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The Integrated Programme for Commodities

A Reply to the Criticism on a Hearing

by I. S. Chadha, Geneva *

Recently the German Bundestag held a hearing on international raw material policy. At this hearing Mr. I. S. Chadha represented UNCTAD and its raw material programme. In the following contribution he deals with the criticism of the Integrated Programme for Commodities as voiced at this hearing¹.

The unresolved problems of commodities and raw materials have been the focus of attention in the recent international discussions concerning North-South relations. This is indicative of the concern of the world community with the need for finding effective solutions to these problems in the framework of the New International Economic Order. The political commitment for urgent international action in this area was embodied in the resolution on the Integrated Programme for Commodities adopted at UNCTAD IV in Nairobi and has been reaffirmed at various international fora since then. The process of giving concrete shape to the concepts which have been accepted at the political level is now under way, both at the national and the international levels. The public hearings of the Bundestag Committee on Economic Cooperation recently held in Bonn must be regarded as a part of this process. In this article an attempt has been made to consider some of the criticism of the Integrated Programme voiced at the hearings and to dispel some of the misconceptions on which the criticism was based.

The adoption of the Integrated Programme for Commodities at Nairobi was a recognition of the need for "an overall approach" to commodity problems in contrast with the earlier fragmentary efforts which had failed to yield satisfactory results. It was conceived as "a programme of global action to improve market structures in international trade in commodities of interest to developing countries", taking into account the interests of all countries, on the basis of "mutual advantage and equitable benefits". The negotiations being held under the Programme have several new features compared to past experience. The resolution adopted in Nairobi provides for an over-all framework of agreed objectives and principles, identifies international measures for

achieving the objectives and lays down a well-defined timeframe for implementation. An *ad hoc* Intergovernmental Committee has been set up to monitor the negotiations and to coordinate the implementation of the Programme. It is expected that the commodity arrangements to be eventually established would be more multi-dimensional in character than has been the case before.

The Establishment of a Common Fund and other Measures

The major innovation of the integrated Programme is the proposal for the establishment of a Common Fund to finance measures under the Programme. It has now been agreed, following the Conference on International Economic Cooperation (CIEC) in Paris, that "a Common Fund should be established as a new entity to serve as a key instrument in attaining the agreed objectives of the Integrated Programme for Commodities". According to the proposals being considered in UNCTAD, the Common Fund would act as a source of finance for international or internationally coordinated national stocks and other measures within the framework of international commodity arrangements aimed at stabilizing and improving the markets for individual products. It would also play a catalytic role and provide an impetus to individual commodity negotiations, which would no longer be hampered by the financial constraints which had frustrated past efforts.

One of the main objectives of the Integrated Programme is the achievement of greater stability in commodity trade at prices which are remunerative and just to producers and equitable to consumers. The Programme also embodies other objectives which reflect the long-term development needs of developing countries. The international measures to be undertaken under the Programme include the setting up of buffer stocks, with agreed price ranges to be periodically reviewed

* United Nations Conference on Trade and Development.

¹ For an official German view on international raw material policy see Peter Herms, International Raw Material Policy in the Agricultural and Industrial Sphere, in: INTERECONOMICS, No. 7/8, 1977, p. 171 ff.

jointly by producers and consumers, as one of the main instruments for achieving stability in commodity markets. Other measures include supply management, long-term supply and purchase commitments, improvement of compensatory financing schemes for the stabilization of export earnings, diversification of the economies of developing countries, especially through increased processing and exports of manufactured goods, improvement in the competitive position of natural products vis-à-vis synthetics, etc.

Criticism Based on Ideological Considerations

Most of the arguments advanced by the critics of the Integrated Programme at the Bundestag hearings appeared to be based on ideological considerations and on the fear that the Programme sought to replace the "free-market" system with "central planning" and "dirigism" in commodity trade. This line of reasoning reflects a gross misunderstanding of the underlying concept of the Programme. The basic objective of the Programme is not to dispense with markets but to improve their functioning by providing them with greater stability and strength. The Common Fund itself would as a general rule not intervene directly in the markets; this would be the function of individual commodity organizations for which the Fund would provide the finance on request. The commodity organizations, in which producers and consumers would be equally represented, would have complete autonomy and would be fully responsible for decisions on matters such as price ranges, size of stocks, etc. Market intervention through buffer stocks, which would necessarily have to be on a limited scale, would still leave room for market forces to operate, and the prices at which commodities are actually traded would thus still be determined by market forces. The operation of the buffer stocks would have to rely on the market system in the same way as private traders, except that the motive would not be private gain but mutual benefit, through increased stability, for both producers as well as consumers.

As a matter of fact, improvement in the marketing and distribution systems for commodity exports of developing countries has been expressly incorporated as one of the agreed objectives of the Programme. The need has been felt because the so-called "free market" does not really exist with regard to world trade in commodities, which is characterized by numerous constraints and regulations and is systematically rigged by powerful transnational corporations against poor producers with the least bargaining power. Under the circumstances the developing countries would be happy to see the restoration of a genuinely free market system with the minimum of regulation

and interference from forces over which they have little control.

The testimony of the representatives of the German trade and industry appeared to have totally ignored the fact that the Integrated Programme is designed to benefit not only producers but also consumers of commodities. This was evident from the doubts expressed at the hearings about the potential benefits for the least-developed and the resource-poor developing countries and the concern about the gains for the developed exporting countries as well as about the implications for developed importing countries. Even if the impact of the Integrated Programme is considered from the limited viewpoint of the exporting countries, detailed analysis of the trade data and the commodity coverage of the Programme shows that the doubts about benefits for the poorest countries are groundless. In an unpublished study, recently undertaken by Dietrich Keschull of the HWWA Institute, Hamburg, he has come to the conclusion that the objectives of the Programme accord with the economic requirements of the developing countries as a whole, and particularly of the less advanced developing countries.

Obvious Benefits for Developing and Developed Countries

The benefits to be derived from greater stability in commodity markets, both by developing as well as by developed countries, are obvious. For developing countries it would lead to a more even and dependable flow of foreign exchange, easier planning for development and investment, avoidance of supply cycles, improvement in the market share of natural products vis-à-vis synthetics, etc. Fears that it would result in misallocation of resources and tend to cement existing production structures are unfounded because greater stability in commodity markets would also facilitate more basic and long-term measures such as increased processing and diversification. Furthermore, it would reduce the dependence of the developing countries on foreign aid and thereby contribute to the attainment of the goal of greater self-reliance.

For developed countries the prevention of sharp upward fluctuations in commodity prices would be one of the major benefits to be derived from price stabilization. As recent experience has shown, large and rapid increases in commodity prices are liable to impart inflationary shocks to industrial economies through the magnification of these increases in wholesale and retail prices as a result of the practice of establishing profit margins as a percentage of costs and the consequent upward adjustment of wages and salaries. The opposite does not occur when commodity

prices fall. The developed countries are thus forced to adopt costly deflationary policies with significant negative effects on employment and output. Greater price stability would also mean easier production planning at the enterprise level and the assurance of a more steady flow of supplies than is the case now with cycles of shortages and surpluses. One should also not underestimate other macro-economic benefits such as increased exports from developed to developing countries, the contribution to the problem of indebtedness of developing countries and the overall benefits for the world economy as a result of more rational and efficient use of natural resources.

No Parallels with the EC's Common Agricultural Policy

Fears were expressed by many participants in the hearings that the Integrated Programme would lead to indiscriminate and excessive price increases and would result in over-production and burdensome surpluses. In these and many other respects there was a tendency to draw a parallel with the EC's Common Agricultural policy. In so far as price levels are concerned, these would be determined jointly by producers and consumers in the framework of individual commodity arrangements in accordance with the agreed principles of the Integrated Programme. There cannot be a better guarantee for consumers against arbitrary price increases. Under the Common Agricultural Policy, on the other hand, the determination of price levels does not adequately take into account the interests of consumers.

Unlike the Common Agricultural Policy, the Integrated Programme cannot lead to over-production and burdensome surpluses for several reasons. Firstly, the determination of the size of stocks and the price levels, which would be periodically reviewed, would take these factors into account and appropriate adjustments would be made. Secondly, the greater part of the stocks would be financed by loans which would have to be repaid; the operations would thus be self-financing. Thirdly, the total resources available for stocking would be restricted and not virtually open-ended as in the case of the Common Agricultural Policy, and cannot therefore lead to burdensome surpluses. Fourthly, buffer stocks would have to be accompanied, in appropriate cases, by supplementary measures to regulate supplies and production.

The Integrated Programme would differ from the Common Agricultural Policy in other respects. The Common Fund, as well as the individual commodity arrangements, does not contemplate the establishment of supranational authorities with powers equivalent to those of the EC Council.

Nor do they envisage the setting up of major international bureaucracies on any considerable scale, contrary to the fears expressed at the Bundestag hearings. Experience shows that the existing commodity organizations can function effectively with a relatively small staff — some of them with as few as six to ten professionals. The staff requirements of the Common Fund, which would be essentially a lending institution with a small number of borrowers, viz. the commodity organizations, would also be very small.

No Alternatives to the Integrated Programme

The testimony of those who had strong reservations about the Integrated Programme was singularly lacking in suggestions for alternative courses of action. No one who is familiar with the serious problems facing poor developing countries heavily dependent on commodity exports can seriously contemplate the perpetuation of the present inequitable system of trade, which is not desirable even from the point of view of consumers. In the view of some of the participants, the only way of mitigating the hardships of developing countries was through more aid and compensatory payments under schemes for stabilizing export earnings. This in effect means the maintenance of the *status quo* in international trade relations while placing the entire burden of development cooperation on the tax-payers in the industrialized countries. The improvement and enlargement of compensatory financing facilities for the stabilization of export earnings form an integral part of the international measures embodied in the Integrated Programme. However, compensatory financing cannot be considered as an alternative to other key elements of the Programme which are essential for the attainment of its agreed objectives. If reliance is placed solely on compensatory financing and no parallel action is taken to stabilize markets and to bring about the necessary structural changes, the financial outlay would be staggering and of a recurring nature. Such a situation would not be satisfactory from the point of view of either developing or developed countries. For the former it would mean perpetual dependence on aid, thereby increasing their debt burden and delaying the attainment of the goal of self-reliance. For the latter it would mean a much greater financial burden. Moreover, there would be no solution for the problems which arise for the importing countries owing to fluctuations in commodity prices and the unreliability of the supply of raw materials.

In considering the costs and benefits for a country like the Federal Republic of Germany, a distinction must be made between the financial cost, for example, of its contribution to the Common

Fund, and the economic cost which would be related to the opportunity cost of the capital (i.e. the interest earned on the alternative uses of that amount). On the basis of a Common Fund with an initial subscribed capital of \$ 1 bn, the contribution of the Federal Republic of Germany is not likely to exceed \$ 80 mn under the various formulae which have been discussed. The interest foregone on this amount would be less than \$ 5 mn annually, or a little over one thousandth of one percent of its GNP – an infinitesimal amount in comparison with the benefits it would bring.

Instead of maintaining the ideological opposition to the Integrated Programme, the organizations representing the German trade and industry would do well to study its implications carefully and to

make a constructive contribution to its implementation, to which incidentally their Government is already committed, by ensuring that in the process the legitimate interests of both producers and consumers are adequately taken into account. The whole concept of the Integrated Programme is predicated upon the concept of cooperation between producers and consumers. It is this concept which is being put to the test in the series of negotiations which are now under way. If the negotiations succeed, the concept will gain a new vitality. But if they fail the concept itself will be called into question. Such an outcome would be detrimental to the interests of producers and consumers alike and would do incalculable harm to the cause of international cooperation for development.

Processing Mineral Raw Materials

by Horst Habenicht, Bonn *

Processing of raw materials by the producer countries themselves has frequently been recommended as an appropriate way for developing countries to increase their domestic value added and achieve positive employment effects. As against that, the following article suggests that Third World governments should not take hasty investment decisions in favour of processing raw materials since the effects on the national economy in terms of the cost-benefit ratio could well be more favourable in other branches of industry.

The Federal Republic of Germany is the third largest consumer of metallic raw materials among the industrialized countries. Since we no longer have any domestic mining output to speak of, we are almost 100 p.c. dependent on imports. The cost value of these imported mineral raw materials is about DM 10 bn each year. Fifty percent of these raw materials come from other industrialized countries and fifty percent from developing countries.

Admittedly the resources of developing countries amount at present to only 30 p.c. of international mining output. But since they neither consume nor process their output themselves, the raw materials they mine represent some 60 p.c. of the amount available for export on the international market. One-third of the deposits so far discovered lies in developing countries while two-thirds are in industrialized countries, and of these again one-third is to be found in East Block countries.

If natural gas and crude petroleum are included in the calculation, then almost 80 p.c. of the Third

World countries' export earnings are earned by supplying raw materials to industrialized countries.

Raw Materials Policies

Under the prevailing circumstances in the raw materials sector, it is understandable that the developing countries want to make more gains from supplying raw materials in order to improve conditions for the industrialization of their own countries. This method is being more forcibly promoted at international conferences since the oil exporting countries successfully raised prices and, on the other hand, since the limitations to the transfer of resources via development aid have become clear to the developing countries. While the developing countries therefore want to increase the value added to their raw materials, the Federal Republic of Germany must, in discussions on raw materials policies, concentrate primarily on securing its own supplies, especially as it is a country dependent on imports in this field. Neither can we be interested in a constant subsidization of raw materials aimed at achieving

* Federal Ministry for Economic Cooperation.