IMPACT OF COMMODITY PROBLEMS ON INTERNATIONAL TRADE

Report of Working Party

1. At the thirteenth session the CONTRACTING PARTIES agreed that their future activities in the commodities field should be directly related to their particular competence and responsibilities under the General Agreement and that their future reviews of trends and developments in international commodity trade, under the Resolution of 17 November 1956, should be directed specifically to a consideration of the impact of commodity problems upon international trade.

2. The Working Party was set up at the thirteenth session to prepare for the annual review under the basic Resolution which the CONTRACTING PARTIES will carry out at the fifteenth session. It held several meetings in the early part of the fifteenth session, and herewith submits its report to the CONTRACTING PARTIES.

3. The Working Party examined the report of the Chairman of the International Co-ordinating Committee for International Commodity Arrangements which, under the basic Resolution, he is required to submit as nominee of the CONTRACTING PARTIES. In addition, relevant documentation published by other international organizations with competence in the field of commodity problems was also examined, in particular the United Nations Commodity Survey, 1958, the United Nations World Economic Survey, 1958, the Annual Report of ICCICA, the report of the Seventh Session of the Commission on International Commodity Trade, various reports produced by the FAO, and the report published by the GATT secretariat, International Trade, 1957-58. The Working Party also took account of the documents produced by the secretariat, viz. L/1036, L/1036/Add.1 and W.15/4.

4. In its deliberations the Working Party was assisted by representatives of the United Nations and the International Monetary Fund.

I. Developments in International Commodity Trade 1957-59

5. Prices of primary products in international trade, which in the first quarter of 1957 reached their highest level in three years, began to decline in the second quarter of the year when the impact of the Suez crisis had been largely overcome. The downward movement continued until the second quarter of 1958, and the second half of 1958 was a period of greater overall stability, but at a price level about 5 per cent below that of the same period of 1957.
6. The movements during 1958 of the prices of individual products did not follow a uniform pattern. Among foodstuffs, a weakening of coffee, and cocoa and tea (in spite of peaks during the year), contrasted with increases in the case of, for example, barley, beef and cheese. In the case of sugar, there was a decline from the exceptionally high level of 1957. The average for the whole food group was, at the end of 1958, slightly lower than a year earlier. On the other hand, the prices of agricultural materials were substantially lower as a result of price falls during the year in cotton, wool, jute and most vegetable oils (except copra and coconut oil); this was also true of hard fibres and natural rubber, although, at the end of the year, the prices of these commodities were rising. While base metals were markedly firmer at the end of 1958 than a year earlier, minerals as a group, including both metal ores and fuels, were by and large unchanged.

7. During the first half of 1959 price movements have shown an improvement in the case of a number of primary products, notably butter, beef, coconut products, rubber, copper, zinc and tin. On the other hand, the prices of some of the important products traded internationally continued to fall further from the 1958 level, while others lost some of the advances that had been made in 1958. Foodstuffs as a whole fell in price by 6.5 per cent; beverages as a group fell by as much as 17.5 per cent. Wool prices rose sharply in the first quarter of 1959 from the depressed levels of 1958. But the level of wool prices in the first half of 1959 was nearly 10 per cent lower than in the same period of 1958.

8. The result of these various price developments was that, for primary products as a whole, the average price level in the first half of 1959 was about 4 per cent lower than a year earlier.

9. The Working Party noted that the total volume of exports from the primary producing countries was substantially the same in 1958 as in 1957, while in the first half of 1959, a rise in volume enabled the primary producing countries to increase their total export earnings, despite the fall in the average price level of 4 per cent compared with the first half of 1958.

II. Impact of Fluctuations in Commodity Prices on Primary Producing Countries

10. The Working Party noted the serious effect which the decline in commodity prices had had on the export earnings of primary producing countries in 1958, reversing the upward trend of previous years. Judging from a selection of forty-three countries and territories (not including the main petroleum countries, except Venezuela) which export mainly primary products, and together account for two-thirds of the total exports from all primary producing countries, the drop in total (f.o.b.) earnings in 1958, as compared with 1957, was $1,920 million, i.e. 9.5 per cent. Of this decline, $1,480 million was

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1 A table showing price movements of selected primary products is contained in document W.15/4.
accounted for by twenty-two major commodities, a fall which represented 12.1 per cent of the export value of these products from the forty-three countries in 1957. Among individual 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 Jamaica (sugar) all suffered a reduction of 10 per cent or more in their export earnings between 1957 and 1958.

11. This decline in export proceeds inevitably had a serious effect on the balance of payments of many primary producing countries. In an attempt to alleviate the situation, many countries reduced their imports and industrial countries were also affected through loss to their export trade. 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 were obliged to reduce essential imports with a consequential adverse effect on their development programmes. The Economic Survey of Asia and the Far East 1958 refers to the pruning of development plans which certain Asian governments were obliged to undertake because of shortage of foreign exchange arising from the decline in export proceeds.

12. In addition to reducing imports, many countries attempted to reduce the gap on current account by loans and credits from abroad. In the year ending 30 April 1959, drawings from the International Monetary Fund amounted to some $260 million and all but one of the drawings were made by countries whose exchange receipts are derived almost entirely from the export of primary products. In 1958, loans from the International Bank for Reconstruction and Development increased to about $490 million (net disbursements, at $330 million, were about one fourth above the 1957 figure). Some countries in balance-of-payments difficulties were able to ease their position by purchasing some of their imports of agricultural products from the United States with local currency.

13. 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.

14. In the first half of 1959, due in part to an increase of about 8 per cent in volume of exports, there was a rise of 3.7 per cent in the total value of exports from all primary producing countries. Though the value in the first quarter of the year was still about 1.3 per cent smaller than in the corresponding period of 1958, the second quarter of 1959 registered an increase of 8.9 per cent over the same months of the preceding year.

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1 Developments in the export earnings of several individual countries are described in the Annex to this report.
Meanwhile the combined imports (c.i.f.) of the primary producing countries were by 2.0 per cent smaller in value than a year earlier. This had the effect of improving their trade balance, a deficit of about $2,520 million in the first half of 1958 being reduced to $1,390 million in the first half of 1959.

III. Factors Affecting Supply and Demand

15. Many factors have their effects on the supply of, and demand for, primary commodities. The decline in industrial activity in the major importing countries in 1957/58 was a principal reason for the decrease in total export earnings of primary producing countries during that period. This was due to a decline in commodity prices, which reacted with their normal sensitivity to a recession in industrial activity. It should be noted however, that the volume of exports from the primary producing countries kept up well, although 1958 was the first year since 1952 that these exports did not show an increase in volume. As industrial activity gradually improved, regaining its pre-recession level during the first half of 1959, the demand for foodstuffs and raw materials revived and, in the case of many commodities, there was an increase in the volume traded, although the recovery in prices was uneven.

16. The Working Party noted that whilst a reduced level of world industrial activity inevitably has a serious effect on demand and prices for primary products, industrial activity is not the only factor which exercises an important influence on commodity trade. Buoyant economic conditions in the main importing countries are a necessary but not a sufficient condition for the solution of commodity problems.

17. In some cases, oversupply resulting from increased production can be the main reason for depressed price levels. Although the output of some primary commodities declined in 1958, in most cases output continued its previous upward trend.

18. Oversupply has become an increasingly serious factor in the case of coffee, for example. Production has continued to expand and has practically doubled since 1954/55. Larger crops and the accumulation of surpluses likewise had an adverse effect in 1958 on the prices of other commodities, including sugar and olive oil.

19. Conversely, a decline in production also has its effect on prices. In certain instances, such as copper, output was purposely reduced in 1958 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, plant 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. In the case of some primary commodities weather conditions are, in fact, an important factor on the supply side over which there is no control.

20. For some commodities the effects of expansion in world economic activity do not readily reflect in price recovery or in a higher volume of trade. Part of the reason for this lies in restrictive measures which may hamper trade in primary products.
21. The restrictive measures which were mentioned in the Working Party include government support of agricultural prices and income, quantitative restrictions on imports, high revenue and protective duties and production and export subsidies. Government support of agricultural prices and income is a common form of agricultural policy and in some circumstances it can, like certain of the other measures of protection mentioned above, hamper trade in agricultural products by causing contraction in import demand for the protected commodities and by causing accumulation of surplus stocks. In certain cases these surpluses are disposed of by export subsidies, disposal programmes and other devices which can have harmful effects on the trade of other exporters. Moreover, government support policies may involve high internal prices and restriction of internal consumption, and may require the use of quantitative restrictions on imports.

22. The Working Party noted that in mining as well as in agriculture the artificial stimulation of production, which in some cases is uneconomic, may result in world over-supply with a consequent depressing effect on price levels and on the normal competitive position of exporting countries.

23. There are, therefore, many facets in the overall picture. While fluctuations in economic activity in the industrial countries clearly affect demand and the general price movement of primary products taken as a whole, international and national policies, both in importing and exporting countries, have an important effect and may, in the case of some commodities, be the decisive factor in trade in the commodities concerned.

IV. Action by other Inter-Governmental Organizations

24. Conscious of the need for the avoidance of duplication of effort in the commodities field, the Working Party reviewed the action being taken in other international organizations under the following headings:

United Nations

25. Commodity problems are discussed in both the General Assembly and the Economic and Social Council, as well as in the specialized Commission on International Commodity Trade and in the regional economic commissions.

United Nations Commission on International Commodity Trade

26. The Commission, set up in 1954, was reconstituted in 1958. Recently a programme of work has been undertaken by the Commission, which includes:

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

(b) study of national and international 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.
It was noted that, in connexion with (b) above, the Secretary-General of the United Nations was obtaining information and comments from governments on stabilization measures.

The Commission also proposes under this programme to consider international measures designed to compensate for fluctuations in foreign exchange receipts from the export of primary commodities.

United Nations Regional Economic Commissions

27. The United Nations 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. The Economic Survey of Latin America 1957 discusses commodity exports with particular reference to selected commodities; it contains country chapters and there is a special study on trade in agricultural commodities. Likewise, the Economic Survey of Asia and the Far East 1958 discusses commodities, particularly in the section dealing with foreign trade. Quarterly economic bulletins of the Commissions frequently contain special reports on individual commodities.

Interim Co-ordinating Committee for International Commodity Arrangements

28. The Committee was established in 1947. The Chairman of the Committee is nominated by the CONTRACTING PARTIES. The Committee's function is to convene inter-governmental study groups, to make recommendations to the Secretary-General on the convening of commodity conferences, and to co-ordinate the activities of the individual study groups and councils. Each year a review of international commodity problems is submitted by ICCICA to the Economic and Social Council of the United Nations. It was noted that during the past year the Committee sponsored inter-governmental meetings on copper, lead and zinc in addition to conferences which negotiated new agreements on sugar and wheat. The International Olive Oil Council and the Lead and Zinc Study Group were established.

United Nations Food and Agriculture Organization

29. The FAO is concerned with agricultural commodities and the subsidiary body most closely concerned is the Committee on Commodity Problems. The Committee is responsible for considering commodity problems of an international character affecting production, trade, distribution, consumption and related economic matters. It also prepares factual and interpretative surveys of the international commodity situation, which is made directly available to Member nations, and reports and makes suggestions to the FAO Council on policy issues. The Committee on Commodity Problems has established committees or specialized groups covering grains, cocoa, coconuts and coconut products, and rice; in June it decided to set up a group on citrus fruit.
International Commodity Agreements, Study Groups and Committees
(other than those under the auspices of FAO)

30. There are international commodity agreements for wheat, sugar, tin and olive oil. Recently, certain South American countries and African territories have concluded an international agreement on coffee. In addition there are committees or study groups for rubber, cotton, wool, coffee and lead and zinc.

The Sub-Committee on Commodity Problems of the United Nations
Administrative Committee on Co-ordination (ACC)

31. The Sub-Committee on Commodity Problems was established by the ACC in April 1958. It is not concerned with the examination or study of commodity problems as such; its role 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.

32. 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 study groups, be associated in an appropriate manner with one or other of the international bodies concerned with commodity problems, so that their practical experience 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.

International Monetary Fund

33. The Working Party noted the statement made by the representative of the Fund to the effect that declines in commodity prices, and hence in export earnings, have been one of the reasons for the use of the Fund's resources in the past. It is to be expected that they will continue to be so in the future, whenever the use of these resources through drawings or stand-by arrangements is combined with appropriate measures in the country concerned. Furthermore, the recent increases in quotas of Member countries enable the Fund to provide more substantial assistance in such cases. The Fund representative added that these problems are increasingly occupying the Fund's attention.

V. Action by the CONTRACTING PARTIES

34. The Working Party noted that the CONTRACTING PARTIES, through the Committees they have established under the programme for the expansion of trade, are aiming at the further reduction of barriers to international trade.
Within this programme, the consideration of commodity problems is one of the most important of the tasks which are being undertaken, and special attention is being given to agricultural protectionism and to non-tariff measures generally which, as was stressed in the report Trends in International Trade, adversely affect the trade of primary exporting countries. It is recognized that increased export earnings by these countries are essential to help them to develop and diversify their economies, and thus to reduce their vulnerability to short-term fluctuations in primary commodity prices.

35. In addition, the General Agreement offers facilities for bilateral and multilateral consultations of which governments may avail themselves when difficulties arise in international commodity trade. The Working Party on Commodities which met during the thirteenth session of the CONTRACTING PARTIES drew attention to these facilities and to the fact that it would be appropriate to utilize them in relation to problems which arise from, or may lead to, commercial policy action restricting trade. Contracting parties, whether importing or exporting countries, can avail themselves of the provisions of Article XXII of the General Agreement and initiate consultations under that Article when difficulties arise in connexion with their commodity trade. Further the CONTRACTING PARTIES, when special circumstances are likely to affect the trade in primary products and to disrupt the market, may at the request of an interested party, arrange multilateral consultations pursuant to the provisions of Article XXV. Moreover, it may be recalled that the plans for consultations under Articles XII:4(b) and XVIII:12(b) recognize that the special problems of each consulting country relating to its balance of payments should be given careful consideration and that all factors, both internal and external, which affect the balance-of-payments position of the consulting country should be taken into account.

VI. Conclusions

36. The Working Party considers that many of the important questions alluded to in this report are being dealt with, as is shown in Section IV above, by various international organizations. As reasonably predictable returns from exports are important to plans for progressive economic development in the less-developed countries, the Working Party draws particular attention to the studies in these organizations which may lead to progress in avoiding excessive fluctuations in trade and prices of primary products or in alleviating their effects. More generally these organizations provide forums in which contracting parties may seek solution for, or alleviation of, the particular difficulties which they encounter in their international commodity trade. The Working Party believes the mitigation of some of these difficulties may be found through this existing international machinery.

37. The Working Party attached considerable importance to international efforts directed toward (1) assisting countries which are heavily dependent on the export of primary products to diversify their economies, and (2) directing international financial resources toward helping the producing countries in periods of balance-of-payments difficulties due to a decline in export earnings during periods of falling prices. In this connexion the
Working Party welcomed the statement of the representative of the International Monetary Fund that declines in commodity prices are one of the reasons for the use of the Fund's resources and that these problems are increasingly occupying the Fund's attention.

38. As for action by the CONTRACTING PARTIES apart from the programme for the expansion of trade, the Working Party feels it is important to emphasize the availability of the consultation procedures, outlined in Section V above, which so far have been little used. The Working Party suggests that contracting parties should keep these procedures prominently in mind whenever they are faced with difficulties, either as exporters or importers, or when contemplating action on problems arising in commodity trade.

39. Further, the problems in commodity trade should be taken fully into account by all committees and working parties established by the CONTRACTING PARTIES which deal with questions with a bearing on commodity trade. Because of their basic importance, and the extent to which they impinge on the work of the GATT, these issues merit constant scrutiny by the CONTRACTING PARTIES.
Recent Developments in Export Earnings of some Individual Countries

1. There was an increase of the order of 15 per cent in the total export value of main Latin American exporting countries (excluding Venezuela) in the first half of 1959 compared with the same months of 1958. This increase was accounted for e.g. by Mexico (where exports rose by 16 per cent), Nicaragua (19% per cent), El Salvador (18% per cent), Ecuador (12 per cent), Colombia (9% per cent), Brazil (3% per cent) and Peru (6% per cent). The Dominican Republic had an unchanged export level and Argentina suffered a minor decline, by about 1½ per cent. In spite of a volume increase by over 30 per cent in Brazil's coffee exports, the sharp drop in the price (expressed in US dollars) prevented the value of exports of this commodity from rising above the corresponding 1958 level. There was also a fall in the price of cocoa exported, by about 7 per cent and, though the volume was maintained, the export earnings from this commodity were lower. As cotton exports were negligible, the principal export commodities thus did not contribute to the slight rise in Brazil's export value in 1959. The rise in Mexico's export earnings was the outcome mainly of a higher value of exports of cotton and zinc, which both rose by over one quarter, and an 8-9 per cent rise in coffee and copper. There was no change in the export value of lead. The higher export earnings from cotton, coffee, and zinc were mainly due to a larger quantity. Some increase in the price of copper made up for a fall in the quantity. Colombia's larger coffee export value occurred exclusively on account of a rising volume. In Ecuador an increase in the banana exports by about 30 per cent in value was also the outcome of a larger quantum. The Dominican Republic's exports suffered in 1959 from declining prices of all principal export products, sugar, coffee, cocoa and tobacco. The average export prices of these main export commodities were 15 per cent lower than in the first half of 1958. The fact that no fall occurred in total export earnings was attributable to larger export quantities of sugar and tobacco, which made up for the volume decline in coffee and cocoa.

Notes:
1. For several countries and territories 1959 data are not yet available.
2. References to 1959 relate to the first six months of the year, unless otherwise stated.
In Nicaragua a higher level of export earnings resulted from a more than doubled quantity of cotton shipments; export prices of both cotton and coffee were lower than in 1958. Several of the main export products of Argentina, i.e. wheat, maize, wool, and linseed oil showed a weakening price trend in 1959. In spite of firmer prices of meat, this commodity brought smaller export earnings since there was a fall in the quantity exported. A substantial increase in the quantity of wheat and wool exports, however, led to an increase in the total export quantum by some 7 per cent.

2. Although as regards dependencies in Africa details on commodities are not available, it may be mentioned that the French territories had declining export values in the beginning of 1959. British East Africa had a small increase in the first quarter, accounted for by Kenya and Uganda, while in Nigeria there was an important increase, by nearly 30 per cent. Belgian Congo's exports rose by about 11 per cent. Exports of cocoa from Ghana were in the first quarter of 1959 about 10 per cent lower in value than in the same quarter of 1958, mainly on account of a fall in the volume.

3. Earnings from wool exports in the Union of South Africa were in 1959 slightly larger than a year earlier. An increase in the volume, by over 50 per cent, thus offset the effect of depressed export prices. A similar development occurred also in wool exports from Australia. The earnings from this commodity were at the same level as in the first half of 1958, but while the volume was 21 per cent larger in 1959, prices were 12 per cent lower. There was on the other hand a revival of wheat and butter exports which were both twice as high in value. But while wheat exports recovered exclusively on account of a doubling of the quantity, in butter exports it occurred thanks to both a higher volume and price. Australia's total exports were nearly 19 per cent higher in the first half of 1959 than a year earlier. About one third of the increase was derived from the larger wheat and butter exports while, as indicated, wool exports had no share in it. Also in New Zealand the value of wool exports in 1959 reached the same level as a year earlier; a volume increase by one fifth, as in Australia, occurred together with prices lower than in the comparable period of 1958. But in contrast to Australia, New Zealand had almost no increase in the value of shipments of two other main products, i.e. butter, lamb, and mutton. The price level of butter rose somewhat but the quantity exported was slightly lower. Lamb and mutton exports recorded an advance of over 10 per cent in volume but prices in the second quarter weakened substantially. There was a considerable increase, by some 21 per cent in the export value of the Federation of Rhodesia and Nyasaland in the first half of 1959. An important factor was the firmness in copper prices. Though the volume was slightly smaller than in 1958 (five first months compared), the higher value of copper exports accounted for the whole increase in the country's exports. Tobacco exports were by and large unchanged in both value and quantity. A large increase in the quantity of tea exports, by about one quarter, did however, not lead to larger export earnings of that commodity.
4. Exports from India show only a very slight increase in the first half of 1959. Tea exports were down in quantity by over 20 per cent but the price level was unchanged. It should however, be added that tea prices were considerably higher in the second half of 1958 than in either the preceding or the following half year. The value of exports from Pakistan fell in 1959 by some 12 per cent but the fall in both the main export products, jute and cotton, was by about one third. Although volume and price data are only available for the first quarter, they provide an indication that the value reduction in jute exports was due entirely to a fall in volume, and in cotton exports to a combination of volume and price. In contrast to these two countries, Ceylon's exports rose by nearly 10 per cent. Rubber and coconut products shared this increase about equally, whereas there was a slight fall in tea exports. There was an increase in both volume and price in rubber exports by over 20 per cent. The doubling of exports of coconut products resulted from a 60 per cent increase in volume, a rise by half that proportion in the price of coconut oil, and a 16 per cent increase in the price of copra. Exports of Burma were about 7 per cent down in 1959. Although commodity information covering the full six months period is not available, it may be noted that rice exports fell in volume (in the first quarter) by nearly 20 per cent, i.e. more than the drop in the price. Malaya's exports were higher, by over 19 per cent in 1959, on account of a 36 per cent increase in rubber exports, to which both a larger volume and a higher price contributed. Tin exports fell slightly in value; a 10 per cent higher price level stood against a twice as large fall in the volume of exports. Indonesia registered an increase in exports by about 32 per cent in the first half of 1959. Judging from information on the first quarter this resulted from a large increase, by over 50 per cent, in the value of exports of rubber and coconut products, whereas tin, and also petroleum exports, fell. About two-thirds of the higher export earnings from rubber resulted from the volume movement, and about one third from the price increase. The Philippines had in 1959 exports larger by about 15 per cent than in the first half of 1958. In this increase, however, neither coconut products nor sugar had any share. Half of the larger exports was on account of abaca and wood. Both price and quantity of sugar exports fell slightly. Though the price of coconut products went up by nearly 30 per cent, there was a similar decline in the quantity exported.

5. Exports from Greece fell by about 12 per cent in the first half of 1959. About one half of the decline resulted from lower tobacco exports on account of a nearly 20 per cent drop in prices. There was, on the other hand, some increase in the quantity of tobacco sold abroad. In contrast, Turkey's exports rose by nearly 40 per cent, in spite of a fall in tobacco exports of a slightly larger proportion than that which occurred in Greece. The whole increase in exports resulted from larger sales of cotton, wheat (which had been nil in the first half of 1957) and hazelnuts.

6. As seen from the above review, the revival that took place in the demand for foodstuffs and raw materials in the first half of 1959 led to an increase in the volume traded of many of them which was, however, in several instances nullified or offset by export prices lower than in the first half of 1958.