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Divergent Opinions on the Common Fund

by Dietrich Kebschull, Hamburg *

UNCTAD's Integrated Programme for Commodities (IPC) would come much closer to being realised, if the industrial and the developing countries could agree on creating the Common Fund. But the Fund remains in dispute. While the LCDs only want to discuss the details of its organisation, the industrialized western countries have still strong doubts on the benefits of commodity agreements. Can the negotiations within UNCTAD narrow the gap between the opposing views?

On the part of the LDCs, there is almost unanimous support for the concept of a Common Fund. They feel that once this method of financing is adopted it will be possible to bring about the most important of IPC's demands quickly and on a broad basis. In fact, especially the negotiations about the establishment and financing of buffer stocks but also IPC's proposals for a diversification of the production structure in commodity producing countries should become much easier and thus progress much faster, if it were possible to reach in advance agreement on the most difficult point – the provision of the necessary capital to put the required measures into effect. With the thorny question of finance out of the way, producer and consumer countries would be much more likely to agree with one another. This would mean an end to the prolonged general debates about the pros and cons of commodity agreements, which have been repeated again and again in all the separate negotiations about particular commodities. A decision in favour of a Common Fund would *de facto* also mean approval of buffer stocks for the ten so-called "core commodities"¹ and for other commodities² a decisive step forward would have been taken. Thus the generally publicised stabilisation of commodity prices would come within grasp. For the Fund would in the first instance concentrate on measures to bring this about.

Subject for Negotiation Unclear

For these reasons UNCTAD understandably insists with great emphasis that the question of the Common Fund was already decided at the Nairobi Conference. This view seems to be based on the unanimous adoption by all participants in the Conference of resolution 93 (IV) of May 30, 1976 on the integrated programme. The speaker of the "Group of 77" therefore stressed this point which for the LDCs was decisive already during the concluding general debate. According to his interpretation, adoption of the resolution meant that

the Secretary General was requested "to convene a negotiating conference on a Common Fund not later than March 1977. It further requested him to hold preparatory meetings on the elaboration of objectives, the financing needs of the fund and its structure, sources of finance, mode of operations, decision-making and fund management. Those issues all concerned the modality and details of the Fund" . . . "the resolution (he said) called for negotiation on the Common Fund as a means of finance and nothing other than the Common Fund. No allowance was made for any other discussion"³. This position of the LDCs is further supported by the fact that by May 31, 1976, 25 countries had already declared themselves prepared to participate in the financing of the Common Fund. Among these are also some industrial countries like the Netherlands, Norway and Sweden. The other countries are: Algeria, Finland, Ghana, India, Indonesia, Iran, Iraq, Kenya, Kuwait, Malaysia, Mexico, Nigeria, Pakistan, Peru, Philippines, Romania, Saudi Arabia, Sri Lanka, United Arab Emirates, Venezuela, Yugoslavia, Zambia⁴.

This on the face of it unambiguous interpretation, which seeks to prevent any further delays and discussion about the sense of such an agreement in general and the establishment of a Common Fund in particular, is however contradicted by the text of the resolution itself. In the preamble to the resolution it is plainly pointed out "that there are

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¹ To this group belong coffee, tea, cocoa, sugar, tin, copper, rubber, jute and jute products, cotton and cotton yarns as well as hard fibres and hard-fibre products. For some of these (cocoa and tin) there exist already buffer stock provisions.

² In Nairobi, UNCTAD managed to obtain unanimous agreement to the proposal that negotiations should be started, in addition to the core-commodities, about the following commodities: Bananas, bauxite, iron ore, manganese, meat, phosphate, tropical woods and vegetable oils (including olive oil) and oil seeds. On request talks may be held on other products. (cf. United Nations Conference on Trade and Development, Report of the United Nations Conference on Trade and Development on its Fourth Session, TD/217, July 12, 1976, p. 5.)

³ UNCTAD TD/217, p. 96, para 16.

⁴ cf. United Nations Conference on Trade and Development, Consideration of Issues Relating to the Establishment and Operation of a Common Fund, TD/B/IPC/CF/2 annex.

differences of views as to the objectives and modalities of a Common Fund"⁵. These differences are particularly apparent in the attitudes of the USA and the Federal Republic of Germany. The German speaker in his concluding statement once again emphasised that only after further negotiations would it be possible to determine "which commodity agreements could be reached and whether a Common Fund would be the best means of financing buffer stocks. The Federal Republic of Germany continued to believe that it would not be in the interests of the developing countries either to create a dirigistic mechanism for centralised management"⁶. The representative of the USA made a similar statement⁷.

As in the meantime these positions have not changed, agreement is still far away. This applies as much to the question of principle of whether such a fund for price stabilisation and other IPC sectors should be established at all as it does to numerous details of how the fund should be arranged and how it should operate. Thus to begin with in the foreground are all problems connected with finance.

Difficulties of Raising the Capital ...

UNCTAD reckons that the Common Fund will initially require \$ 6 bn⁸. In view of the price trend on the commodity markets in 1975 the figure was subsequently revised downward. At present, estimates of between \$ 4.5 and 5 bn are considered to be realistic⁹. For the present it is assumed that there is no need for the whole amount to be available right from the beginning, half of that sum is thought to be enough for a start. The second tranche would have to be provided at a later date, as yet to be fixed. In order to avoid too heavy a strain being imposed on those providing the finance, it is proposed that only one third of each tranche consists of cash payments by the participating states and institutions. The remaining two thirds will be raised by the Common Fund on the capital markets and with international organisations in the form of loans or credits.

... On the Capital markets ...

Any borrowing by the Fund automatically raises the problem of suretyship. In view of the difficulty of estimating how the Fund's affairs will fare, it cannot be taken for granted that the participating states as joint debtors or the individual member countries as sole debtors will voluntarily be pre-

pared to undertake suretyships or guarantees. In the Western market economies there are only limited possibilities for the state to interfere in such situations; loans in favour of the Common Fund would be at the expense of other state loans and thus raise awkward budgetary questions. Moreover, at times when money is tight other borrowers from the LDCs might be squeezed out of the market. And this would greatly hinder the development plans of the countries concerned.

Another question still awaiting clarification is in how far such loans or credits are to be regarded as development aid. As long as there is no unambiguous decision in this matter the services provided under this heading are likely to be declared as official development aid (ODA). Bearing in mind what little scope the industrial states in general will have for increasing their assistance to LDCs lastingly in the next few years, the creation of a Common Fund would hardly result in an addition to existing public aid funds but rather in a substitution for other items on development aid account. This would lead to a marked change of emphasis within the whole aid scheme in favour of commodity policy and thus of the commodity exporting countries. Such an effect would not only run counter to international development strategy; it would be at the same time contrary to the objectives of the big donor countries — like the USA and the Federal Republic of Germany. For these clearly aim at a stronger support of the poorer developing countries, which are not identical with the important producers of the "core-commodities".

... and through Cash Payments

With regard to the cash payments to be made into the Fund — of whatever size that Fund may actually turn out to be — there are three different models. All three provide for a distribution of payments among exporting and importing countries according to a certain key (see Table 1). At present the best chances of being adopted has the alternative which would have the oil-producing countries carry 25 p.c. of the financial obligations. In view of their commitments towards the IPC, it is generally assumed that they will accept a sizeable share of the burden.

For the fixing of the payments to be made by various exporting and importing countries, several models were devised. UNCTAD clearly aims at taking two magnitudes into special consideration; they are:

⁵ Resolution 93 (IV), Integrated Programme for Commodities, UNCTAD, TD/217, p. 3.

⁶ UNCTAD, TD/217, p. 98, para 21.

⁷ UNCTAD, TD/217, pp. 102 et seq., paras 3 et seq.

⁸ cf. UNCTAD, An Integrated Programme for Commodities, a common fund for the financing of commodity stocks: amounts, terms and prospective sources of finance, TD/B/C. 1/184 of June 24, 1975.

⁹ cf. UNCTAD, An Integrated Programme for Commodities, a common fund for the financing of commodity stocks: suitability for stocking of individual commodities, country contributions and burden sharing and some operating principles, TD/B/C. 1/196, October 6, 1975; also UNCTAD, Consideration of Issues Relating to the Establishment and Operation of a Common Fund, Common Fund: Financial Requirements, TD/B/IPC/CF/L.2 of December 29, 1976.

□ the share of a country in the total export or import of the commodities administered by the Common Fund (that is for the time being the ten core-commodities);

□ the per-head income in the participating countries.

To eliminate the possibility of any additional burden being placed on the least developed and other under-capitalised countries, it is suggested that these countries be not made to pay, at least not to the full extent of their share in the total trade.

Table 1
Illustrative Paid-in Capital Subscriptions
to a Common Fund

Country Group	Alternative A		Alternative B		Alternative C	
	Pro-portion (p.c.)	Amount (\$ mn)	Pro-portion (p.c.)	Amount (\$ mn)	Pro-portion (p.c.)	Amount (\$ mn)
Exporting countries	37.5	375	50	500	60	600
Importing countries	37.5	375	50	500	40	400
Petroleum producing countries	25.0	250	—	—	—	—
Total:	100.0	1,000	100	1,000	100	1,000

Source : UNCTAD, TD/B/IPC/CF/L.4, p. 3, Table 1.

Note: In alternatives B and C, the petroleum-producing countries were classed as exporting or importing countries.

Compromise over Shares and Votes

These reasonable social considerations create, however, difficulties when it comes to apportioning the voting rights in the Fund. When it comes to voting on the Fund's statutes and operations the principle of equality — one country one vote — must be discarded straightaway because the industrial countries would not voluntarily consent to being constantly outvoted by the numerically much stronger LDCs. From the point of view of the LDCs, the principle of proportionality is equally unacceptable — a principle whereby the voting rights simply correspond to the amounts contributed. For this would mean that the poorer countries for which smaller contributions are envisaged would have practically no voice in the running of the Fund. There is apparently something to be said for a compromise proposal which is somewhat on the lines of the IBRD Agreement (IBRD — International Bank for Reconstruction and Development or "World Bank" for short). "In the agreement it was provided that each member would be assigned 250 votes plus one additional vote for each share of capital stock held"¹⁰. Such proposals make it plain that details that might arise in the Common Fund can be settled quite satisfactorily. Crucial questions, on the other hand, such as the actual finance needed and the form the proposed

operation should take, are, still to a large extent, matters for speculation.

If one proceeds from the assumption that the Common Fund will concentrate primarily on stabilising the prices of the commodities it administers, the estimates worked out by UNCTAD so far — \$ 4.5 and 6 bn — provide no more than a rough indication of the order of magnitude of the likely costs involved. The econometric procedures applied to assess costs pretend to an exactitude which in reality they do not possess. It may suffice to cite the example of copper to demonstrate the problematical nature of these estimates. UNCTAD's estimates for the establishment of a buffer stock — and these also form the basis for the Common Fund estimates — add up to about \$ 1.1 bn. No less serious estimates undertaken in Germany and the USA, proceeding from other assumptions about, the size of stocks to be held, price fluctuations etc., have arrived at amounts ranging from \$ 3 to 5 bn. This shows that the capital requirements — and thus the financial burden on the individual members of the Fund — may turn out to be considerably heavier than hitherto supposed.

The reduction in the original estimates of the financial requirements of the Common Fund by at least \$ 1 bn is in no small measure due to the fact that the prices of some products — especially coffee — have risen. Some think that if this trend continues there may be no need for the Fund to intervene. This line of argument assumes either that it would have been possible to keep prices stable with the aid of sales from existing stocks or that in a period of rising prices intervention sales would not be needed. The first assumption would have been unrealistic, the second plainly against the interests of the consumer countries. It is precisely in cases of price rises of this kind, therefore, that UNCTAD should have to investigate whether the estimated stocks are adequate for the purpose of keeping prices reasonably stable in the interest of both producer and consumer. This would have in any event consequences for the initially calculated capital requirements for storage and for the necessary purchases and sales to keep prices stable.

Economies through Risk Spreading . . .

Decisive for the size of the required capital will in any case be the number of the commodities included in the Common Fund. The Fund has the advantage in that risks inherent in the different commodities are all mixed up within the Fund. Experience shows that lower prices in some markets are at least partly compensated for by higher prices in others. A Common Fund does not re-

¹⁰ UNCTAD, TD/B/C. 196, op. cit., p. 21, para 21.

quire for its interventions as much capital as would be needed to run a great many separate funds — one for each commodity. With a Common Fund surpluses are not lying about idle but are rationally used to support markets in need.

How much the argument about the advantages of risk mixing will weigh in the scales depends to a considerable extent on the keenness of the producer countries to conclude agreements. It is primarily they who decide whether or not an agreement can be concluded. Provided the suppliers show a united front, the consumers play only a secondary role.

... not Coercive

All official declarations and announcements notwithstanding, some doubts about the unity among the supplying countries seem to be appropriate. Even now it is still not certain that the producers of the core-commodities will join the Common Fund. As long as the clear "no" of the hardliners among the industrial countries stands, the divergencies of view among the LDCs are all too quickly regarded as non-existent. Yet, in the light of the Nairobi Conference and the meetings that followed it, it would be wrong to go on proceeding from the fiction of complete unanimity among the more than hundred LDCs. Already at the fourth UNCTAD Conference it became apparent that the producers of copper, coffee and cocoa had very mixed feelings in regard to the idea of the Common Fund. They were quite plainly trying to avoid financial obligations towards other raw material countries — obligations that might arise from any possible surpluses of their own. It is, therefore, not by chance that in the official UNCTAD protocol of Nairobi special mention is made of a request by the speaker for Colombia (coffee). He asked that in deciding which commodities to include in the Fund an examination should be made to find out whether "it would be possible to argue the case for excluding coffee from the list of products..."¹¹. This attitude is important for the reason that as the number of commodities to be administered by the Fund is reduced, the possibilities of risk-mixing diminish; at the same time the financial requirements of the Fund cannot be reduced by the estimated amount needed for the corresponding individual agreement.

Common Fund and Individual Agreements

In this connection the question arises of the relations between the Fund Management and the individual agreements. In considering this problem it must be borne in mind that existing agreements such as those for tin and cocoa are to be

integrated into the Common Fund. This means that in such cases no additional capital is required for stocking up. On the other hand it is realistic to assume that the Fund cannot very well directly take over the functions of the buffer stock managements which are provided for in the individual agreements. To judge by the way negotiations have been going so far there is much to be said for the assumption that the Fund, at the request of the respective commodity manager and after a vote has been taken in the Common Fund, will act as lender — i.e. it intervenes only indirectly in the affairs on the commodity markets. This means that the task of stabilising the prices will remain the responsibility of the management of the particular commodity. Simultaneously the cost of administration, storage and all other expenses not directly concerned with price stabilisation will not be borne by the Common Fund. The fiction presented by UNCTAD that these costs would be borne by the producers is not necessarily coercive. For the efforts of the producers of tin and cocoa to get the consumers to participate in these costs clearly show in which direction the wind is blowing. Thus the consumer countries will not only be responsible for the financing of the Common Fund; it is very likely that they will also be expected to share in the financing of the individual commodity agreements.

A New Super-authority?

Apart from the Common Fund Authority, quite a number of additional administrative bodies will have to be financed. It is mainly the costs of these "hydrocephalus" administrations which make the consumer countries highly sceptical in respect of the establishment of a Common Fund. Anyone who is aware of the immense administrative expenditure of the UN and other multilateral organisations can hardly get himself to vote for the setting up of yet another, similar organisation. According to Parkinson's law, the main purpose of such organisations is to create work for themselves. The task for which they were created — i.e. to further the development of backward countries — may keep a number of officials busy — but is generally very much a secondary consideration. However, this cannot be the purpose of the Common Fund. UNCTAD should, therefore, look for convincing arguments for its contention that this proposed new organisation would cost very little to run. Discussions about shares and votes are hardly calculated to dispel the existing distrust towards a new, relatively inefficient super-authority.

There is not only the apprehension that the activities of the Common Fund in connection with buffer stock operations for stabilisation purposes will cost too much and be too little efficient in

¹¹ UNCTAD, TD/217, op. cit. p. 99, para 24.

helping producers and consumers alike. These fears are being reinforced still further by the small scope for action which the IPC has regarding other measures.

Waste through Diversification

There is now no doubt that the fund will be neither willing nor in a position to fulfil the tasks of a system for stabilising export revenues. The same applies to the proposed diversification measures. In regard to the latter, rough calculations based on practical experiences show that such tasks are incapable of being accomplished within the given financial limits¹². The diversification projects envisaged by UNCTAD – which represent the maximum of the liabilities of the Fund in its initial phase – are such as to make it questionable whether tasks of that kind should be accomplished at all. (See Table 2).

Table 2
Common Fund Financing of Diversification
and Productivity Improvement Projects –
Illustrative Estimate
(US \$ mn)

Commodities	Total project cost	Fund financing
J u t e	175.0	105.0
Yield improvements	45.0	27.0
Manufacturing rehabilitation	120.0	72.0
R & D	10.0	6.0
Diversification in India-Bangladesh	N.A.	N.A.
Adjustment assistance – India	N.A.	N.A.
H a r d F i b r e s	185.5	136.9
Sisal diversification projects	96.0	57.6
Sisal adjustment assistance	64.0	64.0
Sisal R & D	1.2	0.7
Coir processing improvements	1.3	0.8
Coir industrial diversification	15.0	9.0
Coir R & D	8.0	4.8
T e a	255.0	165.0
Diversification projects	220.0	130.0
Adjustment assistance	35.0	35.0
B a n a n a s	200.0	160.0
Diversification projects	100.0	60.0
Adjustment assistance	100.0	100.0
R u b b e r	4.1	2.5
Yield improvements	N.A.	N.A.
R & D	4.1	2.5
Total (Quantifiable items)	819.6	569.4

Source: UNCTAD, Consideration of Issues Relating to the Establishment and Operation of a Common Fund, Common Fund: financing of operations other than stocking, TD/B/IPC/CF/L.3, p. 13.

Note: N.A. means not available.

It would no doubt be reasonable to clarify beforehand the division of labour with other organisations like the IBRD, the FAO, the UNIDO, those of the Common Market or the regional develop-

¹² cf. D. K e b s c h u l l, W. K ü n n e, K. W. M e n c k: Das integrierte Rohstoffprogramm. Prüfung entwicklungspolitischer Ansätze im Rohstoffvorschlag der UNCTAD (The Integrated Raw Material Programme. Examination of development-political approaches in the raw material proposal of UNCTAD), Hamburg 1977, pp. 260 et seq.

ment banks, before taking on additional functions. This would be advisable also with a view to delimiting the responsibilities of those agencies which concern themselves with price-stabilisation and providing (like the IMF) buffer stock facilities. For such clear delimitation does still not exist.

Agreement on Commodity Pacts Imperative

In judging the idea of the Common Fund as a whole, it is difficult to avoid the impression that in the discussions of details the general idea has been lost sight of. Especially the system and the mechanism by which prices are to be kept stable have so far not been clearly explained so as to dispel lingering doubts. Instead, hopes have been awakened which simply cannot be fulfilled. Even a Common Fund is unable – as even its advocates occasionally point out – to guarantee permanent price stability. To long-term imbalances between supply and demand no Common Fund can react other than letting prices rise or fall. Limits must, therefore, be fixed to the amounts lent out for the protection of any one particular commodity price¹³ in order to avoid that the scarce capital resources of the Fund are not used up in supporting one particular commodity price. The Common Fund can only contribute to a relative stability for a limited period of time.

Provided the commodity agreements are suitably formulated, such a flexibly stepped system is capable of being brought into line with the market-oriented ideas of industrial countries¹⁴. For, the fixing of wide margins within which prices would be allowed to find their own levels and fairly frequent price adjustments would not eliminate the interplay of supply and demand. All that would happen is that undesirable too violent price fluctuations would be kept within bounds. Besides, the necessary structural diversification would not be impeded, but, on the contrary, advanced.

It would be reasonable for the advocates of the Common Fund to stress this aspect more strongly than hitherto, for it is a solid argument against those who fear a worldwide *dirigisme*. What they cannot do is to dispel by these arguments the misgivings about the proposed new super-authority; they would however smooth the path for negotiations with hardliners among the industrial countries. For unanimity about the advantages of commodity agreements must in any event be achieved before the case of the Common Fund can be pleaded and details be discussed. Otherwise one will continue to be at cross-purposes.

¹³ cf. UNCTAD, TD/B/C 1/196, op. cit., pp. 26 et seq., para 44 et seq.

¹⁴ cf. D. K e b s c h u l l, A Crawling Peg System for Raw Materials, in: INTERECONOMICS 9/1976, pp. 245 et seq.