

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

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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 Order¹ 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 1974²; 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.

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.

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 Charter¹, 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 session² 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 Programme³. 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.

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

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.

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

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 maximum 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

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

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 Fund² 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.

The Capital requirements of the Common Fund

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 future³ 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 \pm 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.

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.

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

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 calculation 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.

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.