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The New Integrated Commodity Approach

For years the subject of raw materials has had its firm place in all trade policy discussions under the auspices of the large world organisations such as GATT, UNCTAD and UNIDO. It was only recently that the so-called "Group of 77" made the headlines with resolutions at the Algiers and Lima conferences about the urgency of the raw material problem.

The outstanding feature of the new initiative — and surely also the main point under dispute and perhaps the criterion of success or failure of the efforts — is the fact that a solution of the commodity problems is to be sought through an "integrated approach" and no longer by tackling each market separately. Fundamental to this integrated approach is that it is to embrace all commodities and that the regulations to be made are to go beyond all previous arrangements in commodity agreements.

The "integrated approach" is to comprise five elements: establishment of international stockpiles, creation of an international fund to finance the stockpiling, agreements laying down supply and purchase obligations of individual states, a proceeds stabilization system, and measures to promote the processing of raw materials in their countries of origin. But does such an integrated approach offer a chance of bringing the developing countries nearer to their justified aim of securing a larger share of the trade flows and proceeds?

A crucial factor in all attempts to reach an integrated solution is that the supplies of primary commodities are by no means all in the hands of developing countries, for about 50 p.c. of the raw materials are produced and put on the market by industrialized countries. Raw material-producing industrialized countries would consequently reap some of the benefits which an integrated approach would entail for the earnings of the commodity producers. Experience however shows that, over the short term at least, there is greater price elasticity on the supply side in the industrialized countries than in the developing countries. Higher prices would bring about the danger of boosting production and swelling output surpluses — in the raw material-producing indus-

trialized countries as elsewhere — the more so as the initiators of the integrated approach want to reduce the risk to the supplier to a minimum.

A closer look at the details of the "integrated approach" shows that all the measures envisaged have been included in so-called commodity agreements on more than one occasion long ago or were discussed in great detail many years ago: Attempts to regulate supplies through buffer pools have been made repeatedly. Sometimes they worked after a fashion, but in most instances there were operational problems which made it impossible to use them for any length of time. At the outset cautious estimates put the amount of money needed to launch buffer pools covering the envisaged wide field at between \$ 10 and 12 bn, and this sum may easily have to be multiplied later. Even if the IMF is brought in, one cannot see how such sums are to be raised and how the allocation of burdens is to be arranged.

All the details and many variants of proceeds stabilization measures including balancing payment systems, known as "compensatory financing", and purchase and supply commitments were discussed in the sixties. The international wheat agreement of 1949 provided for "guaranteed quotas". It was replaced in 1959 by a more elastic arrangement according to which the importing countries were obliged to buy only a certain percentage share of their imports from participating exporting countries. But even this flexible solution caused frictions. The Prebisch plan for global compensatory systems to cope with long-term deterioration of the terms of trade failed because of its impracticability. The much more ambitious plans of Olano and Pisani (the latter was at the time Minister of Agriculture in France) failed likewise. It is true however that the envisaged measures for increased processing of raw materials in the countries of origin have a better chance of success.

Those who can learn from past experience must feel uneasy about such ambitious plans. The "tide in the affairs of man" rarely favours great ventures. Usually big plans are the more likely to fail the more aims are pursued at the same time.

Alfons Lempert