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An Agreement for Cocoa — the Worries Remain

After more than 15 years of negotiations the finishing touches have now been applied to the cocoa agreement. Unprecedented pressure by public opinion was not the least of the factors which prompted the Government of the Federal Republic to accede to the agreement. The Federal Republic has thus avoided getting stuck with the Black Jack. Had it abstained from signing, the blame for the repeated failures would have been put on the Federal Republic, and not on the USA which is adamant in its refusal to join the agreement.

The strategy pursued by the developing countries has thus paid off again. If at first you don't succeed, try, try again. Seemingly futile demands are repeated until the enemy phalanx crumbles — sometimes because the stronger arguments finally prove irresistible, and sometimes because the other side does not wish to have to listen to the same old demands any longer and is ready to dispose of the problem at any cost.

Following on the success of the tariff preferences and the establishment of the IMF Group of Twenty, a break-through has now been achieved in the commodity sector. That at a time when very few observers still thought it to be possible. And yet another success may soon be scored: the link-up between the Special Drawing Rights and development aid is probably only a matter of time.

Now we'll have the cocoa agreement. But although it cuts down

the margin for price fluctuations from about 12–48 cents a lb. hitherto to 23–32 cents, the sceptics are already warning the producing countries that the future holds little promise for them. Several serious difficulties will indeed remain, even if the — from the point of view of the EEC's agricultural market — ingenuous argument that commodity agreements strengthen the free market mechanism is discountenanced.

It is a fact that the world cocoa market will for a long time remain split as the USA is no party to the agreement. The attitude of the USA, which is the largest buyer of cocoa and accounts alone for about a quarter of total consumption, may greatly impair the operation of the agreement because its purchases are largely beyond control. On the other hand, the developing countries could not have waited until the USA decided to come in. For in the past few years the USA has shown very clearly that its own interests are much more important to it than the image of the unselfish forward-looking path-finder of development policy. To wait for the USA would have meant to go without an agreement.

The concept of the agreement with its export quotas, buffer stock, stockpile finance and Cocoa Council is, at a first glance, convincing. But this is not necessarily proof that the problem set by the threat of overproduction has now been solved. Experience with the agreements for wheat, sugar, tin,

olive oil, coffee and cotton textiles suggests otherwise. It must be assumed that stable and relatively high prices for cocoa will induce the few major producing countries to expand their output substantially, far beyond what the buffer pool can cope with.

Possibly the Cocoa Council can play here an important role. The basic fact however is that commodity agreements make for increased production. Structural bias in an economy can easily be aggravated by relatively high and stable prices. The aim of diversification is made to take second place.

Possibilities of linking commodity agreements with diversification have hardly been discussed yet. Diversification moves could start with the gradual lowering of the upper price limit over the duration of the commodity agreement. Possibly the lower price limit could also be brought down slowly, and the margin of fluctuation could be narrowed. Such price regulation would leave the producing countries with the advantage that they could still count on relatively steady earnings while the prospect of lower prices would deter them from a continuing production bias towards one commodity. Their interests would be served better in the long term, for independence from the world market is achieved more easily by a wide diversity of the export assortment than on the way over commodity agreements.

Dietrich Kobschull