GENERAL AGREEMENT ON TARIFFS AND TRADE

Seventeenth Session

IMPACT OF COMMODITY PROBLEMS UPON INTERNATIONAL TRADE

Report by the CONTRACTING PARTIES' Nominee as Chairman of ICCICA, Mr. L.K. Jha

INTRODUCTORY REMARKS BY MR. JHA

1. I regret that it will not be possible for me personally to present this report to the seventeenth session of the CONTRACTING PARTIES. However, under present plans ICCICA will hold its next session in Geneva during the eighteenth session of the CONTRACTING PARTIES and this will afford an opportunity for us to renew contact with the CONTRACTING PARTIES, and perhaps to discuss problems arising in international trade in primary commodities.

2. I have been happy to serve, on the nomination of the CONTRACTING PARTIES, as Chairman of ICCICA. It has been a pleasure to work with my colleagues who have had extensive experience in the commodity field. In saying this I should, however, like to make it clear that the present report is a personal one submitted on my own responsibility and is not presented on behalf of the Committee.

3. In Part A of the present report I have set out, in particular, certain observations on the need for inter-governmental action in connexion with commodity problems and with the relationship in this field between ICCICA and the CONTRACTING PARTIES to GATT. Part B provides brief supplementary information bringing up-to-date the statement on inter-governmental action in the commodity field contained in the annual report of ICCICA, circulated as United Nations document E/3374.

PART A. THE NEED FOR INTER-GOVERNMENTAL ACTION

General relationship between ICCICA and GATT in this field

4. Having participated actively for some time in the work of the CONTRACTING PARTIES before accepting the chairmanship of ICCICA, I have given some thought to the relationship of the work of the two bodies. The connexion between them lies much deeper than the fact that the Chairman of ICCICA is in fact nominated by the CONTRACTING PARTIES and that both bodies have a common origin. The Committee and the CONTRACTING PARTIES are tackling related problems in international trade and I believe that the GATT can assist ICCICA in its work.
5. While ICCIC follows a commodity-by-commodity approach to international commodity problems, the CONTRACTING PARTIES to the General Agreement deal with related matters arising in the wider context of international trade as a whole. The principles on which inter-governmental commodity agreements are based are closely related to the commercial policy principles on which the CONTRACTING PARTIES operate.

The basic approach to international commodity arrangements

6. In the early post-war period certain principles for the conduct of international trade and payments were adopted and found expression in the various provisions of the General Agreement on Tariffs and Trade and in the Articles of Agreement of the International Monetary Fund. The basic approach was that international trade should be guided, as far as possible, by the free play of market forces. Consequently, the general aim was to reduce trade barriers and other restrictive measures.

7. In adopting this principle, recognition was given to the fact that the conditions under which some primary products are produced, exchanged and consumed are such that international trade in these commodities may be affected by special difficulties. These special difficulties found concrete recognition in Chapter VI of the Havana Charter which recognized that at times the free play of market forces alone may not operate rapidly enough to prevent serious hardship. A surplus of an agricultural commodity arising, for example, from a bounteous harvest may reduce prices and cause severe hardship to producers, particularly in under-developed regions, even though this low price would tend in the long-run to increase demand and to discourage supply and so adjust production and consumption. In fact the price elasticity of demand may be small or adjustment of supply slow, or both, so that in the meantime many producers may suffer great hardship. At other times a rapid change in supplies may give rise to steep and sudden rises in primary commodity prices. The post-war period has at times been marked by extreme fluctuations in the prices of many individual commodities including particularly coffee, copper, cocoa and olive oil.

8. It is not possible for individual governments acting alone to take effective measures to remove the extreme price fluctuations which occur on the world's markets. However, the formulation of commodity arrangements after negotiation among producer and consumer governments makes it possible to ease transitional difficulties and thus to accept the long-run operation of the market forces as a general principle. A general policy of active support for such measures could yield great benefits to producing and consuming countries alike.

9. We should be clear about another matter. Inter-governmental commodity arrangements do not fix rigid prices. They rather try to arrange for the market forces to operate freely, at the same time preventing fluctuations that may be regarded as "excessive" in the sense of bringing hardship. A range of prices is generally used and encouragement given to fluctuations within this range in accordance with market conditions.
10. In the CONTRACTING PARTIES there has always been an inclination to give attention to particular cases as they arise and to isolate problems and, in my opinion, the CONTRACTING PARTIES have made considerable progress by this method. The experience of ICCICA indicates that in its field also progress is best made when problems are isolated and considered on a commodity-by-commodity basis.

Assistance by the CONTRACTING PARTIES

11. The CONTRACTING PARTIES to the GATT can help in the solution of commodity problems by:

(a) creating a more favourable atmosphere for the conclusion of intergovernmental commodity agreements when circumstances so warrant;

(b) promoting liberal trade policies because quite often commodity problems get aggravated by restrictions sometimes in the form of high tariffs or quantitative restrictions; and

(c) encouraging the use of established machinery for dealing with commodity problems.

12. The climate in favour of commodity agreements has shown a great deal of improvement. Whereas some industrialized countries earlier appeared to be reluctant to participate in such agreements, they are now more willing to join in or, at any rate, not to hinder them. This change appears due to the growing recognition of the difficulties of less-developed countries when their export earnings fall - a point often discussed by the CONTRACTING PARTIES. Countries which are ready to give financial help to the under-developed countries are naturally more sympathetic towards measures which would reduce the amount of help needed. There is also the consideration that when export earnings of less-developed countries decline, their capacity to import may be reduced sooner or later. A spiral of contraction may set in which causes loss to the export trade of industrialized countries as well.

13. For his presidential address to the American Economic Society last December Professor Burns chose the subject "Progress towards Economic Stability". Dealing largely with national problems he spoke of the fact that people have become more conscious of the business cycle and "more sensitive to every wrinkle of economic curves". It seems that international concern with the influence of such price curves on the export proceeds and on import capacity of exporting countries has brought a greater awareness of the damaging effects of excessive fluctuations in the price of primary commodities and has helped to develop a more favourable climate towards commodity agreements.

14. From the point of view of the GATT, and indeed from all other points of view, it would be desirable to find solutions to commodity problems through measures which result in increased consumption. Rising standards of living generally and expansion of trade with industrial countries should also increase the demand for primary commodities in the long-run. It is hoped that the

programme of the CONTRACTING PARTIES in respect of trade expansion and the reduction of trade barriers will make a contribution here. The Haberler Report made some important suggestions in this regard. The work of Committees II and III on the Expansion of International Trade set up by the GATT has a major contribution to make. The tariff negotiations now in progress should also be helpful.

15. Confusion as to which international forum is the most appropriate for taking specific action in respect of commodity problems could be an obstacle to agreed international action. The ICCIC, with its links with all the important international organizations concerned with the subject, has been able to help in promoting timely action. With the better climate for such agreements referred to above and with the acceptance of the commodity-by-commodity approach, a number of agreements have been negotiated. It is pleasing to note a widening of participation both in the negotiations and in the formal agreements. In addition, a number of other arrangements, not amounting to commodity agreements in the Havana Charter sense, have been developed through inter-governmental consultation particularly in the study groups. Through discussions in such groups production plans can be made in the light of a reasonable statistical picture of overall developments in production and consumption. Continued support is urged for the existing machinery whereby agreements are negotiated at conferences with full participation of both producing and consuming countries.
PART B. ACTION TAKEN IN RECENT MONTHS IN REGARD TO CERTAIN PRODUCTS

16. The last report of ICCICA, which was prepared in May (United Nations document E/3374) contained a fairly detailed account of inter-governmental consultation and action with respect to commodity problems during 1959 and early 1960. Current developments are described in the United Nations periodic memoranda entitled Recent Commodity Developments. In this paper, therefore, I shall confine myself to pointing out a few of the more important developments in recent months.

Butter

17. At its thirty-third session held from 7 to 22 June 1960 the FAO Committee on Commodity Problems (CCP) reviewed the present conditions arising from the increase in butter production in the first half of 1960, the accumulation of stocks and the present price structure on various markets. Although the present situation did not appear to be critical the CCP expressed the view that if stocks were substantially larger at the end of 1960 than at the end of 1959, large production in 1961 could lead to serious difficulties.

Coconut and Coconut Products

18. The FAO Group on Coconut and Coconut Products held its third session from 23 to 31 May 1960. The Group reviewed the coconut situation, including the fall in prices in 1960, and arranged for improved reports on production prospects. It also proposed to collect information on marketing costs for copra and considered the co-ordination of its work with that on technical, agricultural and processing aspects of coconuts.

Coffee

19. The one-year arrangement for the stabilization of the international coffee market, which was in force from 1 October 1959 to 30 September 1960, has been renewed for a further twelve months. The Government of the United Kingdom has joined the arrangement on behalf of Kenya, Tanganyika and Uganda. With this addition the African and American producing countries participating in it account for more than 90 per cent of world exportable production.

Cotton

20. The International Cotton Advisory Committee (ICAC) held its nineteenth plenary meeting from 23 May to 2 June 1960. The world cotton situation was reviewed and consideration was given to the improvement of statistical and other information, including information on prospective trends in the consumption and production of cotton and other fibres.
21. As regards the cotton situation the ICAC noted a significant improvement during the preceding twelve months as a result of the marked upswing in consumption and the low level of production in some countries and that prospects for the following year appeared to be favourable. It stressed the dependence of cotton markets on the policies of the largest producers and the need for a better distribution of stocks between exporting and importing countries.

Grains

22. The FAO Group on Grains held its fifth session from 1 to 8 June 1960 and considered, among other matters, the current situation and short term outlook for grains, recent developments in coarse grains medium term projections of production and consumption and national grains policies. With respect to recent developments in coarse grains the Group noted the recent increases in carry-over stocks and the difficulties of certain exporting countries in finding markets. It urged the need for a re-appraisal of coarse grains policies leading to a greater reconciliation of national objectives with international needs particularly in view of the undoubted potential demand which existed and the desirability of placing no obstacles to its development.

Jute

23. At its thirty-third session held from 7 to 22 June 1960 the FAO Committee on Commodity Problems (CCP) considered questions relating to jute and was informed of consumption studies under way. Attention was drawn to problems faced by producing countries and the need for a mitigation of the problems through inter-governmental consultations: the establishment of a study group was proposed. References were also made to the problem of fluctuations in the demand for jute and jute goods in the international market. The CCP decided that the proposal to establish a study group should be reviewed again at its next session. It also asked the Director-General of FAO to use his best endeavours, if the consumption studies were completed before the next session, to convene an ad hoc meeting to discuss them. The purpose of this meeting would be to draw attention to any conclusions which could usefully be placed before the CCP when it considered the proposal.

Lead and Zinc

24. The Standing Committee of the International Lead and Zinc Study Group held its second session on 27 June. It reviewed the current lead and zinc situation and noted that the voluntary action of the producers had been beneficial; strong concern was, however, expressed lest the situation rapidly deteriorate if major industrialized countries resorted to further restrictive action. The third session of the Standing Committee was held on 9 September and was largely concerned with reviewing matters to be presented to the Study Group.
25. The Study Group held its second session in Geneva from 12 to 16 September and reviewed the situation in lead and zinc as it had developed since the first session in January. In the case of lead, producers' stocks at the end of July 1960 were at a very high level and were continuing to exert pressure on the market. In these circumstances major producers expressed their willingness to continue to curtail commercial offerings to the market for a further six months. It was, however, understood that, should shortages develop, the curtailments would be reviewed. In the case of zinc, the steady rise in consumption, which had been a feature in recent years, was expected to continue in 1960 and 1961 but an even greater increase in metal production was foreseen. As a result it was expected that there might be a surplus of new supplies over demand in 1960. It was noted, however, that, although producers' stocks in the United States were at a high level, they were normal or below normal elsewhere. In these circumstances it was not felt that the position warranted action by the Group.

Rubber

26. The International Rubber Study Group held its Fifteenth Meeting in Kuala Lumpur from 19 to 23 September 1960. The Group considered the current rubber situation, disposals from Government stockpiles, the question of fluctuations in rubber markets and a number of technical questions.

27. With regard to the statistical position it was estimated that new supplies of natural rubber, including releases from government stockpiles, might exceed consumption by 145,000 long tons whilst production of synthetic rubber might exceed consumption by 170,000 tons. The Group considered that these surpluses would enable commercial stocks to be rebuilt to levels more appropriate to the increased world consumption.

28. The Group noted with satisfaction that arrangements adopted by the United States and the United Kingdom for disposals of natural rubber from government stockpiles had been decided after full consultation with all members of the Study Group having a substantial interest in the production of natural rubber.

29. The importance of stability of the price of natural rubber to both producers and consumers and to countries whose economies were largely dependent on the production of natural rubber was recognized. In the long term it was felt that the increasing production of new synthetic rubbers - much closer in character to natural rubber than other kinds of synthetic rubbers - could exercise an important stabilizing influence on natural rubber prices at competitive levels. In the short term, a significant contribution to the reduction of excessive fluctuations could be made by a variety of measures including better information services. The Group considered a number of these measures and instructed its Management Committee to study them and any other proposals which might be submitted to it by member countries. In this connexion it noted that the United Nations Commission on International Commodity Trade was actively considering general aspects of commodity price instability.
30. The United Nations Tin Conference was held from 23 May to 24 June 1960 and approved the text of a Second International Tin Agreement with a duration of five years, to enter into force when the first Agreement expires on 30 June 1961. The new or second Agreement, like the first one, is to be administered by an International Tin Council set up under it. However, the standard majority is a majority of the votes cast by producing countries and a majority of the votes cast by consuming countries, counted separately, instead of only a simple majority of all votes cast by participating countries counted together as under the first Agreement. Many matters of importance require stricter majorities, for example, two-thirds majorities of votes of producing and consuming countries counted separately.

31. Provision is made in the new Agreement, as in the first one, for two operational mechanisms - the use of a buffer stock and the application of export control. Contributions by producing countries to the buffer stock under the new Agreement are scheduled to amount to the equivalent of 20,000 tons of tin metal. The contributions to this total of 20,000 tons consist of 12,500 tons in tin metal and the equivalent of 7,500 tons in cash at the floor price, unless the Council decides otherwise at its first meeting. Under the new Agreement the Council may also borrow, subject to certain conditions, for the purposes of the buffer stock on the security of tin warrants held by it.

32. The range between the floor and ceiling price is divided into three sectors - normally three equal parts. The manager of the buffer stock must sell tin when the price is at or above the ceiling and may sell tin when it is in the upper sector; similarly he must buy tin when the price is at or below the floor and may buy tin when it is in the lower sector. When the price is in the middle sector he may neither buy nor sell tin unless the Council decides otherwise. These provisions are similar to those in the first Tin Agreement except that the decision of the Council to permit buying or selling in the middle range requires a stricter majority. Under the new Agreement, unlike the first, the Council may suspend the operations of the buffer stock if, in its opinion, the discharge of the obligation to sell tin when the price is at or above the ceiling or to buy it when the price is at or below the floor will not achieve the purposes of the Agreement. The prices under the new Agreement are to be the present floor and ceiling prices of £730 and £880 per long ton respectively, unless these are changed before the expiry of the first Agreement. In that case the prices in the new Agreement will be those prevailing at the date of termination of the first Agreement.

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2 These contributions may be made by transfer from the buffer stock under the first Agreement.
33. The Council is able to determine the amount of tin to be exported from the producing countries, so as to adjust supply to demand for the maintenance of the price of tin between the floor and ceiling prices. The Council also aims at maintaining adequate tin and cash in the buffer stock. The new Agreement (like the first one) stipulates that the Council shall not normally declare a control period unless it finds that at least 10,000 tons of tin metal are likely to be held in the buffer stock at the beginning of that period. However, if a control period is declared for the first time after an interval during which no limitation of export has been in force, the figure for the purpose of this finding is 5,000 tons. The Council may also substitute smaller minimum tonnages under strict conditions. Specific provision is made in the second Agreement for "special exports" which are not to be counted as exports for the purposes of export control. These are exports destined to form part of a governmental stockpile and unlikely to be used for any commercial or industrial purpose during the currency of the Agreement.

34. The new Agreement, like the first, provides for the establishment of percentages which determine the shares of the producing countries in the contributions to the buffer stock and in the total permissible export amount, when export control is in force. The rules are, however, different. Under the new Agreement the percentages are likely to be adjusted less often when there are control periods and to be more automatic. Changes in percentages are to be made only when export control has not been in force for a year and are to reflect the distribution of production among producing countries. The percentage of a country may not be reduced during a year by more than 10 per cent.

35. Under the new Agreement, as under the present one, there are limitations on stocks in producing countries although the conditions applicable to the holding and disposal of such stocks are set out in much greater detail in the new Agreement. There is provision for the Council to make recommendations, in the event of a tin shortage, as in the first Agreement, regarding the equitable distribution of supplies and the maximum development of production.

36. The International Tin Council held its twenty-third meeting on 23 June 1960 and recommended that its member governments should participate in the new Agreement. On 26 July it was disclosed that the amount of tin held in the buffer stock at the end of March 1960 had been 10,030 long tons compared with 10,050 tons at the end of December 1959. The Council held its twenty-fourth meeting on 25 August. It reviewed the statistical position and decided that exports in the fourth quarter of 1960 would not be subject to restriction.

Wheat

37. The International Wheat Council held its thirtieth session on 28 and 29 June 1960 and dealt with a number of administrative matters. The next session of the International Wheat Council scheduled for November 1960 will be concerned with the second review of the world wheat situation and with the review of performance in the crop year 1959/1960, the first year under the International Wheat Agreement, 1959.