GENERAL AGREEMENT ON TARIFFS AND TRADE
CONTRACTING PARTIES
Fifteenth Session
Working Party on Commodities

REPORT ON COMMODITY DEVELOPMENTS DURING 1958

Note by the Executive Secretary

1. In accordance with the Resolution adopted on 17 November 1956 (Basic Instruments and Selected Documents, Fifth Supplement, page 26), the CONTRACTING PARTIES undertake annually a review of trends and developments in international commodity trade. At their thirteenth session, the CONTRACTING PARTIES decided that future reviews should be directed specifically to a consideration of the impact of commodity problems upon international trade, and that a Working Party on Commodities should be set up to do certain preparatory work in connexion with the review. The terms of reference of the Working Party (L/948) are as follows: "to examine documentation relevant to the review by the CONTRACTING PARTIES of the impact of commodity problems upon international trade and to submit a report and, where appropriate, recommendations to the CONTRACTING PARTIES to provide a basis for the review".

2. Among the relevant documentation available to the Working Party will be a report by the CONTRACTING PARTIES' nominee as Chairman of the Interim Co-ordinating Committee for International Commodity Arrangements. The secretariat expects to receive this report in September and to distribute it by 1 October.

3. The first part of this note indicates the international bodies which are active in the commodities field. Part II of the note brings together the data found in other documentation having a bearing on the question of the impact of commodity problems on international trade during 1958.
PART I

A. International Bodies concerned with Commodity Problems

United Nations

1. Commodity problems are discussed in both the General Assembly and the Economic and Social Council. Moreover, during discussion in the Economic Committee at the twenty-eighth session of the Council (July 1959), a representative of the Secretary-General stated that it was the Secretary-General's understanding that, under his general powers and under his responsibilities in connexion with the activities of the Interim Co-ordinating Committee for International Commodity Arrangements, he has the authority to enter into consultations with governments on international commodity problems.

2. The United Nations secretariat has produced many publications dealing with or having a bearing on commodities and commodity trade. Some of these have been prepared by the secretariat itself and others by groups of experts appointed by the Secretary-General. Among recent publications are the Commodity Survey 1958 (E/CN.13/33) which was produced by the Bureau of Economic Affairs for the Commission on International Commodity Trade, and the World Economic Survey 1958 (E/3244), Part I of which is devoted to a study of commodity trade and policies in the post-war period. The Survey was discussed by the Economic and Social Council at its twenty-eighth session.

Interim Co-ordinating Committee for International Commodity Arrangements (ICCOIA)

3. The Committee was established by a Resolution of the Economic and Social Council in 1947 (Resolution 30 (IV) of 28 March) and was given the task of keeping itself informed of, and facilitating, inter-governmental consultation or action on commodity problems. It was reconstituted in 1951 by Resolution 373 (XIII) of the Council so as to provide for a "chairman nominated by the CONTRACTING PARTIES to the General Agreement on Tariffs and Trade, a person nominated by the Food and Agriculture Organization of the United Nations to be concerned in particular with agricultural primary commodities, and a person to be concerned in particular with non-agricultural primary commodities". In 1953, by Resolution 462 (XV) of the Council, the Committee's membership was increased to four by the addition of "a person of wide experience in the problems confronting countries undergoing development whose economies are primarily dependent on the production and international marketing of primary commodities".

4. When the Commission on International Commodity Trade (referred to below) was constituted in 1954, the responsibilities of ICCIOA were reduced. The relevant Resolution of the Economic and Social Council (Resolution 557F (XVIII)) provides that ICCIOA should, "for the present, continue to discharge
its functions of convening inter-governmental study groups, of making recommendations to the Secretary-General on the convening of commodity conferences, and of co-ordinating the activities of the individual commodity study groups and councils. The Commission on International Commodity Trade assumed all other responsibilities hitherto discharged by ICCIA.

5. An annual review of international commodity problems is submitted by ICCICA to the Economic and Social Council. The 1959 Review (document E/3269) contains general observations on the use of existing international machinery to deal with commodity problems during the year 1958 and the early part of 1959 and also examines, in relation to specific commodities, such inter-governmental consultation and action as has taken place during the same period. In Chapter II (pages 11-55) the review gives a brief factual account of the activities of the following:

(a) FAO Cocoa Study Group;
(b) FAO Group on Coconut and Coconut Products;
(c) Coffee Study Group;
(d) Exploratory Meeting on Copper - September 1958;
(e) International Cotton Advisory Committee (ICAC);
(f) Exploratory Meeting (September 1958) and Conference (November 1958) on Lead and Zinc; Lead and Zinc Committee;
(g) Interim Committee for the Olive Oil Council;
(h) Consultative Sub-Committee on the Economic Aspects of Rice of the FAO Committee on Commodity Problems;
(i) International Rubber Study Group;
(j) International Sugar Agreement;
(k) International Tin Agreement;
(l) International Wheat Agreement;
(m) International Wool Study Group.

Commission on International Commodity Trade

6. In 1954 there were urgent requests for more effective measures of international co-operation to solve the problems of the inadequacy and instability of the proceeds of primary commodity exports. In its Resolution 512A (XVII) of 30 April 1954, the Economic and Social Council therefore decided to establish a permanent advisory Commission on International Commodity Trade and by Resolution 557F (XVIII) of 5 August 1954, the Council decided (by twelve votes in favour, three votes against and three abstentions) to proceed with the immediate constitution of the Commission. It was stated in the preamble to the first Resolution that there had hitherto
been "no effective international procedure" for the study of the problems involved. During the next four years the Commission held six sessions but, particularly because of the non-participation in its work of the United States and, more recently, of the United Kingdom, the Commission lacked the strength and effectiveness which many countries, particularly those exporting primary commodities, considered it should have.

7. Steps to strengthen the Commission were taken in 1953 and, by a Resolution adopted by the Economic and Social Council on 31 July 1958 (Resolution 691 (XXVI)), a reconstituted Commission was set up with the following terms of reference, functions and responsibilities:

"(a) The basic task of the Commission shall be to study and analyse developments and trends in international commodity trade, including excessive fluctuations in the prices and volume of commodity trade and movements in the terms of trade and the effect of such developments on both the international and domestic economic position of countries participating in international commodity trade, especially on the economic development of less-developed countries; in this connexion the Commission shall bring to the attention of the Council or governments members of the United Nations its views and recommendations as to the need for governmental or intergovernmental action to deal with problems or emerging problems which its studies may disclose;

"(b) The Commission shall also have the following functions:

(i) To keep constantly under review the movements of world primary commodity markets by the assembly and analysis of appropriate data;
(ii) to submit periodic reports to the Council on its work;
(iii) to publish studies and statistical reports on prices, terms of trade and other matters relating to international trade in primary commodities."

The United States and the United Kingdom are now members of the Commission.

8. The reconstituted Commission held its first session in March 1959 and the report of the session (E/3225) was submitted to the Economic and Social Council at its twenty-eighth session in July. The first part of the report discusses the situation in international trade in primary commodities and comments in particular on price movements and terms of trade, sources of weakness in demand, changes in supply, movements in stocks, changes in international trade and international action in the commodity field. It goes on to consider commodities which showed significant price fluctuations in 1958 and comments on other commodities of importance in international trade. The report also contains a programme of work to be undertaken by the Commission.
This includes:

(a) Study of impact of fluctuations in economic activity in industrial countries on international commodity trade;

(b) study of measures to deal with fluctuations in primary commodity markets both through national and international measures;

(c) study of prospective production of, and demand for, primary commodities.

This programme of work was approved by the Economic and Social Council at its twenty-eighth session in July.

9. The Council also approved a Resolution which envisages a joint session of the Commission and the FAO Committee on Commodity Problems, for the purpose of studying the report to be produced by the United Nations secretariat under (c) above. The Secretary-General will report to the thirtieth meeting of the Council (July 1960) on the advisability of and, if appropriate, on the practical arrangements for such a joint session.

United Nations Food and Agriculture Organization

10. The FAO is only concerned with agricultural commodities. It maintains contact with other bodies with a direct interest in commodity problems, such as the Commission on International Commodity Trade and the GATT, it cooperates with study groups, such as the Washington Group on Coffee, which were not set up under FAO auspices, while it has close working arrangements through its regional offices with the regional Economic Commissions of the United Nations.

11. Within the FAO the subsidiary body specifically concerned with this question is the Committee on Commodity Problems which establishes study groups and supervises their activities. At its ninth session in 1957 the FAO Conference agreed that the Committee should consider commodity problems of an international character affecting production, trade, distribution, consumption and related economic matters. The Committee is responsible for keeping the foregoing matters under continuous review in order to be able:

(a) to prepare a factual and interpretative survey of the world commodity situation, which is made available directly to Member Nations; and

(b) to report and submit suggestions to the Council on policy issues arising out of its deliberations, it being understood that these reports and those of the subordinate bodies will be made available to Member Governments for their information. (Report of the ninth session of the FAO Conference, paragraphs 449 - 450.)
12. The Committee on Commodity Problems has established the following FAO study groups and sub-committees:

(a) **Group on Grains**


(b) **Cocoa Study Group**

The recent activities of the Group are described in FAO document CCP 59/19.

(c) **Group on Coconuts and Coconut Products**

The report of the second session of the Group is contained in FAO document CCP 58/23.

(d) **Consultative Sub-Committee on Economic Aspects of Rice**

The report of the third session of the Consultative Sub-Committee is contained in FAO document 59/5.

(e) **Study Group on Citrus Fruit**

At its third-first session in June 1959 the CCP decided to set up a study group on citrus fruit.

A brief account of the recent activities of these groups is given in annex F to the report of the thirty-first session of the CCP (FAO document CCP 59/25) and in the ICCICA 1959 Review of International Commodity Problems (document E/3269).

**United Nations Regional Economic Commissions**

13. The Economic Commissions for Latin America, Asia and the Far East, and Africa, because of the dependence of their Member countries on the export of primary commodities, are closely concerned with commodity problems. In their consideration of such problems they are expected to take account of the views of interested international bodies. The Resolution (37 (IV)) of the Economic and Social Council setting up the Economic Commission for Asia and the Far East, for example, provides that "the Commission shall invite representatives of specialized agencies and may invite representatives of any inter-governmental organizations to participate in a consultative capacity in its consideration of any matter of particular concern to that agency or organization".

14. At its twenty-eighth session in July the United Nations Economic and Social Council discussed the reports of two of the commissions; the Economic Commission for Africa, which was established in 1958, did not submit a report.
The Economic Survey of Latin America, 1957 contains a great deal of information about Latin American commodities and commodity trade. Chapter II of Part I discusses commodity exports, with particular reference to selected commodities. Part II contains country chapters, while there is a special study on trade in agricultural commodities. The Economic Survey of Asia and the Far East, 1958 likewise discusses commodities, particularly in the section dealing with foreign trade (Part I, Chapter 2, pages 20 - 34).

15. The quarterly economic bulletins produced by ECLA and EJAF are frequently contain special reports on individual commodities.

General Agreement on Tariffs and Trade

16. At their thirteenth session, the CONTRACTING PARTIES agreed that their future activities in the commodities field should be related precisely to their particular competence and responsibilities under the General Agreement and that their annual review of trends and developments should aim to achieve a better understanding of the impact of commodity problems on world trade in general.

17. Many contracting parties to the General Agreement depend predominantly for their earnings of foreign exchange on the export of industrial raw materials and foodstuffs and on the development of trade in primary commodities. The effects of commodity problems on the expansion and free flow of international trade are, therefore, matters of direct concern to the CONTRACTING PARTIES and this has been specifically recognized by the CONTRACTING PARTIES on several occasions. Moreover, certain provisions of the General Agreement itself have to be borne in mind. Questions relating to commodity trade are frequently raised in the course of consultations provided for under the General Agreement; as an example may be quoted the consultations on five individual commodities which have recently taken place between interested contracting parties and the Member States of the European Economic Community. Further, Article XX, which deals with "General Exceptions", allows governments to deviate from the provisions of the General Agreement to the extent necessary to give effect to commodity agreements which satisfy certain criteria. The CONTRACTING PARTIES, therefore, have a direct interest in arrangements concerning the negotiation and conclusion of commodity arrangements in order to avoid the possibility of conflicts arising from inconsistencies between obligations arising out of such arrangements and obligations under the General Agreement.

International Commodity Agreements, Study Groups and Committees
(other than those listed under PAO above)

18. The following are the international commodity agreements, study groups and committees other than those listed under PAO above:

(a) International Wheat Agreement
(b) International Sugar Agreement
(c) International Tin Agreement
(d) International Tea Agreement (not in operation. The Tea Committee is still active)
(e) International Agreement on Olive Oil
(f) International Cotton Advisory Committee
(g) International Wool Study Group
(h) International Rubber Study Group
(i) Lead and Zinc Committee
(j) Coffee Study Group
(k) Latin American Coffee Agreement

A brief account of the activities of the above is given in IOCICA's 1959 Review of International Commodity Problems. The World Economic Survey (pages 117 - 124) also discusses the operation of the existing international commodity agreements.

B. The Sub-Committee on Commodity Problems of the United Nations Administrative Committee on Co-ordination

19. This Sub-Committee, established by the ACC, held its first session in April 1958. The Sub-Committee is not concerned with the examination or study of commodity problems as such. Its rôle is to enable representatives of the international agencies concerned with commodity problems (primarily the United Nations, FAO and GATT) to discuss and co-ordinate their work on commodities. The International Labour Organization and the International Monetary Fund have also participated in the work of the Sub-Committee. The need for such a Sub-Committee had become increasingly apparent, in view of the number of international bodies concerned with commodity problems. The Sub-Committee met again in July 1958 and in January and July 1959; its next meeting will be in January 1960.

20. At their thirteenth session the CONTRACTING PARTIES authorized the Executive Secretary to pursue, in consultation with the executive officers of other inter-governmental agencies, the suggestion that those directly responsible for the administration of the commodity agreements now in force and of commodity study groups be associated in an appropriate manner with one or other of the international bodies concerned with commodity problems, so that their practical experiences of the negotiation and operation of commodity arrangements should be available to all the agencies concerned. A first exchange of views and experiences took place at the fourth session of the ACC Sub-Committee on Commodity Problems in July 1959 and it was generally recognized that this exchange of views had been fruitful.
21. The Sub-Committee also organized an inter-agency meeting on long-range demand and supply projections. This was held from 29 September to 1 October 1958 and was attended by representatives of the United Nations (ECE), FAO, IBRD, IMF and GATT. The principal purpose of the meeting was to ensure that the several agencies working in this field adopt to the fullest extent possible certain common basic principles and assumptions. A review was made of the work being carried out and it was agreed that it would be desirable for personal contact to be maintained among the various officers working on these projects and that papers should be exchanged informally. This first meeting concentrated largely on European data and it was felt that in future special attention should be given to other regions.
PART II

IMPACT OF COMMODITY PROBLEMS ON INTERNATIONAL TRADE DURING 1958

Value and Volume

1. From mid-1957 to mid-1958 the total export earnings of the primary producing countries fell by 7 to 8 per cent. The United Nations Economic Survey 1958 estimates that, taking into account the rise in the import prices of manufactured goods, this represented a loss of over $2 billion in both the real income and the ability to import of these countries. This was equivalent to about one-sixth of their official gold and foreign exchange holdings, or about six years' lending to them by the International Bank at 1956/57 rates.

2. There was a slight improvement in the second half of 1958 and, for 1958 as a whole, exports from the primary producing countries were valued at $29,235 million, a reduction of $1,582 million or 5 per cent compared with the figure for 1957. However, it should be noted that petroleum exports made a considerable contribution to the overall value of these exports. If the petroleum countries are excluded, the value of products exported was $22,258 million in 1958 as compared with $24,264 million in 1957, a reduction of $2,006 million or 8 per cent.

3. The decrease in the export earnings of the primary producing countries was due primarily to the behaviour of commodity prices, which reacted adversely to the decline in industrial activity in major importing countries and to the continued expansion of productive capacity in many primary exporting countries. Both demand and supply factors had their effect on prices.

4. Although in the case of some individual countries, e.g., Burma, Pakistan, a smaller volume of exports was largely responsible for reduced earnings, for the primary producing countries as a whole the volume of exports in 1958 was practically the same as in 1957. Again, however, the contribution made by petroleum exports to the overall total should be noted. The volume of petroleum shipped in 1958 was well over 50 per cent above the 1953 level. In contrast to this, the volume of other exports from the primary producing regions increased by little more than an eighth between 1953 and 1957 and between 1957 and 1958 this slow upward movement gave way to a decline, a small rise in food exports being insufficient to offset a sharp reduction in the export of raw materials.


"Primary producing countries" include all countries other than North America, Western Europe, Japan, Eastern Europe, USSR and Mainland China.
The Decline in Industrial Activity

5. Due primarily to the recession in North America and the levelling off in industrial activity in Western Europe and Japan, there was a steady decrease during 1957 and the first half of 1958 in the rate of growth of total world industrial production outside the centrally-planned economies. There was a partial recovery in the second half of 1958, but average production for the year still remained slightly lower than in 1957.

6. In the United States the fall in industrial production began in September 1957 and continued until April 1958. During this period of eight months industrial production declined by about 13 per cent. After April 1958 there was a fairly rapid recovery and, by the end of the year, most of the ground lost had been regained. For 1958 as a whole the decline was about 7 per cent compared with 1957. Production continued to rise in the early months of 1959. Despite the recession, the overall quantum of United States imports from the primary producing countries showed little change in 1958, a decline in total value of 6 per cent or $380 million being due to a drop in import prices. In this general picture, however, there are considerable variations as between individual commodity groups. Petroleum imports rose by $150 million. There was also a rise in food imports, the figure for 1958 showing an increase of $50 million over the 1957 figure, despite a drop in coffee imports amounting to $200 million. Increased imports of beef and veal made an important contribution to the overall rise in United States food imports in 1958; they are estimated to have been about three times as large as in 1957. The largest supplier in 1958 was New Zealand, which delivered 84,000 tons as compared with 23,000 tons in 1957 and 2,000 tons in 1956. Against these increases, however, there was a decline in United States imports of ores and metals and agricultural raw materials, which showed a drop of $300 million and $180 million respectively in 1958.

7. In Western Europe as a whole industrial production in 1958 levelled off but did not decline, although there was some fall in the case of individual countries. The total quantum of imports into Western Europe from the primary producing countries kept up well in 1958, the 7 per cent or $1,000 million drop in value as compared with 1957 being accounted for mainly by a reduction in prices; the imports most adversely affected were those of crude materials, especially textile fibres and metals. On the other hand, United States' exports of primary commodities to Western Europe fared worse than those of the primary producing countries and dropped in value 30 per cent below the 1957

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1 The import figures for the United States are based on f.o.b. values. Those for Western Europe and Japan are based on c.i.f. values.
level. The brunt of this decline fell on exports of crude materials, fuels and metals, the greatest drop being in petroleum exports which fell back from the exceptional level which had resulted from the closing of the Suez Canal.

8. In Japan, industrial production dropped from mid-1957 to mid-1958, but the subsequent recovery brought up the index of industrial production for 1958 as a whole to the same level as in the preceding year. In 1958 Japan's imports of primary products\(^1\) from all sources fell by about $1,300 million or about one-third. A major part of the decline fell on the United States; the drop in Japan's imports from the primary producing countries themselves amounted to about $500 million or about 25 per cent.

9. In the case of certain primary producing countries, the drop in exports to the above industrial areas in 1958 was to some extent offset by a rise in exports to the countries with centrally-planned economies. For example, between 1957 and 1958 total exports from Malaya and Singapore to the Soviet Union rose from $13 million to $44 million, those to Eastern Europe from $26 million to $32 million and those to mainland China from $24 million to $39 million. Exports from certain other primary producing countries, e.g., Uruguay and Argentina, into the Soviet Union and Eastern Europe, likewise rose. The raw materials group, especially rubber and fibres, benefited the most from this increase and particularly in the case of rubber increased imports by the centrally-planned countries in 1958 contributed to an improvement in prices.\(^2\) On the other hand, there were cases where imports into the centrally-planned countries showed a decline in 1958. For example, Cuba's exports to the Soviet Union fell from $42 million in 1957 to $14 million in 1958 and those of Burma from $9 million in 1957 to nil in the first half of 1958. Likewise, Australia's exports to Eastern Europe showed a reduction of $18 million in 1958 as compared with 1957 while those of Ceylon to mainland China fell by $19 million in the same period. While the importance of the centrally-planned countries as a market for the primary exporting countries has increased considerably over the last five years, they still absorbed in 1957 by value only about 4 per cent of raw material exports from those countries and 2 per cent of their exports of foodstuffs.

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1 "Primary products" include food, beverages and tobacco, crude materials, fuels, oils and fats and base metals.

2 In contrast to this, uncontrolled exports of tin from the USSR early in 1958 had a severe though temporary adverse effect on world tin prices. As a result of negotiations initiated by the Tin Council in autumn 1958, an understanding was reached by which the USSR agreed to limit its direct exports to countries (other than Eastern Europe) to a quantity of about 13,500 tons in the year 1959 (see GATT International Trade 1957/58, p.65).
10. As has been noted above, the decline in industrial activity in major importing countries in 1957/58 adversely affected the trade in certain agricultural raw materials, metals and ores. This had an unfavourable effect on the prices of these commodities. On the other hand, in the case of certain commodities, the supply position had an important influence on price developments and, in some instances, seems to have been the dominant factor. Although the output of some primary commodities declined in 1958, in most cases output continued its previous upward trend. This expansion had been stimulated particularly by the high prices prevailing at the time of the Korean war and by the increased investment in productive capacity which took place at that time.

11. As business activity gradually improved, regaining its pre-recession level during the first half of 1959, so did the prices of some commodities e.g., wool, copper and rubber, show a considerable advance. Nevertheless, the average price level of primary commodities as a whole in the first half of 1959 was still well below that obtaining before the recession. This was the result mainly of a decline in the prices of a number of products e.g., coffee, tea, cocoa, cotton and jute and, in addition, to the special circumstances existing in the copra and sugar markets. Copra prices fell heavily after May 1959, because of the United States Government's intention to dispose of the whole of its strategic stocks of coconut oil; a less strong decline in the price of sugar was due to the uncertainty of market operators regarding the Cuban Government's readiness to keep its sales within the limits set for the free sugar market.

(i) Demand Factors

12. The reduction in activity in the durable goods industries, particularly in the United States, had a severe effect in 1958 on countries exporting non-ferrous metals; in the case of lead and zinc, the discontinuation of purchases for strategic stockpiles further aggravated the situation. Despite some improvement, domestic prices for lead in the United States and the United Kingdom had, by the end of 1958, only recovered to the level existing at the end of 1957 and lead prices did not share in the general improvement registered by other non-ferrous metals in early 1959. Zinc prices, which had been substantially lower in 1958 than in 1957, moved forward at the end of the year and the improvement was maintained in the first quarter of 1959, when prices were 18 per cent above the corresponding 1958 figure.

13. In February 1958, copper fell to its lowest price level in the last decade. Immediately thereafter, however, following production cuts, prices improved but, for the year as a whole, they showed a substantial decline compared with 1957. In the first quarter of 1959 the improvement in prices continued and London prices exceeded the figure for the same period in 1958 by about 40 per cent.
14. The total volume of tin exports in 1958 fell by nearly 20 per cent compared with 1957. This was the result of restrictions placed on exports under the International Tin Agreement, aimed at restoring the balance between world supply and demand. London tin prices, which for 1958 as a whole averaged £20 per ton less than in 1957, were severely affected early in 1958 by uncontrolled Russian sales. Later in the year, however, increasing rates of consumption began to sustain the market. In November and December average prices were higher than in any other month of the year and, in the first quarter of 1959, were 5 per cent above the corresponding 1958 figure.

15. Despite reduced rubber exports to the United States where, mainly due to the decline in activity in the automobile industry consumption of natural rubber fell by 64,000 tons as compared with the same period in 1957, the volume of world exports of natural rubber was the same in 1958 as in 1957; Malaya's shipments were, in fact, higher than in 1957, following much larger exports to the USSR, to other countries in Eastern Europe and to mainland China. Indonesia also increased its exports to these countries. In early 1958 natural rubber prices had declined sharply from the 1957 average but, under the influence of increased purchases from the centrally-planned countries, they began to rise in mid-1958. This rise continued thereafter, further assisted by increased activity in the United States automobile industry towards the end of 1958. Nevertheless, for 1958 as a whole, average prices were substantially below those for 1957. The improved price movement towards the end of 1958 was maintained in the first quarter of 1959 and, at the beginning of May, London quotations were almost 50 per cent above the low point of a year earlier. In any examination of the natural rubber situation it is, of course, necessary to take into account developments in synthetic rubber.

16. Due to the severe recession in the textile industry in industrial countries, wool prices were, on the average, about 30 per cent lower in 1958 than in 1957. Aggregate wool consumption in the United States, the United Kingdom, Germany, France and Japan in the first six months of 1958 was 17 per cent lower than in the same period of 1957; the total quantity imported by all consuming countries was about 20 per cent lower. In the first four months (July-October) of the 1958/59 season, Australia's wool exports yielded $178 million. This was 39 per cent less than the amount earned a year earlier, although the quantity exported was only about 9 per cent smaller. With signs of an upturn in the rate of consumption wool prices, though still averaging well below the 1958 level, rose by a fourth or more in the first four months of 1959, reflecting increased demand from the industrial countries as well as from the centrally-planned countries.

17. The situation in the textile industry likewise affected the total volume of cotton exports, although the brunt of the decline seems to have fallen on the United States. Prices drifted downwards during 1958 and, in the first quarter of 1959, were much lower than a year earlier.
18. Over-supply has become an increasingly serious factor in the case of coffee. Production has continued to expand and has practically doubled since 1954/55. A further increase in production is in prospect for the 1958/59 season and, according to recent estimates, total export availabilities in producing countries now amount to about 3.4 million tons, which is over 40 per cent more than in 1957/58. This situation is reflected in price levels, which declined further during 1958. In the case of Brazilian coffee, prices fell by 20 to 25 per cent. In the first quarter of 1959, coffee prices were all substantially below the corresponding 1958 figures.

19. Larger crops and the accumulation of surpluses likewise had an adverse effect on prices of other commodities, including sugar and olive oil. In view of the easy supply position and the prospect for a large crop in 1958/59, the monthly average sugar price in 1958 was nearly one-third below the 1957 average and, at the beginning of 1959, it fell to a level five cents below the lower limit of the price range applying under the International Sugar Agreement. There was a further decline in the price (from 3.65 to 2.85 cents per pound) during the period January-April 1959.

20. Another important factor on the supply side is the existence, in industrial countries, of stocks of surplus agricultural products, which have accumulated as a consequence of government support of agricultural prices and income. In the case of certain commodities, surplus stocks held by the United States represent the major part of the world's excess supply. It is for this reason that the world price of such commodities as wheat, maize and cotton (other than extra-long staple varieties), depends largely on the export policy of the United States. None of these products in chronic surplus participated in the firming of market prices in the latter part of 1958 or early in 1959.

21. Increased production and the accumulation of surpluses in Western Europe contributed to a severe decline in butter prices in the first half of 1958 and, for the year as a whole, average prices were substantially below those for 1957. The critical situation which developed illustrates how rapidly surpluses can be created by domestic policies designed merely to provide relief to agricultural producers. Butter stocks in OECD countries were, on 1 May 1958, about 45 per cent higher than on the same date a year earlier. However, from the middle of 1958, helped by increased consumption, unfavourable weather and sales to the USSR, butter prices improved and, by December 1958, were in excess of the 1957 level. In the first quarter of 1959, prices averaged about a fourth more than in the corresponding period of 1958.

22. In contrast to the above, a decline in production affected prices in the case of some commodities. In certain instances, such as copper, output was purposely reduced with the object of bringing about price recovery. In others, e.g., cocoa, rice, copra, the reduction in output was due to circumstances
outside the producers' control, such as weather conditions, disease, etc. A small 1957/58 cocoa crop raised the average price for the major producing countries by over 40 per cent in comparison with the preceding year. The value of Ghana's cocoa exports rose from $142 million in 1957 to $174 million in 1958, despite a reduction of 24 per cent in the quantity exported. Rice prices likewise rose in 1958 but, largely on account of a reduction in export volume, export proceeds fell, for example, in the case of Burma and Thailand. Burma's rice exports were valued at $170 million in 1957 and $142 million in 1958. The small copra crop in the Philippines in 1958 led to a sharp rise in the price of this commodity and to expanded export earnings, which rose from $173 million in 1957 to $180 million in 1958. Prices continued to rise in the first five months of 1959, after which they fell heavily. (See paragraph 11 above). In the case of both cocoa and rice, the prospect of a larger 1958/59 crop had its effect on prices. Spot cocoa prices in the first quarter of 1959 averaged 13 per cent below the corresponding 1958 figure, while rice prices also averaged appreciably less than in the first or last quarters of 1958.

National and International Action

23. While the scope for successful intervention by a primary producing country in the world market for its commodities is limited, several countries took measures in 1958 aimed at sustaining prices and avoiding the adverse consequences of a deterioration in the commodity markets. In some cases output was reduced. In others, supplies were withheld from the market. Such measures can, however, have serious repercussions. A curtailment of production often results in serious problems of unemployment, while the withholding of supplies from the market and the maintenance of stocks impose a heavy financial burden on the countries concerned and tends to lead to inflationary increases in public expenditure.

24. Primary producing countries can, however, attempt to limit the impact of excessive price fluctuations in world markets on the income of producers. A common medium for this purpose is the marketing board, e.g., the Ghana Cocoa Marketing Board, which can go some way towards stabilizing producers' prices.

25. The limited effectiveness of the measures which an individual country can take has added emphasis to the need for more active international cooperation in this field. In 1958 and the beginning of 1959 several important commodities in world trade were the subject of discussion at the international level. In September 1958 the United Nations initiated exploratory meetings on copper and on lead and zinc. While the copper situation did not appear serious enough to call for any action in addition to the restrictions on output already introduced by leading exporters, the position regarding lead and zinc was considered such as to warrant continued observation. In May 1959 some of the largest producers of the United Nations Lead and Zinc Committee decided to curtail their production of these metals. Simultaneously, foundations were laid for a permanent International Lead and Zinc Study Group. In the middle of 1958 the International Rubber Study Group discussed proposals for an agreement between producers and importers; it was decided that these proposals
should be studied further and that the matter would be kept under review by the Management Committee. In May 1958 the FAO Cocoa Study Group reviewed the cocoa situation and discussed the possibility of stabilizing the position of this commodity through an international agreement involving inter alia a system of buffer stocks. In June an ad hoc Coffee Study Group was set up consisting of representatives of coffee producer countries and of some consumer countries; the Latin American members of the Group later concluded an agreement to withhold a proportion of their exportable production from the market. Discussions were held among tea producers in order to investigate the possibility of renewing the International Tea Agreement, which had not been in operation since March 1955. An agreement on olive oil, aimed at widening the market for this product, was signed in August 1958 between the main importing and exporting countries. At a "Food for Peace" conference held in Washington at the end of April 1959, it was decided to establish a Wheat Utilization Committee consisting of representatives of Argentina, Australia, Canada, France and the United States. The new committee will examine the possibility of expanding commercial trade in wheat, of increasing and making more effective the utilization of wheat surpluses and of establishing guidelines for providing wheat to individual countries on concessional terms and for the safeguarding of commercial marketings.

26. During the period the International Sugar Agreement and the International Wheat Agreement were renegotiated and renewed; these were further strengthened and extended to cover a larger number of participants. Meanwhile under the International Tin Agreement, as noted above, cuts in exports continued to be applied with the object of bringing supplies more in line with demand.

Impact on Primary Producing Countries

27. The general decline in commodity prices and, in some cases, a reduction in the quantum of exports, had serious consequences for many primary producing countries. Australia and South Africa in the wool group for example, Indonesia and Malaya (rubber), Bolivia, the Belgian Congo, Rhodesia and Peru (metals and ores), El Salvador, Colombia and Brazil (coffee), Barbados, Cuba and Mauritius (sugar) all suffered a reduction of 10 per cent or more in their export earnings between 1957 and 1958 because of the drop in commodity prices. In the case of Burma and Thailand (rice), Pakistan (jute), on the other hand, quantum changes were largely responsible for reduced earnings.

28. This decline in export proceeds inevitably had a serious effect on the balance of payments of many primary producing countries. During the recent GATT balance-of-payments consultations, for example, the New Zealand representative pointed out that fluctuations in the prices of New Zealand's principal exports and a consequent falling-off in external earnings results in strains on the development programme, and on the external reserves.

29. In an attempt to offset the drop in export earnings, most countries cut back their imports; this meant a loss to the export trade of the industrial countries. Calculated on a c.i.f. basis, expenditure on total imports into the primary producing countries was reduced by about 7 per cent in 1958. Some
countries, in an attempt to alleviate the situation, were obliged to reduce essential imports with a consequential adverse effect on their development programmes. In Indonesia, for example, the restrictive import policy appears to have created domestic shortages of raw materials; one of the industries most adversely affected by these shortages was the textile industry, which was only operating at about 60 per cent of its full capacity. The Economic Survey of Asia and the Far East, 1958, (pages 50-52), refers to the pruning of development plans which certain Asian Governments, e.g. Malaya, Philippines, Burma, Indonesia, Pakistan, were obliged to undertake because of shortage of foreign exchange.

30. In addition to reducing imports, many countries attempted to reduce the gap on current account by loans and credits from abroad. Although borrowing from the International Monetary Fund was on a greatly reduced scale in 1958 as compared with 1957, loans from the World Bank increased to about $490 million (net disbursements, at $330 million, were about one-fourth above the 1957 figure). Some countries with food shortages were able to avoid the use of foreign exchange by importing food under United States loan programmes repayable in local currency.

31. The cut in imports and the inflow of capital were, however, insufficient to close the gap on current account and there was a further reduction in the official gold and foreign exchange holdings of the primary producing countries which, in 1958, were reduced to the lowest level of the decade. It may be roughly estimated that there was a reduction in the total gold and foreign exchange holdings of the primary producing countries as a whole of about 7 per cent between December 1957 and December 1958. Incidentally, this decline was of the same order as the fall in the price level of primary products between 1957 and 1958.

32. Because of its importance for international trade, the effect of commodity developments during 1958 on the export earnings of primary producing countries is a matter of direct concern to the CONTRACTING PARTIES. In any examination of the situation it is necessary to take account of the various factors which come into play; these have been referred to above and include the question of "confidence", the effects of national and international policies, the existence of stocks and the question of investment in primary producing countries.

Note:

Background Paper on Movements in Export Earnings (1956-1958)

For the use of the Working Party the secretariat intends to circulate at the end of September a paper containing, first, a collection of data showing, for each of the principal primary products in international trade,

the export earnings of the main exporters in 1956, 1957 and 1958; and secondly, a collection of tables, one for each primary product, again showing the export earnings but also the volume and the unit value for each contracting party that has any significant exports of the commodity concerned. An attempt will also be made to show separately for each exporting country the rôle that volume and price (unit value) have played in the fluctuations of its export earnings.

Finally, the paper will contain a statement on the value of imports for each one of the countries taken into consideration during the last few years.