

SECTION 2

COMMODITY ARRANGEMENTS

The role of trade

34. As already observed, the principal purpose of a new international economic order is to create an interdependent world economy in which all nations enjoy equality of opportunity in taking advantage of the benefits that can flow from the exchange of goods and services and the international movement of capital. It follows from this that trade has a central role to play in securing those progressive improvements in the international distribution of income that would be required for closing the gap in wealth and productive capacity between the rich and the poor countries. Indeed the whole purpose of concerted international action is to reach a point in time when all other measures will have comprehensively yielded results in favour of a just and dynamic balanced international trade relationship. This will be achieved through a process by which more and more developing countries acquire the necessary breadth and depth of productive capacity as part of a just division of international productive effort generating their own self-sustaining growth.

35. If trade is to serve as a genuine engine of growth for the developing world, bold steps are needed to correct those deficiencies in present trading arrangements which in many cases constrain, in others frustrate, the efforts of developing countries to achieve desired increases in their export earnings. Comprehensive action is called for with regard to trade in both primary products and manufactured goods. We begin by considering primary commodities.

The approach to commodity policy

36. Dissatisfaction with the operation of markets for primary products is long standing, and the conviction is widespread that urgent attention should be given to improvement of the organization of these markets. Many countries, both exporters and importers of commodities from their separate standpoints, regard isolated commodity arrangements as an unsatisfactory solution and favour a more comprehensive and concerted approach to the problems of commodity trade. The present situation is characterised by the continuing steep price increases for manufactured goods, weak markets for many primary commodities and a consequent sharp decline in the terms of trade of many developing countries. Low prices for primary products also discourage investment and output and eventually lead to shortages and high prices. The need for immediate action is clear.

37. In recognition of the seriousness of the situation, Heads of Government requested us to consider various proposals, "...with particular reference to the integrated commodities programme recommended by the Secretary-General of UNCTAD, current proposals of buffer stocks, for indexation, and other relevant proposals, including the proposal for a general agreement on commodities".^{1/}

^{1/} Cf . Annex I, paragraph 4 (i).

General guidelines

38. As a basis for evaluating the proposals in this field, we began by establishing some general guidelines which could be applied in working out a detailed policy. These are:

- i. The principal purpose of commodity policy should be to introduce a new dynamic relationship between developing primary producing and industrialised countries, with a view to securing a progressive increase in the real export earnings of the developing countries which would among other things allow for the establishment of acceptable standards of living for producers.
- ii. While market forces are an important factor in the determination of international prices for primary products, the absence of fully competitive markets for many of these products has tended to work against the interests of primary producers. Suppliers of manufactures and capital goods tend to be price-makers rather than price-takers. For this and other reasons, the establishment of satisfactory relationships between the prices of primary products and manufactures will require adoption, through appropriate commodity arrangements, of a more general system of negotiated prices for primary products.
- iii. Other objectives of commodity arrangements should include the protection of exporters against major short-term fluctuations of earnings and importers against major short-term fluctuations of prices. They should also ensure adequacy of supplies in both the short and the long term.
- iv. It should be the aim to establish commodity prices which take full account of the interests of both producers and consumers. Commodity prices should clearly be remunerative to producers. The concept of a remunerative price should take into account a complex of factors including variations in the money and non-monetary costs of production between individual sources of supply; and allowance for a reasonable rate of return to the producer and to the national economy as a whole.
- v. An element in determining the remunerative price should be its purchasing power in relation to imported goods and services, including those of imported inputs used in the production of the primary products concerned. At the very least, commodity arrangements should provide for adjustments in commodity prices which would bear some accepted relationship to changes taking place in the prices of imported goods.
- vi. Producing and consuming countries should cooperate in appropriate cases to introduce measures which would ensure that a more satisfactory share in the total value added and employment generated from the extracting to the final product stages accrues to developing countries. In this connection, one important step would be the accelerated development of processing facilities in developing countries and the provision of improved market access for exports of these processed products particularly in the developed countries.

- vii. Joint efforts are called for between developed and developing countries to promote where appropriate an expansion in demand for, and wider consumer acceptance of, primary and processed products from developing countries. These should include suitable arrangements for promotion, research designed to improve quality and regularity of supplies, and research into new uses for primary commodities.
- viii. In cases where difficulties might be experienced in reversing any downward trends in demand for particular products, the developing countries so affected should be assisted by the international community to diversify their economies.

The UNCTAD programme

39. UNCTAD has put forward proposals for an integrated programme that involve common approaches and joint action in respect of a number of commodities. It envisages separate arrangements for individual commodities, taking account of their distinctive features, and a common framework the focus of which would be a central financing facility.

40. The main elements of the programme are: (a) the establishment of international buffer-stocks for a number of commodities; (b) the creation of a common fund to finance these stocks; (c) the setting up of multilateral supply and purchase commitments by governments of producing and importing countries; (d) the encouragement of improved compensatory financing arrangements for residual fluctuations in prices and earnings, and also for shortfalls in earnings from commodities not taken care of by buffer-stock or other commodity arrangements; and (e) the implementation of measures to encourage processing in producing countries and the diversification of production.

41. We regard the proposed common fund as the most important element in the programme, and its establishment as essential if an integrated plan for commodities is to make a major impact. Financing is crucial in the setting up of effective buffer-stock schemes; and on the expectation that stock accumulation would be taking place for some commodities while other stocks are being released, a common fund could result in a considerable saving in financial requirements. These requirements would not all represent additional financial resources since the setting up of buffer-stocks would reduce the need for other stockholdings.

42. We believe that a common fund could act as a catalyst for the establishment of new agreements and its capital resources would give a new impetus to the setting up of commodity arrangements.

43. We see the integrated programme recommended by the Secretary-General of UNCTAD as a major sustained and comprehensive attack on the commodity problem, and urge the acceptance and implementation by the international community of a programme on these lines. We recognize, however, that it will be necessary to consult with the appropriate authorities regarding the financing of the common fund, as well as with exporting and importing countries on individual commodity arrangements. We

therefore urge that the Secretary-General of UNCTAD undertake the necessary consultation with a view to completing all preparatory work as soon as possible and submitting a final plan for approval not later than the Fourth Session of UNCTAD.

44. Clearly, a wide measure of international co-operation and effort would be needed in setting up the common fund, and importers as well as exporters should contribute to its capital. There is increasing recognition of the gains to importing countries from stabilization – in preventing the exacerbation of price fluctuations, assuring supplies, facilitating efficient production and encouraging orderly world economic progress. Petroleum-exporting countries might also wish to contribute to the fund in view of both its investment possibilities and the opportunity it provides for a significant contribution to international economic co-operation. Assistance from the international financial institutions would be crucial in helping to bring about international acceptance and early establishment of the common fund. We note that the IBRD has been considering buffer-stock financing, and that the IMF has been re-examining its buffer stock facility. We urge both of these institutions to conclude their examination of these matters urgently, with a view to providing loans direct to the fund.

45. The existence of buffer-stock schemes, multilateral commitments and other commodity arrangements would still leave a large role for compensatory financing. In commodity arrangements the emphasis is usually on price stabilization, but there can still be fluctuations in the earnings from products covered by these schemes, resulting from ineffective price stabilization, crop failures or other unexpected supply problems. For residual export shortfalls after commodity arrangements have had their effect, compensatory financing might be the only practical mechanism for supporting earnings. Such schemes, therefore, have a very important complementary role, especially for poorer countries whose exports might not be amenable to other commodity arrangements. We therefore strongly recommend that compensatory financing should become a long-term established arrangement in international economic relationships, capable of meeting the needs of the developing countries concerned in terms of both the timing and the magnitude of damage incurred.

46. The only schemes in existence at present are the EEC Export Earnings Stabilization Scheme (Stabex) and the IMF Compensatory Financing Facility. The former has only recently been adopted, and is limited in scope both in terms of country coverage and the extent of support it will provide.

47. The Stabex scheme cannot yet be evaluated in terms of its practical operation. Some shortcomings of the scheme are the use of only past earnings to determine the target level which is to be supported and the commodity-by-commodity approach. The use of past earnings in a long reference period has the great disadvantage that, in a period of high inflation, the target level becomes unrealistically low and out of line with the current trend of earnings.

48. Improvements to the IMF scheme have been under consideration for some time. Accelerated efforts are required to bring about a broader, more liberal and more effective scheme. We welcome the attention being given to this matter by the Interim Committee, and the Board of Governors should be called upon at their next meeting in September to give this matter priority attention.

49. We believe there is considerable scope for improving the IMF scheme, based upon concepts developed in other proposals and schemes, including Stabex. In particular we believe the following concepts should be incorporated in an improved IMF arrangement: giving the least developed countries special terms, which could include the provision of interest-free loans; relating the upper limits on transfers to the size of short-falls based upon target increases in export earnings rather than to quotas alone; allowing longer periods for repayments, which should be based on the recovery of export earnings.

50. Stabilization measures to maintain real earnings can be frustrated by world-wide inflation which leads to increases in import prices and deterioration in the terms of trade. Comprehensive short-term lending facilities by multilateral institutions are one of the mechanisms that can be introduced for dealing with this problem; and we hope that the IMF will give urgent attention to this possibility. The establishment of the Extended Fund Facility for structural imbalances is a useful addition in view of the longer repayment terms; but we feel that, instead of the creation of new and separate facilities, there would be considerable advantage in establishing a larger and consolidated facility which could satisfy the needs for both short- and medium-term finance.

51. Our proposals regarding compensatory financing do not entirely dispose of the foreign exchange problems of the poorer developing countries. For these countries, aid measures on concessionary terms are also required. A comprehensive and integrated programme for commodities should include action along these lines to cater for their special problems.

52. The terms of trade of those developing countries which are net importers of commodities covered by the commodity arrangements could be adversely affected in so far as the arrangements raised the average price of the imports of these commodities. This could be particularly disadvantageous for those least developed, land-locked, and island developing states with limited natural resources. Special consideration should be given to cases where such adverse effects arise, and appropriate facilities built into any integrated programme for commodities. Such facilities should be of a systematic and predictable nature: they might take the form of compensatory financing, the granting of rebates, or, in appropriate cases, concessionary sales from buffer stocks.

Indexation

53. Indexation should be one of the important elements in commodity arrangements and in regular price reviews under such arrangements. By indexation we mean measures designed to maintain the purchasing power of the prices received by

developing countries for their exports in relation to the cost of the products they import. These measures should be seen as an important element in any package of policies to assure remunerative prices to producers (cf. paragraph 38 (iv) and (v) above) and steady supplies to consumers.

54. Indexation is not designed to raise prices in real terms, but to maintain their purchasing power so that the benefits of a rising volume of exports will not be eroded. It could have particular importance during a period of high inflation, when relative prices of exports and imports of developing countries could diverge substantially without changes in underlying factors such as productivity.

55. There are obvious technical problems in the use of indexation, and these will have to be studied in the context of particular commodity arrangements. These technical problems should not, however, be over-emphasised. While the importance of allowing market forces to operate is fully recognized, indexation has to be seen as one of a number of measures designed to assist stabilization and to allow adjustments for the imperfections and sluggishness of market forces. In this light, indexation can be regarded as helping to improve the operation of market forces, to ensure adequate long term supplies, and to bring about the appropriate balance between long-term supply and demand.

56. A price regulation mechanism must take into account long-term trends in demand and supply, and the operation of such mechanisms would have to be frequently reviewed if over-supply and the encouragement of inefficient production were to be avoided. Price regulation must take into account the interests of consumers in the short run and also in the long run, through the orderly development of production and the assurance of supplies. The participation of exporting and importing countries in commodity arrangements would help to ensure that the interests of both producers and consumers are taken into account.

Producers' associations

57. We accept that the emergence of producers' associations is a reality born of historical experience. In an unequal world it is understandable that such a development should take place. It has its historical counterpart in the evolution of trade unions in the industrialised world, through which originally unorganised poor workers were able to achieve an effective countervailing power.

58. We believe that the positive characteristics of producers' associations should be acknowledged and indeed encouraged, particularly in undertaking research and development; in evolving new methods of production and utilization of a commodity; in providing a forum for the exchange of economic, statistical and technical information between member countries, and in enabling balanced negotiations to take place between the owners of the resources and the multinationals wishing to acquire them. Furthermore, for commodities which are a vital part of the foreign exchange earnings of one or a few countries, but not significant in the total costs of any country's imports, producers' associations can be specially valuable. Wherever possible, such associations should be seen as a prelude to, and a necessary part of, negotiations leading to long-term co-operation between producers and consumers.

Synthetics

59. Exports of certain primary products from developing countries, e.g. fibres, natural rubber and leather, have been adversely affected by competition from synthetic substitutes. In many cases the preference for synthetics is the result of a desire of importers to have control over the supplies of essential inputs. The wide fluctuations in prices of primary commodities is a further factor.

60. In the coming decade or two, many developing countries will also be undertaking large new investments in the production of synthetics, particularly those based on oil and gas. While it is neither desirable nor feasible to retard or halt technological progress in the field of synthetics, it would be appropriate, in the context of the new international economic order, to consider measures which would protect the interests of primary-producing countries. In addition to the measures proposed by us for the stabilization of prices of primary products, supplementary measures are urgently needed to improve the competitive position of natural products vis-a-vis synthetics. The principal areas of action which need urgent consideration and action are:

- i. Research and development to improve the performance and extend the range of end uses of the natural products. For this purpose, substantial financial and technological resources will be needed, and these will have to come through increased aid from appropriate international agencies and through bilateral assistance.
- ii. A closer and more effective collaboration among producers of natural and synthetic products that would include identifying and developing the possibilities of complementarity and joint R & D (e.g. production of new or improved textiles by combining the natural material with synthetics).
- iii. A degree of restraint by governments in encouraging or artificially stimulating the development of synthetics and, where necessary, the imposition of fiscal disincentives on synthetic substitutes in order to ensure that internationally agreed prices for natural products are maintained, thus mitigating the harmful effects of the growth of synthetics on the poor countries of the world which are the main producers of competing natural products.

Investment in production of non-renewable resources

61. We note with concern that investment in mining has recently declined. Moreover, the increasing costs of extraction, together with long-term expansion of world demand, suggest that conventional sources of capital may not be sufficient to finance future exploration and development of these resources at an adequate level. New forms of partnership between capital, technology and natural resources will be needed. Attention should therefore be given to the mobilisation of international funds for this purpose. To this end, governments and international agencies should increasingly undertake the financing of feasibility studies, and the carrying out of preliminary exploratory work on favourable terms should also be encouraged.

A General Agreement on Commodities

62. Our terms of reference required us to examine other commodity proposals including the submission on a general agreement on commodities. The debate on the entire issue of commodity policy has been pursued in a number of different fora and an international consensus seems to be emerging. We believe that the next step should be to transfer this wider measure of agreement into action at the earliest possible moment. We have already set out our specific proposals to this end. However, since trade in commodities plays such an important role in the new economic relationship we wish to see established between developed and developing countries, we believe that a comprehensive agreement could be of value at an appropriate stage.