

The Progress of Negotiations on the Common Fund

Commonwealth Secretariat,
Marlborough House,
Pall Mall,
London, SW1Y 5HX.

July, 1977.

The Progress of Negotiations on the Common Fund

<u>Contents</u>	<u>Page No.</u>
Overall Review	105
Discussion since UNCTAD IV	106
Position of Group of 77	106
Position of Group B	109
Position of Group D	112
Developments in CIEC	113
Present Attitudes	114
Summary	117

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.

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 Conference¹ 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.

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).

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.