1. Practically all countries in the early stages of economic development rely heavily on the export of a few primary commodities to obtain the necessary foreign exchange for their imports. Fluctuations in the prices of these commodities on world markets are generally reflected in fluctuations in the export earnings of the primary producing countries concerned and therefore in their capacity to import. As the rate at which these countries can diversify their economies and reach a higher standard of living depends to a very large extent on imports of capital equipment and other necessary goods, the problem of the stabilization of their export earnings and more particularly of the prices of their export commodities is of particular concern to them.

2. An analysis of trade figures during the last thirty years shows that exports of primary products have lost ground in international trade as compared with manufactures and that the fluctuations in the volume of such exports have been much less marked than the variations in their prices. In the inter-war period the volume of such exports fluctuated by an average of 8 per cent, whereas the variations in prices (unit value) reached a figure of 16 per cent on the average. After the second world war there was practically the same fluctuation in the general volume of exports as before the war, but prices fluctuated on the average by 11 per cent. As regards manufactures, fluctuations in prices have been much smaller but the general trend since the second world war has been gently rising. It may be said that, because of the introduction of built-in stabilizing factors in the economy of the major industrial countries, the changes in business activity have been less marked than before 1939 and that, as a consequence, the repercussions on the world markets in primary commodities resulting from the instability of business activity in the major industrial countries have been more moderate than before 1939. In spite of this improvement, however, the effects of a comparatively mild recession such as that of 1957-1958 represented, according to a statement of the World Economic Survey 1958 published by the United Nations, "a loss in import capacity equivalent to about six years lending to the under-developed countries by the International Bank for Reconstruction and Development at 1956-1957 rates".
3. Price fluctuations on the world markets for primary commodities may be of three kinds. First, there may be day-to-day or seasonal fluctuations which result from the supply and demand position at any given time. Crops come on the market at certain dates. The requirements of the processing industry may vary seasonally. There is a need for some machinery which would adjust the supply and the demand of any given commodity to avoid excessive prices when there is seasonal shortage, or abnormal falls when a seasonal glut develops. To a large extent the present system of distribution (and in particular the existence of futures markets) is adequately equipped to deal with these incidental seasonal situations. There is a second type of fluctuation which appears as a secular trend and which reflects the structural changes in the supply of demand situation. In the inter-war period there was, for instance, a secular downward trend in the prices of primary products in terms of manufactures. As a result of the war, the terms of trade of primary commodities became far more favourable and in the 1950-1951 price boom the price relationship between the two groups of commodities was restered to the 1913 level. This, however, cannot be considered as a return to normal conditions, since the terms of trade have gradually become more and more unfavourable to primary products. The GATT secretariat has attempted to analyse the causes of this trend in its annual publications on international trade. In brief, this trend is the result, inter alia, of savings in the use of raw materials in the manufacturing industry, the shift in the industrialized countries from industries such as the textile industry, which uses a substantial amount of raw material, to industries which produce more elaborate products and need therefore less raw material, and the development of man-made materials which compete effectively with natural raw materials. As regards foodstuffs in particular, the low income elasticity of most of these foodstuffs, as well as the increases in the production of agricultural products in industrialized countries and the rigid protectionist policies which many of these countries have followed with regard to agricultural products, explains to a certain extent the depressed situation on the markets of such commodities.

4. A third, and more important, cause of price fluctuations is of a cyclical nature. The prices of many primary products are extremely sensitive to fluctuations in business activity in industrialized countries. Whenever business activity declines, manufacturers cut down their purchases of primary products and usually draw on their stocks. Even when, as was the case during the 1957/58 recession, the volume of purchases (or of imports) remains substantially unchanged, prices of raw materials decline sometimes out of proportion to the slowing down of productive activity. In this respect it is interesting to note that exports (and prices) of foodstuffs have not been affected so adversely by recent recessions as those of raw materials. This is due probably to the fact that there has been a sustained level of consumer demand in the industrialized countries even when the activity of the manufacturing industries has declined substantially.
5. Therefore the most dangerous threat to the price stability of primary commodities comes from the cyclical movements which were so violent before the war and which, although milder since the end of the war, still appear from time to time. Taken as a whole, the export prices of primary commodities have fallen by 6 per cent between 1957 and 1958 and the loss for the less-industrialized countries has been about $900 million. After the recession came to an end the prices of primary commodities rose again, but there was a certain time-lag and it cannot be said that the pre-recession situation has yet been restored.

6. Price fluctuations of individual commodities are not of the same magnitude. It would be wrong to suppose that the post-war recessions have had a uniform effect on the various markets; during the last recession, for instance, certain prices even went up, but sharp declines were recorded in the cases of sugar and butter (for reasons which are not directly linked to the recession), and in such industrial materials as wool, rubber and non-ferrous metals. On the other hand, prices of cereals, meat and tropical beverages were only moderately affected, while cotton prices fell considerably less than the general level of commodity prices. For each product the particular supply and demand situation may result in variations from the general trend. There have been, for instance, divergent price movements in the case of products which are similar or directly competitive, such as synthetic and natural rubber, Robusta and Latin American types of coffee, beef and mutton, short and long-staple cotton. There may be, in some cases, a striking difference between prices quoted on different markets, for instance, between metal prices on the London Metal Exchange and in New York.

7. Another factor which should not be overlooked is the supply position. The high prices which prevailed immediately after the war have encouraged an expansion of production in a number of countries, but when this increased production came to the market the demand was less than foreseen and the lack of adjustment between supply and demand led to a weakening of the price situation. This is particularly true in the case of certain agricultural products which require a growing period stretching over a number of years (rubber, coffee, cocoa, etc.) or where the prospective demand for new products has been over-estimated and has stimulated what appeared later on as redundant productive capacity (uranium, titanium, etc.).

8. Another aspect of the problem of price fluctuations of primary commodities is the gradual narrowing of world markets for a number of commodities. Before the first world war, the commodity markets were generally world-wide and the price mechanism had sufficient scope to work as a normal regulator of demand and supply. When there appeared to be a slackening in demand or in supply it was easier for the world market to restore the equilibrium without excessive price fluctuations. If, as is often the case today, some important groups of producers are no longer obliged to dispose of their exports on world markets but have exclusive or sheltered markets, the much narrower world
market has to bear the brunt of any discrepancy between supply and demand and naturally fluctuations are more violent than if large groups of producers were not sheltered from the effects of such readjustment. To give an example, about one half of the world trade in sugar takes place under special arrangements involving price fixing, such as the Commonwealth Sugar Agreement and the United States Quota Agreement with Cuba and the Philippines; the prices obtaining in these exclusive trade flows bear little relationship to the "free" market price. Such arrangements have undoubtedly a stabilizing effect on the export earnings of the privileged exporters but adversely affect the interests of the other suppliers which have to rely exclusively on the "free" world markets.

9. To sum up, it appears that trade in primary commodities by its very nature cannot enjoy the same stability as trade in manufactures. As regards the volume of exports, there are indeed some fluctuations which bear part of the responsibility for the difficulties which the exporters of primary commodities and, in particular, the less-developed exporters of such commodities have experienced since the end of the war. Moreover, the problem of price fluctuations is certainly more acute when the fluctuations are of a cyclical nature than when they are of a seasonal or secular kind. Such fluctuations are normally more acute in the case of products which are used by manufacturing industry as raw materials than in the case of foodstuffs which depend directly on the demands of private consumers. The narrowing of world markets, while improving the situation of the privileged exporters, makes the position more fragile for outsiders and the existence of such rigid agreements may even adversely affect the level of prices in the long run. There is no doubt that the present situation is detrimental to the interests of economic development and that if effective international action could be devised to eliminate the adverse effects of the present system of marketing primary commodities, without impairing such supply adjustments as may be called for in the light of longer-term changes in demand conditions, such action would be beneficial to the less-developed countries and probably also to the industrialized countries. There is a clear relationship between the fall in the prices of primary commodities and the level of imports of the exporting countries. During 1958 the under-developed countries as a whole lost about $1,300 million in export earnings and they reduced their imports by about the same figure during 1958. During the first half of 1959, when the prices of export commodities improved, the non-industrialized countries taken as a whole increased the value of their exports to the industrialized countries by about $800 million (as compared with the first half of 1958). Whatever may have been the windfalls accruing to the industrial countries from the falling prices of 1958, it is probable that they have been wiped out by the loss in exports which the industrial countries taken as a whole have experienced during 1958 and the first half of 1959.
10. What are the possible remedies to such a situation? As regards the
day-to-day or seasonal fluctuations it is possible that the present system
of distribution is capable of solving this problem. The futures markets
play an important rôle in evening out the day-to-day fluctuations. By
trying to anticipate the level of future prices, these markets allow traders
to be protected against losses through various kinds of hedging operations.
They therefore help to adjust supply to demand and to absorb the temporary
disequilibria of the supply or demand situation in the course of the year.

They may also facilitate the carrying of stocks which help to regulate
the markets. There are futures markets both in Europe, North America and
elsewhere for most grains, tropical beverages, sugar, textile fibres, oils
and oilseeds, rubber and non-ferrous metals, to mention only the most
important products. Even when the actual sales do not take place in those
markets, quotations serve as price regulators in many contracts. In most
cases, the turnover of these futures markets has not yet reached pre-war
levels and there has been an increase in direct transactions between seller
and consumer. The operations of these markets are still hampered to a
certain extent by administrative formalities, such as exchange regulations,
and their scope of action may be limited by administrative price fixing or
direct government intervention. It would be possible to improve the operation
of the futures markets by the removal of outstanding administrative
restrictions, but the elimination of governmental interference with market
movements may be more difficult to achieve. It is, however, of interest to
note that the GATT countries have agreed on certain procedures in connexion
with the disposal of surplus stocks and, in accordance with the Recommendation
of the GATT, the reduction of strategic stockpiles has been smooth. Concerning
long-term fluctuations, each case will have to be considered on its merits.

It has been established, of course, that the position which existed in
the nineteenth century has changed considerably because increases in the
production of manufactures are no longer reflected automatically in increases
in imports of raw materials or other primary products. Under the circumstances
prevailing in the nineteenth century there was a natural tendency for the
demand for primary products to follow closely the demand for manufactures
and the deterioration in the price relationship between primary products and
manufactures was only gradual. More recently, and particularly during the
last decade, the growing share of man-made materials in manufacturing industry
and the trend toward more elaborate manufacturing processes have more or less
strongly influenced the markets of particular commodities. While there is no
general formula which would be applicable to situations each of which has its
special features, it should be pointed out that the average price level of
primary products stood in 1958 at the same level as in 1950, while the prices
of manufactured goods had risen by 25 per cent.
11. Turning now to cyclical fluctuations which are perhaps even more responsible for the uneasiness of the primary exporting countries, it might be useful to consider first national methods which have been or may be applied to improve the situation. The instability of commodity prices has a dual effect on exporting countries. It may affect the earnings in foreign exchange, but in addition to the external, or exchange, aspect of the problem, it may also increase or reduce the earnings of the producers in local currency, thereby affecting the production level and hence the real national product of the country concerned - and this is more particularly the internal aspect of the problem. It is clear that the primary producing countries may, by internal measures, cope with the second aspect of the problem but that it would be far more difficult for them to prevent or alleviate the losses in foreign exchange which would result from price falls in world markets.

12. There are a number of producing countries which have set up marketing boards or stabilization funds which have been successful in maintaining the stability of the income levels of the producers of export commodities and to that extent the stability of their economies as a whole. These boards (such as the Ghana Cocoa Marketing Board) or funds (such as the Wheat Stabilization Fund in Australia) buy the product at a price which is divorced from world market prices and pool these earnings in a reserve fund. When the prices are high, the price paid to the producer is lower than the actual prices quoted on world markets and the difference is put aside; when the world market prices decline, the board withdraws amounts from the reserve to continue to pay more or less the same price to the producers. This reserve may serve other purposes in the interest of the producers, but the main objective remains a stabilization of the prices paid to the producers. Normally these funds should be self-sustaining, but in certain cases the governments may be called upon to meet possible losses. This system might be elaborated a little further, by giving to these boards the right to accumulate stocks; in that case the board would have a kind of buffer stock at its disposal and would thus be able to restrict exports in order to improve the prices obtained abroad. These attempts at regulating the markets through the accumulation of national stocks have been made in the case of coffee in Latin America (before the war and, recently, as a result of the agreement among the Latin American producers) and in the case of cocoa (Brazil). To the extent that the exporting country or countries play an important rôle in the world market, these attempts at regulating exports may be successful, but if there are important outsiders the effects of such methods of export restriction and manipulation of stocks might be simply to hold an umbrella over the outsiders and pay a heavy price in terms of volume for any improvement in the world price. There are many cases where these methods have been catastrophic (the rubber restriction scheme after the first world war, for instance) and even if the scheme succeeds, the total exchange earnings may not be improved because of the reduction in the volume exported.
13. Moreover, any attempt to organize producers' cartels might meet with a very strong resistance on the part of the consuming countries and the consumers may also organize their defence and defeat the object of the producers' agreements. In the case of the Agreement on Tea, the misgivings of the importing countries have discouraged the partners to the Agreement from renewing it on the original basis.

14. Another method by which supply could be regulated would be through acreage restrictions on agricultural export products. Such methods have been applied in Pakistan for jute, in India for tea and in Cuba for sugar. Governments may also influence the volume and the internal price of export commodities by manipulating their export duties so as to stabilize the returns to the producers or exporters. These methods have been applied in Ceylon and Malaya for rubber and in India and Pakistan for cotton. There are other techniques which may be usefully applied by governments to regulate the export supply without entering into financial risks, but the implementation of these techniques is often very difficult when there are, as is usually the case, a large number of producers. In most cases, moreover, the stabilizing effect of these techniques is limited to the internal aspect and does not subsequently alleviate what is, after all, the main problem to be solved, i.e. the effects of price fluctuations on the export earnings of the country concerned.

15. The effects of price fluctuations may further be avoided or alleviated by diversifying production. A country which is exporting one or two commodities is far more vulnerable than a country which has a wider range of export products.

Analysis of the effects of the 1957-58 recession on the export earnings of individual producing countries shows that the position of countries depending on a fairly wide variety of export products has been more favourable than that of countries relying on a few products only. Moreover, when a country develops its secondary industry, it becomes less vulnerable at least as regards the stability of its own economy. There is, of course, a transitional period during which the developing country may lose ground in international markets because of competition for labour, capital and other means of production between industries producing for export and those producing for the home market, but eventually, and especially when the government has made the necessary effort to maintain and develop the export of primary products, the situation is apt to improve. In the case of Australia, for instance, exports of wool represented more than 17 per cent of the gross national product in 1950-51 but this percentage has since fallen to about 5 per cent. The export prices of wool were, in the second half of 1958, 32 per cent below the 1955-57 average and this was a major factor leading to a worsening of Australia's terms of trade by about 25 per cent. There was a large decline in farm income in the country as the wool industry does not
enjoy any price support, but in spite of this blow the gross national product increased substantially. There may have been special factors which account for this situation, but it is fairly obvious that the Australian economy would not have been able to absorb its dramatic loss in export earnings had it not been diversified to a considerable degree.

16. Turning now to international action for price stabilization, it is necessary first to deal with the so-called commodity agreements. The idea of negotiating commodity agreements, which had been advanced at the economic and financial conference of 1933, came to play a major part in 1947, during the negotiation of the Havana Charter when there was a general feeling that such agreements might provide a general solution to commodity problems. Since the war, agreements have been concluded in the case of wheat, sugar, tin and olive oil; the Agreement on Coffee cannot yet be considered as a commodity agreement in the full sense of the term. The terms of these agreements are different but basically the idea is to provide for a price range within which the free market forces can operate; this range is generally fairly wide. Thus, the agreements provide for machinery which would isolate the market of the commodity concerned by narrowing the range of price fluctuation. In other words, these agreements do not aim at price fixing. They are to be considered as emergency measures which come into play when the market forces get out of hand. Apart from the Agreement on Olive Oil, which does not claim to regulate the market, the other agreements are based on a multilateral-contract type (wheat), an export-quota type (sugar) and a buffer-stock type (tin). The Latin American Coffee Agreement originally provided for the retention of specified proportions of the exportable supply of the producing countries parties to the Agreement; it was extended in October 1959 to some African producers (i.e., the territories of France and Portugal) and it is based on export quotas. The Agreement is still a producers' agreement only.

17. These agreements have certainly had an effect on prices. In the case of wheat a large increase in prices was prevented during the 1950-51 price boom when wheat was scarce but, as some of the main producers and exporters apply price support policies internally, there has not been any occasion to test the effectiveness of the Agreement in times of declining prices. In the case of sugar, the Agreement has not been successful in preventing a sharp upswing in sugar prices even though export quotas were entirely removed; when the prices were declining, the Agreement was not as successful as producers had expected in bringing the price fall to a halt even after drastic cuts in the export quotas. As regards tin, it may be said that the price fluctuations have been less than those of other non-ferrous metals, but it should be noted that the buffer-stock technique would have been inoperative had it not been buttressed by drastic cuts in export quotas. The Tin Agreement has been successful in the sense that it has maintained the prices within the agreed range (except during a short period) but it has not prevented the exporting countries from losing substantial export earnings. It is fair to state, however, that in the absence of an agreement the countries might have competed on world markets and would probably have received lower prices
without securing any larger export receipts than they actually did. Although the existing agreements have been to a certain extent successful, their operation has shown that it is not easy to find many products to which this technique could apply. Although many study groups have been set up and committees have been established by the FAO, no further agreement has been negotiated and in a number of cases the responsible international body has considered that the negotiation of an agreement in present circumstances would not be appropriate or useful. Even in the case of the Lead and Zinc Study Group, which has been established under the auspices of the United Nations, the prospects of a formal agreement are somewhat remote. This Group has, however, succeeded in bringing the producers together and inducing them to agree on certain temporary cuts in production which have contributed to some extent to the improvement of market conditions, more particularly in the case of zinc.

18. Another type of agreement which has been applied in certain cases is the bilateral agreement or long-term contract, involving the setting up of a sheltered market for certain producers which isolates them from price fluctuations. Generally, these agreements have been concluded between countries which have some political tie. The conditions differ; in certain cases the price is fixed, in other cases the price is more or less the support price granted to the domestic producers of the importing country. In other words, the price is determined or negotiated from time to time. A few examples may be quoted: Cuba and the Philippines have special arrangements with the United States Government which enable them to obtain specific quotas for imports of sugar to the United States and, as a result of these arrangements, the prices paid to these privileged exporters are substantially above those of the world market. In the case of Australia, its exports of meat to the United Kingdom are regulated by a fifteen-year agreement due to expire in 1967. Under this agreement, a minimum price is guaranteed and if the market price falls below the agreed minimum, the United Kingdom Government would pay a deficiency payment to the Australian Government for the benefit of the producers. Such payments have been made for instance to support the price of beef in 1955-1956. France also provides guaranteed markets at a fixed price for some products from her African territories. In the case of groundnut oil, for instance, the price guaranteed for a certain import quota is substantially above the world level. As indicated earlier, these special agreements may well improve the lot of particular suppliers, but they adversely affect the conditions of the other exporters since the free market will be narrower. Any fluctuations in demand will be felt on this smaller free market and the price fluctuations would tend to be more violent and frequent. Moreover, the effect of guaranteed prices or privileged conditions is bound to stimulate the production in the territories of the privileged producers and experience shows that, in a number of cases, these bilateral arrangements develop a surplus production which has to be disposed of on the free world market. These arrangements would, of course, be less objectionable if they could be open to other producing
countries but in that case they would resemble classical commodity agreements and they would not be long in existence unless all the major importing, as well as exporting, countries were to join. There is another technique - the bilateral trade agreement - which has been used extensively after the war and which is still dominant in the commercial relations with the countries of Eastern Europe and continental China. Such agreements involve single country quotas for individual commodities and the importing countries as a counterpart require some privileges for the export of their products. Apart from the commercial relations with the planned economies, the scope and importance of these bilateral trade agreements have been on the wane. The primary producers as well as the industrial countries felt that they had to pay too high a price for the privileges obtained for their exports. There are, however, a number of important bilateral agreements of this kind between less-developed countries, on the one hand, and Eastern European countries as well as continental China on the other. The sugar agreement which has recently been concluded between Cuba and the USSR shows that this type of agreement is still developing. It may be useful to note that recent agreements of this type contain guarantees concerning the volume of exports but not, as was often the case before, guarantees concerning the price as which the commodity would be traded.

19. The analysis of the main international measures which can be contemplated in present circumstances may appear somewhat disappointing. It is true that the international measures now under discussion do not provide a full solution of the difficulties. It has been stated often that the best guarantee of price stability is a policy of stable growth of business activity in the industrialized countries. This, however, may not be enough and there should be closer collaboration between the countries concerned to find ad hoc solutions to problems when they arise. The GATT attitude towards the problem was defined at the Tokyo session. The technique which has been proposed is the technique of consultation between the countries concerned under the auspices of the GATT. It is felt that this technique which has been used in a number of instances and, in particular, in connexion with the problems resulting from the association of a number of overseas territories with the European Economic Community is very fruitful. By rapid action between the countries concerned it appears possible to alleviate the effects of price fluctuations. The CONTRACTING PARTIES will of course rely, in such consultations, on the data collected by the study groups and other international bodies which are doing very valuable work in the confrontation of the policies of the exporting and importing countries and in the establishment of accurate and up-to-date statistics. Insofar as these consultations would not be successful in avoiding price fluctuations and in bringing about stability in the export earnings of primary producing countries, the CONTRACTING PARTIES to the GATT feel that there should be some international action designed to maintain the level of essential imports by the primary producing countries even in times of declining export earnings. This financial accommodation should enable the exporting countries to tide over their difficult periods and to alleviate to
a very large extent the foreign exchange aspect of price fluctuations. This is a problem which has increasingly occupied the attention of the International Monetary Fund, and it is to be expected that the primary producing countries will find substantial assistance from financial measures which could be taken jointly by the main financial countries either directly or through international bodies.