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## 2. Commodity arrangements

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### **New developments**

18. Commodity matters were discussed in considerable detail at the Ottawa meeting of the Group and our views are set out at some length in the Interim Report. There are however new developments which make continued attention to commodity problems unavoidable, especially in view of the importance of commodity earnings and the proper organisation of commodity markets for the economies of developing countries and progress towards a new international economic order.
19. The prices of the principal commodity exports of the developing countries (excluding fuel) have fallen sharply since the peak period of March-April 1974, and although prices rallied to some extent in the latter half of 1975, estimates by the UNCTAD Secretariat show a fall of 17 per cent in 1975. If these prices are deflated by the UN index of prices of manufactures, the real fall is estimated at 30 per cent; and a comparison of available data on the import prices of developing countries shows that this index greatly understates the real fall.
20. There is clearly an urgent need for early decisions on a comprehensive package of commodity policies.

### **The integrated programme**

21. We expressed the view in our Interim Report that the integrated programme recommended by the Secretary-General of UNCTAD represents a major sustained and comprehensive attack on the commodity problem. We urged then the acceptance and implementation by the international community of a programme on these lines. It is now necessary to translate concepts into concrete action. Accordingly, we believe that no useful purpose can be served by further debate on the respective merits of the integrated programme versus the commodity-by-commodity approach. The distinction between these two approaches can be easily exaggerated, since the integrated programme itself provides for the negotiation of individual commodity arrangements. What is important now is to get

international negotiations going on as many commodities as possible, taking into account the elements of the integrated programme proposed by the Secretary-General of UNCTAD, and backed up by concrete arrangements for the necessary finance. We urge the international community to turn its attention to an action-oriented programme along these lines.

**International buffer stocks**

22. Ready access to funds for international stocking would greatly facilitate the establishment and effective functioning of commodity arrangements for which buffer stock operations are a suitable stabilisation mechanism. We noted in our Interim Report the review being undertaken by the World Bank and the IMF on buffer stock financing. Unfortunately, no scheme has yet emerged in spite of wide attention and agreement in the international community on the need for international buffer stock schemes.

23. We urge the World Bank and the IMF to adopt early and clear policies of support for direct lending to buffer stock schemes or indirect lending through a common financing scheme. In addition we recommend that the IMF Buffer Stock Facility should abolish the balance of payments criterion for providing loans to governments to meet their financial obligations to buffer stock schemes since we regard this as an inappropriate condition for this type of drawing, and that drawings under this Facility should be fully additional to those under the other facilities of the Fund.

**Compensatory financing**

24. Since the publication of the Interim Report, new proposals have been put forward to extend the scope of compensatory financing.

25. In that Report we saw compensatory financing as playing an important role in commodity stabilisation policy. In view of the comprehensive and immediate effect of a compensatory financing scheme, its special advantages in relation to commodities which are not easily amenable to price stabilisation arrangements, and the delays that are possible in negotiating a large programme of arrangements for individual commodities, we see compensatory financing as having an urgent role in the short run and a substantial role normally; but we would re-emphasise that compensatory financing should be complementary to price stabilisation arrangements.

26. We had recommended changes in the IMF Compensatory

Financing Facility. In December the Facility was revised. We welcome the liberalisation that has taken place, but we feel that the Facility is still inadequate to meet the expanding needs for compensatory financing. The extent to which export shortfalls of developing countries are met by the IMF Facility is still very small in relation to the present decline in real export earnings or to the balance of payments problems of these countries.

27. We have given close consideration to further improvements that are required in compensatory financing. We have already referred to limitations in the IMF framework in dealing with development needs and the special problems of particular groups of countries; but there are also dangers in duplicating functions, and we urge efforts to make rapid progress by building on the recent modest achievements rather than considering new institutional arrangements at this stage.
28. Although the Facility has only been recently revised, we see reform as a continuing process and note that the IMF has agreed to review the whole operation of the Facility when experience and developing circumstances make this desirable, and certain aspects in any case before the end of March 1977. The possibility of early changes also arises from the fact that the joint Bank/Fund Development Committee will be giving priority attention to the problems of unstable commodity prices and the stabilisation of export earnings. We recommend most strongly that every opportunity be utilised for considering improvements to the present Fund Facility.
29. The terms we recommend for urgent adoption are: methods of calculating shortfalls that would reflect adequately expected growth in real earnings; extending shortfalls to include where appropriate invisible earnings; compensation for the entire amount of a shortfall; the conversion of loans into grants or soft loans after a specified period; a high level of concessionality to the least developed and most affected countries; and repayments from the excess of export earnings over the norm. These conditions would only be available to the developing countries, and will not affect the access of other countries under the terms of the existing Facility.
30. If development efforts are not to be frustrated, developing countries must be able to plan on the expectation of stable growth in their export earnings. This requires not only full compensation for nominal shortfalls, but also measures to support the maintenance of real earnings. Accordingly, we

recommend that the quota limitations of the Fund Facility be eliminated, and the other restrictive conditions on access be relaxed.

31. We strongly support the introduction of special concessional measures into the Fund Facility in favour of the least developed and most seriously affected countries.

32. It seems probable that the funds required by a facility with the features we have recommended could be met from the normal resources of the IMF. Should this however not be the case, the IMF should be able to raise required additional funds by special arrangements, including the allocation of SDRs, for meeting the requirements of compensatory financing.

33. The detailed changes recommended are as follows:

(i) *Eligibility*

Drawings should be for shortfalls in total visible real export earnings, including in appropriate cases specified invisibles e.g. tourism. The shortfall would be calculated on the same basis as before December 1975 except that the maximum forecast estimate of earnings for the post-shortfall years would be raised from 10 per cent to 20 per cent over the value for the two pre-shortfall years. A country's shortfall in real export earnings should be calculated after adjustments are made for changes in the prices of its imports;

(ii) *Extent of Drawings*

Drawings should cover the shortfall in export earnings;

(iii) *Repayment*

For the least developed and MSA countries drawings should take the form of grants or IDA-type loans. Repayments for other countries should be made within a five-year period from the excess of export earnings over the norm for that year calculated on the basis of real earnings as in the case of shortfalls. Any balance outstanding at the end of this period should be converted into a grant or an IDA-type loan.

**Net importing countries**

34. We gave further consideration to the issue of the effect of the integrated programme proposed by the Secretary-General of UNCTAD on the net commodity importing countries. We reiterate the support we gave in the Interim Report to remedial compensatory financing arrangements, the granting of rebates,

and in appropriate cases concessionary sales from buffer-stocks. The improvements we have proposed with respect to the IMF Facility would to a considerable extent also accommodate net importing countries.

**Market structure**

35. In the case of many mineral and agricultural commodities exported by developing countries, there is a concentration of ownership or control in respect of distribution and marketing or in the various stages of processing. Several stages of the processing and marketing of such products are in the hands of a few large corporations which are wholly or mainly owned by nationals of developed countries.
36. There is a sizeable spread between the prices received by producers of the raw materials and those paid for the final products whether in unprocessed or processed form. The developing countries could secure a larger share of the proceeds through co-operation among themselves in negotiations with the companies involved, and by the establishment of their own transport and marketing facilities.
37. As far as processed products are concerned, a larger share for the developing countries would involve their undertaking more down-stream operations locally and greater participation by them in down-stream operations located abroad.
38. Much more information is needed on the marketing situation and on economic and technical feasibility, before specific policies can be devised to suit the special characteristics of each commodity. Some studies have been attempted by the UNCTAD Secretariat. We recommend that these studies should be continued and urge the companies concerned in the developed countries to co-operate fully.
39. The encouragement of down-stream operations locally, and the participation of developing countries in partnership ventures in these operations, could be helped by greater support for these activities by regional and international lending agencies; and the latter should adapt their policies to encourage greater local ownership and participation. The financing of national stocking could also help to improve producer returns. Local restrictive practices legislation, and international codes of conduct on transnationals and the transfer of technology, could assist in encouraging down-stream operations and in providing higher returns to developing producing countries, by the discouragement of restrictive transfer pricing and market

sharing arrangements and by promoting the transfer of technology.

40. It is often the case that the interests of the developing producing countries are similar to those of consumers in the developed countries. Governments in the latter should recognise this in the development of their legislation on restrictive business practices. This requires attention not only to pricing policies and market margins, but also to regulations on advertising and trade description.

41. Keeping in view the considerations stated above, we urge the international community to assist the developing countries to secure a larger share of markets, distribution and processing.

**Investment in raw material production**

42. A sustained increase in investment in the exploration for and production of non-renewable mineral resources is necessary if the present and future world demand for these materials is to be satisfied. A large proportion of this must be made in the developing countries. By far the greatest share of the supply produced by the developing countries is now required by the developed countries, but we wish to point out that the developing countries must include in their investment planning in these fields the satisfaction of both the demand from the developed countries and their own future development needs. The provision of investment funds for these countries must therefore have regard to both these needs.

43. We pointed out in our Interim Report that mining and extraction costs have been increasing because of both sharply rising prices of the capital equipment and other inputs purchased from the industrialised countries and the need to explore lower yielding grades and strata of mineral resources. Further, developing countries are now set firmly on a course of securing greater control over the ownership and exploitation of their natural resources, a process which we fully support. If the world is to assure itself of an adequate supply of essential mineral resources produced in the developing countries, it must have full regard to both these factors, and it is for this reason that we stress that new partnerships and arrangements between capital, technology and natural resources will be necessary.

44. In our view, the heart of the investment problem is the question of the price level and the price expectation for the output. It is highly unlikely, to say the least, that a durable solution can be

found for securing the required flow of investment in infrastructure and in the production and ancillary facilities unless pricing arrangements give the necessary assurance of continuing remunerative prices to the producers which provides them with confidence in the future. The commodity arrangements which we supported earlier are therefore crucial.

45. *The World Bank and Regional Banks:* We endorse the call made at the Seventh Special Session for the World Bank – and we include also the regional development banks – to be empowered and assisted to raise each year the additional funds required for investment in infrastructure and other facilities associated with new production of raw materials in the developing countries. We urge these institutions to adapt their policies to the new development strategies being employed and in particular to assist the governments of the developing countries in meeting their share in joint operations and in financing effective local participation in activities directly and indirectly related to mineral and other raw material production.
46. *The International Finance Corporation:* We strongly recommend that, parallel with the provision of an enlarged equity base for the International Finance Corporation, the charter of this agency should be amended to enable it to participate, through the provision of loans, equity and guarantees, in commercially oriented producing enterprises in the developing countries regardless of their pattern of ownership.
47. *The UN Agencies:* We see an important role for the UN agencies in supporting pre-feasibility studies and exploration work. We welcome the establishment of the UN Revolving Fund for Natural Resources and urge the developed countries and the OPEC countries to provide the very tiny fraction of their resources which this agency will require if it is to be an effective force in safeguarding future world supply.
48. We are convinced also that all multilateral technical assistance agencies could improve their effectiveness by structuring their activities so as to be able to assist the developing countries in exploring new mineral resources, and we urge that they take appropriate steps to undertake such functions on an enlarged scale.
49. We welcome the fact that progressive transnational enterprises are evolving new forms of partnership to operate in developing countries. These new forms, such as joint ventures with varying proportions of equity, service and management

contracts, and long-term purchase agreements involving financing, can provide an efficient vehicle for the continued supply of investment funds for raw material production in the developing countries. We urge both those developing countries which allow foreign investment in these sectors and the developed countries to support this evolution of productive capacity. In particular, we see the need for the developing countries to improve their negotiating and decision-making capabilities to avoid future friction and costly delays, and for the developed countries to continue to provide existing incentives and other forms of support and to adapt them to the changing conditions of partnership with the developing countries.

50. We believe that the centrally-planned economies, in support of their stated commitment to international development, should be expected to provide expertise, investment funds and other forms of support for the exploration and production of raw materials in the developing countries.

**The International sea-bed**

51. We share the view that the international sea-bed and ocean-floor will be an important source of essential raw materials in the future. We believe that the developing countries should receive a substantial share of the benefits to be derived from the exploitation of the international sea-bed and ocean-floor resources. We are of the view that the international organisation to be set up for managing the resources of the sea-bed and ocean-floor which is under consideration at UNCLOS III, should be provided with adequate and secure funds for discharging its functions.