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such means as preferential trade and payments arrangements, mutual financial assistance, joint production and trading enterprises, cooperation in the fields of technological exchange and research and development, etc. It has been agreed, moreover, that UNCTAD should provide substantial assistance to developing countries in their self-help efforts and for this purpose a new Committee on Economic Cooperation among Developing Countries has been established by the Trade and Development Board. The work of this Committee will clearly be highly relevant to the task of preparing UNCTAD's contribution to the design of a new international development strategy for the 1980s.

Mention must be made, finally, of another important issue which will have to be resolved by UNCTAD before the end of 1978, namely, the agenda of the fifth session of the Conference, which is to be held in Manila in May 1979. It is

obvious that the substantive content of this agenda will depend greatly on the progress during 1978 of the work described earlier in the present article, particularly the work on the Integrated Programme for Commodities and on the debt problems of developing countries. However, the current international economic situation, characterized by the continued sluggishness of growth in the OECD countries, intensifying protectionist pressures and persistent international monetary instability, gives cause for great concern on the part of developed as well as developing countries, and it may well be that the repercussions of these problems on the latter countries will call for special measures, or the launching of appropriate new policy initiatives, by the international community for dealing with them. In that case, the need for such emergency action will almost certainly find reflection in the agenda for UNCTAD V.

The Negotiations on a Common Fund

by Konrad Seitz, Bonn *

The developing countries regard the "Common Fund" for the financing of the Integrated Programme for Commodities as the symbol of a new and more equitable International Economic Order. In the industrialized countries, on the other side, many people see in it a symbol of the attempt to replace the liberal system of the world economy by worldwide dirigisme. Is there a prospect of agreement?

In May 1976, the issue of a Common Fund threatened to wreck the Fourth United Nations Conference on Trade and Development in Nairobi. Only in the last minute the western countries gave in and agreed "that steps would be taken towards the negotiation of a Common Fund". As they saw it, however, this formula left the question still open whether there was to be such a fund. After three preparatory meetings a conference to negotiate on a Common Fund convened in Geneva in March 1977, but was adjourned four weeks later without having achieved any results. The atmosphere nevertheless remained fairly conciliatory as the EC countries had at their Rome summit shortly before the adjournment endorsed the creation of a Common Fund in principle.

The final break-through on the question of whether or not to have a Fund came at the Paris Conference on International Economic Cooperation (CIEC) in June 1977. The European Community and the other western countries represented there gave their assent to the creation of a Common

Fund "as a key instrument to attain the agreed objectives of the Integrated Programme".

With these points clarified the second phase of the Geneva negotiating conference opened on November 7, 1977, but again it did not produce the positive result to which the CIEC participants had committed themselves. One day before the conference was scheduled to close the developing countries moved that it be broken off. They then raised the issue at the 32nd General Assembly of the UN in New York where a resolution was passed, with most western countries abstaining, calling on those developed countries which had not yet done so to assent to the basic elements which would make a Common Fund a key instrument of the Integrated Programme and, furthermore, requesting the Secretary-General of UNCTAD to undertake consultations with a view to reconvening the negotiating conference early in 1978.

There is talk of holding the third phase of the conference in June of this year but whether the views in the various groups will then have been

* Foreign Office. The author expresses his personal views.

advanced sufficiently to bring agreement on the principles of the Fund within reach is still uncertain.

The "Common Fund" is the political symbol. The central problem however are the international agreements on commodity buffer stocks for the financing of which the Fund is to be established. Rejection of such agreements necessarily implies rejection of a Common Fund.

What is the purpose of buffer stocks? Are they intended — as the term implies — to dampen the often extreme short- and medium-term fluctuations of raw material prices and to stabilize these prices around the long-term market trend? Or are they to serve an attempt to raise the raw material prices above the long-term trend and hold them at artificially high levels? In the former case, the commodity agreements could make an important contribution to the stabilization of the world economy and yield benefits in terms of micro-economic efficiency and macro-economic growth for producer and consumer countries alike¹. In the latter case they would propel the world economy in the direction of progressive dirigisme and dissipation of resources.

Differences from the EC's Agricultural Fund

The opposition to buffer stock agreements stems for the most part from the apprehension that these agreements would amount to a price-raising system like the EC's Agricultural Market Order — a system which guarantees artificially high prices by means of unlimited stock-piling. On this contentious issue no more can be said in the present context than that the UNCTAD system of buffer stocks is in its proposed form *not* a system for raising prices. The Common Fund is accordingly fundamentally different from the guarantee fund of the EC:

☐ The EC fund is financed through *annual* payments from the EC budget (in 1977: over DM 23 bn). The Common Fund as proposed by UNCTAD on the other hand is limited to a fixed sum of \$ 6 bn to be raised *once and for all*.

☐ The EC fund, which clears the market from a structural surplus at artificially high prices, in-

curs losses which are being covered by recourse to the EC budget. The UNCTAD fund on the other hand is to be self-supporting once it has been set up. It is to earn profits from its loans to the commodity agreements. The agreements, on their part, buying at low prices and selling at high prices, are equally expected to operate at a profit.

The last-mentioned assumption may be considered too optimistic, but one thing seems clear: the purpose of the buffer stocks as they are proposed at present is not to raise prices but to stabilize them.

Further Objections to Commodity Agreements

This does not rule out the danger that an Integrated Programme set up as a price-stabilizing system could in the end degenerate under pressure from the producers, into a price-raising system. However, there are safeguards against such a danger which can be built into commodity agreements. Such safeguards include: equal voting rights for producer and consumer countries under the agreements (with decisions requiring majority support by both groups); fixed stock-pile ceilings; flexible price ranges which allow to correct wrong minimum or maximum prices quickly. The agreements for tin, cocoa and coffee which have been concluded in the last few years prove that it is possible to build such safeguards into international commodity agreements². They also prove that, in the final analysis, the developing countries are fully aware of the fact that price increases cannot be enforced against the market and are often — because of the consequent shrinkage of sales — not even desirable.

There remains a second objection: The experience with the tin, coffee and cocoa agreements, it is said, shows that even commodity agreements that are aiming at pure price stabilization are "nonviable". But this is a generalization. What is shown by experience is that the agreements were in general successful in defending the minimum prices but proved powerless in times of a boom. Future agreements with adequate buffer stocks, however, might well yield better results. To be sure, defending ceiling prices in a boom will probably never be possible to a full extent, for it would presuppose the accumulation of such large buffer stocks that they could neither be financed nor purchased at minimum prices. But what could be achieved is a significant dampening and short-

¹ This was the consideration which caused Keynes after the end of the second world war to propose a worldwide system of buffer stocks of raw materials. The extremely sharp raw material boom from 1972 to the middle of 1974 has recently once more drawn the attention of economists in the Anglo-Saxon countries to the benefits of more stable raw material prices to consumer countries. Cf., inter alia, Nicholas Kaldor, *Inflation and Recession in the World Economy*, in: *The Economic Journal*, December 1976, p. 703-714; and Jere R. Behrman, *International Commodity Agreements*, Washington 1977. The US Administration has already been induced by this new thinking to re-evaluate buffer stock agreements. Under Secretary Fred Bergsten of the US Treasury told the Congress sub-committee for economic stabilization in June 1977 that President Carter had made international commodity agreements "an integral part of his anti-inflation programme". He added in explanation: "Sharp fluctuations in the prices of primary commodities, both agricultural products and industrial raw materials, have been an important factor in triggering and sustaining inflation. Inflation, in turn, has triggered increased unemployment."

² Great caution was shown in the fixing of the middle prices of the price ranges under all three agreements. They were if anything below the market trend prices. Decisions are taken by a majority of both producer and consumer countries (which, in practice, gives the big consumer countries a veto); the buffer stocks (there are no buffer stocks for coffee) are subject to a fixed ceiling. The same applies to the proposed rubber agreement: the producers themselves are demanding that the minimum prices should be fixed at such a level that rubber remains competitive in relation to the synthetic substitutes; the buffer stock is to be limited to a maximum of 400,000 tons.

ening of booms. Consumers, too, could thus hope for benefits from buffer stock agreements.

UNCTAD wants buffer stock agreements for ten commodities: cocoa, coffee, tea, sugar, cotton, jute, hard fibres, rubber, copper and tin. It is virtually certain that buffer stocks will not be set up for all ten of these primary products. A buffer stock agreement will probably be reached for rubber and also for tea, coffee, copper and jute. Agreements providing for international buffer stocks already exist for tin and cocoa. The sugar agreement provides for national buffer stocks.

It would thus appear at present that there may be in the end between five and, at most, eight buffer stocks. They make a Common Fund a useful proposition, for a good deal of capital could be saved by joint financing of the stock-piles. Spare resources of one agreement could be released for other agreements for which stock-piling purchases are being made at the time. Savings of up to 25 % would be made in this way according to UNCTAD estimates (separate buffer stock financing for the ten basic raw materials would require \$ 6 bn; common financing only \$ 4.5 bn).

Proposals of the Developing Countries

At the conference in November 1977 the Group of the "77" (= developing countries) and the B Group (= the industrialized western countries) presented papers setting out their positions on the basic elements of a Common Fund³. The industrialized socialist countries bided their time as before. They expressed approval for the "idea" of a Common Fund but remarked at the same time that the instability of the raw material prices was a problem of the "capitalist world economy" with which they had nothing to do. This leaves the question of their financial participation in a Fund wide open. Insofar as they commented on concrete issues, they took practically the same line as the western countries.

According to the concept of the "77" the essential features of a Common Fund should be as follows:

(a) *Size*: US \$ 6 bn. In the *initial phase* US \$ 3 bn of which US \$ 1 bn would be equity capital and US \$ 2 bn take the form of an authorization to borrow. *Later* replenishment by another \$ 3 bn, while preserving the same structure.

(b) *Source of finance*: The equity capital would be paid to the Fund directly. The "77" are thinking of a 70 % contribution from the industrialized western countries, 12 % from the industrialized socialist countries and China, and 18 % from the developing countries. The loans would come from member countries, international organizations and the capital market.

(c) *Modus operandi*: The Fund would serve as a financing instrument and not itself intervene in commodity markets. It is to finance buffer stocks generally only within the framework of agreements but may finance stock-pile purchases *outside* agreements in those cases where there exists no international agreement for the commodity concerned or where an existing agreement does not provide for stock-piling.

(d) *Voting rights*: The developing countries should play a "decisive role".

Objections from the Western Countries

The basic features proposed by the "77" are facing several grave objections from the industrialized western countries:

(a) and (b): The Common Fund would come into being *before* and irrespective of the agreements. The question of finance would thus be settled before it is definitely known how many buffer stock agreements will be reached and what finance will be needed for them. The developing countries want to turn the Fund in this way into a "catalyst" for facilitating the conclusion of agreements. From the point of view of the industrialized countries, however, this creates the danger that they will come under pressure in the negotiations on vital questions like the size of the buffer stocks and the level of the target prices and price ranges. Their concern is bound to be all the greater because the raw material-producing developing countries would take a very small part in the financing of the stock-piles. Only one-third of the finance required for the Fund would be raised as equity capital, and no more than 18 % of this one-third would come from the developing countries. Like the in advance establishment of the Fund itself, this financial structure of the Fund could tempt the developing countries to try for unrealistically high target prices.

(c): For the industrialized western countries it is crucial to ensure that buffer stock purchases will be made only for stabilizing, not for raising prices. This aim would inevitably be put in jeopardy if the Fund were authorized to finance stock purchases outside agreements. Besides, financial commitments of unknown extent would be involved.

(d): It goes without saying that the industrialized countries cannot accept control of the Fund by the developing countries alone.

Proposals of the Western Countries

The western countries are proposing a "pooling" system plus borrowing capability in the place of the Common Fund concept of equity capital plus

³ UNCTAD documents TD/IPC/CF/Conf./L.4 and L.5. Cf. also the Conference report TD/IPC/CF/Conf./L.7 and Add. 1.

borrowing capability. This system builds on the individual international commodity agreements as a foundation: The ICAs lay down price ranges and buffer stock ceilings and thus determine the maximum finance requirements. These will be met by the member countries who will pay in 75% as cash deposits to ICAs and make available 25% in the form of callable capital. The ICAs then pool their resources in a Common Fund with the following basic features:

(a) *Size*: The aggregate of the finance required for the individual commodity agreements, which means that the final size will not be fixed until all agreements have been concluded.

(b) *Source of finance*: Producer and consumer countries contribute in principle each one half of the total sums for the individual agreements.

(c) *Modus operandi*: ICAs deposit their cash resources (= 75% of maximum requirements) with the fund on interest. They can withdraw deposits for buying stock and, in addition, have a right to borrow from the Fund up to 25% of their maximum financial requirements. The Fund will finance such advances by drawing on unemployed deposits; it can, further, raise up to 25% of the aggregate maximum requirements in the capital markets if the deposits prove insufficient.

(d) *Membership and voting rights*: According to the logic of the system the membership of the Fund would be composed of ICAs. This would automatically imply equal voting rights for producer and consumer countries. In the event of universal membership of individual states it would be necessary to find an arrangement which protects the interests of both producers and consumers.

Unfulfilled Demands of the Developing Countries

The proposal of the industrialized western countries envisages a "Fund" which, in practice, would be a specialized commercial bank (without equity capital). The basic aim of this kind of arrangement is to make sure of the autonomy of ICAs. The drawing and borrowing rights of the agreements are automatic. The Fund would thus have no lever by means of which it could influence the policy of ICAs.

The western "pooling" system, however, leaves two important demands of the "77" unsatisfied — the demand that the Fund should act as a "catalyst" and the demand that the financial burden on the developing countries should be kept as low as possible:

☐ The Fund as proposed by the western countries has no "catalytic" role to play. It only comes into being after ICAs are concluded and associated

with the Fund. No ICAs, no Fund! In case an ICA comes about, the consumer countries have however promised to provide their share of the finance.

☐ A much bigger financial burden will fall on the developing countries which join buffer stock agreements than would be the case were the proposals of the "77" adopted. Under a copper agreement (with finance requirements of US\$ 1–3 bn!) Zambia and Zaire for instance would have to contribute similar sums as the Federal Republic of Germany.

"Other Measures" for Diversification

The principal task of a Common Fund is to provide finance for buffer stocks. According to the concept of the developing countries however the Common Fund is also to be given a role in the financing of "other raw material policy measures". If UNCTAD has its way, the Fund should focus in this respect on finance for two problem groups:

In the case of primary commodities which are being progressively displaced by synthetic substitutes it is to support measures to strengthen the competitiveness of the natural raw materials. The Fund would finance research and development projects aimed at lowering production costs, improving quality and opening up new outlets. It would also promote the erection of processing capacities especially in the case of commodities where the synthetic substitutes are produced and processed in vertically integrated enterprises.

The Fund would, secondly, provide assistance for raw materials which are — even without substitution — facing structural overproduction. In such a situation the Fund would support restructuring policies directed towards cutting back output and creating alternative opportunities for employment. It would finance the requisite investments and help with readjustment measures.

A "Second Window" for Financing Diversification

The "other measures" are thus diversification measures of a kind which the western countries have themselves been recommending to the developing countries for a long time in the interest of a market-economy solution of their raw material problems. Their usefulness and necessity is not in dispute. But existing organizations are already doing a great deal to promote them. The World Bank and the three regional development banks for instance have made plans to apply US\$ 3 bn to such "other measures" in 1975–1979 — and will probably be unable to spend the whole of this sum. Besides, credits for buffer stocks are short- to medium-term and of a revolving charac-

ter whereas credits for "other measures" are essentially long-term and would have to be allotted to the poorest developing countries at preferential rates of interest. The financing of "other measures" by the Common Fund would therefore necessitate a second account, to be kept strictly separate from the stock financing account. This raises the question whether it makes economic sense, and whether it is really necessary to involve one more organization beside the existing international institutions in the financing of diversification measures. Such doubts are warranted.

One must however see clearly: Without a "second window" for financing diversification measures there will be no agreement on a Common Fund. That follows from the particular conjuncture of interests in the group of the "77": The "first window" for buffer stock financing is of direct interest only to the developing countries with commodities for which buffer stock agreements are likely to come about. The majority of developing countries — amongst them many African countries in particular — can hope for benefits only from a "second window". For the "77" a "second window" is therefore an essential. On the other hand, it does not involve a vital interest of the industrialized western countries. So there should be room for concessions.

A Possible Compromise

This indicates the direction in which a compromise may be found: The western countries concede a "second window" to the developing countries while the developing countries on their side accept the western "pooling" system in its basic elements for the "first window".

Several questions of detail concerning the "second window" will have to be clarified: There is the size of the sums to be provided (in the model of the UNCTAD secretariat it is assumed that about \$ 500 mn of the initial \$ 3 bn will be applied to "other measures"). Then there is the choice between mandatory, voluntary and voluntarily coordinated contributions (also: is the West in the latter case to stipulate adequate participation by the socialist countries?). A further question is whether finance should be provided only within the framework of international agreements (in which case the parties would have to be ready to conclude quite a number of agreements) or also outside agreements. It is, furthermore, important that the Fund should only undertake a financing and coordinating role and maintain only a small staff for this purpose. The evaluation and supervision of the projects must remain the concern of the development banks. The UNCTAD secretariat is thinking along these lines.

As concerns the "first window", the western countries would have to try to meet the interests of the developing countries while preserving the "pooling" system in principle: The financial burden on the developing countries could be reduced by cutting the ratio of equity to debt capital from 75:25 to 50:50. The poorest countries would require additional alleviations. One could, furthermore, consider paying a small "symbolic" contribution directly into the Fund and in advance so as to bring its "first window" into existence. Such payments would be deductible from subsequent subscriptions to the agreements. The creation of an initial capital would enable the Fund to undertake at least part of the "catalytic" role demanded by the developing countries. The latter on their side would accept the stipulation that the Fund does all its stock-pile buying within the framework of agreements. They would also assent to a solution of the voting rights issue in such a way that neither group will be in a position to exercise control over the Fund.

Hard and difficult negotiations will have to be undertaken before such a "compromise package" can be wrapped up. But the way to an agreement can be marked out. In the end there may be between five and eight buffer stock agreements, a few agreements on "other measures" and a Common Fund. An institutional home would thereby be found at long last for commodity problems, such as has long been provided by GATT for questions on trade in manufactures and grain and by the IMF for monetary matters.

The most important result however will be this: The impact of the North-South conflict on world politics will tend to grow constantly stronger in the coming decades. For the preservation of peace and the safeguarding of international economic stability it will be of the utmost importance that the conflicts of interest should be resolved through a continuous process of negotiations. Those who argue that commodity agreements and a Common Fund merely provide the Third World with a forum in which they can exert pressure on the industrialized countries misjudge the constraints working in a world of global interdependence. States which are dependent upon each other cannot evade conflicts by refusing to talk about them.

The alternative in the North-South dialogue is: either to achieve and maintain a stable cooperation between developed and developing countries by a rational reconciliation of interests or to drive the world into an irrational confrontation and into anarchy. It is this alternative which accounts for the great significance the negotiations on a Common Fund have for foreign trade and foreign policy.