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Waiting periods are among the further insurance terms. A waiting period is the gap in time between non-payment for deliveries made and the disbursement of insured capital values. In comparing waiting periods stipulated by different insurers, no important differences in terms can be discovered.

... and Scale of Premiums

An essential feature of insurance terms is the height of insurance premiums. It is customary only to quote upper and lower limits, between which premiums may be varied according to type of country, type of customers, and other criteria. Comparisons between various countries and their premiums are well-nigh impossible, since only policies of the same type, similar cover periods and similar risks are strictly comparable, and in most of the known cases there is profound lack of such similarities.

Insurance premiums are not only an essential cost element for exporters, they also are a contributory factor determining profit margins of the insurance companies. Losses which occur with great regularity and are covered by the insuring government may be considered as a specialised type of export subsidy. But most governments have given up this type of export promotion, because in recent years export credit organisations have been able to operate with a profit.

The vast differences between individual insurance systems from one state to the next have caused some attempts to iron out these gaps, because interested parties usually pressurise their national governments to meet more favourable terms offered by other countries, whereupon some improvements are granted by the hard-pressed authorities. But governments, being reluctant to go always the whole way in conceding demands, have made attempts to come to agreements with other governments upon harmonising terms, so as to avoid an international competitive softening-up of cover terms. Some governments have been more eager than others to promote such harmonisation. It would be desirable for all the forthcoming editions of the study under review to include also a brief survey of aims and current successes of harmonisation moves.

Difficult Harmonisation

The most important "harmonising club" is the Union of Berne, set up in 1953, which prevented a rapid extension of insurance and credit periods. Also the EEC, OECD, GATT, and the United Nations have made attempts to foster harmonisation of credit insurance terms. Though certain progress in this field has been made, for example within the EEC, harmonisation has so far not been a great success, because self-interest of individual countries has proved to be too highly diversified for full harmonisation.

Monetary Crisis and Commodity Markets

by Heinz Kolbe, Hamburg *

The monetary policy discussion centering around the dollar and the economic policy measures of the US Administration have been causing great confusion in some of the world's commodity markets. The general uncertainty is likely to persist in the markets in 1972.

The basic trend in the world markets of industrial commodities in 1971 was marked by an unexpectedly moderate increase in the demand for raw materials in the western world and in part very large stocks (non-ferrous metals, rubber, wool) in the hands of producers and traders. Nevertheless the price slide which had first started in May 1970 was halted or at least slowed down in some markets by producers' support measures in the first few months of 1971. The

supplies of some non-ferrous metals were reduced quite appreciably by means of output cuts. Lead and zinc producers frequently intervened as buyers, and the Tin Pool manager made his first purchases. Special factors, like US stockpiling in anticipation of strikes in the non-ferrous metal and steel industries and in the ports on both coasts, even led to a slight advance of the price level for industrial raw materials in early 1971.

The intermittent dollar debate provoked much uncertainty in the markets, for the possibility of changes in the foreign exchange rates repre-

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sents an additional risk for the international commodity trade. The exceptional economic measures by the US Administration and the consequential aggravation of the international monetary crisis created utter confusion in the world raw material markets in August. In the USA commodity markets were temporarily closed to avoid frenetic speculative buying in anticipation of a dollar devaluation, and in London business almost came to a standstill when foreign exchange dealings were suspended. But also after the reopening of the US commodity markets and the foreign exchange markets traders were still reluctant to effect purchases.

The Dollar Debate

In particular raw material processors outside the USA saw even less reason to abandon their reserve when the dollar continued to decline because dollar zone commodities became cheaper. They also expected larger supplies of some raw materials to converge on western Europe because of the special import charge imposed in the USA and the assumption that US raw material producers would turn to foreign markets offering higher prices and thus offset the effect of the price stop in their home market.

The prospect of a substantial expansion of raw material requirements in the USA as a result of measures to stimulate the domestic economy did little to curb the downdrift of commodity prices in the world markets. Processors and dealers apparently thought that these measures would need some time to work through the economy and saw their appraisal of the situation borne out by the latest economic indicators which show the expansion in the USA to make only sluggish progress. Bearing in mind that industrial production in western Europe, and thus the consumption of raw materials, has hardly risen any further in the second half of the year and that the recovery in Japan, despite measures to spur economic activity, is being held back by less propitious export conditions, as well as other factors, it is easy to see why raw material buyers are practising restraint. The same reasons keep them from replenishing inventories at this stage, even though some commodity prices are now at much lower levels.

That the price level of industrial raw materials—measured (on a dollar basis) by the HWWA index—nevertheless advanced from end-1970 to end-1971 by 5 p.c. is the outcome chiefly of the big hoist given to mineral oil and oil product prices by the arrangements between oil combines and Arab and North African producing countries in the spring of 1971. Of other commodities cotton,

jute and zinc have gone up while rubber, wool, export steel, lead, copper and tin moved lower. The end-1971 price level of all industrial raw materials, fuels excepted, was only about 1 p.c. above the end-1970 figure. The HWWA part-index for industrial raw materials on a dollar basis shows hardly any change at all for the average of 1971 in comparison with the average of 1970. Leaving fuels aside, it has however dropped by about 7 p.c.

Projection of the world market price trend for industrial raw materials into 1972 is difficult because it is still uncertain which results the general realignment of the dollar, sterling and other currencies of important manufacturing countries will have on the commodity markets and also whether trade obstacles will be removed.

The depressant effect of the US measures for the rehabilitation of the dollar and the consequent monetary reactions has probably for the most part already been adequately reflected by the downtrend of raw material prices in recent months. "Intrinsic" market factors, like the supply-demand ratio, should therefore be more in evidence as price determinants in future.

Persistent Uncertainty

For the purposes of a 1972 forecast before realignment it was assumed that the present state of monetary suspense would be overcome. The argument was that consequences would follow in the short term even if new parities were fixed at the rates of exchange reached by floating before Dec. 19; for if the currently encountered exchange risks were lessened, processors for instance would be more disposed to replenish their stocks and demand would receive a temporary stimulus.

Much more significant was thought to be a solution involving new parities which are less closely aligned to the current exchange rates; apart from the difficulties inherent in a forecast of this kind, it is however hardly possible to foresee its direct repercussions on the price trend in the various commodity markets. Account had, besides, to be taken of the indirect influence on commodity prices of changes in the economic development of raw material-importing countries in the wake of exchange rate adjustments.

A special problem presented itself if a monetary solution included a dollar devaluation. In that case commodity prices quoted in US dollars would go up, and any raw material price index which comprises dollar quotations would show an exceptional rise as a result.

Disregarding new monetary influences, prices may generally be expected to remain under pressure far into 1972 because no appreciable cyclical demand improvement can be foreseen for the near future. In the USA raw material requirements will, in connection with the economic upturn, increase at a stronger rate than until now, but in Japan and in the industrial countries of western Europe taken as a whole the use of raw materials cannot be expected to expand before the second half of 1972 and then only gradually. To go by past experience, prices of industrial raw materials begin to recover from a depressed level only when the demand for them undergoes a substantial expansion in North America as well as western Europe. The upturn of prices will however this time be tardy because limiting outputs in view of a slight uptrend in demand will present producers generally with difficulties, and the lowering of stocks which are depressing prices is bound to be a slow process.

This holds good in particular for rubber, an agricultural raw material; even if production increases by no more than the average recorded over many years, the result would be unfavourable from the producers' point of view. In 1972 such an increase would keep the rise in production and consumption about even, which, in conjunction with the resumed stockpile releases, could give rise to another—albeit small—supply surplus. The Malaysian Government could not give long-term relief to the market by taking supplies off it because large financial resources would be needed for doing so. Prices could probably recover in 1972 only if the stockpile releases are suspended, eastern Europe makes exceptionally large purchases and the rubber needs of the western world increase more than expected.

As regards wool, the producers' stocks which at the beginning of the 1970/71 season were already thought to be on the high side have by now probably grown even further. The Australian Wool Commission acquired large quantities of merino wool in 1970/71, and the withdrawals from previously accumulated stocks in New Zealand proceeded more slowly. With only a slight decline in world production expected in 1971/72, great caution will be called for in disposing of these surpluses if a possible price recovery in 1972 is not to be endangered.

There are no excessive cotton stocks in existence because during the last years the USA has pursued a restrictive cotton-growing policy. An output deficit will again show up in 1971/72; the total on offer will fall further because of smaller stocks. Prices should therefore tend upwards, at least until mid-1972.

Production cuts are more easily enforceable on non-ferrous metals than on agricultural raw materials for industry. The zinc producers started to curtail production in 1970 already so as to reduce inventories and sustain prices. In 1972 it is intended to close down more production plants, especially in the USA. Curbing production will make it easier for the producers to intervene in the market by support buying if necessary. Reducing the stocks of lead may take more time since in 1971—to judge from available figures—production still rose more than did consumption. The copper producers have so far been unable to achieve agreement on world-wide output curtailment, so that any reduction of producers' stocks, which have continued to grow up to the present, is bound to be a slow process. In the case of tin, on the other hand, there are indications that some producers are beginning to make less than full use of their capacities. In 1972 tin production is therefore unlikely to increase at the same pace as consumption, so that price advances are possible.

Subject to the assumptions about the trend of supply and demand mentioned above—and making no allowance for new monetary influences—the price level in the world markets of industrial raw materials at end-1972 may be expected to be 3 p.c. higher than 12 months earlier. If this forecast is borne out by the facts, the average price level during 1972 will also be 3 p.c. above 1971 (on a dollar basis and at dollar exchange rates before realignment).

Decline of Food Prices

In the world markets of foodstuffs the price level—as measured by the HWWA index—declined from end-1970 to end-1971 by over 2 p.c. (on a dollar basis). The 1971 average was nevertheless 2.5 p.c. higher than that of the preceding year. The downtrend of food prices in the past year was chiefly due to generally very favourable crops. Support measures, as far as taken, did not prove very effective.

Lower prices prevailed, above all, for wheat, cocoa, coffee, oilseeds and vegetable oils, while sugar, meat and dairy products on balance commanded higher prices. The apparent trend of supply and demand suggests that food prices will on average remain unchanged up to the middle of 1972. Later, some changes may follow the first indications of 1971/72 crop results. But even assuming that the price level of the world food markets will by the end of 1972 have advanced by another 2.5 p.c., the 1972 average will not be above that for the past year (on a dollar basis and at dollar exchange rates before realignment).