a view to finding solutions. The First Preparatory meeting on copper agreed to take account of the conclusions of the Consultation.

Problems of copper.

109. The case for action presented by the UNCTAD Secretariat to the First Preparatory meeting notes the following points:

(i) The major problem is the instability of the market, both in the very short term and over periods of years. Fluctuations in prices and volume of copper entering international trade have serious effects on the economies of exporting countries. Copper is by value the leading non-fuel mineral in world commodity trade; for developing countries it makes a bigger contribution to export earnings than any agricultural commodity, except coffee. For developed countries, it is an indispensable raw material, and various disadvantages arise from fluctuating or unpredictable prices.

(ii) Cyclical instability in copper derives from variations in demand associated with fluctuations in levels of industrial activity in the major industrialised countries, and is made more pronounced because of the long gestation period of new copper mining enterprises (5-8 years).

(iii) Certain developed countries have a strong interest in ensuring the adequacy of future importable supplies of raw materials; this reinforces the case for world copper prices to be held at stable and remunerative levels.

(iv) Variability of copper prices weakens its competitiveness in end-uses against more stable substitutes (aluminium, plastics, stainless steel).

(v) Prospective production from a new source, the sea-bed, accentuates the need for international guidelines.

(vi) Continued inadequacy of copper prices poses the problem of investment to ensure sufficient future supply, with economic recovery and growing world needs.

Approach to the problems along the lines of Resolution 93 (IV).

110. The principal objective for copper, in relation to the Integrated Programme for Commodities, would be to maintain the prices of copper within a negotiated price range at levels agreed as being remunerative and just to producers and equitable to consumers. The UNCTAD Secretariat considers that this objective would best be met by the setting of an agreed target price range, to be achieved mainly through international stocking arrangements and supply management measures. Negotiation of the target price level would take account of the vital contribution copper makes to the economic well-being of a number of developing exporting countries, as well as its importance to developed consuming countries; the non-renewable character of the resource; the cost-raising effects of declining grades of copper ore; and the need for adequate as well as stable prices in the interests of all parties. Other objectives of Resolution 93(IV) include market access, particularly for semi-manufactured products, currently under discussion in the GATT multilateral trade negotiations; also the desirability of finance for research and development, to protect the competitive position of copper from certain synthetics and substitutes.

111. The essential purpose would be to influence, not regulate, market prices through the chosen mechanisms to keep fluctuations within tolerable limits. The arrangement envisaged, while basically comparable to the International Tin Agreement, would incorporate an advance by reflecting the need for equitable sharing of costs and benefits of international stocking arrangements. Supply management could involve production and/or export controls to contribute to the defence of the floor price in support of stocking arrangements, as temporary or flexible measures. Quantitative supply and purchase commitments between importing and exporting countries might be a useful additional feature for incorporation in an agreement. Periodic appraisals of developments affecting supply and demand for copper and coordination of investment programmes would be essential.

Progress of negotiations.

112. Two preparatory meetings on copper have been held so far, separated by three meetings at expert level. The Second Preparatory meeting in May 1977 remitted matters again to the expert group. Progress appeared to have been made in so far as the experts were now asked to identify possible economic elements for an international arrangement, to recommend such other measures as they might consider necessary in the meantime, and to complete their work by November 1977. To this end the UNCTAD Secretariat was asked to assist with studies of feasibility, costs, benefits and financial implications of (i) a pure buffer stock arrangement, (ii) a pure supply management scheme, (iii) a buffer stock complemented by supply management measures; these studies were to include examination of remedial measures for developing copper importing countries. The experts were further asked to consider improvements to consultation and exchange of information arrangements between producers and consumers. A Third Preparatory meeting was envisaged not later than January 1978 (now arranged for 30 January to 3 February 1978) and the Secretary-General of UNCTAD was asked to take appropriate measures in the event that it was agreed that a negotiating conference on copper should take place in the second half of 1978. The Secretary-General, however, has described this as a request for technical work to confirm, in effect, ground already covered, and has noted that, at the Second Preparatory meeting, all but one of the developed countries (both consuming and producing) were unable to accept the view of the majority of developing countries that a negotiating

conference should be convened in the latter half of 1978 and that a draft international agreement should be prepared in the meantime.

113. In discussion at the Second Preparatory meeting representatives of developing countries considered that it was important to reiterate in clear terms the intention of all Governments to work towards an international agreement with the aim of minimising price fluctuations. Many were firmly in favour of stocking arrangements supported, where required, by supply management measures as the principal techniques to achieve price stability, but would be prepared to examine, withour pre-judgement, other techniques and measures which might be directly applicable to reduce price instability.

114. The view was taken that the level at which prices were to be stabilised should take account of inflation, costs of production and other related factors, including social costs of the closure of mines. It should be subject to continuous revision in the light of changes in world market conditions to ensure stability of exporting countries' unit receipts in real terms. An international arrangement should also be aimed at the reduction of barriers to trade in semi-manufactured and manufactured copper products. One major developing copper exporting country, however, thought there was need for clarification as to the economic feasibility of a buffer stock arrangement, and advocated caution and knowledge of all possible alternatives. A developing importing country drew attention to the need for examination of the possible differential and remedial measures to protect the interests of developing copper importing countries.

115. Eastern European countries supported in principle proposals to elaborate an agreement on copper and to convene a negotiating conference; however, they considered that since the trade of socialist countries was planned and transactions took place at administered prices such an agreement should be limited only to the trade of these countries with the West.

116. Developed market economy countries expressed concern over the level and instability of prices and the consequences for exporters and for the long term supply requirements of importers. There was a need for greater stability to ensure a steady growth in supply and demand. Several measures were relevant and it was necessary to examine them all in depth, to find which were most appropriate. Those that could be incorporated in a commodity agreement should be considered without prior commitment to the holding of negotiations.

117. Some of these countries advocated setting up an intergovernmental consultative producer-consumer body to make studies and evaluate measures, not as a substitute for, but as a step towards, a commodity agreement. This would be useful to solve immediate problems, in the view of one country, because it was the general opinion that an international agreement on copper could not be operational for at least three years.

118. One developed copper exporting country supported developing countries' proposals for stabilisation and in regard to the convening of a negotiating conference in 1978. A buffer stock with a price range of plus or minus 15 per cent supported by provisions for the management of new supplies was suggested. The range agreed should be adequate to attract investment and to cover operating costs. Rising costs over time would be allowed for by automatic adjustment or periodic review of the reference price. Finance might come at least initially from a Common Fund but supplementary resources could be obtained by imposing a levy on production.

119. A series of problems requiring further study were identified. These included the gaps in statistical information - for example, on scrap, stockholdings, mine capacities and trade with socialist countries - and the difficulties encountered in trying to assess, with any confidence, the outlook for world supply and demand for copper in the short, medium and long term; all were items with significant implications for the stabilization effort. Also of importance was the high degree of complexity of the world copper economy and the problems this posed for attempts at regulation. These involved a review of the variety of forms in which copper moved in international trade, the structure of scrap collecting systems in industrial countries and the extent of joint production. There was also the lack of knowledge concerning fundamental market relationships such as those between stockholding and prices, price and copper supplies and the potential effect of a buffer stock on private stock holdings. Another problem was the unwillingness or inability of many countries, both producers and consumers, to contemplate export or production controls. Finally, there was the question of the funds which would be required whether or not a buffer stock was supported by supply management measures.

120. The developed market economy countries indicated,therefore,that the Group of Experts should be reconvened with a precise mandate to carry out further work particularly on such matters as basic statistics, the study of long-term trends in supply and demand and the appraisal of the economic impact, costs, benefits and financial implications of different measures, including alternative stocking arrangements and techniques of supply management. This work should be carried out and the remaining basic issues resolved before the drafting of a possible agreement.

121. Summarising,therefore, the status of the negotiations on a copper agreement is that the Group of Experts is to identify possible economic elements for an agreement and study the feasibility of differing arrangements. However, there is not yet agreement even on broad lines on the specific mechanism to be incorporated in the agreement, nor are consuming countries yet convinced that an economic case has been made out for a commodity agreement. Disparities of viewpoint are to be found within the ranks of both exporting and importing countries.

## Iron ore

122. A preparatory meeting on iron ore under the Integrated Programme for Commodities is not scheduled until end October 1977, and no documents for this meeting have yet been issued.

123. Earlier comments by UNCTAD on the commodities within the Programme have pointed to the unusual position of iron ore. Deposits are widely distributed, with very large reserves proven, and supply could outstrip demand easily if investment was made prematurely; nevertheless prices have moved in favour of industrial users. There is no market for iron ore in the normal sense, since the bulk of international trade is conducted between "captive" mines and parent companies, or through long-term contracts. Information on prices and terms of transactions is limited. Instability in the trade arises from interruptions to transportation, through climatic disasters or strikes, and from the close linkage between economic recession and the iron and steel industry. Australia provides about 20 per cent of world trade and developing countries less than half. In 1975 iron ore exporting countries, including Australia, formed an association to secure fair and remunerative returns for iron ore and to exchange information of common interest.

124. As regards problems and possible measures some areas do not give rise to difficulty, e.g. there are no trade barriers to free movement of iron ore, including up-graded forms. Short-term instability is not a major problem; moreover, the value of international stockpiling is questionable on ground of cost, multiplicity of classifications of ore, technical problems of location and space, and access of users to uninterrupted supplies. Areas for action would include:

(i) Supply coordination and remunerative export prices. Developing countries should be able to conclude contracts in full knowledge and on terms of parity with other producers. This may go some way towards preventing further deterioration of real prices. A more ambitious objective would be the adoption of a multilateral commitment system, based on more comprehensive and balanced knowledge of supply and demand prospects, leading to better current management and investment guidelines.

(ii) Compensatory financing. Since demand for iron ore fluctuates with iron and steel production, guarantees under the above system should be supported by compensation for unfulfilled import commitments.

(iii) International policies on the question of command over non-renewable national resources. This is an issue of general concern. Countries have a variety of arrangements for the exploitation of iron ore, and an international arrangement would have value in the implementation of general principles and codes of conduct on transnational enterprises, treatment of foreign investment, and conduct of business between Governments and concessional companies.

Manganese ore

125. In its consideration of objectives for international action on manganese set out for the preparatory meeting, the UNCTAD Secretariat recognised that there appeared to be no problem of short-term fluctuations, and the issue was whether the trend in prices was satisfactory. Despite recovery since 1970, real prices were still lower than the average of the 50's and 60's. The explanation of the long-term decline in prices was that the fruits of increased productivity had been passed on to developed importing countries. Possible action could include the following:

(i) Pricing policy measures. As there was apparently no scope for effective action to influence final consumption, measures would have to be of the nature of adjustments of supply to demand, or the direct regulation of export prices. Any stocking arrangements would need careful consideration because of the high degree of flexibility of mine production and the heterogeneity of the commodity. Stocks could be expected to play only a limited role, but consideration might be given to internationally coordinated national stocks. Any multilateral arrangement concerning prices of manganese ore would need to involve the coordination of US stockpile operations. The prospect of a new source of manganese production, the sea-bed, accentuated the need for internationally agreed guidelines on production, marketing and price objectives.

(ii) Supply and purchase commitments might be a useful addition to an international arrangement, ensuring some predictability as to markets/revenues for producers and supplies/costs for consumers.

(iii) Access to markets. Improvements in tariff preferences and removal of quantitative restrictions would help developing countries towards an increased participation in world trade in manganese alloys.

(iv) Compensatory financing, it was noted, was not a substitute for direct action to strengthen and improve the market.

(v) Better information and exchange of views on the current and prospective market structure between producing and consuming countries could help avoid excesses, but would be unlikely to make a major contribution to maintenance of desired price levels independently of arrangements involving substantive measures.

126. It was necessary for Governments, therefore, first to identify which features of the world market for manganese constituted problems, then to decide which of these problems were susceptible of international action; the objectives of action could then be determined, and the particular measures and techniques adopted.

Progress of negotiations.

127. At the preparatory meeting on manganese, 13-16 June 1977, it was fairly generally agreed that identification of the features and problems of the manganese market was necessary before international measures e.g. to reduce price fluctuations were considered. (This view was expressed by the producers' representative and a developing country as well as by consumers and developed country exporters).

128. A consuming country representative stated that the manganese market was stable in comparison with that of other commodities and that there was no necessity for urgent measures. A developed economy exporter also stated that short-term fluctuations were not a problem.

129. The spokesman for the manganese producers emphasised the depressed state of the steel industry and consequently the manganese market. Significant stocks of manganese ore were depressing demand. The concept of international stockpiling was not favoured although the importance of working stocks was recognised.

130. However, a developing country stated that the price of manganese had been reduced to a level in real terms lower than the 1960s average (and much lower than the 1950s average) and this demonstrated the need for the Integrated Programme.

131. Other developing country representatives also stressed the importance of bearing in mind that the discussions were taking place within the framework of the Integrated Programme, which envisaged rapid progress from exchanges of views to the implementation of concrete measures. One of these representatives stated that the manganese market was subject to cyclical fluctuations with consequent problems for producers, and that it was necessary to adopt measures to stabilise the market.

132. Conclusion. It appears that the producers were unable to adopt a common position - and apart from this seem to have given little consideration to the alternatives to (ore) buffer stocking. On the type of agreement to be favoured, only the negative view that buffer stocking was considered inappropriate emerged. The main result was a decision to remit to the ad hoc Committee the question of whether there should be another meeting.

133. At its July 1977 meeting the ad hoc Committee left open the question of a decision on a Second Preparatory meeting.

Phosphates

134. Phosphates were first included in the Integrated Programme for Commodities in the Manila Programme of Action in February 1976 and were subsequently listed in Resolution 93(IV) of the UNCTAD Conference in May 1976. A First Preparatory meeting is to be held in December 1977; no documents have yet been issued.

135. UNCTAD has not yet stated its view of the problems affecting phosphates,but it appears that the major concern of producers is the stabilisation of prices. These fell fairly steeply in real terms until 1972, but then rose sharply at the end of 1973 and in 1974 as the result of action taken by Morocco, which accounts for nearly a fifth of world production and is a leading supplier of the European, African and certain Asian markets. These price rises severely affected phosphate consumption in Europe, and although prices were in fact reduced in 1976 a further price cut has been necessary this year, not least because cheaper exports from the United States, the world's largest phosphate producer, have had an adverse affect on North African exports.

136. Developing producing countries are concerned not only at the fall in prices in the last two years but also by the fact that the higher real prices since 1974 have provided incentives to new suppliers to enter world markets. The danger of over-production, leading to an unbalanced market and unprofitable operations at the margin, suggests a need for world output to be regulated and emphasises the need for price stabilisation. The situation is complicated by the fact that while developing countries in Africa are major producers and have an interest in relatively high prices, developing country importers, which in the long-run represent the main market for expanded phosphate sales, have an equally compelling interest in low and stable prices in order to increase their food production.

137. In November, 1976, representatives from six predominantly North African phosphate producing countries called upon their Governments to take a common position on production, marketing and sales of phosphates and phosphate derivatives. It was stated that the intention was not to establish an inward-looking cartel but rather to establish durable contractual arrangements with consumers, working for market and price stability. Subsequently four of these countries set up a cartel, operating fairly informally but with agreed sales quotas and a reference price for phosphate rock.

Rubber

138. The First Preparatory meeting on natural rubber took place 17-21 January 1977. During this meeting the natural rubber producing countries proposed that the scope of the International Natural Rubber Agreement on Price Stabilisation concluded in November 1976 under the auspices of the Association of Natural Rubber Producing Countries (Malaysia, Indonesia, Thailand, Singapore, Sri Lanka, S. Vietnam, India) might be broadened to include other producing and consuming countries so that the scheme could be dovetailed into the UNCTAD Integrated Programme for Commodities. The UNCTAD Secretariat had submitted its own proposals which suggested a natural rubber buffer stock of 450,000 tonnes against the initial stock of only 100,000 tonnes under the ANRPC scheme, and a price range set so as to enable natural rubber to be fully competitive with synthetic rubber; stocking arrangements would be supported by supply management measures (varied intensity of tapping and use of yield stimulants). The proposals also noted the possibility of multilateral supply and purchase commitments, increased processing of natural rubber in producing countries and removal of obstacles to trade in processed rubber products, further research and development to enhance natural rubber's competitive position vis-a-vis synthetic rubber, and cooperation between Governments in consultations on supply and demand prospects for both natural and synthetic rubber and to ensure coordinated expansion of capacity and orderly marketing. The meeting adopted a decision in which it agreed that "measures designed to reduce excessive price volatility in the international natural rubber market and to achieve stable conditions at price levels which are remunerative and just to producers and equitable to consumers would be in the interest of both parties and that the ANRPC scheme constituted an important basis for serious consideration of broader international arrangements on natural rubber". To facilitate the work of the Second Preparatory meeting it was agreed that an Intergovernmental Working Group, comprising seven members of the producers' group and up to seven members of the consumers' group should meet immediately before the preparatory meeting.

139. At the meeting of the Intergovernmental Working Group 2-9 June 1977, the producing countries, in a working paper submitted by the Association of Natural Rubber Producing Countries, put forward proposals for a new global natural rubber agreement. Like the current ANRPC scheme, the proposed agreement was based on an internationally managed and controlled buffer stock to defend agreed floor and ceiling prices and complemented and supported, as and when necessary, by a supply rationalisation scheme. Other essential features of the proposed scheme were: membership to be open to net producing countries as well as net consuming countries and countries having an entrepot trade in natural rubber; size of the buffer stock to be at least 400,000 tonnes; contributions from all participating countries to be mandatory and the cost of financing to be shared equitably; and both producers and consumers to enjoy equality of votes. The producers also agreed that if and when such a broader agreement involving consumers and producers were concluded, the existing ANRPC agreement would cease to function. It was agreed in the Working Group that the proposals and general approach of the producers were consonant with the interests of consumers to the degree that such measures were of a nature to ensure development and orderly growth of the natural rubber industry, in particular, and the elastomer industry as a whole. The Working Group recommended that Governments should focus their attention on these and other proposals and undertake more detailed work to include: (i) the mechanisms which could effectively contribute to the stabilisation of natural rubber prices, (ii) the size, composition and management of an international buffer stock as a

central feature of a possible commodity agreement for natural rubber, (iii) the criteria for establishing floor and ceiling prices as well as the inner bands under such an agreement, (iv) the determination of indicator prices and (v) the nature and use of supply rationalisation measures as contingency support for both floor and ceiling prices. The Group also identified several other factors relating to natural rubber as requiring equally detailed attention and work, such as means for assuring increased productivity in the natural rubber industry including appropriate transfer and dissemination of technical knowledge, financial requirements, the decision making process within a possible commodity agreement, effective exchange of statistical and economic information among producing and consuming countries and other measures which could contribute to the accepted goal of increased price stability in the natural rubber market.

140. The Second Preparatory meeting on rubber in June 1977 acknowledged the progress towards understanding achieved in the Intergovernmental Working Group. From the producers' side there were reminders that an agreement should include measures relating to improvements in production and productivity, and market access. Consumer countries welcomed the fact that producing countries were seeking a balanced agreement which would stabilise rather than raise prices. The meeting decided that a procedural mechanism be now set up to bring the analytical phase of its deliberations to a successful completion and to prepare within a definite time frame for the next phase including decisions with regard to the negotiation of a possible commodity agreement for natural rubber. Towards this end, the meeting agreed to the setting up of an Intergovernmental Task Force comprising as the nucleus, seven members of the producer group, on the one hand, and a number of consumer countries interested in natural rubber, on the other, with the mandate "to consider in greater detail and assess the specific elements of a possible commodity agreement for natural rubber and other factors relating to natural rubber as already identified by the Intergovernmental Working Group, together with any other proposals in order to make concrete recommendations on them". The Task Force will meet 10-20 October 1977 and 6-9 December 1977, and will submit its recommendations to the Third Preparatory meeting 27 February to 3 March 1978.

141. Better progress would appear to have been made towards an international agreement in natural rubber than in other commodities. This has been attributed to the existing International Natural Rubber Agreement on Price Stabilisation reached by the producing countries, through which much basic work of technical and economic analysis on rubber had already been done. For producers an essential difference of the current proposals is the size of buffer stock, which, if large enough, will be able to carry out its function of stabilising prices and correcting short term supply imbalances without so much need as under the 100,000 tonnes ANRPC stock scheme for supply rationalisation measures. These are seen as contingency measures only, since they involve complications such as accumulation of stocks in producing regions, and giving direct assistance to small-holders, in ways not meeting the objective of orderly growth. Other measures, such as research and development, market access, promotion of information collection and dissemination, and transfer of technical knowledge, are seen as supportive of and not substitutes for buffer stocks and supply rationalisation. Consumer countries have welcomed the pragmatic and cooperative spirit of the negotiations so far, but nevertheless have observed that a great deal of work remains to be done at a technical level. Socialist countries have expressed support for progress towards an agreement in line with the Integrated Programme for Commodities, but early in the negotiations advocated that the buffer stock be based on voluntary contributions.

Producing countries were disposed to leave other avenues of financing open pending the outcome of the negotiations on the Common Fund; however, they thought it necessary that contributions from all participating countries should be mandatory.

Tin

142. The Fifth International Tin Agreement entered into force on 1st July 1977. Most countries ratified the Agreement before the appointed date of end December 1976 but it was not until end March that the Council was informed of Bolivia's decision to join. With Zaire's ratification full producer membership comprises seven countries responsible for over 90 per cent of the Western world's tin production.

143. The stabilisation mechanism of the Fifth Agreement introduced a new procedure providing for periodic reviews of the floor and ceiling prices to be conducted at six monthly intervals though most consumer countries earlier had indicated a preference for annual review. An economic and price review group was established comprising four representatives of producing countries and four of consuming countries. In mid July after the first review a new price range was set, namely a floor of 1,200 ringgits per picul [1] and a ceiling of 1,500 ringgits per picul. The new ceiling is above the 10 per cent limit which consumers were thought to be seeking but is still less than the current Penang price.

144. The Fifth Agreement again provided for producer contributions of 20,000 tonnes in cash or metal as determined by the ITC. The equivalent of 7,500 tonnes of this aggregate contribution became due on entry into force of the Agreement. The ITC may determine by which date or dates and in what instalments the whole or part of the balance of the aggregate contribution shall be made.

145. In addition, consumers undertook to provide 20,000 tonnes on a voluntary basis. If in fact consumers do not fulfil their pledges provision is made for a mid-term review of the position. Firm pledges, however, of cash contributions have been received from Belgium, Canada, Denmark, France, the Netherlands and the United Kingdom. Denmark has fulfilled its pledge with a contribution of some 276,000. The Fifth Agreement includes the USA among consumer members for the first time. It appears possible that the US contribution to the buffer stock may be obtained by transferring 6,000 tonnes from the US stockpile; this contribution represents the amount on which the US quota of consumer votes is based. Alternatively a proposal has been made which would enable United States tin to be sold by the buffer stock manager; the proceeds would then be returned to the United States. Such a development whether in respect of direct contributions of metal to the buffer stock or releases of tin for sale depends on the completion of the new policy review on United States strategic stock disposals.

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1 4.3 ringgits = £1.
1 picul = $133\frac{1}{3}$ lb.

Tropical timber

146. Tropical timber is not one of the commodities selected by UNCTAD as possible candidates for stocking; however, it is a primary commodity considered as meriting examination from the point of view of international cooperation in improving returns and conditions for expansion.

147. A paper prepared by FAO and UNCTAD for the First Preparatory meeting identified six basic problems confronting the tropical timber trade viz:

(i) A disparity in bargaining power in favour of importing countries arising firstly from the fact that market intelligence is more readily available to traders in those countries and secondly from the ample opportunities open to buyers to exploit substitution possibilities between species, suppliers, supplying countries and regions. Further, buyers in importing countries have greater financial resources, easier access to credit facilities, and can more easily influence costs and pass on cost increases. These advantages are reinforced by weakness on the producers' side stemming from lack of coordination between individual producers, producing countries and regions concerning production and pricing policies, market development and promotion, concession terms and conditions, grading rules, domestic processing, standardisation and forest management.

(ii) Prices received by forest owners for standing timber are far too low for current sales to cover the very heavy re-investment costs needed to maintain future supplies.

(iii) The high degree of instability of export earnings and of export unit values.

(iv) Trade barriers against processed tropical timber are one of the major obstacles to the achievement of greater and more rapid advance in domestic processing in producing countries. Structural problems - e.g. the existence of markets in industrialised countries for waste material from the processing industries and lower production costs in developed countries - are also significant in limiting opportunities for processing in producing countries.

(v) The irrational pattern of utilisation arising from the practice of cutting the best in quality and easiest to sell first. Secondary species cause a problem because of the obstacles they present to forest renewal and replacement.

(vi) The complexity of the marketing and distribution systems and the multiplicity of intermediaries is a serious problem in the tropical timber trade.

Suggested measures for international action along the lines of Resolution 93(IV).

148. The basic FAO/UNCTAD document examines possible solutions under the following headings:

(i) Market intervention or stocking. The study concludes that because of the susceptibility to deterioration and the high cost of protection, measures calling for the establishment and management of stocks of tropical logs after they have been felled are unlikely to become a serious possibility. However, the management of supply of tropical logs through stocking in the forest (i.e. to leave them standing in the forest) is seen as technically feasible and one approach to international action for stabilisation although even here complicating features include heterogeneity of species, and the great distance between forest and user/processor. In view of the complex market structure together with the wide range of substitution possibilities, the document concludes that supply management will only be effective if it is concerted and well informed but deserves further study.

As the problems of storage loom less large for the principal processed forms of tropical woods, the report recommends that the feasibility and likely efficacy of stock management measures for broad categories of processed woods should be studied.

(ii) Compensatory financing. In view of difficulties of implementing stocking or other market intervention measures, consideration should be given to schemes for compensatory finance in the stabilisation of export earnings, especially in view of the fact that in 1975, under the EEC's Stabex Scheme, the largest payments were made in respect of tropical timber.

(iii) Market access and processing. While access to markets is not the only factor affecting the potential for increased processing in developing countries, it is an important one and will need to be taken into account in any programme of international action for improving the export earnings and the income generating potential of the tropical timber trade of developing exporting countries.

(iv) Shipping and freight. In view of the overwhelming importance of freight charges in the tropical timber trade - typically representing between 30 and 50 per cent of the c.i.f. price - it is suggested that: firstly, consideration should be given to measures to reduce shipping charges through the establishment and greater use at regional and inter-regional levels of shippers councils or equivalent bodies to negotiate with the conference lines; and secondly, developing producer countries might usefully investigate the feasibility of initiating or participating in a shipping line to enable exporters of tropical timber to share in the large earnings that are generated from the transport of their products.

(v) Research, development and promotion. The report finds there is considerable scope for international action in regard to research, development and promotion in helping developing countries to achieve maximum benefits from their trade in tropical timber.

(vi) International action aimed at bringing a greater number of the lesser known hardwood species on the market is recommended.

(vii) Measures to improve economic intelligence. The report stresses that effective market intervention for stabilisation purposes would depend on the availability of a good deal more information on market structure and market behaviour than is currently available. It calls for international action to facilitate the search for the collection, analysis, interpretation and distribution of market intelligence.

(viii) Reinvestment in tropical forestry and the maintenance of long-term supplies. While the measures for international action envisaged in the framework of Resolution 93(IV) do not explicitly include the kind of measures needed to deal with the problem, the need for such measures is thereby implied. The report therefore recommends international action to cover the re-investment problems.

Progress of negotiations.

149. A preparatory meeting held in the last week of May 1977 held a preliminary exchange of views on the characteristics and problems of the tropical timber trade and of possible international measures. Full consideration was given to each of the main problems outlined above but there was little or no discussion on the formulation of proposals for international action; the talks concentrated on the need for more information on the nature and causes of existing instability as a basis for determining measures and concrete proposals. The experts are to examine appropriate measures and techniques and make recommendations on a work programme on tropical timber to achieve specific objectives. These are broadly in line with those of the Integrated Programme, but are particularised in relation to the special needs of tropical timber, e.g. they also include reference to the need to understand the supply and market structure; to the need for promotion of investment for regeneration of forest resources; to overcome infrastructural and technological deficiencies in the timber industry in tropical countries; to obtain information on costs at each link in the chain of the tropical timber trade; and to standardize nomenclature. The meeting at expert level is scheduled for 24-28 October 1977 and aThird Preparatory meeting for 23-27 January 1978.

Appendix

Measures included, or under consideration for inclusion, in international commodity agreements

| | Coffee | Cocoa | Tin | Sugar | Rubber | Jute | Tea | Cotton |
|---|---|---|---|---|---|---|---|---|
| International buffer stocks | For study | Y | Y | | P | P | P | P |
| Coordinated national stocks | Annual survey | | Specified maxima | P(carrying costs internationally financed) | | P | | P |
| Price range | Y(x) | Y | Y | P | P | P | P | P |
| Export quotas | Y(x) | Y | Y | P | P | P | P "Stand-by" basis | P |
| Production planning/ rationalisation/ diversification | Y(x) | | Y | | P | P (including cost reduction) | P(y) | P |
| Supply/ purchase commitments | | | | | | | | P |
| Compensatory finance/ crop insurance/ adjustment assistance | | | | | | | P | P |
| Increased processing/ market access | Y | Y | | P | P | P | P | P |
| Promotion of consumption | Y | Y | Y | P | | P | P | P |
| Studies and research | Y | Y | Y | P | P | P | P | P |
| Information collection and dissemination | Y | Y | Y | P | P | P | P | |
| Other | | | | Recognition of special arrangements | | Harmonisation of synthetics production | | Improved marketing, transport, distribution |

Measures included, or under consideration for inclusion, in international commodity agreements (contd.)

| | Hard fibres Sisal | Hard fibres Abaca | Hard fibres Coir | Copper | Vegetable Oils | Bananas | Manganese | Bauxite | Iron Ore | Tropical Timbers | Phosphates | Meat |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| International buffer stocks | P | | | P | | | | | | | | |
| Coordinated national stocks | P | P(Philippines only) | | P | P(improved national stocking) | | P | | | P(stocking in the forest) | | |
| Price range | P | P | P | P | | P | P | | | | P | |
| Export quotas | P | P | | P | | P | P | | | | P | |
| Production planning/ rationalisation/ diversification | P (including cost reduction) | | P | | | P | | | | | | Rationalise world production |
| Supply/purchase commitments | P | P | P | P | | | P | P | P | | | P |
| Compensatory finance/crop insurance/ adjustment assistance | | | | | | P | | | P | P | | |
| Increased processing/ market access | P | P | P | P | P | P | P | P | | P | | P |
| Promotion of consumption | P | | P | P | P | P | | | | | | |
| Studies and research | P | P | P | P | P | P | | | | P | | |
| Information collection and dissemination | | | | | P | P | P | P | | P | | |
| Other | Harmonisation of svnthetics production, equitable freight rates, improved transport. | | | Interim producer/ consumer consultative body | | | | | | Reduced freight charges; re-investment | | Surpluses for food aid |

Y = Yes, i.e. included.
P = Possible, i.e. suggested.
N.B. Blank spaces signify no mention is made.

(x) = not in operation.
(y) = only after assessment of operational experience over rest of programme.

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