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Commodity Agreements within UNCTAD

by Jürgen Kühn, Bonn *

The United Nations Conference on Trade and Development (UNCTAD) is the only international organisation which is exclusively concerned with the economic problems of the developing countries. Among its main interests are the commodity agreements, because of the important role primary products play in the developing countries' exports. In 1967 exports of primary products made up 85 p.c. of the total exports of these countries.

Export Structure of the Developing Countries In 1967

Items	in Million \$
Total Exports	40,100
Manufactured goods	5,900
Primary commodities	34,200
Crude oil	13,600
Industrial raw materials	4,460
Non-ferrous metals	2,240
Minerals and other metals	2,220
Primary farm produce	4,770
Cotton	1,510
Rubber	940
Jute and other vegetable fibres	312
Foodstuffs and Tobacco	11,370
Coffee	2,100
Sugar	1,400
Grain	1,160
Fats and Oils	950
Cocoa	615
Tea	560

Source: UNCTAD Commodity Survey, 1968 and FAO Commodity Review 1968.

Because of their unfavourable export structure developing countries have been more strongly influenced by fluctuations on the markets for primary commodities than industrial countries.

International commodity agreements have always been the main subjects for discussion whenever attempts were made to stabilise the commodity markets. By the time the first World Trade Conference took place in Geneva in the spring of 1964, five commodity agreements had been concluded—for wheat, sugar, tin, olive oil and coffee. Their purpose was to avoid short-term market fluctuations and to harmonise the opposing interests of the producer and the consumer countries. This traditional conception was regarded as too narrow by the Secretary General

of UNCTAD, Dr Prebisch. During the preparation for the first World Trade Conference he suggested that international commodity agreements should be used as dynamic instruments to stimulate the exports of developing countries. According to him, these agreements should serve the purpose of increasing the developing countries' proceeds from their exports and of stabilising their prices in relation to the price levels for industrial goods. Dr Prebisch criticised the fact that producer and consumer countries had equal representation in all the bodies concerned with the raw material agreements. He was in favour of strengthening the influence of the producer countries, pointing out that, as suppliers of raw materials, they were right from the start at a disadvantage in any negotiations.

Results of the First World Trade Conference

These suggestions by Dr Prebisch were fully discussed at the first World Trade Conference. In the discussions opinions cut right across the normal line-up of developing and industrial countries. Many delegates demanded that the conference should as a matter of principle pronounce in favour of more commodity agreements with a view to promoting economic progress in the developing countries by organising world markets more rationally. The most fervent advocate of these ideas was France which had similar arrangements on a regional basis with its former colonies. The opposite view was taken by the advocates of free world trade, who attached more importance to a freer access to markets than to the conclusion of raw material agreements. For a time it seemed as if agreement between the opposing views would be impossible, and it was not until shortly before the close of the conference that a compromise was finally reached. The resolution A II. 1 of the first World Trade Conference summarises the basic principles for raw material agreements and for access to markets. Apart from the definitions in the text, the subject is also dealt with in a qualified form in the preamble, the so-called "Chapeau".

This resolution has formed the basis for all of UNCTAD's subsequent discussions on raw mate-

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rials. The preamble lays down among other things that the abolition of trade barriers and the conclusion of raw material agreements, while being separate matters, are nevertheless complementary measures. The conference recommends that such measures should be regarded as means to increase the revenue from the developing countries' exports. Governments should take practical steps to give effect as soon as possible to such measures as the preamble suggests as being designed to solve the urgent problems of the developing countries. In this way it is left to the discretion of each government to decide what action to take in each individual case.

The section of the resolution concerned with raw material agreements specifically recognises the principle of proceeding commodity by commodity. The resolution understands by raw material agreements not only formal agreements but also non-committal understandings reached after consultation by international study groups. They are all intended to contribute to a dynamic and steady growth of the developing countries and to a more accurate assessment of future market prospects. They are also meant to secure adequate and stable raw material prices, particularly for the exports of the developing countries, having special regard to the ability of the raw material exporting countries to pay for the goods they need from abroad. It is further intended to coordinate production and marketing policy with a view to bringing world output more closely into line with world consumption. The disposal of surpluses is to be effected according to internationally recognised principles. As instruments of raw material agreements are specifically mentioned: minimum and maximum prices; quota regulations; liberalising measures; guaranteed import quantities; long-term contracts and import targets; long-term sales and supply contracts; bufferstocks; duties levied by industrial countries on imports and the transfer of the revenue from them to the developing countries; diversification funds; and incentives to open up new markets.

This compromise did not meet the demands of the developing countries. It was however the starting point of all the negotiations on raw materials in UNCTAD, where the vague formulation of the resolution left room for all sorts of interpretations. The results of the first World Trade Conference have been approved by the United Nations Assembly in the resolution 1995 (XIX) which was adopted on December 30, 1964. Item 3 e of that resolution calls upon UNCTAD to initiate negotiations in the commercial sphere about the possibility of getting multilaterally binding legal instruments accepted. By virtue of this resolution responsibility for calling international raw material conferences and running them has

been transferred from the United Nations to UNCTAD.

International Tin Agreement

The negotiations about the renewal of the International Tin Agreement, which became necessary in spring 1965, were already held under the auspices of UNCTAD. The International Tin Conference of 1965 met in New York from March 22 to April 14, 1965; its outcome was the Third International Tin Agreement. Its most essential innovation, compared with the previous agreement, was that it incorporated in its aims the principles established by the first World Trade Conference. Accordingly, agreements were to be made that would help to stabilise and increase the revenue from tin exports, particularly tin exports from developing countries. In this manner it is intended to help producer countries to obtain the wherewithal to accelerate their economic growth and social evolution without neglecting the interests of the importing countries. The remaining regulations of the new agreement are fundamentally the same as those of the previous one. Its main instrument is an international bufferstock which is exclusively financed by the producer, that is to say, the developing countries. The agreement became operative on July 1, 1966, and will remain in force for a period of five years. Its membership consists of six producer countries and 18 consumer countries. The USA, the Federal Republic of Germany and the Soviet Union have remained outside the agreement.

International Sugar Agreement

In autumn, 1965, UNCTAD made its first attempt to negotiate a new Sugar Agreement. The economic provisions of the International Sugar Agreement of 1958 had ceased to be applied since the end of 1961. UNCTAD called a sugar conference of the United Nations.

The conference met from September 20 till October 14, 1965, to discuss the new draft agreement. But no agreement resulted. The draft was based—as was the previous agreement—on a system of export quotas, but it also contained a number of special provisions in favour of the developing countries. After the conference had failed the General Secretary of UNCTAD was instructed to consult with the countries that had taken part in it with a view to reconvening the conference, if possible, in spring 1966. With this object in view, Dr Prebisch appointed several committees and working groups, which held a number of meetings in 1966 and 1967. In spite of intensive and prolonged preparations the subsequent full conference, which met in Geneva from April 17 until June 1, 1968, again failed to arrive at a new sugar agreement. Only the third conference, which met under the auspices of UNCTAD from September 23 until October 24,

1968, managed to produce a new International Sugar Agreement.

The main instruments by which the Agreement is to achieve its objectives are, as before, the export quotas; they are to help stabilise prices between 3.25 and 5.25 cents per lb. The special agreements within the Commonwealth, the preferential regulations under the American Sugar Law and trade within the Eastern Bloc remain unaffected by the Agreement. In case of shortages, importing countries are guaranteed sugar supplies up to certain quantities. Under the Agreement developing countries whose economies are particularly dependent on sugar are granted preferential treatment. The industrialised countries for their part have to a varying degree undertaken obligations with regard to access to their markets. The Agreement was provisionally put into operation on January 1, 1969. It is to run for five years. Its membership comprises presently 24 producer countries and eight consumer countries. The USA and the EEC are not members. The EEC had demanded an export quota of 1.2 million tons, but all it was offered was 0.3 million tons. The execution of the Agreement is the responsibility of the International Sugar Council, which held its first session under the new Agreement from January 20 until January 31, 1969. Now that the Sugar Agreement has become operative, UNCTAD has fulfilled its immediate task as far as this commodity market is concerned. But it will keep an eye on the work of the Sugar Council and in case of need act as coordinator.

The International Olive-Oil Agreement of 1963 has been extended by protocol until September 30, 1969, by a conference called by UNCTAD at the end of March 1967. In spring 1969 another conference was held under the same auspices with the view of a further extension. The Olive-Oil Agreement contains no binding economic obligations. Its primary aim is to improve the marketing of olive oil. In view of the small consumption of olive oil in Germany, the Federal Government has not adhered to the Agreement.

Failure with Cocoa

The unfavourable trend of the international cocoa prices in the spring of 1965 was one of the main subjects for discussion at the session of the Trade and Development Council of UNCTAD. The council decided in April 1965 to resuscitate the Working Group I of the abortive Cocoa Conference of 1963. That Working Group held two meetings each in 1965 and 1966. It surveyed the cocoa situation and discussed proposals designed to stabilise the market on a short-term as well as on a long-term basis. The outcome was that most members favoured a new draft agreement which provided for upper and lower price limits, sales quotas, an international bufferstock and for the use of surplus cocoa in the manufacture

of margarine. But the Cocoa Conference which met at the invitation of the Secretary General of UNCTAD in May/June of 1966 proved abortive. Once again, as at the previous conference in 1963, the stumbling bloc was the minimum price. The producer countries, with the support of Dr Prebisch, held out for a minimum price of 21 cents per lb, whereas the most important consumer countries were not prepared to go beyond 20 cents per lb. Since this breakdown, there have been more meetings by working groups and further consultations between states. The most significant results were achieved in the autumn of 1967 in bilateral talks between the USA and Ghana, the most important among the consumers and producers respectively. The agreement reached by these two countries was adopted in October 1967 at a meeting of the 14 largest cocoa-trading countries. The intention is to stabilise the cocoa market within the limits of 20 cents and 29 cents per lb by means of a complicated system of sales quotas and bufferstock operations. The bufferstock is entitled to buy up to 250,000 tons of cocoa. Possible surpluses are to be used in the manufacture of margarine. These achievements notwithstanding, it did not prove possible for the third Cocoa Conference, which met from November 28 until December 19, 1967, to agree on the wording of a cocoa pact. The main stumbling blocs were questions of detail which could not be solved in a matter of three weeks. A further consultative meeting, which took place in June 1968, made progress in some respects, but France and the Ivory Coast rejected the proposed total solution.

One of the reasons why the international cocoa talks produced this series of failures is possibly the fact that in the meanwhile market conditions have improved. The excessively large harvest of 1965 has been followed by three crops which were inadequate to satisfy demand. As a result, prices in the free market have risen from 17.3 cents per lb in 1965 to the present level of about 40 cents per lb. As negotiations dragged on, the need for an international regulation of the market became progressively less urgent. But this does not exclude the possibility of excessively large crops and price recessions occurring in the future. It is however questionable whether a complicated international agreement is required to avoid such a situation. In the past UNCTAD has supported highly ambitious plans for cocoa in the interests of the producer countries, but now a more realistic attitude is noticeable, and this may produce a greatly simplified plan within the next few months.

Raw Material Agreements outside UNCTAD

The stress laid on development in any negotiations conducted by UNCTAD has not been welcomed in some commodity markets. This is why consultations about an International Wheat Agree-

ment were held in the first instance within the framework of the Kennedy Round of GATT. Only subsequently, when the International Wheat Council took the matter up, was UNCTAD invited to cooperate. On August 18, 1967, the Conference adopted the text of the International Wheat Agreement of 1967, which consists of two conventions; one concerns the trading in wheat and the other the provision of food to developing countries. All major wheat-trading countries are members of this agreement. Member countries are obliged to keep wheat prices within certain fixed margins and to supply 4.5 million tons of grain to developing countries as food aid. In the negotiations on the agreement and its operation the EEC took part for the first time as one uniform delegation under the direction of the EEC Commission.

Considerations similar to those that led to the Wheat Agreement applied also in the case of the International Coffee Agreement. Accordingly, the draft of the new agreement was negotiated in the International Coffee Council, and not under the auspices of UNCTAD. Although all coffee-producing countries are developing countries, it was nevertheless generally felt that the coffee problems could best be solved without raising the wider issues of development.

The International Coffee Agreement of 1968, which was reached in spring 1968, contains generally speaking the same provisions as the first—the Agreement of 1962. The principal means by which the market is to be stabilised are export quotas, which are to be increased or reduced in accordance with the changing prices. Each producer country must restrict its coffee output to a certain level. To facilitate structural changes a diversification fund is to be created, to which producer countries must contribute. The consumer countries participate in the control of the export quotas by keeping a check on imports. During the period from 1962 to 1967 the Coffee Agreement raised the revenue from coffee sales by some \$ 500 million. In spite of all its shortcomings, it represents the most effective international market regulation there is. This success is essentially due to the willingness on the part of all the coffee-trading nations to accept their share of responsibility. Leading in this respect are the USA and Brazil, but the Federal Republik of Germany, being the second-largest coffee importer, is also taking an active part in the operation of the Coffee Agreement.

Guidelines for the Second World Trade Conference

The conference which was held in New Delhi in the beginning of 1968 has advanced the discussion about raw material agreements in two respects. On the one hand, it laid down a programme for action in respect of 19 primary commodities—guidelines along which international talks

about them might proceed. On the other hand, an attempt was made to agree on a number of general principles which might serve as basis when it comes to discussing factual details. The programme for action asks for international raw material agreements only in the case of sugar and cocoa. In the case of all the other primary commodities, it is suggested that discussions should continue in study groups and other bodies concerned with the aim of achieving stabilisation in an informal manner. As far as the principles are concerned, the New Delhi Conference did not manage to bring the views of the developing countries and those of the industrial countries much closer together. This applies to price policy, liberalisation, bufferstocks, diversification and the competition from synthetic materials. In this respect UNCTAD faces a dilemma: on the one hand, it must abide by the principle of proceeding commodity by commodity, on the other, it cannot ignore the need for some general rules for achieving increases in the developing countries' raw material exports. The financial side of the raw material agreements is gaining in importance. In this field, some measure of cooperation is developing between UNCTAD and the international finance institutions such as the World Bank and the International Monetary Fund, though no definite arrangements have been made until now.

Conclusions

UNCTAD has undoubtedly stimulated international activity in the raw material sector. Has this activity resulted in much progress? Leaving aside the two routine-extensions of the Olive-Oil Agreement, there have been in the course of four years six raw material conferences under UNCTAD auspices, two of which have produced agreements. During the same period two other conferences took place outside UNCTAD and both had positive results. It would therefore appear that UNCTAD's bias towards the development aspect tends to impede negotiations for raw material agreements. GATT and the conferences that are held outside UNCTAD have generally proceeded from the principle that concessions made by either side are of equal value. UNCTAD's stress on the development angle has, on the other hand, shifted the balance in favour of the developing countries. Where this has meant no more than a change in aims, as in the case of the Tin Agreement, the resulting difficulties have not been great. More problematical is however UNCTAD's influence in cases where one-sided advantages are built into the structure of the agreements for the benefit of the developing countries. In such cases, doubts immediately arise as to whether it is too much to expect of raw material agreements to turn into instruments of development policy.

The German Federal Minister of Economic Affairs, Professor Dr Schiller, has explained the

German attitude to these questions. Speaking at the second World Trade Conference, he said: "My country has in the past taken part in discussions on all the questions concerning raw materials. We have proved our good will and willingness to compromise. We intend also in the future to cooperate in attempts to find pragmatic solutions. As an example I would cite our participation in the negotiations for an International Cocoa Agreement.

Arrangements on a pragmatic basis, affecting raw materials whose prices are subject to extreme fluctuations, are without doubt of value for an interim period. But in the long run they are even harmful, if they fix prices against prevailing market trends. In such a case price fixing would only accelerate the process of replacing the natural products by substitutes. The system would then be a flop.

The Federal Republic of Germany is one of the most important and most rapidly expanding markets for exports of raw materials from the developing countries. German economic policy is directed towards its steady growth, and this will lead to a reasonable increase in raw material exports to Germany. But this must not obscure the fact that world demand for primary commodities is in the long run determined by technological progress, particularly in the industrial countries. For this reason ever greater importance must

be attached, even by the developing countries, to the production and export of semi-manufactured and manufactured goods."

The other world trading nations advocate similar policies. Whether the new American government will heed the advice of its industry to "make love and not agreements" is at least doubtful.

Raw material agreements will continue to be of primary importance as far as the future activities of UNCTAD are concerned. The organisation will certainly persevere in its endeavours to conclude a Cocoa Agreement. In 1970 the Tin Agreement is due for extension. The developing countries are clamouring for an early conclusion of an Agreement for Vegetable Fats and Oils. On the other hand, there is no great scope for additional agreements. The existing five agreements regulate about 21 p.c. of all the raw material exports of the developing countries (crude oil from the developing countries excepted). An essential part of the remaining primary commodities is for technical reasons unsuitable for international agreements. In the case of some others the industrial countries are themselves the main producers and as such not interested in any agreements. The most important field in which raw material agreements can be applied will therefore remain the field of tropical and other farm produce, which mainly come from developing countries.

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