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International Raw Material Policy in the Agricultural and Industrial Sphere

by Peter Hermes, Bonn *

The demands in the sphere of raw material policy are a cardinal element of the "New International Economic Order" on which the developing countries are insisting. Dr Hermes, Secretary of State in the Foreign Office of the Federal Republic of Germany, discusses the Common Fund and other issues concerning raw material policy from the German point of view.

At present we are conducting difficult and complicated negotiations about specific agricultural and industrial raw materials and about a Common Fund to be set up in conjunction with commodity agreements with buffer stock facilities. These negotiations concern the so-called "Integrated Programme for Commodities" outlined in Resolution 93 (IV) of the Fourth UN Conference on Trade and Development (UNCTAD IV) of last year. The dates for consultations and negotiations are following each other in quick succession this year and next: almost every week brings new preparatory meetings, expert consultations or negotiations under UNCTAD auspices in Geneva. Of special importance will be the prospective continuation of the Common Fund negotiations in November 1977.

The demands in the sphere of raw material policy are a cardinal element of the "New International Economic Order" on which the developing countries are insisting. A few of these demands are not new. They have been known ever since the days of decolonization. Their basic features were formulated at the Afro-Asian Conference of Bandung in 1955. The so-called "Group of 77", which combines all developing countries, has been resolutely campaigning for them since 1964 when the United Nations Conference on Trade and Development (UNCTAD) was established. This group consisted originally of 77 countries; the number of members has risen since to 114.

In the wake of the oil price crisis of 1973 the "77" succeeded by a remarkable show of solidarity between OPEC members and the other developing countries in riveting demands on matters of

raw material policy in various UN resolutions including for instance the UN Declaration on the Establishment of a "New International Economic Order" of May 1974 and the "Charter of Economic Rights and Duties of States" adopted in December of the same year.

Spurious Recipes

Since 1974 UNCTAD has engaged in the collation of all the demands on raw material policy in an Integrated Programme for Commodities. Other demands by the developing countries shall be listed here only briefly: debt relief, additional resource transfers by the industrialized countries at a rate related to their GNP, modification of the international monetary system to the benefit of the developing countries, technology transfers on preferential terms to the developing countries, expropriation of foreign investments to be subject only to national laws, increased participation by the developing countries in the industrial production of the world so as to reach 25 p.c. by the end of this century, removal of all direct and indirect trade barriers in the industrialized countries.

The long-term objective of all these demands is a continual redistribution of the world income by means of in part far-reaching *dirigiste* intervention. It is significant that the national economic and social policies of the developing countries which raise far more important issues for the incomes development are mentioned only in passing. This is surely a basic weakness of the case presented by the developing countries: instead of giving prime consideration to ways of creating wealth, they are making suggestions for distributing wealth which exists elsewhere.

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Looking back on the last few years, it may well be said that the oil crisis has worked as a catalyst for these Third World demands which are putting the present international economic system in jeopardy. The enhanced political and economic weight of the OPEC states has reached out to all developing countries. It still seems to be insufficiently realized however that the OPEC countries are primarily attending to their oil interests. This they do also in the orbit of the developing countries. The OPEC states will be able to go on playing a leading role in the Third World as at present as long as they seem to accept the demands of *all* developing countries as their own and promise to force them through by use of the oil weapon. We must not overlook the fact however that there are voices of moderation to be heard also in OPEC circles.

A more fruitful dialogue with good prospects for a reconciliation of interests is nevertheless unlikely to take place until the rhetorical and polemical presentation of the cumulated demands of all the developing countries gives way to negotiations on specific concrete interests of all parties concerned.

When that happens, it will be possible to make a distinction between warranted practicable demands and unattainable postulates. The industrialized countries are of course well aware that the present distribution of wealth in the world is unacceptable: anybody who wants to lay foundations for a lasting peace, who is serious about the partnership with the Third World, who wants the young nations to be independent and stand on their own feet must be ready to make an effective contribution to the lowering of the prosperity differential between North and South. Sacrifices will be inevitable; everything depends on making the right sacrifices and shunning spurious recipes.

Creation of a Common Fund

The cardinal element of the demands of the developing countries in the raw material sphere is the creation of a Common Fund as the principal instrument and main source of finance for an "Integrated Programme". This programme envisages the conclusion of commodity agreements, with buffer stock facilities where possible, for 18 industrial and agricultural products. Their prices are to be stabilized at as high a level as possible. The industrialized countries are to refrain from substitutive productions. The export prices of the developing countries are to be linked to the import prices of industrial goods ("indexation"). A comprehensive system is to be created so as to counter fluctuations in export earnings. It may be assumed that the establish-

ment of a Common Fund is to be associated with the creation of an instrument for worldwide management and intervention in order to bring an influence to bear on the raw material markets.

It is obvious that the realization of such a programme would make existing structures more rigid, render adjustments to novel conditions extremely difficult, lead to misallocation of resources and ultimately hamper rather than ease efforts to cope with the problems of the developing countries. Such elements of *dirigiste* control would work against a worldwide division of labour in accordance with the principle of comparative cost advantages and have a persistent adverse effect on the benefits of world trade for all taking part in it. Since the raw material prices would not reflect real scarcities, the production and cost functions would be altered arbitrarily, with the inevitable result that the growth chances would be impaired in all national economies. The real world income attainable in such circumstances would be below the potential optimum and therefore further exacerbate the distribution struggle between North and South.

None of the industrialized countries can agree to all the raw material demands of the developing countries; there are however differences between the industrialized countries in regard to their readiness to meet the former on various points.

At UNCTAD IV in May 1976 in Nairobi it was impossible to do more than agree on a mainly procedural compromise on the "Integrated Programme": negotiations are to be held within two years about 18 raw materials and the Common Fund. In order to avoid misunderstandings the German delegation stated in Nairobi that we do not agree to a New International Economic Order but only to concrete steps by which the structure of the world economy can be improved. We likewise unequivocally rejected indexation, came out against a *dirigiste* mechanism for centralized commodity control and repudiated the view that arbitrary interference with prices and production and trade structures could conduce to growth of the world economy or increase the world trade share of the developing countries.

The German Federal Chancellor defined our policy in this sphere in the Bundestag on June 2, 1976 as follows:

- We are aiming at stable conditions in the trade in raw materials;
- The real incomes of the developing countries are to be raised by stable export earnings;
- Access to the market is to be made easier for the developing countries and the diversification of their productions is to be encouraged;

- The competitiveness of the developing countries is to be strengthened;
- The marketing, transport and distribution systems of the developing countries are to be improved.

Negotiations on Individual Commodities

What does a first interim report after one year of consultations and negotiations pursuant to UNCTAD IV reveal?

Preparatory international meetings have so far been held concerning copper, manganese, jute, hard fibres, natural rubber, tropical woods, cotton, vegetable oils and oilseeds. At these meetings the spokesmen of the developing countries in part dispensed with a well-grounded argument, appealing instead to the "political will" of the industrialized countries to make certain concessions. The meetings have nevertheless yielded useful new knowledge about problems specific to individual products. The subject discussion is still in progress, and decisions have still to be taken.

The consultations about *copper* are proving particularly difficult. There exist deep-reaching differences on the practicability, costs and benefits of a buffer stock agreement which is demanded by the developing countries. After strenuous debates a group of experts has now been instructed to identify the elements of a possible agreement and to examine opportunities for improving a consultative arrangement with a producer-consumer council. The group of experts is to complete its work by November 1977 and submit its findings to another preparatory meeting in January 1978 which, according to the ideas of the developing countries, should take the decision to convene a negotiating conference at some date in the same year.

At a first meeting on *manganese* it was proposed to hold further consultations but in view of the slight interest in this raw material on the part of all the major producing and consuming countries it is not very likely that the talks will be continued.

In the case of *jute* and *hard fibres* — as for *copper* — the producer countries' demand for buffer stocks was contested during the consultations. As the instability of the markets is mainly due to substitutive competition by synthetics and structural problems in the producing countries, the industrialized countries are concentrating in their proposals on an improvement of the producers' competitiveness by measures in the fields of research, development, cost reduction and market promotion. The industrialized countries are against measures to curb the production of synthetics.

The meetings concerned with *natural rubber* which have been very business-like have resulted in agreement to examine elements of a possible agreement with buffer stocks through a working group by the end of November 1977 and to hold another meeting in February 1978 to decide on a negotiating conference. Most consuming countries are evidently already taking a positive attitude to such a conference on natural rubber. This is true in particular of the USA which declared recently that an agreement could be reached on terms providing for price stabilization around a long-term trend which would not affect the market for synthetic rubber.

In regard to *tropical woods* and *vegetable oils and oilseeds* studies are being carried out now by groups of experts before the subject matter is discussed in greater depth at another meeting.

The initial consultations about *cotton* were marked by deep differences on the buffer stock question among the producing countries.

Preparatory meetings on other commodities on the Nairobi list are to follow in rapid succession. Consultations are to take place during the current year about *tea*, *bananas*, *olive oil*, *meat*, *bauxite* and *phosphates*.

Marked differences of opinion have emerged in the FAO study group on *tea* between the traditional tea producers in Asia and those in Africa who are pressing onto the world market. Joint action by the producing countries — in particular on the issue of possible export quotas — therefore seems doubtful.

The chances for an agreement on *bananas* which would be based essentially on export quotas seem to be equally problematic because of the structural overproduction in the producing countries.

It is also a moot point whether the producers of *bauxite* and *phosphates* are genuinely interested in a worldwide agreement or would rather pursue their interests in the framework of the existing suppliers' associations.

The *sugar* conference held in Geneva under UNCTAD auspices in May/June 1977 failed to reach a consensus on a new sugar agreement. Although all participants spoke in support of a new agreement, the conference was unable to agree on a particular type of agreement for the stabilization of market prices within a range to be fixed. The principal producing countries demanded a quota agreement pure and simple with certain minimum reserves, the EC advocated an agreement with national, though internationally coordinated, stocks, and the USA proposed a

combined system of stocks and quotas. It is planned that the main participants should meet shortly in London to probe the possibilities of an agreement. The EC stated its readiness for further negotiations at the end of the sugar conference in Geneva already but could hardly accept a quota arrangement because the traditional exporting countries could not apparently be persuaded to concede to the Community an export quota matching its export potential of 3,000,000 tons – which is after all equivalent to one-fifth of the free world trade. The EC is however liable to be upbraided in the world sugar market because its sugar exports can in general only be placed with the help of subsidies.

Difficulties may also be expected in the negotiation of a new *wheat* agreement. Real problems arise here between the EC and the USA rather than between industrialized and developing countries. Wheat was not put on the Nairobi raw material list. The EC suggested however in its own interest that a wheat agreement – with minimum and maximum prices and international harmonization of national storage measures – should be concluded in the framework of the GATT negotiations. The sole aim of the USA in the compass of GATT on the other hand is to secure measures of liberalization. The EC regards this rightly as an attempt to negotiate about the market order of the Community.

At the third meeting of the World Food Council which was recently held in Manila the USA reiterated its demand for participation of the importing countries in the financing of storage measures by the exporting countries. This may well turn into another contentious issue. A wheat agreement will probably come up for discussion in the International Wheat Council in the autumn of 1977. A negotiating conference may be convened in the spring of 1978.

Limited Readiness to Compromise

The negotiating conference for a *Common Raw Material Fund* which opened in March of this year will be continued in November. During the first phase of the conference it was not yet possible to narrow the gap between the opposite points of view significantly. A completion of the negotiations in the initial phase was ruled out by the complexity of the subject, the differences of interest, the incompleteness of the analytical work done beforehand and the as yet undecided positions of the individual industrialized countries on points of detail. It would therefore be wrong to speak of a failure of this first conference.

It must not be ignored that the first round of negotiations revealed the existence of opposite in-

terests also among the developing countries: while the Latin American group would like to limit the role of a Common Fund exclusively to the financing of buffer stocks, special importance is being attached by the African group to the financing of other measures like diversification, marketing, etc. Colombia is against the inclusion of coffee in the Integrated Programme. Brazil is altogether doubtful about the practicability of an Integrated Programme. The cocoa producers refuse to use the financial surpluses accumulated under the cocoa agreement for the stabilization of other commodities. Despite these divergencies, however, the "77" have outwardly maintained a common front.

Some new points of emphasis have been perceptible since early June when the Conference on International Economic Cooperation (CIEC) ended after over 18 months of intensive discussions on raw material problems as well as energy, development and financial questions.

The aim of the establishment of a Common Fund the objectives and modalities of which still remain to be negotiated was reaffirmed. Agreement was reached on the improvement of the system of generalized tariff preferences, on cooperation in the fields of marketing and distribution and of research and development in the raw material sector. Special measures were contemplated for the advancement of developing countries which are dependent upon imported raw materials and foodstuffs.

On the other hand it was found impossible to reach agreement on a formula for the determination of price ranges in commodity agreements. The developing countries insisted on quasi-indexation in relation to the prices of imported industrial goods and the rate of world inflation. The industrialized countries were unable to accept restrictions on the production of synthetics either. It was also impossible to bridge the opposed views on the issue of private investments and the question of access to raw material sources. The conference furthermore failed to reach agreement on the proposal to commission an international study on a stabilization system for the export earnings of the developing countries. This was originally suggested by the German Government and endorsed by the EC and the other participating industrialized countries.

Nevertheless it can be said that the CIEC has made for greater realism in regard to raw material policy, however controversial the debate may have been. It has shown to the developing countries with greater clarity than ever before the limits beyond which the industrialized countries will not go in their readiness to compromise. It

New Challenges New Responses

Vital tasks of our time and age include the securing of dependable energy supplies and the industrialization of developing countries. New energy sources must be exploited, existing ones better utilized. Dependable and economic transportation systems must be established. The natural resources of developing countries must be harnessed for the good of these countries.

In increasing degree, these tasks assume such a size and complexity that they can be solved only in cooperation with specialized and experienced concerns.

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has further had the advantage that questions bearing on the raw material industries and trade have been analysed systematically. It has probably also improved the atmosphere between industrialized and developing countries. The conference had after all opened in the shadow of the oil crisis. The dialogue on matters of raw material policy is being continued, more particularly in UNCTAD, but also in GATT.

As a first result of these conference rounds it may be put on record that the industrialized countries have given proof of their willingness to look for concrete improvements for the commodity markets, give careful consideration to all proposals and allow themselves to be persuaded by sound arguments.

Divergent Interests Among LDCs

Differences of opinion are bound to emerge among the developing countries as the raw materials are dealt with in greater detail. It would be only natural if the developing countries were to pay more attention in future to their divergent interests. This could only help towards business-like talks between industrialized and developing countries. There are, finally, signs that the number of agreements providing for buffer stocks will be small. A few quota agreements may conceivably also be reached, and a series of agreements on producer-consumer councils, consultative groups and other measures without interventionist overtones are feasible.

The experience gathered with commodity agreements in the past indicates, moreover, the special difficulties encountered in negotiating the elements of agreements and the limited opportunities for successful price stabilization and price and quota adjustments to changing market conditions. The *tin* agreement is really the only one for which a certain stabilization success can be claimed. The *cocoa* prices have long been above the stipulated price range; the stocks having been run down, the present agreement can only play a very limited role. The *coffee* agreement broke down in 1972 for lack of an understanding on what prices were to be fixed. The new coffee agreement which came into force last year can apply export quotas against a drop in prices but has proved ineffective in abating the bull market of the last two years. The agreements on *sugar* and *wheat* applying at present are simply skeleton agreements devoid of market control elements. The agreement on *olives* in force since 1973 is confined to measures for information, publicity and standardization. Although the possibility of far-reaching and comprehensive agreements is viewed with a reserve borne from experience, the UNCTAD conference rounds will

continue but also become progressively more difficult. We shall therefore be unable to avoid taking concrete political decisions on individual agreements and a Common Fund.

German Concept for Future Conferences

What then is our general concept for the future conferences on raw material policy?

There is, first of all, a political prerequisite of general validity: national concepts can be secured in international negotiations only if one has allies. A sound concept will not by itself lead to success if it is not supported by others. Nor is it any good to try to convince the other side of the superiority of a theoretical argument or principle: its success and benefits when translated into the practice of economic policy must be demonstrated. We should also always bear in mind that in international contacts we shall be reminded of exceptions from our market economy principles to which we lay claim for the protection of our own economy.

The Federal Government must make sure that its concept for the negotiations enjoys the support of its partners in the EC and other major industrialized countries, especially the USA and Japan. Reaching agreement in the EC is often difficult but always indispensable. We need allies for our position, first in the EC and then in the Western industrialized world. This is really the most difficult part of our raw material policy; for we cannot stand up to the developing countries without the EC and without a Western accord. The Western countries together, on the other hand, hold an impregnable position vis-à-vis the developing countries if they are united. Any such united stand must of course be clearly defined by the experts. This process is now in progress in the EC, in the OECD, in the conference purloins, in bilateral contacts and through alignment of attitudes during the advancing negotiations. It goes without saying that it is our endeavour to reach common concepts without making concessions which would be objectively wrong.

It is not the purpose of common positions of the industrialized countries to meet the united front of the developing countries face to face with a new bloc but to provide a meaningful collection of proposals and alternatives which are at the same time a credible offer. The Federal Government is reputed to take a very critical view of commodity agreements. This is an unwarranted generalization. We have been a member of all the important existing agreements on tin, cocoa, coffee and wheat for years. We belong to all 14 international study groups on raw materials. We have taken part in the negotiations for all the

agreements, and we are making a significant contribution to the work of the study groups.

Given certain prerequisites, we consider commodity agreements to be a perfectly suitable means of avoiding excessive price fluctuations. These agreements can serve to stabilize the prices within a preferably wide intervention-free zone around the point of long-term equilibrium.

We are, on the other hand, against resource transfer by means of artificially raised prices; indeed, we do not believe that such artificial prices can be forced on the market for a long time. We also think little of the chances of achieving excessive prices in the raw material sector over a long term through cartel-like organizations of the producers – except in a monopoly situation.

Finally, agreements of this kind should be joined by all important consuming and producing countries – including those in the East. In every case there must be a reasonable cost-benefit ratio.

We are aware that the results of the agreements concluded in the past have been only partially satisfactory and that we are not immune to negative effects in the future. We shall be all the more careful in the consultations and negotiations, proceeding in principle product by product, and have nothing to do with supposedly fool-proof easy solutions.

The public has so far paid relatively little attention to studies about the welfare effects of price stabilization for consumers and producers. However trite, it is a fact that stable prices do more for the well-being of the world than unstable ones.

That we are taking part in the negotiations about a Common Fund does not mean that we subscribe to the concept of the "77" who look on it as a major source of finance and the crucial instrument for the management of the "Integrated Programme for Commodities".

We regard a Common Fund rather as a facility for the mutual financial support of autonomous commodity agreements with buffer stocks. Concentration of the financial resources in the form of a Clearing or Pooling Centre can lead to a considerable financial saving for buffer stocks. Such a fund function may – according to recent calculations – in the most favourable case save more than 50 p.c. of the resources required for the separate financing of individual buffer stocks. This is so because the price movements of various raw materials are not synchronous but countercurrent, so that the cyclical peaks of buffer stock sales and purchases will tend to cancel out each other. No empirical evidence has been supplied for the thesis that the price movements of raw materials

follow the same direction which has been advanced at times by various quarters.

It is hardly possible to raise objections to such a fund on considerations relating to the economic order since it does not supersede the market mechanism but only obviates certain consequences, namely, excessive price fluctuations. The underlying principle has been applied for years in the monetary sphere where the central banks are offsetting extreme exchange rate vacillations by intervening through operations in their own or foreign currencies.

It may thus be said that there are some grounds for making use of the advantage of smaller resource outlays by a Common Fund for an equal degree of stabilization through buffer stocks. What we must prevent by all means in the impending negotiations is that such a fund operates in the markets irrespective of commodity agreements and in this way performs management functions.

Superior Export Earnings Stabilization

In regard to the question of export earnings stabilization the Federal Republic of Germany has been playing the role of a pace-maker for a number of years. Its advantage is in our view that it gives selective support to the poorest countries and that the costs involved can be limited through appropriate criteria and the in principle revolving function of such a scheme. Rich raw material producers would not derive any benefit from such a system.

The Federal Government has similarly come out in favour of extending and improving the compensatory finance facilities in the framework of the IMF which are related to a country's earnings from *all* its exports. In the EC it has been working for the Lomé Convention of 1975 which, i.a., created the so-called "STABEX" system for 52 states in Africa, the Caribbean and the Pacific area (the ACP states); shortfalls of proceeds from *individual* exports are compensated under this system for various non-mineral raw materials (other than iron ore) exported to the EC.

It is our opinion beyond question that export earnings stabilization is a superior model under general economic and economic order aspects if the aim is to secure for the developing countries as steady an income flow as possible to the exclusion of extreme fluctuations.

We shall take up our proposal for an international study of export earnings stabilization for developing countries in the EC and with other industrialized countries in a suitable form also in other bodies as we were unable to secure its adoption at the CIEC.