Growing Attention to International Commodity Problems

1. During the three years of my membership of ICCICA which are just concluded, it has become evident that inter-governmental, and non-governmental international, organizations, as well as individual governments, have been giving increasing attention to the position of primary products in world trade. Not only has the actual trade in these commodities come under examination, but also its economic implications in other fields. In addition to the usual United Nations' reports, the Haberler report (Trends in International Trade, GATT/1958-3) made at the instance of the CONTRACTING PARTIES of GATT, following an important special investigation, received wide distribution. The FAO group on grains covered a wide field and for the first time inter-governmental meetings took place on lead and zinc. The renewal of the wheat and sugar international agreements brought about a special review of these very important products. Finally, as a result of the setting up of the European Economic Community, much attention is being given in Europe to governmental agricultural policies and this involves close examination of international trade in this field, not only amongst countries who are members of that organization but interested third parties.

2. The subject in its various aspects had, of course, been brought to public notice over many years, but as a result of this increased attention in recent years the following aspects have emerged perhaps more clearly, and have been made to loom more largely:

   The detailed facts of fluctuations, particularly in the short term, in world prices of various primary products, and their significance.

   The effect on international trade in primary products of policies followed by individual governments.

   Particular effects of international trade in primary products on the economies of under-developed countries.
The effect of the limitation of import of primary products into markets of highly developed industrial countries on the export trade in manufactured goods of such countries.

The proposition that high protection of production in large consuming countries tends to drive out production in lower cost countries where domestic consumption is low relative to export.

The results of and the value in international governmental marketing arrangements and agreements.

Though all these aspects are inter-related, that mentioned last is of particular concern to ICCICA, and it is to this that the following notes are principally directed.

International Aspects of Instability

3. Many under-developed countries and several well along the road in economic development rely on the export of primary products for the greater part of their export income. The amount of their external earnings of course depends upon the volume of their exports and the prices that rule in overseas markets, and upon these earnings depend the volume and variety of their imports - usually of manufactured goods - and their general level of prosperity.

4. Changes in buying power in the large consuming countries of the world can have a marked effect over a wide range of products, but this effect varies according to elasticity of demand, and other conditions such as stock positions of different products at the time of changes in demand. Thus an increase in the world demand for raw wool where there are practically no accumulated stocks and where supply is relatively steady - or at any rate not readily adjustable - quickly affects world prices. An increase in copper or tin prices, due to advanced demand, results in additional stocks being brought forward without delay with some modification of the movements of prices. In some other cases, wheat for example, increases and falls in purchasing power do not markedly affect demand and the condition of supply is the dominating factor.

5. General (and marked) fluctuations in purchasing power are not now as great in intensity as they were in the past - due probably to greater control of the movements of the trade cycle by governments, and by business organizations - manufacturing, trading and financial. The result of this appears to be that short-term changes in prices do not follow a general trend to the same extent as in the past, but that these changes vary in degree and in direction from product to product. Consequently, in looking to the causes of instability in price, greater attention is now given to products individually and in this way not only to the supply and demand position of each product but to any other circumstances influencing its production, consumption and marketing.
6. In any study of the movement of prices in international trade it is recognized that instability in itself is a serious defect, because of the uncertainty it brings, not only to the income of the producer, but also to the supplier of goods that the producer buys or wishes to buy. To some countries this instability is a major consideration in their national economies.

7. Assuming stability is needed, the next requirement is that prices shall be stabilized at levels which will give the producer a return which will enable him to preserve some fairly well recognized standards of living, having regard to overall economic conditions, and also give adequate supplies to consumers at prices they can afford, having regard to their recognized standards of living. This stability should be at what might be called reasonable levels, and it may be achieved in some cases by raising prices, some by lowering them and others by ensuring they do not move too much one way or the other. (The result of an examination might, of course, be that no action at all is needed at the time.) The reasoning would then be that assuming the examination of primary products individually and assuming the practicability of bringing about stability in each, the over-all result would be greater regularity and certainty in the purchase of manufactured goods, and sounder trading conditions in international commerce generally.

The Possibilities of International Action

8. On the basis that movements in prices, to such an extent as to constitute instability, are caused by changes in the relationship of supply to demand, the first question which is usually raised is whether the market, if left to itself, will bring about the necessary adjustments? The answer is that examination over a wide field has shown that in a large number of cases this adjustment does not take place.

9. The reasons for this failure can be several, according to the product. It may be that the volume and complexity of international trade in some products is such that the responses are delayed too long to avoid serious adverse consequences, or that another trend sets in before one is finished, or that the response is so great that the adjustment brings about too great a swing in the opposite direction.

10. Another reason is that the individual acts of governments prevent responses necessary to bring about stability by, what are termed by some, "normal market forces". Those who oppose any international co-operative effort either by governments or industry organizations usually do so either on the grounds that the whole problem should be left to work itself out - the "normal market forces" school - or that planned international arrangements are ineffective because they do not work out in practice as they are designed to do, or because, in seeking to get a wide area of agreement, there is too much compromise with too many avenues of escape, or because fundamental issues are not adequately handled. Some even argue that in the last analysis these agreements do more harm than good.
11. In considering whether anything should or could be done by international regulation in respect of most primary products today, one cannot assume that it is a case of full and untrammelled freedom on the one hand, or comprehensive regulation on the other; in other words it is not on the one hand a fully competitive market with the law of comparative advantage playing an important part and, on the other, a managed market. The facts are that in most large buying countries, agricultural production and mining operations often for social and political reasons, as well as on purely economic grounds, are protected by government regulation of some sort. This varies widely in form and degree, but at once it distorts any relationship of supply - brought about under normal and most suitable conditions - to world requirements. Again, some countries which are holders of surpluses intervene in marketing. They are not prepared to allow their returns to fall below certain levels, and either hold their supplies and thus create abnormal holdings of stocks, or subsidize export. In particular, many exporting countries with large domestic sales are careful, by some device, to protect these sales against international price fluctuations. All this interferes with and distorts "normal market forces".

12. These then, whether we like it or not, are the premises of any examination of the trade in a product with the object of deciding whether stability in prices can be brought about by international governmental arrangements. In some products weather conditions also play an important part in supply - in others it plays no part at all. In some countries, stocks of commodities and their release are controlled by large industrial organizations, and as already stated there is all manner of governmental regulations - sometimes on production, sometimes in domestic marketing, sometimes extending into international marketing.

13. Having assembled all the facts surrounding the trade in a particular product, including an assessment of the causes of any movements which it is thought should be studied, the question arises whether action of a regulatory nature is required and whether governments in collaboration should intervene. If it is decided that the subject should be pursued, the general nature of the agreement and the techniques to be employed have then to be studied in detail.

Relation between International Action and National Policies

14. Based on experience perhaps two broad general statements can first be made. First, it has been found very difficult - almost impossible - to secure agreement under which governments will undertake to remove or adjust their national laws in accordance with an international agreement, and secondly, international agreements and draft agreements to which effect has not been given, have all tended to concentrate on that part of the total production which enters into international trade. Thus some procedures have dealt largely with maximum and minimum prices, some with export and import quotas, some with the accumulation of stocks (including "buffer stocks") and in some cases combinations in varying degrees of different procedures. In
no case, however, has a government under an international agreement undertaken to amend its laws on such questions as subsidies or physically controlled output. In some cases they have amended their policies and laws because of the state of international trade or perhaps because of the result of an international agreement, but they have done it of their own volition, not because of an obligation assumed in the agreement.

15. Thus the position is reached that generally the actual exchange of the goods is regulated by international agreement but the reactions on production in either exporting or importing countries are not. This has given some support to the view referred to earlier in this report, that the international agreements do not deal sufficiently with fundamental issues. In commenting on the International Wheat Agreement which has been in existence for the past ten years (the agreement recently negotiated has been subjected to major alterations in form), representatives of some countries stressed this. It was agreed that as a result of the agreement under which price ranges had been determined, and the fact that these prices had been voluntarily adhered to by signatories of the agreement in sales of non-agreement wheat, stability in price levels had been achieved; and that if no governmental action, either in the international or national field had been taken since 1949, prices would have fallen to extremely low levels, many efficient producers would have gone out of production and, as a result of low production, prices would have gone to extremely high levels. The problem brought about by the large accumulation of surplus stocks in the world has not been dealt with in the agreement however. This has been a major problem for the past six years or so and it still exists. (The brief reference to wheat here is only intended to be illustrative.)

16. Recognition of the influence on volume and prices in international trade of the positive policies of individual governments, for example, the stimulation of production by subsidy in some form, and some cases by failure to deal with reactions on production of international trade conditions, has been growing of recent years and there is evidence that governments are paying more attention to it. The new International Wheat Agreement, whilst not imposing obligations on governments in regard to production, does accept the principle that it is an important part of the problem, and that the Council should bring all relevant facts before governments. This new approach is a step forward and it could be that the mechanism of inter-governmental commodity agreements will come to be used to an increasing extent in dealing with these basic problems. It is not unlikely perhaps that in future some form of obligation will be accepted by governments in dealing with the effect on international trade of their production policies — or lack of them. For example, governments having accepted a percentage reduction in export might decide to agree that it be reflected in a reduction in production. At recent meetings on lead and zinc, governmental and industry representatives seriously examined this problem and took some action. It would, however, be easier to do this in metals where mines and manufactures can be stopped overnight and production is in the hands of large units, than in agricultural products where climate plays an important part and where there are so many single producers.
17. Where countries wishing to have an international commodity agreement are sufficient in number and in the volume of trade covered to warrant action being taken to bring an agreement about, the question of the influence of transactions remaining outside the agreement on the operation of such an agreement is of importance. Undoubtedly, the greater the proportion of the total trade within the agreement, the more effective the agreement becomes, and where it happens that a substantial part of the trade must be carried on outside the agreement, it is important that its influence be assessed both by those inside the agreement and those outside. It has been the practice where conferences have been called to decide whether an expiring agreement be renewed and if so on what conditions, to invite non-members interested in the product as well as existing members. In this way the whole of the trade is reviewed and non-agreement countries given an opportunity to reconsider their position.

At the recent negotiations for a renewal of the Wheat Agreement, the United Kingdom was a participant and their decision to join the new agreement undoubtedly made it stronger than the one it replaced.

18. The international negotiations in sugar have been largely concerned with the "free market". This market is important since it affects other prices but it represents a diminishing share of world trade in sugar. Since the "free market" is mainly a residual market, it may be that in future negotiations, greater attention will need to be given to basic problems including the relationship of the "free market" to these special markets. Again the present international tin agreement expires in 1961 and ICCICA has recently recommended to the Secretary-General of the United Nations that he convene a conference in 1960 to negotiate a new agreement. It is to be hoped that all important importing and exporting countries, whether parties to the present agreement or not, will participate in this conference so that it may afford an opportunity for a review of all the basic problems facing international trade as well as the provisions of the present agreement.
Under-Production

19. In referring so much to production policies, it is not to be assumed that over-production is the only problem. It is important, particularly in the light of the rapid increase in world population, that the necessity of ensuring that at all times adequate stocks of a wide range of primary products are available to meet the world's requirements should not be lost sight of. This raises the principle of the use of buffer stocks which, without going into detail as to where and to what extent they should be introduced, are clearly of the highest importance in relation to many products in the preservation of price stability, and in ensuring at the same time that a market should not be over-supplied or that stocks should be allowed to become inadequate. As has been stated more than once, the methods included in an international agreement must vary according to the product, but in many products there is room in a single arrangement for the introduction of three important principles - a price range, buffer stocks, and production control. Again, using wheat as an example, the quantities of wheat in the world in excess of requirements are too great and should be somehow reduced - partly at any rate - by the abandonment of very high cost production. At the same time, stocks should not be reduced below a level which would both meet current requirements at prices within the range, and provide a buffer stock which would ensure that world supplies did not run too low.

Action Taken in Recent Months in Regard to Certain Products

20. The last report of ICCICA, which was issued in May (United Nations document E/3269) contained a fairly detailed account of inter-governmental consultation and action during 1958 and early 1959 in respect of commodity problems. Current developments are described in the United Nations periodic memoranda entitled Recent Commodity Developments. In this paper, therefore, I shall confine myself to a few of the more important developments in recent months.

Coffee

21. The representatives of the Latin American countries participating in the present coffee arrangement considered bases last July for another arrangement to replace the present one, and stressed their wish that it should be world-wide. They envisaged that it would be based on fixed export quotas, each country's quota being the largest amount it exported in any calendar year from 1949 to 1958 inclusive, and that it would remain in force for at least two years. The governments of the principal producing countries in Latin America have approved the plan. Discussions have also taken place between the representatives of Latin American and African producing countries. In this connexion I should like to mention the question of whether participation by consuming countries might not make a coffee arrangement more effective and beneficial to producing countries as well.

1 See paragraph 25 of the last ICCICA report. The present agreement expires at the end of September 1959.
Cotton

22. The International Cotton Advisory Committee held its eighteenth plenary meeting from 14 to 23 May 1959. At the conclusion of its discussions of the cotton situation and cotton policies, the Committee adopted a resolution. In this resolution it noted that, although some reduction in the over-all cotton surplus had occurred since 1956 and stocks in consuming countries declined in 1958/59, stocks were still "excessive". With regard to prices, the Committee considered that the decline had had serious repercussions on the economies of those producing countries particularly dependent on cotton. In the opinion of most delegates the uncertainty arising from existing government cotton export programmes seriously affected the stability of international cotton markets and tended to reduce cotton trade and consumption. The Committee therefore welcomed the assurances that had been given that export or surplus disposal programmes would be conducted in a manner which would contribute to world confidence and market stability, recommended that member countries contribute insofar as possible to this end, and endorsed the principles of consultation and co-operation in seeking to assure stable and reasonable prices for both growers and consumers while maintaining the competitive position of cotton in textile markets.

23. With regard to long-staple cotton, the Committee drew attention to the current situation of surpluses and low prices and urged governments producing this type of cotton to consider steps they might take to improve the situation, including the desirability of convening a special meeting to examine the problems of this commodity with attention to (a) production plans and policies, (b) pricing and export policies, and (c) steps needed to encourage consumption. The importance of this question can best be seen from the fact that a special meeting to discuss the matter is now planned. With regard to the programme of work on future trends in production and consumption, the Committee directed that studies be continued with particular reference to expected trends in yields in the various countries and expected increases in production because of new irrigation projects. The Committee also invited the assistance of the international organizations concerned with man-made fibres and wool in making similar studies of trends in production of these fibres.

Lead and Zinc

24. In accordance with the decision of a meeting held in May to discuss the inauguration of the Lead and Zinc Study Group, the Secretary-General communicated with the governments invited to that meeting and invited them to indicate whether they were prepared to accept membership of the International Lead and Zinc Study Group in accordance with the terms of reference set out in Annex A of the report of the meeting. (The report of the meeting was issued as United Nations document E/CONF.31/1. References to the meeting are also contained in paragraphs 48 to 51 inclusive of the latest ICCICA report.) As on 18 August 1959, a number of important producing and consuming countries had accepted membership.

25. The latest report of ICCICA (paragraphs 43 - 47 inclusive) contains a summary of the results of the third session of the Lead and Zinc Committee. In this case I should like to repeat what ICCICA said in its latest report, namely that the Committee is fully representative of both the principal producing and consuming interests and that at this session there was a readiness on all
sides to make reductions in production or exports or sales designed to improve conditions on world markets. As may be seen from the latest memorandum on Recent Commodity Developments (No. 31 - E/CN.13/Ser.A/31), the price of zinc has increased since the third session of the Lead and Zinc Committee whilst that of lead has remained relatively stable.

Olive Oil

26. The International Agreement on Olive Oil, 1956, as amended by the Protocol of 3 April 1958, entered into force on 26 June 1959, by which date a sufficient number of governments had ratified or acceded to the Agreement or given an undertaking to seek to do this as rapidly as possible under their constitutional procedures.

27. The Secretary-General accordingly convened the first session of the Olive Oil Council in Madrid in October 1959 to discuss administrative and financial questions in connexion with the establishment of the Council, the current olive oil situation and the establishment of a publicity fund.

Sugar

28. The International Sugar Council held its third session in June 1959 and extended the time limit for the deposit of instruments of ratification, acceptance or accession to the Agreement to 31 October 1959.

29. The Council surveyed the demand, supply and stock situation and examined the development of the market since its February session. (See paragraph 74 of the latest ICCICA report - United Nations document E/3269.) In the light of this survey the Council decided to reduce quotas in effect by the maximum percentage provided for in the Agreement. Accordingly, quotas in respect of participating exporting countries with a basic export tonnage of 50,000 tons or more were reduced to 80 per cent of their basic tonnages. The Council was of the view that, taking into account the reduction in quotas, supplies available to the free market and the requirements of that market would be roughly in balance.

30. The Council received the first reports of the Committee on Sugar Consumption and of that on the Multilateral Options, referred to in Article 22 of the Agreement, established during its first session. (See paragraph 72 of the latest ICCICA report.) In connexion with the establishment of the latter Committee it will be recalled that under the provisions of Article 22, the Council has, during the first year of the Agreement, to make recommendations to interested participating governments concerning the negotiation of arrangements for multilateral options to buy, or sell, certain quantities of sugar when the prevailing price moves beyond the highest or the lowest price of the range under the Agreement.

31. The Committee had a helpful and comprehensive exchange of views on marketing policy. It noted with satisfaction the aim of exporting countries to pursue a constructive marketing policy in accordance with the objectives of the Agreement with a view to restoring confidence in markets. The Executive Committee discussed what co-operative action might be taken by the Council in furtherance of these objectives, and measures to strengthen the marketing position of member countries were recommended by the Committee to the Council.
In accordance with these recommendations the Council decided in the middle of August that, if at the end of the year 1959 an exporting country had not exported the full amount permitted by its quota, the deficiency up to 10 per cent of its basic tonnage could be exported in 1960 without being charged against its quota for that year.

**Tin**

32. The International Tin Council held its eighteenth session from 26 to 29 May 1959. Between its seventeenth session held in February (see paragraphs 89 and 90 of the latest ICCICA report) and its eighteenth session, the closing price (closing bid at the second session of the London Metal Exchange) of "cash" tin was for most of the period at or somewhat above the level of L780 per long ton and in the price range between L780 and L830 per long ton where, in accordance with the authority granted him by the Council, the Buffer Stock Manager was able to sell tin. At its eighteenth meeting the Council extended this authority to the end of September 1959 and, in view of more favourable market conditions, increased the total permissible export amount for the six producing member countries during the third quarter of 1959 to 25,000 long tons, compared to 23,000 tons in the second quarter and 20,000 tons in the first quarter of 1959. Total permissible exports have now been raised from a level of about 60 per cent to one of about 66 per cent of average production of tin-in-concentrates in 1957 (just before the introduction of export control export control was in fact introduced on 15 December 1957, but aggregate production for the whole year was little affected.)

33. In accordance with paragraph 14 of Article IV of the Agreement, the Council disclosed that 23,325 long tons of tin had been held in the Buffer Stock on 31 December 1958. As may be seen from Table 1, the stock of tin metal held by the Buffer Stock, which had grown rapidly up to the second quarter of 1958, changed very little during the second half of 1958, whilst total reported stocks of tin metal in the world declined. On 31 March 1959 these latter stocks were 8,000 tons below what they had been a year previous. In view of the rise in market prices to the middle price range under the Agreement, it is likely that some tin was sold by the management of the Buffer Stock and that the total amount held by it declined this year.

**Table 1 - Tin: Stocks of Tin 1957/59**

(Figures in long tons)

<table>
<thead>
<tr>
<th>Tin in the Buffer Stock</th>
<th>Total Reported Stocks in the World^a</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Tin-in-concentrates</td>
</tr>
<tr>
<td>30 June 1957</td>
<td>3,916</td>
</tr>
<tr>
<td>30 September</td>
<td>4,315</td>
</tr>
<tr>
<td>31 December</td>
<td>15,300</td>
</tr>
<tr>
<td>31 March 1958</td>
<td>22,440</td>
</tr>
<tr>
<td>30 June</td>
<td>22,140</td>
</tr>
<tr>
<td>30 September</td>
<td>23,300</td>
</tr>
<tr>
<td>31 December</td>
<td>23,350</td>
</tr>
<tr>
<td>31 March 1959</td>
<td>23,325</td>
</tr>
<tr>
<td></td>
<td>29,900</td>
</tr>
</tbody>
</table>


^a Stocks of tin-in-concentrates and tin metal, on land and afloat, reported to the International Tin Council, including some tin held by the Buffer Stock.
36. The Council and the Government of the United Kingdom agreed in principle that arrangements should be made for the disposal over a period commencing 1 July 1959 of 2,500 tons of tin from the non-commercial stocks of the United Kingdom Government through the agency of the Buffer Stock Manager. In selling this tin the Buffer Stock Manager will operate under the same rules as apply to sales of tin from the Buffer Stock. The United Kingdom Government also gave notice that they had available for disposal from 1 January 1960 a further 2,500 tons of tin no longer required for strategic purposes and indicated that it would be decided later, after consultation with the Council and in the light of circumstances at the time, whether this second quantity would also be disposed of through the Buffer Stock Manager. Sales would, if necessary, be spread over several months.

Wheat

35. The International Wheat Council held its twenty-sixth and concluding session under the International Wheat Agreement, 1956, on 16 July.

36. This session was followed on 17 July by a meeting of governments signatory to the International Wheat Agreement, 1959. As the conditions for entry into force had been fulfilled, the International Wheat Council proceeded to hold its twenty-seventh session and its first under the 1959 Agreement. The Council appointed its Executive Committee and its Advisory Committee on Price Equivalents for the crop-year 1959/60.

37. In connexion with wheat, I should also like to refer to the recent meetings of the FAO Group on Grains which is concerned with grains as a whole. This Group held its fourth session from 21 to 29 May 1959 and reviewed the current situation and short-term outlook. Special attention was paid to coarse grains. This Group prepared a summary of basic facts and drew attention, inter alia, to the increase in world trade by nearly 100 per cent during the last decade and to the accumulation of surpluses.