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 and over the second half of 1958 the price level was 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 several of the important products traded internationally continued to fall further from the 1958 level. Foodstuffs as a whole fell in price by 6½ per cent; beverages as a group fell by as much as 17½ per cent. The level of wool prices in the first half of 1959 was nearly 10 per cent lower than in the same period of 1958, despite the price improvement which had taken place at the beginning of 1959.

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. 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.

1 A table, showing price movements of selected primary products, is contained in Annex A. Table attached to W.15/47.
Of this decline, $1,480 million was 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 Mauritius (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; this meant a loss to the export trade of other countries. Calculated on a c.i.f. basis, expenditure on total imports into the primary producing countries was reduced by about 7 per cent in 1958. Some countries 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 of Reconstruction and Development increased to about $490 million (net disbursements, at $330 million, were about one fourth above the 1957 figure). Some countries with food shortages were able to save foreign exchange by importing food from the United States purchased 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. Incidentally, this decline was of the same order as the fall in the price level of primary products between 1957 and 1958.

14. In the first half of 1959, due in part to an increase of about 8 per cent in the 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. 

Developments in the export earnings of several individual countries are described in Annex B to this report [paragraphs 4-9 of W.15/4, with some modifications].
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.

16. The Working Party noted, however, that while a reduced level of world industrial activity inevitably has a serious effect on demand and prices, other factors play an important role and, for some commodities, can be the predominating factor.

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 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. Another important factor on the supply side is the accumulation of surplus agricultural products as a consequence of government support of agricultural prices and income. In mining, as well as in agriculture, the stimulation of production which, in some cases, is uneconomic may result in world oversupply with a consequent depressing effect on price levels and on the normal competitive position of exporting countries.

21. Other forms of governmental intervention, often in countries which have traditionally provided the main markets for countries largely dependent upon the export of primary products, undoubtedly have an influence of considerable importance on the development of international trade and on the price levels of primary commodities. These forms of intervention include high customs tariffs, quantitative restrictions and production subsidies.

22. 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

23. 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

24. 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

25. 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

26. 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

27. The Committee was established in 1947. Its 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. The Chairman of the Committee is nominated by the CONTRACTING PARTIES.

United Nations Food and Agriculture Organization

28. 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, 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)

29. 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)

30. 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.

31. 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

32. 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

33. 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 stable and predictable returns from exports of primary exporting countries are of great importance to the development programmes of those countries. The 1960/61 tariff negotiations, plans for which have been formulated by Committee I, will give primary producing countries an opportunity to negotiate improved tariff treatment for their exports or bindings of present low duties or free entry. In Committee II, agricultural protectionism is coming under scrutiny in the confrontation of agricultural policies which is taking place. Committee III is entering upon a programme of work which seeks to identify the obstacles to the expansion of trade in particular products and to examine the possibilities of eliminating or lessening these obstacles.

34. 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 Article 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

35. 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. These organizations provide forums in which contracting parties may, in international discussions and negotiations, 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.

36. As for action by the CONTRACTING PARTIES, the Working Party feels that the most important point to emphasize is 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 they are giving consideration to the adoption of trade policy measures which could affect the trade and export earnings of other countries. These procedures could be of particular value in circumstances where a situation in commodity trade calls for some form of international discussion and collaboration but which does not appear to necessitate the use of the machinery for initiating the establishment of a formal study group or the negotiation of a commodity agreement of the usual type.

37. 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, these issues merit constant scrutiny by the CONTRACTING PARTIES.