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Development Policy (Comm.) International Tin Council 1974 (Dec) - 1978 (Jan)

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January 12, 1978

Dear Mr. Chairman:

Thank you for your letter of December 12, 1977 inviting Mr. Enzo Grilli, a World Bank staff member, to testify on H.R. 9486, a bill to authorize a U.S. contribution to the recently established Tin Buffer Stock.

We regret that Mr. Grilli will have to decline. The World Bank, as you know, is an international organization with 130 member governments. As such we have been careful to avoid having our staff testify before parliaments of our members relating to policy matters, which are likely to involve the Bank and members of its staff in national controversies. Accordingly, we do not believe it proper for Mr. Grilli to testify on H.R. 9486, even if he were to attempt to distinguish his views from those of the World Bank. We hope you understand our position in this regard.

We would, however, be happy to make available to you any information we have concerning international tin markets. This would be done through the office of Mr. Edward R. Fried, United States Executive Director of the World Bank.

Sincerely,

John E. Merriam
Director
Information and Public Affairs

The Honorable Jonathan B. Bingham
Chairman
Subcommittee on International Economic
Policy and Trade
Committee on International Relations
House of Representatives
Washington, D.C. 20515

cc: Mr. E. R. Fried, U.S. Executive Director

bcc: Messrs. Nurick, Karaosmanoglu, Cheetham, Grilli

JEM:pam

Congress of the United States
Committee on International Relations
House of Representatives
Washington, D.C. 20515

December 12, 1977

Mr. Enzo Grilli
Senior Economist
Economic Analysis and
Projections Section
International Bank for
Reconstruction and Development
1818 H Street, N.W.
Washington, D. C. 20433

Dear Mr. Grilli:

This letter is to request your testimony at hearings of the Subcommittee on International Economic Policy and Trade which are tentatively scheduled for the first or second week in February.

The purpose of these hearings is to evaluate specifically H.R. 9486, a bill to authorize a U.S. contribution of up to 5,000 tons of tin to the Tin Buffer Stock established under the Fifth International Tin Agreement, particularly in terms of the impact of such a contribution on U.S. foreign policy interests; and to explore the Administrations's plans for participating in further commodity price stabilization schemes.

The Subcommittee invites you, as an expert on tin, to provide us with an analysis of past, present and projected trends in the tin market. Your testimony should address: (1) the conditions affecting shifts in prices and supplies of tin such as the nature of the metal (quality, mining techniques, etc.) and its principal producers and consumers; price elasticity of supply and demand; health of the world economy; activities of the International Tin Council; use of production controls, taxes and royalties; availability of substitutes; existence and actions of the GSA stockpile; investment climate in producing countries, etc.; (2) the market impact of the proposed U.S. contribution to the International Tin Buffer Stock and of a GSA stockpile sale of up to 30,000 tons of tin which has been recommended by my colleague, Mr. Mollohan; and (3) projected shifts in the demand for and supply of tin over the next two decades.

Please confirm your availability during the proposed period as soon as possible with Paula Belknap of the Subcommittee staff (202-225-3246), who is handling the details of these hearings. We will provide the date as soon as it is definite.

I attach an instruction sheet and a copy of H.R. 9486 to aid the preparation of your testimony.

The Subcommittee looks forward to your testimony.

Sincerely,

Jonathan B. Bingham
Chairman
Subcommittee on International Economic Policy and Trade

JBB:pbcr

P.S. You are invited to testify in your capacity as an expert on the tin market and nothing you say shall be construed as representing the official position of the World Bank. You will presumably want to reaffirm this understanding at the outset of your testimony.

THE INTERNATIONAL TIN COUNCIL

28 HAYMARKET LONDON SW1Y 4ST

01 930 0321

H W ALLEN
Executive Chairman

10 February 1975.

Dear Mr. McNamara,

The International Tin Council, which has been the governing body of successive five-year International Tin Agreements since 1956, is making the necessary preparations for a United Nations Conference to be held in Geneva in May/June 1975 for the purpose of negotiating the Fifth International Tin Agreement to come into effect after the present Fourth Agreement terminates on 30 June 1976. A Preparatory Committee established by the Council, on which the International Bank for Reconstruction and Development had observer status, reviewed the articles of the Fourth Agreement and prepared (without commitment on the participating member countries) a working document containing a draft Fifth Agreement to be considered at the United Nations Tin Conference.

The Preparatory Committee has directed its attention principally to those measures which offer the possibility of improving the function of a well established and tested Agreement. The central question under discussion in the Committee was the size and financing of the buffer stock. The view was advanced in the Committee that the Council's efforts towards moderating market price fluctuations, in the short- and medium-term, could prove to be more effective if the buffer stock were substantially enlarged.

The thinking behind this suggestion is that past experience has shown that the Council has been obliged to rely, at times of sustained market weakness, on the imposition of export controls in producing countries to support the floor price of the Agreement, and therefore, it has been argued, a much larger buffer stock could avoid or delay the imposition of export controls at such times.

The Council, under the present Agreement, has available to it both the buffer stock and a power to apply export controls in certain circumstances. This power would doubtless continue under the Fifth Agreement, as it is necessary to provide against the effects of prolonged periods of surplus due to unpredictable circumstances such as a possible world recession, which resulted in sharply reduced world demand for tin. The use of export controls, however, can have the effect of curtailing the rate of production growth and retarding plans for investment in exploration and in production capacity. It is,

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therefore, argued that a strengthened buffer stock used to avoid or to delay imposition of export controls would be beneficial to the tin producing industry and also to tin consumers in terms of availability of supplies. The buffer stock would also be more effective in moderating short-term price fluctuations in the market.

The buffer stocks of the first three Tin Agreements and the current Fourth Agreement have been financed by compulsory contributions of the member producing countries. The producing members of the present Agreement are: Malaysia, Bolivia, Thailand, Indonesia, Nigeria, Zaire and Australia. Provision has existed in all Agreements for voluntary contributions from member countries, and, under the Fourth Agreement, voluntary contributions have been made by two consuming countries, France and the Netherlands. The financing of an enlarged buffer stock would either involve producing countries in much heavier financial responsibilities, or require contributions from consuming countries members of the Council. Alternatively, or complementary to, increased member contributions, whether from producers or consumers, would be the provision of finance from an international organisation such as the International Monetary Fund or the World Bank.

The size of the present buffer stock of the International Tin Council is limited by the obligation of producing countries to provide cash or metal equivalent to 20,000 tons of tin, plus any voluntary contributions made by consuming countries. The cash equivalent of the tin is estimated at the floor price (£1,350 per metric ton) in force at the inception of the Fourth Agreement in July 1971. The total cash equivalent of compulsory contributions is thus £27 million sterling. The total value of the voluntary contributions by France and the Netherlands is £1,887,000. However, for the Fifth International Tin Agreement, in view of the increase in floor price under the Fourth Agreement and changes in exchange rates, the cash cost of contributing the equivalent of 20,000 tons of tin metal, would be around double this amount or perhaps even more. If the buffer stock is to be enlarged by say, a further 20,000 tons, the cash and credit requirements would be correspondingly greater. The provision of financial facilities of these dimensions poses problems and the Council wishes to explore the possibilities of obtaining additional financial backing from international sources.

At the Council's fifteenth session, held in Kuala Lumpur in October 1974, a decision was taken to approach the International Monetary Fund in this connection. I wrote to the Managing Director of the Fund on 5 November 1974 on behalf of the Council to open up with the Fund the possibility of a solution being found to the problem of financing the buffer stock of the Tin Council under the Fifth Agreement. The Fund already has a buffer stock financing facility, but this is restricted to making available foreign ex-

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change for producing countries who are members of the Council to enable them to make contributions to the Council's buffer stock, provided those countries have a balance of payments need. The question now requiring consideration is whether some direct assistance (cash availability and/or standby credit facilities) can be provided for the operation of the buffer stock itself. At theCouncil's sixteenth session in London, which concluded on 31 January 1975, the Council decided that for the purpose of further exploring the possibilities of direct finance for the buffer stock, an approach should also be made to the World Bank to request that the Bank give consideration to the question whether facilities can be made available for direct financing of the buffer stock. The Council is of the view that both the Bank and the Fund should have the opportunity to study the problem in detail well in advance of the United Nations Tin Conference in May/June 1975, so that the Fifth Agreement negotiations can take fully into account any financing or credit arrangement that may be feasible.

It would be highly appreciated if the Bank could give consideration to this letter with a view to the initiation of early discussions which would assist the Council in finding a solution to the problem of financing the buffer stock under the Fifth Agreement.

Yours sincerely,

H W Allen

(H W Allen)
EXECUTIVE CHAIRMAN

Mr Robert S McNamara,
President
International Bank for Reconstruction and Development
1818 H Street NW
Washington DC 20433
U S A

DRAFT - 4/16/75

VISIT OF MR. H. W. ALLEN AND MR. R. T. ADNAN OF

THE INTERNATIONAL TIN COUNCIL

Tentative Schedule of Meetings

April 29 (Tuesday)

9:30 a.m. - 12:30 p.m.	Meetings with IMF Staff (Bank represented) IMF Room ____
1:00 p.m. -	Lunch by Mr. B. Kharmawan and Mr. Choi Siew Hong, Executive Directors for Fund and Bank IMF Dining Room ____
2:30 p.m. - 4:30 p.m.	Meetings with Bank Staff Room D-461

April 30 (Wednesday)

Morning	State Department
1:00 p.m. -	Lunch by Mr. H. J. Witteveen, Managing Director, IMF
2:30 p.m. - 4:30 p.m.	Meetings with Bank Staff Room D-461

May 1 (Thursday)

Morning	Open for follow-up meetings, as needed.
1:00 p.m. -	Lunch by Mr. J. B. Knapp, Senior Vice President, Operations Mr. Knapp's Private Dining Room

INDEX OF FLUCTUATIONS IN SELECTED COMMODITY PRICES, VOLUME AND EARNINGS /1

Commodity	Prices /2	Volume /3	Earnings /4
Tin	6.2	4.7	8.7
Copper	13.4	3.2	11.4
Lead	12.9	2.7	10.6
Zinc	13.2	3.4	15.9
Iron Ore	4.2	6.5	8.0
Manganese Ore	7.7	9.7	12.9

/1 The index of fluctuation is calculated by taking arithmetic mean of annual differences between observation and five-year moving averages, void of signs and expressed as percentages of the moving averages.
/2 The period covered is 1950-73.
/3 The period covered is copper, 1952-72; tin, lead, zinc, iron ore, manganese ore, 1953-72.
/4 The period covered is 1950-72.

Source: IBRD Report No. 467, Price Forecasts for Major Primary Commodities, June 19, 1974.

Commodities & Export Projections Division
Economic Analysis & Projections Department
Development Policy Staff

SecM75-170

FROM: The Secretary

March 13, 1975

UNCTAD - COMMITTEE ON COMMODITIES

Integrated Programme for Commodities

Attached for information is a report on the meeting of the UNCTAD Committee on Commodities held in Geneva from February 10 to February 21, 1975. The report, which is confined to one of the items on the Committee's agenda, namely an integrated programme for commodities, has been prepared by the observer who attended the meeting on behalf of the Bank. A copy of the statement made by the observer at the same meeting is also attached.

Distribution:

Executive Directors and Alternates
President
Senior Vice President, Operations
Executive Vice President and Vice President, IFC
President's Council
Directors and Department Heads, Bank and IFC

INTEGRATED PROGRAMME FOR COMMODITIES

1. UNCTAD Committee on Commodities met in Geneva, February 10-21, 1975, to discuss, among other subjects, an integrated (i.e. multi-commodity) programme for commodities covering a wide range of primary products. The principal objectives of the proposed programme are stabilization of commodity prices at an adequate level and security of supplies in international trade. The rationale for favoring the simultaneous negotiation of up to 18 commodities, as compared to the traditional, commodity-by-commodity approach is that it offers a broader bargaining framework within which to reconcile the diverse interests of a large number of producers and consumers.

2. The core of the integrated approach is the establishment of internationally-held and internationally-managed buffer stocks and a Common Fund to finance them. The staff report suggested that tentatively 18 commodities could be considered suitable for inclusion in such a program. For illustrative purposes, it estimated that, at 1970-74 or 1972-74 prices, the Common Fund would need a line of credit of $11 to $13 billion, with one-half of the amount required for grains alone (table 1).[1] The fund could be financed from a number of sources, including a levy on exports, contributions from importing and producing countries, borrowings from IMF and the World Bank, and special assistance from individual (oil) countries willing to contribute.

3. Emphasizing the need for action, the Secretariat pointed out that the commodity boom has been short-lived and the non-oil developing countries are likely to face serious deterioration in their terms of trade. Even in 1972-1974, when the price boom contributed $47 billion to world trade in non-oil primary products, the benefit to the developing countries was only $11 billion. For 1975, OECD has estimated that its members could expect to gain $7½ billion through the deterioration of the terms of trade of non-oil developing countries. The Secretariat pointed out that the commodity-by-commodity approach towards stabilizing prices had not been effective and an alternative should be explored. However, it was stressed that the proposed Integrated Programme does not discard the commodity-by-commodity approach, but is meant to provide a comprehensive framework for such agreements.

4. The Committee met against the background of the Dakar declaration issued in the previous week by the Group of 77. This declaration expressed the view that the developing countries continue to be at a bargaining disadvantage in restructuring world trade. The developed countries have not taken much action to solve the commodity problem and there is no price support in world markets for primary products in marked contrast to the systems operating in the domestic markets of the developed countries. The Group of 77 passed a number of resolutions, including one proposing the setting up of a special fund by the developing countries for financing

1/ These are aggregate amounts; since not all buffer stocks would be buying simultaneously, the actual credit would be much smaller.

buffer stocks and another one for establishment of producers' associations of raw materials, although no framework for implementing these resolutions was established.

5. The developing countries, as well as the East European countries and China strongly supported the UNCTAD proposals at the Committee on Commodities. However, one country did caution the Committee that developed countries should not be identified as the importing countries, just as developing countries should not be identified as the exporting countries. The distribution of benefits should be carefully examined lest a large share went to the richer nations.

6. The industrialized countries wanted more time to study the issues involved and requested further refinement of the proposals, including priorities and financial needs. However, in their individual positions several countries supported the creation of buffer stocks for commodity price stabilization.

7. The Common Market countries stated that the present concern of the consumer countries for stability of supply is paralleled by the concern of the producer countries for stability of export earnings. As a first step they were willing to negotiate commodity agreements on wheat, maize, rice, and sugar. Since coffee, cocoa and tin agreements were due for renegotiation this year and the FAO Intergovernmental Group is examining the possibility of a tea agreement, they thought that their offer covered a sizeable portion of the UNCTAD proposed list of 18 commodities, although they realized that foodgrains were not of major export importance for the developing countries.

8. At its concluding session the Committee agreed that the Secretariat's proposals constituted a useful basis for further work on an Integrated Programme which could lead to just and equitable solutions to the problems of commodities. It requested the Secretary-General of UNCTAD to elaborate the provisions of the proposed Integrated Programme, further including:

(a) suitability of individual commodities for stocking, - management measures including operating principles and rules and objectives of intervention, - size, location and carrying costs of stocks; and

(b) amounts, terms, techniques and prospective sources of finance for stocks.

9. The Committee on Commodities is expected to reconvene twice more this year (in summer, and again, late in 1975), to continue the discussions. It will also review the effect of stabilization on the imports of the developing countries, particularly the poorest. It may then make recommendations or submit conclusions to UNCTAD IV, scheduled for April 1976 in Nairobi.

10. The Committee also discussed or took note of a number of other issues, including indexation of commodity prices, reduction or elimination of tariff and other trade barriers, possible improvements in facilities for

compensatory financing of export fluctuations and direct assistance to international buffer stocks.

11. The Bank Observer made a statement on the Bank Groups' position and policies regarding the financing of buffer stocks. (Copy attached).

12. The staff proposes to follow closely the developments concerning the Integrated Programme and the renegotiation of several commodity agreements due to take place this year.

Attachments.

Economic Analysis and Projections Department
Development Policy Staff
March 12, 1975

INTERNATIONAL STOCKS; ESTIMATED PURCHASE COST

Commodity	Stock Required	Purchase Cost, at average prices in: 1970-1974	Purchase Cost, at average prices in: 1972-1974
	('000 tons)	($ million)	
Grains	45,000	4,725	5,940
Sugar	5,500	1,200	1,665
Coffee	15,000	1,097	1,200
Cocoa	300	337	428
Tea	90	101	104
Rubber	375	193	229
Cotton	535	557	668
Jute and manufactures	..	98	100
Sisal	114	32	46
Wool	228	505	661
Copper	557	854	955
Lead	240	91	107
Zinc	425	273	370
Bauxite (al. content)	825	47	52
Alumina (al. content)	562	83	85
Iron ore	26,000	286	312
Tin	40	194	227
Total:		10,673	13,149

Source: UNCTAD: The Role of International Commodity Stocks, TD/B/C.1/166/Supp. 1, Dec. 12, 1974.

Statement by the World Bank Representative
at the 8th Session of the
UNCTAD Committee on Commodities, February 10-21, 1975

Mr. Chairman:

The report of the Secretary-General, and his proposals for an Integrated Program for Commodities, are of great interest to the Bank as a major institution concerned with financing development in the developing countries. We welcome the initiation of discussions on concrete proposals to deal with the persistent commodity problems which are of such great importance to the prospects of the developing countries, and particularly the poorest. The Bank staff remains ready to cooperate fully with the UNCTAD Secretariat, as we have done in the past.

The Bank has reviewed the commodity problem on several occasions in the past. For example, in 1968/69 the Bank staff undertook a study on "Stabilization of Prices of Primary Products." The Board of Directors of the Bank, after a thorough discussion of the analysis presented and the recommendations made by the staff, decided that the World Bank Group could assist its member countries to help solve the commodity problem in close cooperation with other national and international agencies in several ways, including a financing of diversification projects, assistance to international commodity agreements and strengthening the competitiveness of primary products in world trade through, for example, research and development.

The commodity problem within its broad context of trade policy for development, was also examined in 1969 by the Commission on International Development, headed by the former Prime Minister of Canada, Mr. Lester B. Pearson. The Commission recommended that financing of reasonable buffer stocks in support of well-conceived commodity agreements and policies should be recognized as a legitimate object of foreign aid.

With a view to implement the recommendations of the Pearson Commission and the decisions of its Board of Directors, the Bank enlarged and expanded its role in the diversification of the economies of the developing countries who depend so heavily on exports of usually a couple of primary products. It increased its technical assistance and support of international commodity agreements; it entered into consultative arrangements with specialized commodity bodies to ensure that Bank actions affecting those commodities were consistent with the policies of those bodies. Recognizing the stocking of commodities as a legitimate and important segment of the production process, the Bank expanded its assistance for foodgrain warehousing facilities in several countries. The Bank also took measures to assist the developing countries in helping them process an increasing share of their raw material exports within their own countries, whether it was as simple as washing of coffee beans or more complex as manufacture of plywood. The record of the Bank in these fields is well documented and it is not necessary to give the details here.

Again in 1973 the Bank staff prepared a report on "Development Policy for Countries Highly Dependent on Exports of Primary Products." The report discussed Bank Group policy relating to countries highly dependent on exports of primary products with unfavorable market prospects. The analysis showed that in some cases market organization schemes can help stabilize and increase export earnings of developing countries. Also, a major obstacle to growth of agricultural exports from the developing countries are trade barriers imposed by the developed countries with the purpose of limiting access to, or reserving the market for domestic producers. But the report pointed out that the commodity problem is most difficult for small poor countries. Consequently, the World Bank President directed that the Bank Group lending and technical assistance programs should emphasize measures to improve export prospects of these countries.

During the discussion of this paper Bank policy towards financing of buffer stocks was once again reviewed by the Board of Directors. The President of the Bank stated that, if buffer stock financing was of broad interest to member governments, and if the IMF and other resources were inadequate for the purpose, he would consider proposing that the Bank provide financial support to countries participating in commodity agreements or financing buffer stocks directly.

In 1974 once again some members of the Board of Directors asked for clarification about Bank policy towards financing of stocks and Mr. McNamara reiterated that the Bank was prepared to examine the issues and intricacies of buffer stock financing, but no request had so far been received.

Mr. Chairman, I have dwelled at some length on the evolution of Bank policy towards financing of buffer stocks, to put before the Committee a clear picture of Bank policies on the subject. In essence, the policy remains that the Bank is ready to receive applications for financing of buffer stocks and examine them in each case on its merits.

It is not possible to foresee all the issues that may arise in connection with the implementation of Bank policy, but a few of the major areas can be identified. Bank loans require governmental guarantees. In case of national buffer stocks this is a simple issue but with an international buffer stock authority the nature and form of such guarantees will need to worked out. Bank lending also requires findings as to financial viability and repayment capacity. Once the nature, scope and organizational structure of an international buffer stock is agreed on these questions can be dealt with. Other issues relate to the amount of financing required, the availability of financing from various sources and the division of gains from stabilization measures between developed and developing countries. I mention these questions, not because they are insuperable obstacles but in order that they can be kept in mind as discussions proceed and proposals are formulated.

The harmonious and close working relations between the Bank and the specialized U.N. Agencies and the independent commodity bodies have been productive and mutually beneficial. We remain ready to further strengthen the bonds of cooperation.

OFFICE MEMORANDUM

TO: Mr. John A. Holsen

DATE: April 15, 1975

FROM: Shamsher Singh SS

SUBJECT: IMF Board Meeting on Buffer Stock Financing

I attended the April 14 IMF Board Meeting on direct IMF financing of buffer stocks. A Staff Paper (SM75-68) had discussed issues related to "fully floating" the buffer stock facility, the requirement that the purchaser should have a balance of payments need, and direct financing of buffer stocks. Eighteen Executive Directors spoke on the subject. The following conclusions were reached:

(1) Modest progress can be made towards fully floating the buffer stock facility in the gold tranche.

(2) The condition of balance of payments need should be maintained, although it should be made flexible.

(3) The Fund Board does not favor direct lending to finance buffer stocks. Although several Executive Directors supported the proposal, key countries were in strong opposition. (Mr. Witteveen suggested that this issue should remain on the agenda until after the question of buffer stocks has been discussed in other fora.)

(4) The staff will prepare a report to the Interim Committee, giving a resume of the views expressed. This draft will be discussed by the IMF Board before it is forwarded to the Interim Committee. (A proposal was made that a draft amendment to the Articles permitting direct lending should be included in parentheses in the comprehensive report to the Interim Committee, but this question was deferred until the draft report is discussed by the Executive Directors).

The following is a summary of the positions taken by the various Executive Directors:

Mr. Kharmawan (Indonesia, Malaysia, Thailand, et al.), who had circulated a written statement on the subject, sponsored the move for immediate action by the Fund Board. He felt that the matter had been discussed in various fora and an immediate action was now needed. The matter concerned both the Fund and the Bank, particularly in view of the decisions of the Executive Directors following the joint study on stabilization in 1969. (He expressed pleasure at Bank's presence at the Fund Board discussions).

Proposals for floating in the gold tranche, relaxing the balance of payments requirements, and direct lending to a buffer stock were strongly supported by Mr. Kafka (Brazil, Colombia, et al.), Mr. Guarnieri (Central American countries, Mexico, Venezuela), Mr. Gavalda (Argentina, Chile, et al.), Mr. Monday (East and West African countries) - he favored direct lending by the Bank rather than the Fund - Mr. Yameogo (French speaking African countries), Mr. Wahl (France), and Mr. Deif (Arab countries and Pakistan).

Mr. Deane (Australia, New Zealand, Philippines, Western Samoa) said that his countries, particularly the Philippines, were greatly interested in the proposals made. Australia was in favor of providing financing within the existing framework and wanted further staff work done on the subject including the implications of introducing flexibility in the balance of payments need and floating in the gold tranche. Simultaneously, he felt that the compensatory financing facilities should also be reviewed.

Mr. Schneider (Belgium, et al.) was sympathetic with the proposal but was reluctant to agree to direct lending, as it will be a major departure from the balance of payments need criterion. However, he favored flexibility in the application of this constraint.

Mr. Lieftinck (Netherlands, et al.) said that, although he had not received any instructions, his countries will probably endorse the proposal. The Netherlands favors buffer stock financing, although he was not sure how far the Fund should be involved in it because it would be a new activity for the IMF. Lending to buffer stock agencies would be providing scarce resources to richer countries as well.

Mr. Prasad (India, Bangladesh, Sri Lanka), although sympathetic to the proposals, said that IMF has a range of facilities but countries did not know how they functioned and when to use them. Buffer stock financing should be seen in a wider perspective and we should examine why existing facilities are not being fully utilized.

Mr. Caranicas (Greece, et al.) said that the question was a complex one and it was premature to examine it to the fullest extent. UNCTAD is still working on the question; the cost of the UNCTAD Scheme is enormous; and a lot of issues remain unresolved.

Direct lending to a buffer stock agency was strongly opposed by the United States, the United Kingdom, Germany, Japan and Canada.

Mr. Pieske (Germany) opposed any direct lending and said that he would not accept amendments to the Articles of Agreement. Once the Fund agreed to lend to one buffer stock agency, it would become difficult to draw a line. IMF resources are drawn from the Central banks and not from savings; therefore, they should be used only to meet the balance of payments need. An important question was whether such a financing should be undertaken by the Bank or through savings elsewhere, but IMF was certainly not the proper institution.

Mr. Cross (U.S.) said that his Government was presently re-examining its entire commodity policy. Therefore, he could not make a definitive statement. However, if there was to be an expanded role in connection with the financing of the buffer stocks, he was not sure if the IMF was the right institution. He was skeptical about IMF's proliferation into other areas. He felt that direct financing may not be consistent with the Fund's objectives.

Mr. Rawlinson (U.K.) said that his Government too was reviewing its commodity policy. Although he supported easement of existing conditions and greater flexibility, stressed that countries must have the balance of payments need.

Mr. Reynolds (Canada, et al.) said that he was not reconciled with the idea of direct lending to a buffer stock agency. He felt that the Fund paper should have examined the full implications of direct lending before bringing the issue of amendments to the Articles of Agreement before the Board.

Mr. Kawaguchi (Japan) said that direct lending would be a radical departure for the IMF, as would be the elimination of the balance of payments need. Any amendment to the Articles or of Fund practices should be kept to a minimum.

The Staff replied that direct lending would not be a radical step, compensatory facility is under intensive study and far-reaching changes are likely to be proposed, existing buffer stock facility is stringent and one Tin member was not able to draw as much under the facility as it would have liked to, and the nature as well as the use of Fund resources will remain conditional, as before.

cc: Messrs. Chenery, Stern, Tims (o/r),
Haq, Gulhati, Duloy
Waelbroeck, McPheeters
Chief Economists
Messrs. Broches, Baum, van der Tak, Ray
Hoffman, Chatenay, Burney
Damry, Ghoshal

SSingh:ke

COMPULSORY CONTRIBUTIONS TO THE TIN BUFFER STOCK

Per Cent Shares, 1973-75

Country	Share
Australia	4.37
Bolivia	18.06
Indonesia	13.71
Malaysia	43.61
Nigeria	4.17
Thailand	12.54
Zaire	3.54
Total	100.00

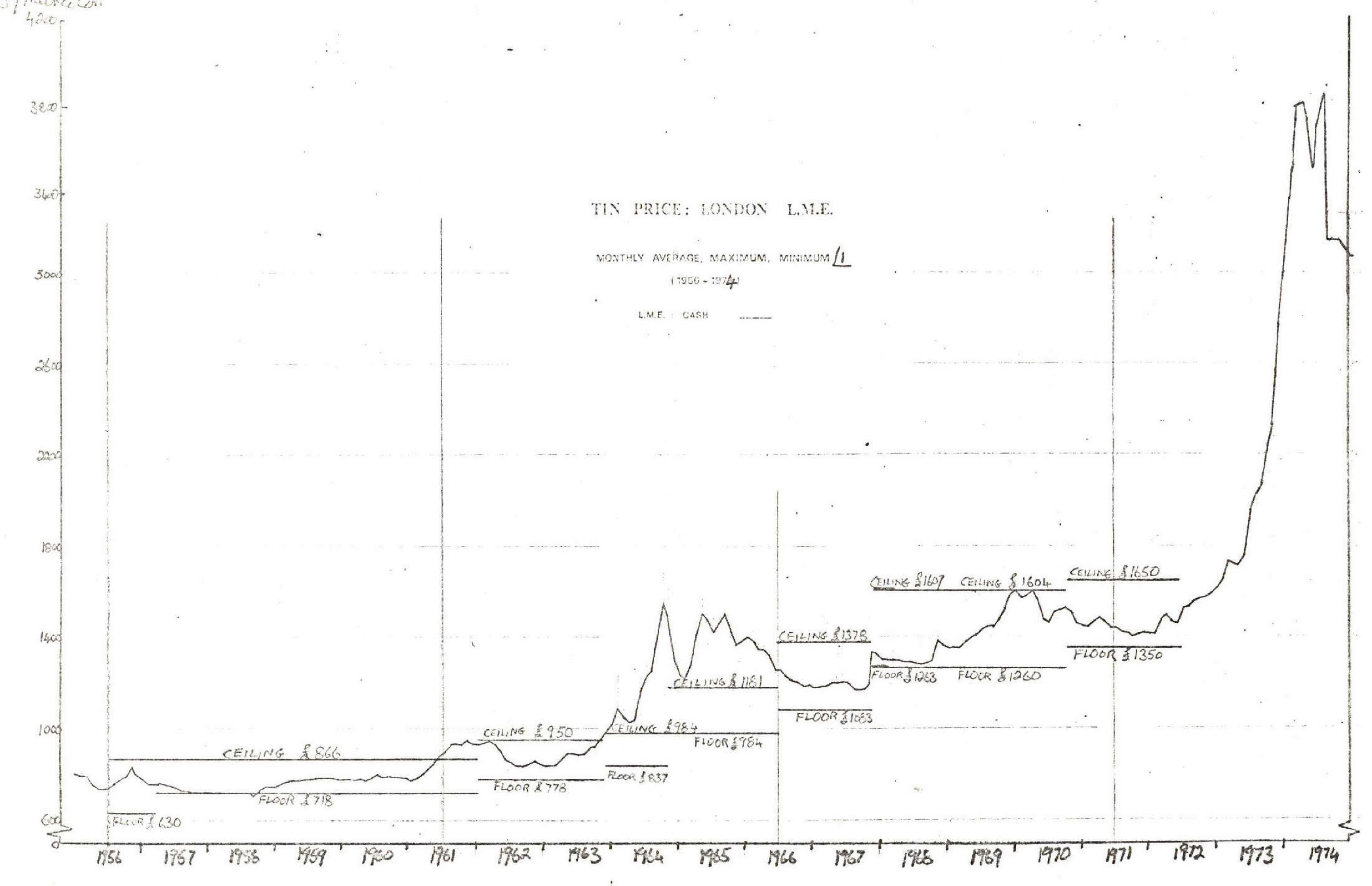
Commodities and Export Projections Division
Economic Analysis and Projections Department
Development Policy Staff
April 18, 1975

PRICE FLUCTUATIONS - YEAR-TO-YEAR CHANGES (%)

	Tin	Copper	Lead	Zinc	Manganese Ore	Iron Ore	Bauxite
1966	-8	19	-17	-10	1	-3	60
1967	-7	-26	-13	-3	-5	-12	0
1968	-6	9	5	-4	-	-3	0
1969	10	18	20	9	-	0	0
1970	7	-4	5	3	5	11	0
1971	-5	-24	-17	4	15	12	0
1972	8	-1	19	23	1	3	0
1973	28	67	42	125	18	-6	4
1974	70	15	38	45	50	27	76

Computed as per cent change over the previous year.

Commodities and Export Projections Division
Economic Analysis and Projections Department
Development Policy Staff
April 17, 1975



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United Nations Conference on Trade and Development

TRADE AND DEVELOPMENT BOARD
Committee on Commodities
Eighth session
Geneva, 10 February 1975
Item 5 of the provisional agenda

An Integrated Programme for Commodities

Report by the Secretary-General of UNCTAD

This report, together with its supporting papers, presents a number of major proposals for priority consideration by the Committee on Commodities in response to resolution 124 (XIV) of the Trade and Development Board.

Paragraph 6 of the resolution requested the Secretary-General to elaborate further the proposals contained in his note on an over-all integrated programme for commodities (TD/B/498), including *inter alia* the more detailed elaboration of techniques, their feasibility and financial implications, examination of measures to help developing countries to promote the processing of raw materials, and examination of possibilities for exporting developing countries to increase their participation in marketing and distribution. Paragraph 7 of the resolution further requested the Secretary-General to make as many of these studies as possible available to the Committee for consideration at its eighth session.

The five supporting papers referred to above are on (i) the role of international commodity stocks (TD/B/C.1/166/Supp.1); (ii) a common fund for the financing of commodity stocks (TD/B/C.1/166/Supp.2); (iii) the role of multilateral commitments in commodity trade (TD/B/C.1/166/Supp.3); (iv) compensatory financing of export fluctuations in commodity trade (TD/B/C.1/166/Supp.4); and (v) trade measures to expand processing of primary commodities in developing countries (TD/B/C.1/166/Supp.5).

CONTENTS

AN INTEGRATED PROGRAMME FOR COMMODITIES

Introduction

1. Developments in the world economy in 1974 and those now more clearly foreseen for 1975 give added force to the sense of urgency expressed by the Trade and Development Board at the first part of its fourteenth session in calling for a new approach to international commodity problems and policies (resolution 124 (XIV)). The emphasis that now needs to be placed without delay on an international approach to problems of food and raw materials is being shaped by world events. Most important, it is now evident that a serious slowdown is occurring in economic activity in the major industrial countries, accompanied by unabated inflation and radical change in the international payments situation. The transmission of adverse effects to the economies of primary producing countries must be prevented by policies that maintain over-all levels of effective demand and prices for exports. International action on commodities must be prepared to deal with this prospect. Secondly, the imbalances in commodity supply and demand since 1972, together with oil developments and the food crisis, have stimulated a fundamental rethinking of the features of an international trading system that will assure vital supplies to importers, and give adequate incentives to primary producers. This concern is heightened by the extent of the recent upward fluctuations in commodity prices, and the important initiatives taken by producing countries in these circumstances to redress the balance of bargaining power in trade through co-operative association. An integrated commodity programme must incorporate better assurances as to supplies and markets, and greater price stability at levels that are adequate for producers and equitable to consumers; it should also allow for the constructive organization of producers in order to influence the operation of the institutional framework in international trade relations. Thirdly, present difficulties are symptomatic of long-term structural problems in developing economies brought about by concentration and over-dependence on primary production and export. An integrated programme ought therefore not to impede but should rather encourage diversification in agriculture and diversification (especially vertical) in the economy in general, based on fuller co-operation between industrial countries and the primary producing countries in their general trade policies.

2. For the first time in many years, the world is without adequate reserve stocks of essential foods and several industrial materials. The consequence may be greater instability in the world economy and in commodity trade than in the past. Yet roughly two dozen of the more important commodities or groups of commodities in world trade represent two-thirds of the economic activity for export of the developing countries (excluding oil), and over half of the external purchasing power of the national product of at least 60 countries. Unless there is radical change of approach, there is little assurance that future output trends will be able to prevent a recurrence of the present crisis, or will be adequate for the requirements of world trade or the economic development of most of the world's population.

3. On the basis of these general considerations, the following proposals are made on the key issues that would form the core of an international approach to commodity problems:

(a) Establishment of international stocks of commodities, on a scale sufficient to provide assurance of disposal of production undertaken on the basis of a realistic assessment of consumption, as well as assurance of adequate supplies at all times for importing countries, and also large enough to ensure that excessive movements in prices - either upward or downward - can be prevented by market intervention;

(b) The creation of a common fund for the financing of international stocks, on terms and conditions that would attract to the fund investment of international capital, including the support of international financial institutions, while also reflecting in its composition the responsibility of governments of trading countries for the management of international commodity policies;

(c) The building up of systems of multilateral commitments on individual commodities, whereby governments, on the basis of a multilateral appraisal of trade requirements, enter into purchase and supply commitments as a means of improving the predictability of trade requirements and encouraging rational levels of investment of resources in commodity production. The functioning of the system, and the capacity of governments to undertake commitments on behalf of their export and import sectors, would be facilitated by arrangements for linking the commitments to the operation of international stocking mechanisms, and to compensatory schemes;

(d) Improved compensatory arrangements in situations of fluctuation in commodity prices and earnings for which international stocking or other arrangements could not secure suitable price and production incentives;

(e) The implementation of measures removing discrimination in trade against processed products, encouraging the transfer of technology and supporting a more intensive research effort, in order to secure rapid development in the processing of raw materials in producing countries as a basis for the expansion and diversification of export earnings.

Chapter I

CONCEPT AND MEANING OF AN INTEGRATED PROGRAMME

4. In his note on an over-all integrated programme for commodities (TD/B/498), submitted to the Trade and Development Board at the first part of its fourteenth session, the Secretary-General of UNCTAD presented the case for a new initiative in international commodity policy which might take the form of a multilateral negotiation, or "package deal", for the establishment of international arrangements covering a comprehensive range of commodities of export interest to developing countries. It was suggested that these arrangements might be based on a common set of principles, objectives and techniques, and should be "multi-dimensional" in scope, covering not only pricing policy but also aspects such as marketing, diversification and access to markets.

5. Document TD/B/498 was a response to the call made in the Programme of Action on the Establishment of a New International Economic Order,1/ adopted by the General Assembly at its sixth special session, for the preparation of an over-all integrated programme for a comprehensive range of commodities of export interest to developing countries, setting out guidelines and taking into account the current work in this field. The call for such a programme was itself the result of the current crisis of international commodity policy, constituted by the fact that years of studies, discussions and consultations in various forums have succeeded in establishing international arrangements for only a few commodities, hardly any of which have proved to be effective or durable.

6. The proposal for an over-all integrated programme for commodities endeavours to launch international commodity policy onto a new course which, it is hoped, may have a greater chance of success than the approaches hitherto adopted. The proposed new approach is an attempt to move urgently from the field of consultation to the field of negotiation. To facilitate this shift, it is proposed that arrangements for a comprehensive range of commodities should be negotiated in the form of a package, so that the special interest of countries in some commodities could be an incentive to them to reach agreement on others. Although this implies a departure from the traditional piecemeal, commodity-by-commodity, approach to negotiations, it does not alter the fact that specific arrangements would have to be devised for individual commodities. It does mean, however, that the drawing up of arrangements for a substantial number of commodities would have to be agreed upon at the same time and undertaken simultaneously, or as simultaneously as possible, this being an important dynamic feature of the new approach.

7. Fundamental to the proposed new approach is the setting of wider objectives for international commodity arrangements, including the improvement of marketing systems, diversification (horizontal and vertical), expanded access to markets, and measures to counter inflation, in addition to the traditional objectives of stable and remunerative prices. Acceptance of these additional objectives is essential if more viable and more durable commodity arrangements are to be established. Without some

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1/ General Assembly resolution 3202 (S-VI), Sect.I,3, para.(a), (iv).

kind of provision for relating prices of exports to prices of imports,1/ for example, commodity arrangements operating in conditions of rapid international inflation would tend to break down. In the case of some commodities, provision for improved access to markets would also be essential, since the expansion of world supply in line with demand cannot be assured if efficient producing countries fear that any attempt to expand their exports will be frustrated by import restrictions, as has been notably the case with sugar and livestock products.

8. The proposed new approach recognizes the principle, as reflected in the Havana Charter, of co-operation between exporters and importers, or producers and consumers. But it also recognizes that co-operative action by producers can be - and in given instances has been - an aid to negotiations with consumers. Indeed, in some cases, such co-operation might be indispensable to negotiations and generally it would be an important means of expediting and facilitating progress. It should therefore be accepted and encouraged.

9. One final point needs to be made regarding the relationship between the proposed integrated programme and the work of existing international commodity councils and consultative groups. In document TD/B/498, it is stressed that these bodies should be consulted, and that their work should be taken fully into account, in the preparation of the integrated programme. Some of these bodies, in fact, already plan to draw up and negotiate economic arrangements for the commodities with which they are concerned. Such work could be perfectly compatible with the idea of the integrated programme, and indeed could form part of it, provided the governments concerned carried out the work in the manner and in the spirit of the programme.

10. Briefly stated, the principles and objectives on which it is proposed the programme should be based are the following:

(a) There is a need to seek solutions simultaneously and urgently to the problems of a number of commodities of major interest to developing countries, both as exporters and importers, in view of the considerable threat to the interest of these countries posed by prospective developments in the world economic situation in both the short term and the longer term (see paragraphs 1-2 above);

(b) International action on commodities should take due account of the interests of both exporting and importing countries;

(c) Co-operative action by producing countries has a legitimate and important role to play in solving the problems of individual commodities;

(d) Arrangements for the stabilization of prices, in the sense of the smoothing out of irregular or cyclical fluctuations, are required for many commodities in order to allow correct responses to price incentives in production, to help stabilize export incomes and import bills, and to improve the competitive position of natural raw materials facing competition from synthetics;

1/ The General Assembly's Programme of Action called, in this respect, for "a link between the prices of exports of developing countries and the prices of their imports from developed countries" (Sect.I,1, para.(d) of resolution 3202 (S-VI)).

(e) Commodity prices should be at levels which provide incentives for the maintenance of adequate levels of production, which are just and remunerative, which take due account of world inflation, and which are consistent with developmental objectives;1/

(f) Diversification and the expansion of processing of commodities in developing countries should be encouraged;

(g) The improvement of marketing and distribution systems, more advanced technology, and research should be actively promoted in the interest of both importers and exporters;2/

(h) International commodity arrangements should seek to ensure liberal access to protected markets for exporting countries and security of supplies for importing countries.

Provisions for attaining additional agreed objectives could be incorporated in arrangements for individual commodities or groups of commodities in the course of detailed negotiations on the programme.

1/ Including the suitability of preferential terms for exports to developing countries where appropriate and technically feasible.

2/ The findings of UNCTAD studies on marketing and distribution of certain products will also be relevant to this objective. This programme of studies is being carried out in pursuance of Conference resolution 78 (III), and is the subject of a report to the Committee under agenda item 7.

Chapter II

ELEMENTS OF THE PROGRAMME PROPOSED

A. International stocking policies

11. The most urgent need is for action on commodity stocks, and it is suggested that this be given priority consideration. The urgency is dictated by the recent and possible future developments in the world economy. Prices of a wide range of primary products have been falling precipitously in recent months, despite continuing international inflation. While declines from the 1973-1974 peaks were to be expected, their extent and speed have been ominous. By November 1974, prices of copper, rubber, zinc and wool had fallen by more than 50 per cent, cotton and tropical vegetable oils by 30-50 per cent, and iron ore, lead, abaca and tin by 20-30 per cent. A continuing shortage of some agricultural products coupled with high prices, notably for sugar, in the midst of the present recession, can be attributed in large part to past under-investment associated with long periods of low prices. To wait until the downturn becomes more general may be leaving matters too late to negotiate on corrective measures of international scope. It is necessary to agree on plans now to prevent over-reaction and slump.

12. It is proposed that international stocks should be established for a wide range of commodities by purchasing them when their prices are at an agreed floor level. Table 1 lists 18 major commodities which appear suitable for international stocking. The list is provisional. Some of these commodities, for example, wheat and wool, are exported predominantly by the developed countries, but are important to developing countries as both exporters and importers. Some others, for example, tropical beverages and natural rubber, are produced exclusively in the developing countries. The 18 commodities listed account for 55-60 per cent of the total primary product exports of developing countries other than petroleum, and their stabilization at an adequate level would have far-reaching effects on these countries.

13. The accumulated stocks would serve as an international reserve of foodstuffs and industrial raw materials which would help to assure an uninterrupted flow of world consumption and world industrial production. They would be released to the market or to the participating countries when prices moved above an agreed ceiling. Such international reserves should be created, since the national stocks of some key products, very large until several years ago, have now been depleted. By the end of 1973, the aggregate of existing stocks of cereals and most non-ferrous metals had fallen to under 10 per cent of world annual consumption, and of several other major foodstuffs and agricultural raw materials to under 25 per cent. Most of these stocks do not leave any reserve margin above working ("pipeline") stock requirements. Stocks will have to be rebuilt, although not necessarily to earlier levels. Since it is unlikely that any one single country will attempt in the future to hold stocks for the world economy, the question is whether there will be attempts by a number of countries to carry stocks individually, or whether there will be an international system of stock accumulation, holding, and disposal.

14. The present proposal is not limited to meeting the current emergency situation. The machinery of international stocks, once created, should remain in existence and would then be able to exercise a continuing stabilizing effect on world commodity markets, in the interest of both the exporters and the importers. In the absence of price support by an international stock, the exporting countries, particularly low-income ones, are frequently compelled, in periods of excess supply or weak demand marked by falling prices, to sell on a declining market, thus depressing prices and earnings even further, because they do not have enough financial resources to hold

Table 1

Major stockable commodities: Trade values, 1972[a]

(Millions of United States dollars)

	Exports f.o.b.				Imports c.i.f.			
	World	Developed market-economy countries	Socialist countries	Developing countries	World	Developed market-economy countries	Socialist countries	Developing countries
Wheat[b]	4 366	3 818	388	160	4 609	1 540	1 291	1 778
Maize	2 298	1 914	53	331	2 444	1 905	324	215
Rice	1 120	537	143	440	1 232	175	82	974
Sugar	3 334	921	178	2 235	3 379	2 304	460	614
Coffee (raw)	3 049	-	-	3 049	3 368	3 101	126	141
Cocoa beans	723	-	-	723	729	572	131	26
Tea	745	79	57	609	784	470	72	242
Cotton	2 828	587	484	1 757	3 055	1 714	792	549
Jute and manufactures	762	71	21	670	840	520	120	200
Wool	1 346	1 143	42	161	1 722	1 361	257	105
Hard fibres	87	3	-	84[c]	106	92	7	7
Rubber	904	-	-	904	1 095	689	305	101
Copper	4 113	1 364	354	2 395	4 226	3 635	377	214
Lead	418	257	45	116	470	379	60	31
Zinc	862	558	110	194	938	736	77	125
Tin	730	70	28	632	758	613	53	92
Bauxite	305	82	5	218	363	325	36	2
Alumina	609	265	46	298	685	532	91	62
Iron ore	2 608	1 213	403	992	3 484	3 039	425	21
Total	31 207	12 882	2 357	15 968	34 287	23 702	5 086	5 499

Source: FAO, Trade Yearbook 1972, and national statistics.

a/ The figures are preliminary. In sugar, cocoa and copper, import values appear understated in relation to exports. In metals and ores, EEC intra-trade is excluded.

b/ Including flour.

c/ In addition, $49 million exports of hard fibres manufactures.

Notes: Oilseeds and vegetable oils are under consideration. Special investigation is needed of a suitable stabilizing mechanism for oilseeds and vegetable oils produced in the tropical areas, which are interchangeable with other oils and fats in a varying number of uses and are therefore exposed to complex substitution effects. In bauxite and iron ore, further investigation is needed of the processing stage at which they could be stored most economically.

back supplies. While the support provided by an international stock may not be sufficient for them to achieve an adequate price level and other measures may be needed, such support is likely to be a necessary condition in most cases. For the importing countries, international stocks would bring security of supplies and reasonably stable prices; also, by providing producers with certainty concerning prices and markets, such stocks would help assure adequacy of supplies for the importing countries over the long run, especially if supported by investment on the part of international development agencies designed to expand output of scarce materials. A wide geographic distribution of physical location of stocks would be an additional guarantee of equal access to primary products.

15. While the primary objectives of the proposed international stocking system are price stabilization at an adequate level, and assurance of supply and outlets, it should also aim at a financial profit on its operations as a whole. In this way it would be able to discharge its economic functions in a sustained manner. The buying and selling prices should be subject to re-examination at regular intervals, initially perhaps once a year, in the light of experience, particularly with respect to the level of purchases and sales by the stock. If in serious surplus situations it became necessary for the producing countries to introduce temporary mandatory restrictions on exports, it is suggested that such restrictions should be made proportional to output at the time of introduction, thus avoiding the need for extended quota negotiations in advance as well as the danger of freezing the geographic pattern of production. Since the lasting solution to persistent cases of over-production is structural readjustment, it is proposed that the incentives provided by the operations of an international stock should be used to stimulate resource shifts and resource mobilization policies designed to accelerate diversification of production and exports.

16. The cost of acquisition of the necessary volume of the 18 commodities listed in table I has been provisionally estimated at $US 10.7 billion, assuming the commodities were bought at average prices prevailing in the five-year period 1970-1974. Of this amount, $4.7 billion is accounted for by grains (wheat, rice and coarse grains). The next largest amounts are for sugar, coffee and copper, aggregating $3.2 billion. If the commodities were bought at average prices of the three-year period 1972-1974, the aggregate cost would be one-fourth higher, and at 1970-1972 prices probably one-fourth lower. Applying prices prior to 1970 would not be useful for these illustrative estimates, in view of the distorting effect on all nominal values of international inflation. The estimate for grains assumes a reserve stock based on the FAO analysis of world needs prepared for the World Food Conference; international grains stocking requirements would be lower if they were designed primarily to assure supplies for the low-income countries (mostly in South Asia and Africa) and for other developing food-importing countries (i.e. some petroleum producers). Conversely, the estimated stocking requirements for some industrial raw materials may well be on the low side.

17. The aggregate figure of $10.7 billion represents conceptually a commitment rather than a disbursement figure, for two reasons. First, the estimates for each commodity represent the maximum which may be accumulated; in practice, the accumulation will vary between zero and the maximum. Secondly, if a multi-commodity stock or a common financing fund is in operation, purchases of some commodities will be offset by sales of others in particular periods. The extent of the offset will be determined by the amplitude of the international business cycle: the stronger the cyclical movements, the more likely that most commodities will move together and there will be little offset. During the post-war period, some commodity prices moved in opposite directions to others in most years; but if the future is likely to show more cyclical instability than the last two decades, the offsetting action will be weaker.

The policy implication of these factors is that access to resources should be as large as possible, although the actual use of funds in particular periods may be below gross commitment needs. Further work is needed on the selection of commodities, size of stocks, price ranges, and likely length of the stocking periods, in order to improve the estimates given above.

18. International stocking mechanisms exist at present for only two of the 18 commodities, tin and cocoa. The operating experience and financial results of the tin stock, covering the last 20 years, have been favourable. The mechanism of the cocoa stock has just been established. The limited use of stocking arrangements in international commodity policy is inconsistent with the present and prospective needs of the world economy.

19. The functions of an international stock can be performed by national stocks in the producing and consuming countries, provided the producers have sufficient finance, and all national stocking policies are internationally agreed. The first condition is met by some producing countries but not the majority. The second condition has not been realized in practice, although it is feasible in principle; it would require institutional arrangements and a set of agreed rules concerning the range within which the participating governments would try to keep the world market price, and the stock-releasing and stock-accumulating obligations of each government. Even if these conditions were met, the aggregate of national stocks, each based on individually perceived country needs, could be expected to be larger than an internationally managed stock which could be deployed more efficiently to achieve the same objectives: the latter would have to be of a size to cover the net deficit (or to absorb the net surplus) of world production in relation to consumption, while the aggregate of national stocks would tend to be of a size to cover the gross deficit, i.e. the sum of deficits of individual countries. In addition, there would be an element of uncertainty as to access to supplies since the stocks would be nationally owned and operated. Some of these problems could be partly resolved by the simultaneous existence of an internationally managed stock and national stocks, all operating in a co-ordinated manner. Such co-ordination would require a sustained effort in international co-operation. Nevertheless, if the traditional policies of the leading importing countries towards international stocks for commodity stabilization are maintained, it will be in the interest of producers, faced with stagnation or worse in their economies, to adopt stocking arrangements among themselves.

20. Early action on international commodity stocks is seen as the cornerstone of the integrated programme, and the question of organizational arrangements will be a first consideration. The proposed programme embraces the establishment of international stocking arrangements for most commodities of significance to developing countries in their capacity as substantial importers or exporters. In some cases, such arrangements might be organized as a series of individual commodity schemes, in which the stocking operations could be one among several types of measure in a multi-dimensional approach to the short-term and long-term adjustments required. The common fund for the financing of stocking schemes, also proposed in the programme, would help to ensure consistency in the objectives and conduct of individual commodity schemes.

21. On the other hand, it will be of little real value to engage in arrangements for financing international stocks if slow progress is made with the arrangements for the stocking operations themselves. It may be necessary to organize generalized arrangements for stocking those commodities on which progress could not be made in individual commodity schemes despite a consensus on the problems. Moreover, the organization of stocking arrangements would have to be viewed in a different perspective if the onset of a serious general recession led to the prospect of a major decline in the volume of trade and prices for export commodities of cardinal importance

for developing countries, while prices of basic foods and general inflation rates remained high. While early action on stocking arrangements is in any case required, such conditions would make it all the more imperative to set up a rapidly organized scheme to acquire stocks of a number of commodities. Such a scheme might have to be organized on multi-commodity lines, under a single agency, and in large part to provide an outlet for production already initiated. It might have to be set up as a transitional measure, allowing time for the establishment of more comprehensive measures under an integrated programme.

22. There are other reasons for a multi-commodity approach, which would either co-ordinate stocking for a group of related commodities, or would more ambitiously seek to manage stocks of a comprehensive range of commodities. The functions of a central agency could have the advantage of incorporating the purposes of a common financing fund, as well as those of stock management, though it would be necessary to consider the extent of its involvement in other types of commodity adjustment policies, such as supply management. The functions of a multi-commodity organization set up with the wider objective of co-ordinating the activities of a number of commodity agencies could include longer-term objectives. It could be responsible for, and be capable of, taking into account the effects of policies for one commodity on others. It could give guidance to individual commodity agencies on diversification policies, and it could set a better perspective for long-term planning on crops with long gestation periods than could individual agencies of medium-term duration. This type of operation could also, as noted above, make a significant contribution to the control of the business cycle, by co-ordinating the purchases of commodities in the downswing to support effective demand and protect employment, and by releases of commodities in the periods of upswing and inflationary pressures.

23. Commodity stock operation could also be integrally linked with multilateral commitments on trade, as advocated in paragraph 38 below. The support of stocking arrangements would be a strong inducement for governments to enter into supply and purchase commitments, while at the same time such commitments should make for greater smoothness of operations by stocking agencies, by helping to prevent the need for abrupt adjustment in prices or production to divergent trends in supply or demand. In brief, governments that entered commitments would be entitled to the use of stocking facilities, as exporters or importers, with respect to non-fulfilment of the commitments. Policies would need to be elaborated with regard to the role of stocks in this manner, and these policies, combined with those on multilateral commitments, could be mutually reinforcing in encouraging trends towards global equilibrium in national supply and demand.

B. The financing of stocks

24. The integrated programme will need to adopt a broad solution to the financing of stocks as a key element in the programme. The illustrative example given in the study on the role of international commodity stocks (TD/B/C.1/166/Supp.1) suggests that the comprehensive programme envisaged might involve capital resources of the order of $11 billion (nearly half of which might be for grains alone), though the amount in use at any time might not approach this size, and would in part represent re-allocation of public expenditures already committeed to stocking (see para. 17 above). International co-operation in investment of this magnitude cannot therefore be considered in a similar manner to the amounts of less than $200 million committed to the two existing international stocks.

25. Present stock operations suffer from financial constraints in government budgets and industry, and from the instability of interest rates. Credit shortages and "double-digit" interest rates currently make it virtually impossible to break even on

stocking operations unless price swings are wide. Financing stocking operations with an uncertain quantity and an unstable price of money cannot be expected to achieve stable prices, costs and returns for commodities. Consequently, governments supporting stocking schemes recognize that assured sources of funds at reasonable charges should be provided. Financing probably remains a major factor impeding the establishment of stocking schemes.

26. Although, under present arrangements, the IMF buffer-stock financing facility is a potentially large source of funds, it has not been used extensively during its five years of operation, and has not so far acted as a catalyst, as hoped, for the negotiation of new buffer-stock arrangements. The facility is intended to assist mainly developing country exporters with contributions to individual international schemes, but a serious difficulty in the use of the facility even by such countries has been the reluctance of importers generally to make their contribution directly to such schemes.

27. In view of the foregoing, it is proposed that stock financing should be undertaken through a common fund, constituted for the specific purpose of directly financing stocks of a number of commodities. The fund should be supported by both exporting and importing countries, so that an appropriate commitment to the financial arrangements would be shown by countries participating in the management of stocking arrangements. The financial burden for these countries would be eased if the international financial institutions extended assistance more widely and effectively to all countries among their members. Furthermore, the fund should be open to investment from other sources, as a major or supplementary source of financing. To do so, the stocking operations and the rules of the fund should provide security of investment and reasonable returns. The fund should be able to raise its finances on terms and conditions comparable to those for other official international investment. The balance of commitments accepted by governments and the international financial institutions would exercise a key influence on the objectives of international policy in the commodity field.

28. Recent developments may have modified the attitude of importers as regards financing stocking arrangements. The appropriate conditions for investment in international stocks could be achieved if the major trading countries could agree on joint responsibility for the public financing as well as the management of commodity stabilization measures. It would have to be recognized, however, that many countries would have problems in making a sizeable contribution in a period, of the kind that at present seems to be ahead, of balance-of-payments disequilibria, inflation and slow economic growth. These difficulties might be eased in two ways.

29. First, the IMF might appear to be an appropriate means of refinancing, though effective assistance would appear to entail substantial amendment of its present policies on the financing of buffer-stocks, including the extension of the availability of loans in practice to all member countries that undertook stock financing. The World Bank may also be an appropriate source of funds.

30. Secondly, while the financial backing of the major commodity trading countries should be lent to the fund, viable commodity stocking operations could also be regarded as a sound investment. The contributions by trading countries would help to guarantee the security and viability of such an investment. Investment, in particular any investment that could be attracted from oil-exporting countries, would require to be secure and to provide a reasonable return.

31. Consolidated financing for stocking arrangements could thus spread the burden of financing, and it would help to ensure that the resources required were kept to a minimum by full employment of them. It is also conceivable that consolidated financing would be less than the current real costs of commodity stocks, while producing economic benefit more effectively than at present. Moreover, a financial instrument large and flexible enough to cater for a package of commodities should be evaluated, not only against the large costs already incurred in stocks, but also in terms of its contribution to the stability of economic activity and its impact on balances of payments. For these wider reasons, international stocking schemes might be introduced at more modest net cost to the economies of both importers and exporters than the apparent investment.

C. Multilateral commitments in commodity trade

32. The objective of more stable conditions in commodity supply and demand in general, and the role and viability of international stocking operations, would be strengthened if governments encouraged sustained levels of trade by undertaking multilateral supply and purchase commitments to which stocking policies would be related. These commitments could be agreements between governments on the approximate amounts of a commodity that each government expected the economy to supply or demand, to or from all participating countries, based on forecasts of trade, including state trade, private and official bilateral contracts and open market trading. Though the agreement would carry an obligation, as described below, it would not have the full character of a contract obliging governments as such to acquire or supply amounts that were not purchased or sold under the ordinary trading system of the country during the period of the commitment.1/

33. Assurance of supply is the second outstanding area of concern emerging from the chaotic commodity developments of the 1970s. Set alongside the chronic concern of primary producing countries with sustained market capacity, there is a unique opportunity for a marriage of interests in realizing more predictable and more stable movement of commodities in international trade. Governments now seem more ready to recognize that reciprocal trade volume commitments could facilitate forward planning of resource use in their domestic economic policies and in solutions for balance-of-payments difficulties. These commitments could best be achieved multilaterally, and with as wide a coverage of trade flows for particular commodities as possible.

34. Trade arrangements that could offer some guidelines for national trade operations and for production planning would be valuable on several grounds. Most generally, national authorities dealing with foreign exchange budgets, import policy and the expansion of exports have to take decisions based on appraisal of market developments and the probability of national actions affecting their trade. The market price mechanism and such national actions, as short- and medium-term indicators, cause serious difficulties for such planning.

1/ See TD/B/C.1/166/Supp.3 in which more formal multilateral contractual arrangements are considered.

35. An additional advantage of governmental purchase or supply commitments organized multilaterally, is that they might improve terms and conditions in the extensive proportion of commodity trade that is already transacted through forward contracts. Conclusion of the commitments multilaterally would help to bring more complete information and competition to the conclusion of bilateral private or governmental contracts, especially for commodities for which open market prices are not available or representative. One of the purposes of producers' associations is to improve their bargaining position in this respect. The commitment procedure, involving as it would the exchange of information with other producers, could be of considerable value to exporting countries as regards their sales policy and the regulation of foreign companies operating in their territories.

36. The difficulty in making commitments on trade is that the influence that governments can exercise on the performance of producing and trading sectors varies a great deal. The nature of agriculture does not ensure export availability, and most importing governments cannot enforce purchases by commerce and industry. Moreover, even if such commitments were undertaken for a period of as short as one year, the ability to project requirements and supplies differs between commodities. Nevertheless, it should be possible to proceed on the basis of the best possible short-term forecasts of import demand and export availabilities, undertaken by national authorities in consultation with the private interests concerned.

37. To be effective, a system of multilateral commitments would need to cover a large proportion of trade in any given commodity. Otherwise, any significant imbalance in import demand and export supply might not be discernible. Producers' associations could find an important place in the system, by determining the export potential and price conditions acceptable to their membership as a basis for a constructive relationship with consuming countries. Bilateral trade arrangements and state trading practices would also fit well into the procedures of multilateral commitment, since such transactions assist governments in deciding on their over-all requirements and supply.

38. The likelihood of governments being able to contemplate commitments would be enhanced in these circumstances if a supporting role were to be assumed by international stocks, whereby the obligations of governments to fulfil commitments that had been realistically appraised but impeded by circumstance would be mainly taken over by the management of stocks. The use of stocking arrangements in this way would need to be symmetrical, assisting both countries whose commercial performance left a deficit in import commitments as well as countries whose export availabilities failed to reach the amount committed. One method of operation could be to allocate shares in an international stock to participating countries that could be taken up against non-fulfilment of commitments. Such stocking rights could be transferable. While the financing of stocks might be independently provided through a common fund, the use of stocking rights in this manner, by either exporters or importers, could entail certain charges (possibly determined in relation to carrying costs) as a disincentive to deliberate evasion of purchase or supply commitments. Such charges would provide a useful source of operating revenue for stocking agencies, but would not place a large financial penalty on commitment deficits. As noted in para. 23 above, pricing policy would need to be harmonized under stocking arrangements and in the determination of multilateral commitments.

39. Multilateral commitments could also be concluded on commodities for which stocking arrangements were not feasible, especially if compensatory schemes were also available to countries with a high dependence on non-storable export products. There may also be scope for arrangements that balance commitments on one commodity against commitments on another.

40. The system could thus be envisaged as a three-stage process applying to trade in one or several commodities as follows:

(i) Projection of the global potential for trade between exporters and importers over a specified period, at least annually and preferably over the medium term, as a forward planning exercise;

(ii) Consultations between producers (or consumers) as a means of resolving significant coverages in annual export availability or in import demand, the range of prices applicable, or other terms of arrangements;

(iii) Agreement in the form of purchase and supply commitments concluded multilaterally, but without specification as to the direction of trade.

41. The question arises whether stocking arrangements will by themselves perform many of the functions claimed for multilateral commitments. A system of international stocks alone can realize important objectives, including the reduction of price fluctuations and the effecting of short-term adjustment for imbalances in production or consumption in a manner less abrupt than results from the operation of market forces and prices alone. In this respect, stocking arrangements will help to reduce the uncertainties in planning trade and production policies. However, as stressed in section A above on international stocking policies, when they are not open-ended they will usually need to be associated with provisions for quantitative controls and alteration of intervention prices if and when stock operations are not achieving longer term equilibrium in supply and demand. Such measures effect adjustment when the problem has developed and place the burden on export producers; forward commitments could encourage a less painful or less wasteful adjustment process. While, therefore, stocking arrangements would not need to be associated with multilateral commitments in order to perform a central role in an integrated programme, their value might be more effectively realized in dealing with temporary and irregular market disturbance, particularly from the demand side, if price movements and quantitative restrictions due to structural imbalance could be averted through forward trade commitments. On the other hand, a multilateral commitment system would most probably stand a greater chance of acceptance and would be greatly strengthened in practice if supported by international stocking arrangements.

D. Compensatory financing of commodity trade

42. The foregoing measures would still leave certain countries vulnerable to export instability and to depressed trends that reflected a weak bargaining position for key exports. These would probably be countries with a significant dependence on commodities for which stocking arrangements or multilateral commitments are not feasible, or where participation in a multilateral commitment still left serious fluctuation in their prices or returns. Such commodities are less likely to have a significant influence on the trade or payments situation of importing countries, so that arrangements for compensation could be more suitably directed to the assistance of exporting countries.

43. The justification for such assistance is already concretely acknowledged in the international community through the IMF facility for the compensatory financing of export fluctuations, and by a major group of importing countries in the EEC proposals for a commodity compensation scheme available to associated and associable countries. Medium-term loans by the IMF are intended to smooth out fluctuations in the total export trade of primary producing members and thus compensate for fluctuations in specific commodity exports when these are reflected in downturns in over-all export receipts. The IMF scheme is self-financing, with full repayment of loans. It does not lay down conditions with regard to the domestic arrangements the financial authorities of borrowers make on producer prices or incomes. About SDR 1 billion of assistance was provided to 32 countries in 1963-1973. The EEC scheme would be applicable to a selected group of commodities, and while based on returns to those commodity sectors individually, is intended to have an income-stabilizing influence for the individual producer in recipient countries. It has provisions that would cause non-repayable expenditures, though partly self-financing.

44. For those countries in the position described in paragraph 42 above, the expansion and liberalization of IMF assistance would probably be of significant help. The introduction of the EEC scheme would also be helpful in finding solutions to this kind of problem. There would probably continue to be problems in some special areas of commodity trade for particular countries that it might not be possible to encompass in the IMF approach at the level of total export earnings, but the extent of these problems would probably be greatly reduced if appropriate changes could be made in the IMF facility to enlarge the amounts transacted and the number of countries using the facility. Within an integrated approach to commodity problems, it would seem best to give priority attention with regard to compensation aspects to the possibility of building on the present IMF facility, with attention being given at a later stage to any additional compensatory measures that might be required in consideration of the scope of the expanded facility.

45. The aspects of the facility in mind in this respect are (i) the need for more flexible conditions as regards the balance-of-payments criterion for assistance; (ii) relaxation of the limits on the amounts available as determined by IMF quotas to take account of the size of shortfalls; (iii) easier requirements on the completion of detailed export statistics within a relatively short period of the shortfall in exports; (iv) extension of the repayment period beyond the present obligation to make complete repayment within five years, including a closer link with the recovery of exports; and (v) account to be taken of changes in the import purchasing power of a country's exports.

46. If, however, action on these lines did not appear feasible, the problem for the exporters of the perishable commodities for which demand and prices are highly unstable would remain large enough to warrant consideration of commodity compensation schemes. The most critical point of policy in a commodity compensation scheme is that the scheme should be considered as a residual measure, to be applied when other more direct approaches are inappropriate or inadequate to meet the ultimate objective of stabilizing and maintaining the real export income of exporting developing countries. Consequently, the scheme should be designed to provide automatic compensation payments in the form of loans to developing countries experiencing shortfalls in their export income from the commodities considered (i.e. those not covered by other arrangements). Such loans would be repaid out of part of any excess of exports over the agreed "normal" levels (from which the shortfalls were calculated). Repayment procedures might also include provision for conversion of unpaid balances into grants.

E. Expansion of processing and diversification

47. The contribution of commodity production and trade to the economic development of the developing world will only be realized rapidly and efficiently if shifts in resources within the primary sectors of the developing countries and within their economies in general can occur. The measures above would create more favourable conditions for appropriate diversification and for freeing resources in a more broadly based economic structure. But in addition, separate and more constructive attention will be required in the international community to develop means of expanding the processing of primary products, removing trade discrimination in this respect, and to encourage the transfer of technology and research with this objective.

48. For the generality of primary commodities exported by developing countries, there is need for greater diversification into the more manufactured forms of the basic products. Expansion of trade in semi-processed and processed products is inhibited by various factors, among which are tariff and non-tariff barriers in developed countries. This situation needs to be improved through extension of GSP coverage to more products of primary origin, the removal of ceilings and quotas under the GSP, and the removal or relaxation of other non-tariff barriers. In addition, increased attention needs to be paid to the problems of the development of processing in the economies of developing countries, including such aspects as the transfer of technology and research. Among the actions that developing countries can take, it will be important to provide export incentives.

Chapter III

APPLICATION IN PRACTICE OF THE VARIOUS PRINCIPLES, OBJECTIVES AND TECHNIQUES

49. In considering how the various principles, objectives and techniques dealt with in the preceding chapters might be applied in practice, four separate groups of commodities which face distinctive basic problems and for which distinctive policy objectives need to be set can be taken as a basis for negotiation. This illustrative grouping is not meant to represent any exhaustive list of commodities, nor to be exclusive regarding the techniques indicated. Further, it is without prejudice to the possibility of adopting a multi-commodity system and arrangement of the type referred to in paragraphs 21 and 22 above and in the supporting document on international stocks1/ or the proposal contained in paragraph 51 below.

50. The first group that can be distinguished consists of essential foodstuffs, in respect of which the prevention of excessive fluctuations in world prices in both the short and long term, the provision of adequate incentives to production, and the building up of large internationally-held reserves, is in the common and vital interest of virtually all countries of the world, exporting and importing, developed and developing. Because production of these commodities is widespread throughout the world and subject to unpredictable fluctuations, supplies and prices at the world level can be effectively administered only by means of stocking arrangements. For the reasons described in the supporting paper on international stocks,2/ the most economic and effective way to achieve the required degree of supply and price stabilization, and the necessary margin of supply security, would be to establish internationally owned and internationally managed buffer stocks, with financial support from the proposed common fund. The current world shortages of cereals and sugar have underlined the fact that national action, far less private commercial action, cannot be relied upon to ensure adequate prices and security of supply for basic food commodities, shortages of which can cause hardship, suffering or death to millions of human beings. Indeed, international stocks should be established as a matter of urgency for wheat, coarse grains, rice, sugar and selected vegetable oilseeds and oils.3/ The international co-ordination of national stocks, as proposed by the World Food Conference, would be a major improvement in the organization of world trade in food, though it should be regarded as an important first step towards the establishment of international stocks.

51. In view of the inter-relationships between markets for different cereals, and those between the markets for different vegetable oilseeds and oils, it would be necessary for a single, multi-commodity, stock to be established for each of these two groups of commodities.4/ In order to provide further safeguards for importing

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1/ TD/B/C.1/166/Supp. 1, paras. 41 - 43.

2/ Op.cit. para.8.

3/ See also para. 71 below, for the views of the World Food Conference of relevance to this question.

4/ The complexity of the fats and oils group would entail careful examination of the feasibility of stock operations. Moreover the question of which particular coarse grains, and which particular vegetable oilseeds or oils, should be stocked would be a matter for further study. It might be possible to limit stock operations to certain key commodities in each group.

and exporting countries, stock arrangements could be reinforced by commitments by exporting countries regarding the flow and allocation of supplies in cases of unexpectedly severe shortages, and by commitments by importing countries regarding minimum degrees of access to protected markets, along the lines suggested in the supporting paper on the role of multilateral commitments in commodity trade (TD/B/C.1/166/Supp.3).

52. The second group of commodities consists of essential industrial minerals subject to substantial price instability and/or unsatisfactory price trends. These commodities include bauxite, iron ore, copper, lead, zinc, manganese ore, tungsten and phosphates (in addition to tin, for which an international buffer stock already exists). In view of their importance in the export structure of many developing countries (and some developed primary exporting countries), and in the import bills of many developed and developing countries (because of the inelastic nature of the demand for them), there is a large common interest for both exporting and importing countries in the prevention of excessive fluctuations in their prices. In addition, importing countries have a strong interest in the longer term security of supplies of these commodities at "reasonable" prices while exporting countries are also extremely concerned to maintain their prices at adequate levels, taking into account world inflation, the conditions of demand for the particular commodity, and the rate of depletion of reserves.

53. One way in which these objectives might be attained simultaneously would be through international stock operations of the kind in effect for tin. The price range to be defended by such a stock could be set by agreement at a level which would reconcile the price ambitions of exporters and importers, while the stock itself, provided it had substantial resources, could provide security of sales outlets for exporters and security of supplies for importers. This would represent a solution substantially the same as that proposed for basic foodstuffs.

54. However, the level of production of mineral commodities can be planned much more easily than that of foodstuffs. Hence effective management of world supplies and prices of mineral commodities can, in principle, be achieved by producing countries without the help of international stocking mechanisms, provided their production policies can be concerted sufficiently closely.

55. In taking action towards that end, producing countries would be acting in accordance with the principle of the sovereignty of all countries over the exploitation and use of their own natural resources. Nevertheless, they would need also to respect the principle that, in acting jointly, producers should take due account of the interests of consumers. Alternatively, this objective might be met by negotiation with consumers, where necessary, to provide them with a substantial degree of security of supplies and stability of prices over the short to medium term.1/

56. The third group of commodities facing distinctive problems is agricultural raw materials. These include cotton, natural rubber, jute, hard fibres such as sisal, wool, etc. Virtually all of these materials face strong competition from synthetic substitutes and, as a result, the terms of trade of many of them, in other words the ratio of their prices in the world market to the prices of manufactured goods in world trade, have shown a long-run deterioration. The increase in the price of oil, as a raw material for synthetic production, but also as an input in the production of natural materials, has altered this relationship, possibly in favour of natural products. It would however, not be possible, even through concerted

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1/ Provided adequate facilities were available to them for the financing of stocks, exporting countries might not wish to conclude "symmetrical" contractual arrangements with importing countries, that is, arrangements incorporating a reciprocal commitment by the latter countries.

international supply management, to maintain the price of such products at levels which were out of line with their value in demand in relation to the course of prices for synthetic materials. The chief way in which producers of these commodities can exert a sustainable upward influence on their prices is by increasing consumer and manufacturer preferences for them through improvement of their quality, attractiveness and technical characteristics and through market promotion.

57. Another important way in which demand for these natural commodities could be expanded is by assisting manufacturers in their planning and operations by providing assurances with regard to the availability of raw material supplies and their cost. There is evidence that the considerable instability in prices and to some extent in supply influences the choices made by manufacturers in favour of synthetic materials that are supplied at fixed prices which change relatively infrequently.1/ The basic objective which should be pursued for these commodities in the context of an over-all integrated programme, therefore, is assurance of delivery at predictable and stable prices. Since a fairly close regulation of market prices is required, stabilization should be sought by means of buffer-stock operations, and, to the extent possible, by offering natural raw materials on similar delivery and price terms as can be obtained from the manufacturer of synthetic materials. Producing countries have also expressed a strong interest in alternatives to the day-to-day open market system of trading in these commodities.

58. The collaboration of importing countries in such operations would help greatly to ensure their success and it is to be hoped, therefore, that they would participate fully in the financing and management of stocking arrangements. However, in case importing countries show insufficient interest, exporting countries should be assured of adequate international financial support to enable them to establish effective stocks on their own.

59. As part of an over-all integrated programme for commodities, therefore, international stocks should or could be established for cotton, natural rubber and wool. In addition, stocks should be established for jute and hard fibres, including the simply processed forms of jute (yarn, bags and cloth) and of hard fibres (cordage), since it is in these forms that the bulk of world exports of the former fibre, and a large and increasing proportion of the latter, now enter international trade. As the products concerned are of a fairly standard and homogeneous nature, stocking operations for them should not present any undue technical difficulty.

60. The fourth and final group of commodities whose problems need to be separately distinguished is a group of tropical beverages and fruits which have shown a tendency to over-production or which are subject to cycles of over-production and shortage. As a result of these tendencies world prices of these products have either been depressed over a considerable period (as in the case of tea, bananas, oranges and tangerines), or subject to wide fluctuations (as in the case of cocoa and coffee). Even the recent exceptional commodity price "boom", it may be noted, failed to lift (or maintain) the prices of these commodities (except perhaps cocoa) to satisfactory levels, especially if the recent acceleration of world inflation is taken into account. It is probable that in the production of most of these commodities real wages have been falling.

1/ See the report submitted by the UNCTAD secretariat to the intensive intergovernmental consultations on cotton held in April 1974 (TD/B/C.1/CONS.14/L.2, paras. 34 and 35).

61. A common feature of the situation of all these commodities is that solutions to the problems facing them depend on co-operative remedial action by producers, as well as the assistance of the international community. Action by producers is needed to manager supply through restraint on investment. The action of the international community is needed to assist in financing stocks for those products that are storable and to conclude trading commitments on those which cannot be economically stored. Special arrangements may be useful for the disposal of temporary or marginal surpluses, as in the stocking provisions of the International Cocoa Agreement.

62. For cocoa and coffee, which are marked by both long cycles and sharp short-term variations in production and prices, a special blend of stabilization policies may be needed. Short-term fluctuations can be offset by international stocking operations combined with export quotas as needed; the solution to the long cycle has to be sought in policies stabilizing the rate of investment and promoting shifts to other activities. A progressive export tax applied when prices are high would dampen the cycle as a whole, because it would curtail investments in surplus capacity and therefore avoid prolonged periods of depressed prices and earnings; in addition, if tax proceeds are used for financing diversification, there would also be income generated by the released factors of production. For tea, an agreement may be facilitated by international assistance for stocking and diversification, thus helping to remove obstacles to agreement amongst the producers concerning future output and investment. More generally, operation of an international stock could be used to stimulate desirable resource shifts and resource mobilization policies in the producing countries. In bananas, co-operation among the producing countries in deciding on an agreed selling policy is a pre-condition for an improvement in prices.

63. The co-operation of importing countries in "policing" export quota arrangements, or in concluding multilateral commitments with exporting countries, might be of valuable assistance to the latter in their efforts to improve the stability or the level of the price of their commodity. On the other hand, exporting countries may wish to rely more on their own cohesion and self-discipline by attempting to operate such arrangements as minimum price agreements, central selling systems, uniform export taxes or co-ordinated stocking systems, according to the characteristics of the different commodities and their markets.

64. In effective arrangements for the commodities in the four groups described above could be established on the lines indicated, a major step forward would have been taken in dealing with the "commodity problem" at the world level. Inevitably, however, the extent to which the commodity problems of individual developing countries would be remedied would vary greatly, depending on the composition of the exports of the different countries and the degree of success of the various arrangements es established. For most developing countries there would be a residual problem of some degree or other, reflected in the extent to which the trend of each country's commodity export earnings, in terms of its import purchasing power, was satisfactory or otherwise. In the light of this, an <u>extension and improvement of the existing compensatory financing facility of the IMF</u> would be of value for the purpose of dealing with these residual commodity problems of individual developing countries, on the lines described in the supporting paper on compensatory financing arrangements.1/ One way of dealing more directly with the problems of individual commodity sectors would be to offer the option of obtaining assistance in relation to shortfalls in their <u>commodity</u> export earnings, rather than in relation to shortfalls in their total export earnings, if the amount of assistance obtainable under the former option would be greater than under the latter.

1/ TD/B/C.1/166/Supp.4

65. Finally, whatever the particular objectives pursued and the particular techniques adopted for individual commodities or groups of commodities, and whether or not a multi-commodity system is followed or a multi-commodity agency is instituted, the integrated approach (even in the illustrations given above) should be as comprehensive or as multi-dimensional as possible. That is, it must attempt, at least in the long run, to encompass the totality of the commodity problem from production to consumption. Above all, it must be dynamic in concept so that it allows for efficient allocation of resources, and for the structural transformation of the economies of developing countries, especially through the processing of raw materials and foodstuffs in developing countries and the diversification of their exports.

Chapter IV

PROPOSALS FOR FURTHER ACTION

66. Paragraph 8 of resolution 124 (XIV) of the Trade and Development Board requests the Committee on Commodities to give priority consideration to the matters contained in the part of the resolution dealing with an over-all integrated programme for commodities, and to make recommendations, including a time-table of work, for appropriate action by the Board at its sixth special session.

67. In response to this request the Committee will wish to bear in mind that the integrated programme outlined in the preceding chapters proposes action on:

(a) International stocking arrangements for various commodities, to be brought into operation to counter rapid deterioration of prices or downturns in demand and, in some instances, to restore dangerously low levels of world stocks. Eighteen of the principal commodities (or commodity groups) in world trade, to which these measures could be applied, have been provisionally identified;

(b) Financial support for all stocking operations through a common fund, based on contributions shared by importing and exporting countries, assisted by the international financial institutions, and also open to international investment from other sources;

(c) Multilateral purchase and supply commitments by governments to give assurance of supply and outlets on at least the key commodities in trade for which such assurance is important. These measures should as far as possible be linked to international stocking arrangements. Supply commitments are also required when independent measures are taken by exporting countries;

(d) Improved compensatory arrangements, primarily through extension of the IMF compensatory financing facility;

(e) Expansion of trade in processed products through extension of the coverage of the GSP, the removal of non-tariff barriers and the provision of export incentives.

68. While the Secretary-General will proceed with further work in the light of the comments and decisions or recommendations of the Committee after consideration of the documentation before it, it is already possible to identify key questions that will require consultation with governments as well as with the international organizations concerned and the specialized commodity bodies. These issues include:

- specific stocking arrangements, and their techniques of operation - whether on a single-commodity or multi-commodity basis or both;

- refinement of estimates of the financial implications of international stocks, the size of the proposed fund, and the relation of its operational functions to sources of finance;

- proposals for multilateral contracts and compensation arrangements.

69. Besides the urgent need to endorse the general principles or key elements on the main lines of an integrated programme as outlined in the present report, so that further work on the programme can proceed without delay, the Committee could, in making its recommendations to the Board at its sixth special session give more concrete form and direction to the programme. In this regard the Committee might wish to recommend to the Board the setting up of suitable machinery and procedures to deal with specific issues such as those mentioned in paragraph 68 above.

70. The constitution and terms of reference of the machinery to be established in this respect should reflect the intention of bringing negotiated arrangements into force at the earliest possible time. It might take the form of a preparatory committee which would meet between the sixth special session and the fifteenth session of the Board to facilitate the taking of decisions on the programme at the latter session, decisions which would be aimed at negotiating without delay stocking arrangements, the establishment of a common fund and other aspects of the proposed programme. A preparatory committee that would be representative of the interests in the integrated programme could carry forward the elaboration of the proposals and allow the Board to give more adequate attention to the major policy decisions that would need to be taken. This might be the most practical procedure in view of the comprehensive character envisaged for the programme, particularly as the Board will have an unusually heavy agenda before it at its fifteenth session.

71. The Board at the first part of its fourteenth session expressed a sense of urgency in the matter of new approaches to commodity problems and policies and in particular, as already noted, regarding the elaboration of the proposed integrated programme. It may also be observed that the World Food Conference, addressing itself to these matters in the context of the inter-relationship between the world food problem and international trade, made recommendations calling upon governments to devise, in appropriate organizations, effective steps for dealing with the problems of world markets, and, in urging UNCTAD to intensify its efforts in considering new approaches to international commodity problems, reiterated the recommendation of the Board in this respect to the Committee on Commodities. The World Food Conference also urged countries concerned and international financial institutions to give favourable consideration to the provision of adequate assistance to developing countries in cases of balance-of-payments difficulties arising from fluctuations in export receipts or import costs, particularly with regard to food.

72. In the light of the sense of urgency that is being shown by the international community on these issues, and the expectation that UNCTAD and other international organizations will move forward with expedition in deciding on the lines of the intergovernmental action required, the Committee will wish to focus its efforts on the recommendations to be made in this regard, and in particular on a time-table and programme of activity.

73. It should be borne in mind that other on-going activities between governments will be related to an integrated programme along the lines envisaged in the present report. These will include the multilateral trade negotiations with GATT, which are expected to move soon into a further stage of active negotiations and may be concerned with initiatives dealing with trade in commodities that would bear on aspects of the proposals for the integrated programme.

74. Specific financial questions relevant to the integrated programme proposals may also be taken up in 1975 in the agenda of work of the recently inaugurated Development Committee of the Governors of the World Bank and the IMF, and also by the Executive Boards of these agencies. In addition, there will be the need for re-negotiation of

the international commodity agreements on tin and cocoa, as well as continuing efforts to re-establish economic provisions in other agreements or to negotiate new agreements. All of these activities will require close co-ordination with the over-all development of an integrated programme, in order that its basic principles and objectives, as well as the main emphasis to be given in the direction of its operation, should influence policy decisions elsewhere on aspects related to the programme and action on specific commodities.

75. Furthermore, it bears reiteration that the nature of the programme may well be imposed by world events. The gravity of the present international economic situation should persuade governments of the imperative need for early action on contingency policies, if the action eventually decided upon is not to be overtaken by more rapid change in the condition of the world economy, and of the developing countries in particular.

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An Integrated Programme for Commodities:

The role of international commodity stocks

Report by the Secretary-General of UNCTAD

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CONTENTS

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INTRODUCTION

1. Two of the principal objectives of the integrated programme set out in document TD/B/C.1/166 are stabilization of commodity prices at an adequate level and security of supplies in international trade. The argument of this paper is that a central role in achieving these objectives should be played by a system of international stocks for a wide range of commodities.

2. Chapter I focuses on recent developments in the international commodity situation and stresses the danger of heightened instability of commodity markets in the future unless effective international action is taken. Chapter II discusses the objectives of a system of internationally held and internationally managed stocks and reviews the possible interests of the exporting and the importing countries in such a system. Chapter III provides a first approximation of the range of commodities to be covered, discusses storage costs, and analyses inter-commodity linkages. Chapter IV focuses on operating problems of the stocking system, such as: the determination of purchase and selling prices; the adjustment mechanisms aimed at reducing the danger of surplus stock accumulation and at promoting diversification; the scope of intervention in commodity markets; the economic and financial criteria for judging the results of international stock operations; and the multi-commodity versus the single commodity stocking approach. Chapter V deals with capital requirements for stocking operations and provides a first illustration of the amounts which might be involved. A concluding chapter outlines suggestions for further work

Chapter I

NATURE OF THE PROBLEM

3. The relative attractiveness of a stocking system over other regulating mechanisms is that a commodity stock, with adequate resources of finance and of commodities, can achieve market objectives directly and with immediate effect. This consideration is particularly important for the low income producing countries, when purchases by an international stock may be decisive in preventing sharp price falls and depressed earnings. While the stock will need supporting mechanisms to prevent excessive accummulation of supplies, it should normally be able to function without undue restrictions on regular trade.

4. The stocking system has another advantage: the existence of stocks of foodstuffs and raw materials may serve to avoid famine and other major disturbances when a series of widespread crop failures occurs or when there is a sharp increase of demand for primary products. This second function of stocks has been highlighted by recent developments. For a number of key products national stocks have fallen to low levels; and if account is taken of the need for working ("pipeline") stocks, the remaining reserve margin has become thin (see table 1). These developments are particularly important for food-importing countries and for countries heavily dependent on imported raw materials for their industrial growth.

5. It is now reasonably certain that the 1973-1974 boom in commodity prices is over and that the spreading recession and the reversal of speculative expectations may lead to declines in primary product prices considerably greater than those which have already occurred. Such developments would discourage production and investment in a number of primary commodities, thus leading to a possibility of renewed shortage and an even sharper upward spiral in prices when the level of economic activity revives in the

ndustrialized countries. This danger was recognized by the OECD secretariat as commodity prices started falling in mid-1974. 1/ Furthermore, a deep and widespread fall in commodity prices would not only inflict hardships on the producers, most of whom are in poor regions, but by reducing their incomes and effective demand it would also deepen the recession in the world economy. These considerations call for a revival of international discussion of commodity stabilization on a broad basis and with a sense of urgency.

6. Reserve stocks which existed until several years ago were managed nationally. In particular, the United States held large stocks in relation to world consumption for a number of commodities - both these which it produces (foodstuffs, agricultural raw materials and some metals) and those which it imports (metals, some agricultural products). Other producers of both temperate zone and tropical products had also accumulated large stocks. National stocking policies, determined by various considerations, occasionally destabilized the market, but taking the period 1950-1970 as a whole, and considering the entire range of products stored by different national agencies, the stocks served as a major cushioning device, and at the same time provided the reserves needed for a smooth flow of world consumption and of world industrial production. In addition, there was spare production capacity in primary products, particularly in the United States, in the form of set-aside acreage. Since 1970, however, reserve stocks of both foodstuffs and key materials have been depleted at a accelerated rate, and the spare production capacity for primary products in the United States has virtually disappeared. Consequently, for the first time in the last two decades the world economy is being run virtually without reserve stocks of essential foodstuffs and several industrial materials.

7. The result is likely to be a greater instability of the world economy than has been experienced since the second world war. As trade in many commodities is only a fraction of world production and consumption of the commodities concerned, small changes in world demand and supply give rise to disproportionately large fluctuations in trade and prices, unless adequate stocks are available. Stocks will have to be rebuilt, although not necessarily to earlier levels. Governments of countries which were holding the largest stocks have now moved away from policies which had led them to such extensive accumulation, and it is unlikely that any country will attempt in the future to carry virtually alone the stocks required for the world economy. The choice, then, is whether there will be attempts by a number of countries to carry stocks individually for their own needs, or there will be an international system of stock accumulation, holding and disposal.

8. The functions of an international stock can be performed by national stocks in producing and consuming countries, provided they have sufficient finance and national stock policies are internationally agreed and synchronized. The first condition is met by some producing countries but not by the majority. The second condition has not been realized in practice, although it is feasible in principle; it would require institutional arrangements and a set of agreed rules concerning the range within which the participating governments would try to keep the world market price and the level of

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1/ "Aspects of World Inflation", OECD Economic Outlook, Paris, July 1974, page 37.

stocks to be released or accumulated by each government. Even if these conditions were met, the aggregate of national stocks, each based on individually perceived country needs, would be larger, both in volume and in terms of financial requirements, than an internationally managed stock, which could be deployed more efficiently to achieve the same objectives. 2/ In addition, there would be an element of uncertainty over access to supplies, since the stocks would be nationally owned and operated. Some of these problems could be partly resolved by the simultaneous existence of an internationally managed stock and of national stocks, all operating in a co-ordinated manner. Such co-ordination would require a sustained and complex effort in international co-operation.

9. International stocks exist for two commodities: tin and cocoa. The operating experience of the tin buffer stock covering the last 20 years has been favourable, while the mechanism for the cocoa buffer stock has only just been established; and no stocks have yet been generated. This limited use of international stocks in commodity trade stands in contrast to the wide application of national stocking arrangements, particularly for agricultural products, by most developed countries and by a number of developing countries.

2/ An international stock would need to be sufficient to cover the net deficit (or to absorb the net surplus) of world production in relation to consumption; the aggregate of national stocks would tend to be of a size to cover the gross deficit, i.e. the sum of deficits of individual countries, with no reduction for surpluses in other countries. See "The stabilization of markets for coarse grains; note by the UNCTAD secretariat" (TD/B/C.1/CONS.13/L.3).

TABLE 1

World End-year Stocks as a Percentage of World
Annual Consumption, 1960-1973
(Including working stocks)

	1960-61 average	1965-66 average	1970-71 average	1973
Wheat a/	26.2	14.8	17.8	8.5
Coarse Grains a/	23.3	15.5	12.4	9.4
Sugar	34.6	33.7	30.5	26.2 b/
Copper c/	36.7	20.0	16.4	10.1 d/
Lead	18.3	9.3	9.9	7.1
Zinc	12.0	9.1	10.0	5.5
Tin	38.5	32.2	24.5	21.1
Bauxite	18.2	10.6	7.3	7.0 b/
Coffee a/	113.7	114.6	56.3	48.6
Cocoa a/	46.1	53.7	35.2	20.4
Tea	8.9	9.1	8.7	5.8
Cotton a/	50.8	67.2	44.8	45.1
Jute	10.0-24.3 f/	13.0-19.3 g/	16.0	15.2
Wool	29.0	22.0	29.0	25.0 b/
Sisal c/	35.8	34.5	26.3	...
Rubber c/	93.1	65.5	58.1	51.2

Sources: FAO, Commodity Review and Outlook
Gill and Duffus (London), Cocoa Market Report
International Cotton Advisory Committee, Cotton - World Statistics
International Rubber Study Group, Rubber Statistical Bulletin
International Sugar Organization, Statistical Bulletin
International Tea Committee, Annual Bulletin of Statistics
International Wheat Council, World Wheat Statistics
United States Department of Agriculture, Foreign Agricultural Circular, Grains
Commonwealth Secretariat, Wool Statistics and Industrial Fibres
International Tin Council, Statistical Bulletin
World Bureau of Metal Statistics, World Metal Statistics
Executive Office of the President (Washington D.C.), Stockpile Report to the Congress

a/ Crop years ending in the year shown.
b/ A sharp reduction in the stock ratio is likely in 1974.
c/ Including the stockpile of the United States General Services Administration.
d/ End-1973 commercial stocks and end-May 1974 GSA stocks.
e/ 1972
f/ 10.0% in 1960-61, 24.3% in 1962-63.
g/ 13.0% in 1965-66, 19.3% in 1967-68.

Note:- Unless otherwise stated below or in the foot-notes, consumption refers to actual world consumption and stocks refer to commercial stocks.

Wheat:	Stocks in seven exporting countries.
Coarse Grains:	World stocks, excluding socialist countries.
Sugar:	Stocks in principal exporting and consuming countries.
Copper:	Consumption of refined metal; known stocks in producing and consuming countries.
Lead), Zinc):	Consumption of refined metal; world producers' stocks and consumers' stocks in the United States, United Kingdom and Japan.
Tin:	Consumption of refined metal; known stocks in producing and consuming countries.
Bauxite:	Consumption of bauxite is taken as equal to production of alumina; stocks of bauxite in the United States.
Coffee:	Stocks in producing and importing countries.
Cocoa:	Grindings; stocks in producing and importing countries.
Tea:	Stocks in the United Kingdom (excluding primary wholesalers).
Jute:	Stocks in Bangladesh and India.
Wool:	Stocks in producing and consuming countries.
Sisal:	Stocks in Kenya, Tanzania and Brazil.
Rubber:	Stocks in producing and consuming countries, excluding stocks afloat.

Chapter II

OBJECTIVES

10. The objectives of a system of internationally held and internationally managed stocks would have to be sufficiently broad to encompass the interests of both the exporting and the importing countries.

A. Exporting countries

11. The exporting countries have several major interests in price stabilization through international stocks:

(i) In periods of excess supply or weak demand marked by falling prices, these countries are anxious to avoid selling on a declining market, since this would drive down prices and earnings even further. As most of them do not have the financial resources to enable them to keep supplies off the market, selling to an international stock at a reasonable price would provide the necessary support. Most of the specific requests for the establishment of international buffer stocks have been triggered off by the emergence of serious surplus situations and the associated rapid decline of prices. 3/ While other action will also be needed to achieve an adequate price level, this level could not be sustained without reducing the need for selling on a declining market.

(ii) Wide fluctuations in world commodity prices make it difficult for governments, farmers and other producers to take rational production and investment decisions, whether in terms of export plans or of the degree of self-sufficiency, since unstable prices give unclear signals concerning the long-run profitability of different lines of production. Stabilization of world market prices should promote a more efficient use of resources.

(iii) Price stability achieved by the operation of an international stock should lead to an improvement in the long-run position of primary products, particularly those which compete with synthetic substitutes. Higher costs of energy and feedstocks have increased production costs for synthetics; also their prices may be less stable in the future than in the past. This provides natural products with an opportunity to recover some of the market lost to an exceedingly strong competitor, provided their prices are reasonably stable.

(iv) Greater stability of prices should lead generally to greater stability of foreign exchange earnings. Where this is not so, and earnings are destabilized because of supply fluctuations, the effects can be

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3/ In these circumstances the movement of private stocks will normally be destabilizing. As prices fall, the holder of private stocks tends to sell, in the expectation of heavier losses on inventories, until such time as the price has fallen to a level at which the risk of further decline is negligible. At this bottom level, however, the effect on the incomes of the producers will frequently be disastrous.

countered by widening the price range and by measures which would help stabilize supplies, thus achieving greater stability in earnings as well as in prices. 4/

(v) Elimination of the need for selling on a weak market, an assurance of adequate prices, a better allocation of resources and a strengthening of the competitive position of natural products would lead to an increased flow of foreign exchange earnings. The resulting larger and more stable resource base would facilitate efforts to diversify and modernize the production and export structure of developing countries. Industrial investment, output, and employment would be better protected from external shocks and stimulated by higher domestic incomes.

B. Importing countries

12. The main interests of the importing countries are in the security of supplies over the short and long run, in equitable access to supplies in times of shortages, and reasonable stability of prices of both foodstuffs and industrial raw materials. Security of supplies and relative stable prices of industrial inputs would facilitate manufacturing operations and reduce their risks. Some of the ways in which an international stocking system might assist in reaching these objectives are set out below:

(i) By participating in financing the accumulation of stocks in times of surpluses, the importing countries would retain an appropriate share of control over the disposal of stocks and over both buying and selling prices.

(ii) A reasonable stability of floor prices of the international stock and its readiness to absorb output at these prices would help to assure adequacy of supplies for importing countries over the long run, since it would provide producers with the requisite degree of certainty for undertaking the investment needed in export production. 5/ Furthermore, the operation of the stocking system could be considered in a wider framework of measures needed to assure satisfactory supplies of scarce materials over the long run. Close co-operation with international development agencies and with public and private interests in the consuming and the producing countries could result in an integrated approach covering the whole chain from mineral exploration and land-use decisions to marketing, including the use of long-term contracts.

4/ This applies to some agricultural products where prices normally fluctuate in inverse proportion to quantities and demand is fairly responsive to price changes. For a more detailed analysis see "The development of an international commodity policy - Study by the UNCTAD secretariat" (TD/8/Supp.1) in Proceedings of the United Nations Conference on Trade and Development, Second Session, vol. II Commodity Problems and Policies, United Nations publication, Sales No. E.68.II.D.15. and The Problem of Stabilization of Prices of Primary Products, a joint study by IMF and IBRD (1969), especially chapter III.

5/ OECD, op. cit., p.37: "It appears highly unlikely that in an expanding world economy relative prices of primary commodities could return to the depressed level of the 1960s. Given the present capacity constraints in basic materials industries,

(iii) In times of scarcity, a plan for allocating supplies to the importing countries may be necessary in order to ensure minimum supplies to participants in the stocking system at reasonable prices and without discrimination.

(iv) The location of stocks should be widely distributed. Willingness of particular governments to share in or subsidize storage costs may be taken into account as an additional factor. Wide distribution of stocks would be an additional guarantee of equal access to primary products.

C. <u>Ultimate beneficiaries</u>

13. In its buying operations the international stock will probably deal with large organizations, such as government agencies, co-operatives or groups of co-operatives, and large private companies. Prices at the producers' level, particularly prices obtained by the small producers, may differ substantially from world prices supported by the international stock. However, a basic objective of the proposed system is to improve the conditions of life and work of small farmers, landless labourers, and mining workers. In establishing schemes for individual commodities, it may be desirable to pay particular attention to the extent to which these benefits, including benefits from diversification, will be broadly shared.

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which are highly capital intensive and have long gestation periods, a sustained and high level of investment is required. Moreover, there is a need to develop technology and investment in the conservation and recycling of depletable resources. Hence it would be against the interests of both producers and consumers to let prices drop below the long-term equilibrium level for a protracted period".

Chapter III

SCOPE

A. Commodity coverage and country effects: A first approximation

14. Table 2 lists 18 major commodities which are *prima facie* suitable for international stocking. The list is a tentative one, and further work is necessary on the feasibility of stocking of particular products. Special investigation is needed of a suitable stabilizing mechanism for oilseeds and vegetable oils produced in the tropical areas, which are interchangeable with other oils and fats in a varying number of uses and are therefore exposed to complex substitution effects. As regards tea, recent experience suggests that it may be storable under appropriate conditions for a longer period than earlier thought; the question here concerns the extent to which stocking could be used in conjunction with other measures to change the level of prices. For bauxite and iron ore, economic feasibility of stocking partly depends on their future price levels; also, further investigation is needed of the processing stage at which they could be stored most economically.

15. The commodities listed account for 55-60 per cent of total primary exports of developing countries, excluding petroleum, and their stabilization at an adequate level would have a significant favourable effect on these countries' foreign exchange earnings. Developing countries are also importers of primary products, however, and this would have an opposite foreign exchange effect. Since the proportion of primary products in total imports of developing countries is much smaller than the corresponding proportion in their exports, these countries, as a whole would be net gainers. The incidence on individual countries would vary, depending on the commodities subject to stabilization, the national structure of exports and imports, and the level at which prices of different commodities are stabilized. The possibility of adverse net effects would be greatly reduced if the product range subject to stabilization were wide, and it would be eliminated if the importing developing countries were able to obtain supplies at preferential prices.

16. A number of high-income countries are large exporters of primary products and would therefore directly benefit from stabilized export prices (see table 2). The main effect on the majority of these countries, however, would be with respect to their imports, as their import prices would be higher while international stocks were being built up than they would be otherwise. It is important to bear in mind the proportions involved, however. Imports by the high-income countries as a whole of the commodities listed in table 2 accounts for about 9 per cent of their total imports, and therefore the aggregate effects on account of price stabilization are likely to be relatively moderate. However, it must be recognized that these price effects are real and for some importing countries they may be important. On the other hand, to the extent that the build-up of stocks takes place in periods of falling prices, it would limit the decline rather than result in an actual rise in prices.

17. The analysis in paragraphs 15-16 above considers the short-run effects of price stabilization at an adequate level: when prices are supported exporters tend to gain, and importers pay more, although they benefit from improved security of supplies, and also from lower prices when stocks are released. Over the long run, it is both exporters and importers who gain. Importers will gain from rising

TABLE 2

Major stockable commodities: trade values, 1972

(Millions of dollars)

	Exports f.o.b.				Imports c.i.f.			
	World	Developed market economy countries	Socialist countries	Developing countries	World	Developed market economy countries	Socialist Countries	Developing countries
Wheat[a]	4 366	3 818	388	160	4 609	1 540	1 291	1 778
Maize	2 298	1 914	53	331	2 444	1 905	324	215
Rice	1 120	537	143	440	1 232	175	82	974
Sugar	3 334	921	178	2 235	3 379	2 304	460	614
Coffee (raw)	3 049	-	-	3 049	3 368	3 101	126	141
Cocoa beans	723	-	-	723	729	572	131	26
Tea	745	79	57	609	784	470	72	242
Cotton	2 828	587	484	1 757	3 055	1 714	792	549
Jute and manufactures	(762)	71	(21)	670	(840)	(520)	(120)	(200)
Wool	1 346	1 143	42	161	1 722	1 361	257	105
Hard fibres	87	3	-	84[b]	106	92	7	7
Rubber	904	-	-	904	1 095	689	305	101
Copper	4 113	1 364	354	2 395	4 226	3 635	377	214
Lead	418	257	45	116	470	379	60	31
Zinc	862	558	110	194	938	736	77	125
Tin	730	70	28	632	758	613	53	92
Bauxite	305	82	5	218	363	325	36	2
Alumina	609	265	46	298	685	532	91	62
Iron ore	2 608	1 213	403	992	3 484	3 039	425	21
Total	31 207	12 882	2 357	15 968	34 287	23 702	5 086	5 499

Sources: FAO, Trade Yearbook 1972, and national statistics.

a/ Including flour

b/ In addition, developing countries exported $49 million of hard fibre manufactures.

Note: The classification into country groupings is that of FAO used in the source. The figures are preliminary. For sugar, cocoa, and copper, import values appear understated in relation to exports. For metals and ores, trade among the mine countries members of EEC is excluded.

supplies and ultimately cheaper products due to a steady flow of investment and technical advance in export production facilitated by price stabilization, and exporters will gain from larger markets and higher factor incomes due to modernization of primary production and diversification.

B. Storage costs

18. Costs of storage - warehouse rent, insurance and other storage costs - are an important element in determining the length of the stocking cycle and the margin between the buying and selling prices. If annual storage costs amounted to 5 per cent of the purchase price and interest on the commodity in stock is 10 per cent, per annum, the selling price a year later should be 15 per cent above the buying price if the stock is to break even. Higher storage costs and longer periods of storage call for a proportionately higher margin.

19. The technical possibilities of storage vary. "Perishable commodities are not usually regarded as suitable for buffer stock schemes; yet there is no hard-and-fast criteria of perishability in this sense. While there are some products, such as bananas, for which buffer stocks are presently technically impossible, and others, such as tin, for which storage is relatively very cheap, there are a large number of 'grey area' commodities . . . Rapid development has occurred in national marketing systems for the distribution over time of seasonal gluts of perishable commodities. Similarly, some deterioration of commodities (as in cold-storage butter, in the free-fatty-acid content of vegetable oils and oilseeds, and in the quality of cocoa and coffee) has been found consistent with the profitability of carryovers in commercial storage".6/

20. The study by the UNCTAD secretariat referred to in paragraph 11 above 7/ classified commodities into three broad groups according to storage costs: negligible for a group of metals, low for a group of agricultural raw materials, and moderate for several foodstuffs. 8/ It has now been possible to make somewhat more detailed estimates (see table 3), which confirm this earlier classification.

21. The relevant relationship is storage cost as a percentage of the value (price) of the commodity. This percentage is quite low for most metals and for high-value agricultural commodities. Further work is needed to establish the availability of storage space in the producing and consuming countries and its rental and construction cost, the probable operating costs, and the time needed for completion of additional warehouse capacity. This work is related to the issue of the geographical distribution of stocks, discussed in chapter II.

6/ IMF/IBRD, op. cit., p. 71.

7/ See foot-note 4 above.

8/ Op. cit., paras. 149-153.

TABLE 3

Estimated storage costs of selected commodities, 1974

	$ per metric ton per year a/	Per cent of price b/
Copper	11 - 19	0.5 - 0.8
Tin	11 - 22	0.2 - 0.3
Zinc	11 - 19	0.8 - 1.4
Lead	11 - 19	1.8 - 3.1
Bauxite	1.50 c/	6.8 - 13.1 d/
Iron ore	1.50 c/	8.1 - 12.0 d/
Wheat	11 - 15 e/	6.7 - 8.4
Maize	11 - 15 e/	6.5 - 8.1
Rice	12 - 15	2.1 - 2.6
Sugar	15 - 30 f/	2.8 - 5.6
Cotton	12 - 18	0.8 - 1.1
Wool	12 - 18	0.2 - 0.3
Rubber	12 - 15	1.5 - 1.8
Coffee	12 - 15 g/	0.8 - 1.0
Cocoa	12 - 15 h/	0.6 - 0.7
Tea	18 - 24	1.3 - 1.7

Source: UNCTAD secretariat calculations.

a/ Estimated rates for warehouse storage in 1974 in London or Rotterdam ports. Rates for moving into/out of storage, frequently estimated at $10 per ton, are not included. Storage and handling costs in developing countries are likely to be lower. Storage costs are also likely to be lower outside port areas.

b/ Annual storage costs per ton as a percentage of average price per ton in the first nine months of 1974, unless otherwise indicated.

c/ Based on open air bulk storage for iron ore, port of Rotterdam, for periods of 12 or more months. Rates for moving into/out of storage: 85 cents per ton.

d/ The range reflects different prices for different periods and grades. For bauxite, the upper limit of 13.1 per cent reflects the world export unit value of $11.40 per ton in 1973; prices are now moving upwards, and the lower limit of 6.8 per cent is based on the price reported for July-September 1974 of $22 per ton.

e/ Silo storage costs in the port of Rotterdam are currently $10.90 per ton per year. In-and-out (cycling) costs are estimated at $2.30 per ton. The reported equivalent rates for grains storage and cycling costs in the United States are respectively $11.40 and $3.20.

f/ Refined sugar in the United Kingdom. Upper limit refers to refined sugar in 50 kg. bags in the London area. Handling charges into and out of storage: $7 per ton.

g/ An alternative estimate suggests $33 per ton, including overhead and operation costs of the stock.

h/ An alternative estimate suggests $22 per ton, including turnover costs.

C. Commodity linkages

22. A major problem in attempting to stabilize the price of a single product is the undesirable substitution effects. 9/ A product whose price is stabilized in the face of falling prices of competing products will tend to lose its market, and at the same time to attract a disproportionate share of productive resources. This danger is reduced when stabilization policy extends over a broader product range. Moreover, such comprehensive stabilization policy could be used for inducing the shifts that are needed. Changes in relative support prices have been used successfully in influencing the composition of output of annual crops in a number of countries - e.g., the United States, United Kingdom, EEC, Argentina, and Egypt. A major shift in resource use was achieved in Brazil in the mid-1960s, away from coffee into other activities, essentially by changing sharply the relationship between the support prices of different crops. Colombia has been applying over a long period a consistent coffee price-support policy which has prevented over-production and at the same time promoted other activities in the coffee-producing areas.

23. Shifts of resources within countries may have international repercussions and may call for international co-ordination. For any one country, moving resources from a product which is in surplus to another which is not constitutes diversification. However, if many producing countries diversify into the same product at the same time, new surpluses will be generated, with adverse effects on most producers. An international multi-commodity stock would be able to discourage such developments by appropriate changes in relative prices of different products.

9/ For example, on the supply side it might be difficult to stabilize the price of rice while jute prices continue to fluctuate widely, since both compete for the same factors of production. The situation is similar in the case of grains and cotton, or rubber and oil palm. On the demand side, stabilization of the price of copper is made easier by the *de facto* stabilized price of aluminium, which is its major substitute, and the competitive position of copper, which has shown wide price fluctuations, should therefore improve with stabilization.

Chapter IV

OPERATIONS 10/

A. Prices

24. Initial determination of the stock's buying and selling prices is a major operational issue. Views differ as to what represents a fair price, and also as to what would be the long-run equilibrium price for a particular community. Past prices in real terms (i.e. allowing for inflation) are frequently taken as a starting point for discussion; but then the question arises as to which period in the past should be selected as best reflecting long-run costs. Furthermore, as recent experience has shown, past prices may have been accompanied by under-investment, resulting in subsequent sharp price increases. Conversely, in industries with declining costs, maintenance of past prices may lead to over-production. In many primary products, particularly agricultural ones, past prices have reflected a wage level which is now widely considered intolerably low, and this factor would have to be taken into account in deciding what is an adequate price in the future.

25. A pragmatic solution would have to be worked out, perhaps by paying special attention to the effects the price is likely to have on the quantity offered to the international stock. A factor of significance is whether the producers are likely to have an effective machinery for conrolling supply. If they do, the stock would not be over-burdened even though the price may be higher than costs.

26. Since costs of imported inputs are likely to increase and the import purchasing power of export income is likely to fall over time as long as international inflation continues, the initially determined price level will have to be adjusted to take account of these changes.

27. Experience with national and regional commodity stabilization schemes suggests that it is almost impossible to avoid errors in price determination. A corrective mechanism would be a provision for re-examination of prices in the light of experience at intervals agreed upon in advance, initially probably once a year. 11/

10/ For a more extensive discussion see UNCTAD, op.cit. and IBRD/IMF, op.cit. Considerable literature has resulted from the operations of the International Tin Agreement (see in particular William Fox, Tin: The Working of a Commodity Agreement (London), 1974) and from the discussions concerning the International Cocoa Agreement. A thorough treatment of the operations of a stabilization system is contained in a series of writings by L. St. Claire Grondona, of which the latest is a A Built-In Basic Economy Stabilizer, the Economic Research Council, (London), 1972.

11/ An alternative to changing the price for all purchases is for the stocking system to pay reduced prices for each quantity beyond an initially agreed limit (Grondona, op.cit., p. xvi). Another intervention rule which has been suggested is for the stock to vary the quantities it accepts depending on the volume it already holds. (The rule is defined in terms of the "desired" level of stocks, expressed, for example, as a percentage of world production or trade). Further analysis is needed of appropriate intervention rules and their likely effects.

B. Adjustment mechanisms

1. Supply controls

28. In serious and persistent surplus situations there may be no feasible reduction in price capable of arresting the excessive flow of sales to the stock, and export quotas may have to be introduced, thus shifting the burden of adjustment back to the producing countries. A permanent system of quotas has proven difficult and time-consuming to negotiate. An alternative would be an agreement in principle amongst producing countries to reduce exports proportionately to current output (or output in the previous year) in an agreed aggregate amount whenever the international stock reaches the limit of its purchases. Such reductions would be applied automatically and would obviate the need for advance discussions on quotas. They would also avoid another major disadvantage of export quotas, namely, their tendency to freeze the geographical pattern of production and to slow down the expansion of output by relatively low-cost producers. Postwar experience in this respect has been more favourable than earlier. The International Tin Agreement, which relies on export quotas to support the buffer stock, provides for continuing re-allocation of quotas in the light of countries' current production. These provisions have been applied, and there has been a shift in the international location of production. The International Cocoa Agreement, where the main mechanism consists of export quotas complemented by a buffer stock, provides for the automatic adjustment of quotas during the three-year life of the Agreement in accordance with a formula that allows for any significant changes in national production levels.

2. Diversification

29. Export quotas are an effective stand-by device for emergencies, but they cannot solve the problem of persistent over-production, any more than can an international stock. In such cases, structural adjustments are needed. These call for finance, for fixed investment and for re-training of labour, which is additional to that required for international stocks. Assistance for diversification is available from international lending agencies, but the sums required are considerable. One possible source of finance is income generated in commodity production and trade, especially in periods of high prices. Close observers of the experience of both the tin and the coffee agreements have come to the same conclusion:

> "The members of the (Tin) Agreement, whether consuming or producing, were committed from the beginning to the doctrine that the only solution to long-term supplies in the tin industry was through use of export limitation ... Any other basic approach was never seriously examined ... (such as) one which would have taken into account ... the differences between the wealth of individual producing countries ... and that there is a case for self-help between the producers. (There could be) a plan for governments creaming off profits by increasing their duty or levy - when the tin price was above the ceiling in the agreement - into an excess profits pool. This pool ... would be the basis of a fund to buy up and hold, or perhaps sterilize, unwanted production and to provide compensation for mines killed off. The fund would also help to diversify employment in areas where mining proved surplus. (There were raised very practical objections - the objection of governments to local levies being used for action elsewhere, the difficulties, especially in Bolivia, of finding anything in the mining areas into which to diversify redundant labour, the problem of deciding when capacity would be sterilized - but (it is regrettable) that this suggestion ... has not gone further". 12/

12/ Fox, op.cit., pp. 266-7.

"To provide an incentive for the adoption of a rational policy in relation to both production and stocks, a more flexible use might be made of coffee export stamps. The *pro rata* element of an export quota might be issued free of charge, but any additional export entitlements ... could be the subject of a charge sufficiently large to be an incentive to avoid unwanted production and needless holdings of stocks. The money so obtained could be devoted within the country which has paid for the stamps to programmes or projects seeking to diversify the economy of that country and to reduce its dependence on coffee". 13/

30. The use for diversification projects of part of the proceeds from exports when world prices are high would achieve the objective of structural adjustment in yet another way, since by taxing away part of the export income it would reduce the incentive to over-invest which is present in all commodity booms. This is of particular importance for products marked by long cycles in production and prices, e.g. coffee and cocoa, which result from lags between investment and output and from a weak or lagged response of demand to price changes. Superimposed on the long cycles are sharp short-term fluctuations in output and private stocks, and these can be offset by international stocking operations. The solution to the long cycle has to be sought in policies stabilizing the rate of investment and promoting a shift of resources into other activities including processing; a progressive export tax applied when prices are high would dampen the cycle and raise aggregate earnings over the cycle as a whole, because it would reduce aggregate investment, and the average amount of surplus capacity, and therefore avoid prolonged periods of depressed prices and earnings. If tax proceeds are used for financing diversification, there will be additional income generated by the factors of production released. The incentives provided by the operations of an international stock can be used to stimulate such desirable shifts in resources and to promote the internal mobilization of resources in the producing countries.

31. The first instance of international financing of diversification within the framework of a commodity agreement was the Coffee Diversification Fund. Although the volume of its operations was small, valuable lessons can be learned from the experience of the Fund's operation.

C. Contractual arrangements

32. In view of the difficult food situation and uncertain agricultural prospects in many developing countries, it may be useful to consider at some point the feasibility of extending international stock operations through the provision of longer-term guarantees of both prices and quantities to the developing countries exporting essential foodstuffs, in order to help then overcome structural rigidities. The resulting expansion of output and exports could help in meeting food import requirements of other developing countries. Matters for study in this connexion include the financial effects on the stock if its normal buying price at the time of delivery to the stock is below the guarantee price; caution would have to be exercised in undertaking commitments which might jeopardize the financial soundness of the system. To the extent that long-term contracts could be concluded with the food-importing countries, however, the risk would be reduced. Financial assistance by high income countries would also be most helpful. Such operations would contribute to economic co-operation among the developing countries.

13/ International Coffee Organization, Working Group on the Negotiation of a New Agreement, Issues Paper, EB 1265/74, 30 January 1974 (London), para. 28.

33. Contractual trading arrangements among the consuming and producing countries generally could exercise a considerable stabilizing effect on quantities traded and thus help relieve the pressures to which the producing countries and the international stock may be exposed. In turn, extensive forward contracting is unlikely to be feasible without stocks, since it could lead to increased market instability for those countries which did not have contracts; also, given the unpredictability of the weather, supplies may turn out to have been over- or under-committed through forward contracts, with the risk of greater domestic price instability in the exporting countries or even insufficient supplies to meet the contract. The existence of adequate stocks would resolve these potential difficulties and enable contractual arrangements to function smoothly. Moreover, contractual arrangements could be made within a comprehensive system of multilateral commitments which would also be linked to the operations of international stocks. 14/ The mutually reinforcing action of these two instruments could be expected to lead to a faster expansion of trade and an alleviation of the foreign exchange constraint for all participants.

D. Extent of intervention

34. A stabilization system can operate on either of two broad principles:

the system buys commodities offered to it at the floor price and sells when the market price has reached the ceiling. It does not intervene as long as the price fluctuates within the set range; or

the system intervenes actively in the market in order to keep the price within the set range. Management is given freedom of action in its trading operations.

35. The International Cocoa Agreement is based on the first principle: the buffer stock buys cocoa only from producing countries and at the floor price, 15/ and it does not trade in the market. The International Tin Agreement is based on the second principle, with an important reservation: the buffer stock manager trades in the market on a day-to-day basis, but when the price is in a fairly narrow belt around the mid-point of the floor and ceiling prices (about 7 per cent), he must normally suspend operations. In effect, this is a combination of the two principles.

36. There are many technical issues concerning the application of either principle, but the main issue is one of policy. National stabilization programmes normally operate on the first principle, i.e., price support with ample funds to defend the floor price and ample scope for the commercial sector to operate above the floor. An active trading role for the public stocking system, i.e., application of the second principle, may achieve economy in resource use for a given stabilization objective, but involves more decisions and therefore more risks accompanying these decisions.

37. The interaction of a public stocking system and privately held stocks has not yet been fully explored. 16/ A distinction should be made between working stocks, commercial reserve stocks, and speculative stocks. The existence of public stocks

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14/ See the Study by the UNCTAD secretariat, "The multilateral role of commitments in commodity trade" (TD/B/C.1/166/Supp.3).

15/ However, when the buffer stock has reached the permitted maximum (250,000 tons), further purchases take place at a price below the floor, and the excess is diverted to non-traditional uses.

16/ The experience of the tin buffer stock contains important lessons, but one of the problems here was that the buffer stock was too small. (Fox, op.cit. pp. 270-271).

will not reduce the need for industry and trade to hold working stocks, i.e. those at the production end needed to maintain a regular flow of shipments, those in shipment, and those at the users' end needed to maintain the smooth flow of processing and distribution. A public stocking system may be expected to bring about a reduction of the average holdings of commercial reserve stocks, and of the highly volatile purely speculative stocks, now mostly held in the importing countries. To that extent the economic cost of accumulating an international stock would be partly offset by the release of resources now used to carry reserve and speculative stocks. There is a growing dissatisfaction in the importing countries with the behaviour of speculative commodity markets and the role they may have played in recent violent swings in prices. 17/ For a public stocking system to be able to alleviate the situation, however, it would have to be endowed with resources sufficient to meet a possible unloading of private speculative stocks, concentrated in a short period, and to discourage speculative buying on the upturn.

38. The operations of a public stock could increase market instability. If the stock is too small, it may stimulate speculative raids. If it attempts to maintain prices at a level which would result in a permanent surplus or shortage, the resources of the stock, either in funds or in the commodity, will inevitably be exhausted. The resulting market disruption, in addition to its inherent serious consequences, may constitute the initial impetus for fluctuations of larger amplitude than those which would have occurred if a public stock had never been in operation. Market instability might also be worsened if the public stock is managed in a way which does not take fully into account the particular characteristics of the commodity market concerned. In this respect, special caution has to be exercised when both cyclical fluctuations and random factors, such as weather conditions, work together in generating market instability. More generally, the operations of a public stock, like the application of any stabilization policy, may defeat the intended purpose. Such possible aggravation of market instability, however, would not be the result of the operation of the public stock *per se*, but rather of an improper management of the stock.

E. Performance criteria

39. The financial results of stocking operations will depend on the amount of carrying charges (as determined by costs and duration of storage), interest costs and trading profits and losses, the last being determined by the margin between the buying and selling prices. 18/ A relatively wide margin will tend to increase trading profits, but means that either the support price is too low or the ceiling prices is too high, and therefore the stabilizing effect is weakened. This potential conflict between financial and economic considerations is not an imaginary one: it was encountered in the operations of the tin agreement. 19/ In the event, the tin buffer stock has been a financial success, partly because of a rising price trend and partly because of skilful management. Price trends cannot be

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17/ OECD, *op.cit.*, p.29. The major speculative element is in futures contracts ("paper stocks"). See also W.C. Labys, "Speculation and price instability on international commodity futures markets" (TD/B/C.1/171).

18/ In the International Cocoa Agreement the margin (range) is 16 per cent on either side of the mid-point, and in the International Tin Agreement 10.5 per cent.

19/ When prices rise the buffer stock manager will induce greater stability of the market by selling *pari passu* with the price rise but his trading profit will be greater if he refrains from intervening until the price has risen sharply and then sells. (Fox, *op.cit.*)

expected to be always upwards, however, and even if the general price level continues to rise, the price of a particular commodity may be falling. Under these circumstances, trading losses on a particular commodity in a particular period may be hard to avoid unless control of the supply is practicable and can be instituted.

40. A stocking system which includes a number of commodities should aim at a financial profit in the operations of the majority of commodities concerned and thus for the operation as a whole. Since the primary objective of the system is an economic one - price stabilization - its profit target cannot be too ambitious, but the system has to be financially self-sustaining if it is to be able to discharge its economic functions in a sustained manner. Since world economic conditions can be such in any particular period that market losses cannot be avoided, the stocking system should have a fund to cover such contingencies. It is therefore suggested that, when initiating such a system, a modest export levy be introduced on all commodities included in the system, the proceeds of which would go to a contingency fund. A less satisfactory alternative would be to introduce the export levy only if and when net losses occur, and to impose it either on all the commodities or only on those accounting for the losses.

F. Multi-commodity versus single commodity stocks

41. Management of an international stock can be organized entirely on a commodity-by-commodity basis, as at present for tin and cocoa, or it can be entrusted, in some degree, to a multi-commodity organization. The Keynes-United Kingdom Government proposals of 1942-1943 envisaged the establishment of a separate international organization which all members of the United Nations would be invited to join. Provision was made for a Council of Commodity Control, which would exist alongside councils for each commodity, would have supervisory functions in price and output policies, and in the size and management of stocks, and perhaps also be responsible for the provision of finance. 20/

42. Under present circumstances, in view of the likely need for urgent stocking action in a number of commodity markets, such action may in fact result in the establishment of a multi-commodity stock under joint overall management. Appropriate machinery for most individual commodities is not in existence. Such a multi-commodity system would also have a number of long-term advantages, some of which have already been alluded to:

(a) In approving recommendations for individual commodities concerning support and ceiling prices, a multi-commodity organization would be responsible for, and capable of, taking into account the effects on other commodities; individual councils could not be expected to perform this function as efficiently;

(b) An individual commodity organization whose objectives include diversification would find it difficult to pursue policies in this direction in the absence of some general guidance as to the lines of production into which it is socially profitable to diversify. A multi-commodity organization could provide such guidance and assistance in the broad context of international commodity policy;

20/ J.M. Keynes, "The international control of raw materials," a memorandum to the Treasury of 14 April 1942, published in Journal of International Economics, 4 (1974), pp. 301-305, and unpublished subsequent documents.

(c) In the case of tree crops with long gestation periods, the existing system of individual agreements for five years or less does not provide the long-term perspective, particularly concerning prices, which is needed to influence investment decisions designed to achieve stabilization. 21/ An overall commodity organization of long life expectancy, responsible for price policy guidelines, would be better able to provide more certainty;

(d) A multi-commodity approach could make a significant contribution to the control of the business cycle, By a deliberate policy of releasing commodities from stock in periods of upswing and inflationary pressure, it would tend to moderate excessive booms, and by purchasing commodities in the downswing it would support effective demand and protect employment; 22/

(e) If a multi-commodity stock had trading functions, it would be able to offset, wholly or partly, trading losses on one commodity against profits on other commodities. Also, it would be able to offset purchases of some commodities against sales of others, thus reducing its net borrowing requirement (see chapter V below);

(f) Prospects for reaching agreed solutions in intergovernmental negotiations would be enhanced by a multi-commodity approach, since the scope for mutual concessions and reciprocity would be much greater than in dealing with single-product schemes.

43. Views will probably differ on the weight to be attached to the above points, and some may argue that the commodity-by-commodity approach, while slow and piecemeal, promises a more sustained advance. Further exploration is needed of the issues involved in the choice between single-commodity and multi-commodity stocks and their possible variants.

21/ See International Coffee Organization, op.cit.

22/ This possible function of a multi-commodity approach was emphasized by Keynes, It has been developed further by Lord Kaldor, who suggests the use of international stocks of primary products as a major element in reconstructing the international monetary system. (See Keynes, op.cit. and N. Kaldor, "International monetary reform"; the need for a new approach, Banca d'Italia December 1973, and "World Inflation and the Collapse of the International Monetary System" (Williamsburg, Virginia), June 1974).

Chapter V

CAPITAL REQUIREMENTS

A. Relevant considerations[23/]

44. The main determinants of the amount of resources needed to establish a system of international stocks are:

(i) the commodity coverage;

(ii) buying (support) prices;

(iii) the sensitivity of production and consumption to random factors, such as the weather, and to fluctuations in economic activity; the magnitude and the frequency of such occurrences and the amplitude of the fluctuations they generate in the markets of the commodities concerned;

(iv) the degree to which surpluses or shortages are bunched in adjacent years (the greater the bunching, the greater the resources required);

(v) the margin between flow and ceiling prices;

(vi) the magnitude of demand and supply responses to changes in prices;

(vii) the degree to which export quotas and other measures of supply management are expected to be used; extensive reliance on export quotas would reduce the need for international stocks in periods of surpluses, but would aggravate the shortage in periods of deficits;

(viii) the likely magnitude of absorptions into the international stock of private speculative and other stocks;

(ix) the level of existing national stocks; the lower this level in relation to consumption and the higher the perceived need for reserve stocks, the greater the required resources for the system of international stocks.

45. Some of these factors are of a technical nature. The key considerations are matters of policy. Answers to questions such as: how big a reserve of grains should the international community carry in order to avoid famine in periods of poor crops, how large a stock of metals should be available to meet contingencies, and at what level should the price of a particular product be supported and for how long, depend on technical and economic considerations, but they will reflect policy judgements regarding the appropriate use of public funds.

B. An illustrative estimate

46. Considerably more work, including consultations with experts, is needed to arrive at quantitative estimates of the resources required for international stocks on different policy assumptions. In the meantime, the UNCTAD secretariat has compiled an illustrative estimate, based on suggested relationships between the volume of world trade and the size of international stocks, on existing studies, and on prevailing expert opinion.

23/ See UNCTAD, op.cit., paras. 204-208.

47. Keynes had prepared the first estimate for a group of commodities to be included in an international stock scheme, based on the view that the minimum stock level should correspond to three months of the annual value of world trade in these commodities. 24/ Any stock/trade ratio selected would be influenced by past experience of surpluses and shortages. In a recent discussion, a reduced minimum of one and a half months' trade has been mentioned; the tin buffer stock reflects this stock/trade ratio, and for cocoa the stock level is between these two figures 25/. These ratios - one and a half and three months' exports - have been used in annex I, which also shows all other available volume estimates of stock requirements, with comments on the basis of estimation 26/.

48. Table 4 shows the estimated dollar cost of purchases on the assumption that the quantities indicated would have been bought at average prices prevailing in the five-year period 1970-1974. The aggregate amount for the 18 commodities is $10.7 billion, of which $4.7 billion is accounted for by grains (wheat, coarse grains, and rice). The next largest amounts are for sugar, coffee and copper, totalling $3.2 billion. The estimate for grains assumes a stock of 45 million tons (4 per cent of world consumption), based on a recent FAO analysis 27/; international stocking requirements would be lower if they were designed primarily to assure supplies for the low income countries mostly in South Asia and Africa) and for other grain-importing developing countries (e.g. some petroleum producers).

49. The following qualifications should be noted:

(a) The estimated volume requirements have been shown as a specific figure rather than as a range, in order to simplify the presentation. Ranges are given in annex I (TD/B/C.1/166/Supp.1/Add.1). In table 4, the lower end of the range has been chosen for commodities where price fluctuations in the past have not been very large or where adjustments in utilization of capacity can be made more easily (e.g., most metals). Particularly for rubber and copper the estimates may be on the low side. Larger stocks may also be necessary for lead and zinc if existing national stocks are as low as the available statistics indicate. Conversely, the estimates for sugar and wool may be on the high side.

(b) Past prices have been used for estimating the purchase cost because any price projection would have been controversial. Periods other than 1970-1974 could have been used, but any period earlier than 1970 would not have been useful in view of the distorting effects on all nominal values of international

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24/ Op cit., p. 310. In later documentation it was emphasized that three months' stock would probably be too low and six months' would be preferable.

25/ A. Maizels "A New International Strategy for Primary Commodities", a lecture given to the Dag Hammarskjöld Foundation, Uppsala. (to be published).

26/ In the case of sugar it was also possible to make a preliminary assessment of what would have been the capital needs of a buffer stock if it had been in existence over the last 20 years, on the basis of a rough simulation of its operations. (See annex II).

27/ FAO, World Food Security: "Draft Evaluation of World Cereals Stock Situation" (CCP: GR74/11), July 1974, p. 14; "The World Food Problem. Proposals for National and International Action" E/CONF.65/4 (document of the World Food Conference) p. 173.

TABLE 4

International stocks: estimated purchase cost

Commodity	Stock required (Thousands of tons)	Purchased at Average prices in: 1970-1974 a/	Purchased at Average prices in: 1972-1974 a/	Purchase cost, at average prices in: 1970-1974	Purchase cost, at average prices in: 1972-1974
				($ million)	
Grains	45 000	$105 m.t. b/	$132 m.t. b/	4,725	5,940
Sugar	5 500	9.9 cts/lb	13.75 cts/lb	1,200	1,665
Coffee	15 000 c/	55.4 cts/lb	60.6 cts/lb	1,097	1,200
Cocoa	300	51 cts/lb	64.7 cts/lb	337	428
Tea	90	51.1 cts/lb	52.6 cts/lb	101	104
Rubber	375	23.4 cts/lb	27.7 cts/lb	193	229
Cotton	535	47.3 cts/lb	56.6 cts/lb	557	668
Jute and manufactures	..	29.8 cts/lb	30.5 cts/lb	98 d/	100 d/
Sisal e/	114	19.4 cts/lb	27.5 cts/lb	32 f/	46 f/
Wool	228	$2 215 m.t.	$2 898 m.t.	505	661
Copper	557	69.3 cts/lb	77.7 cts/lb	854	9[illegible]
Tin	40	219.8 cts/lb	257.8 cts/lb	194	227
Lead	240	17.2 cts/lb	20.3 cts/lb	91	107
Zinc	425	29.2 cts/lb	39.5 cts/lb	273	370
Bauxite (Al.content) g/	825	$56.5 m.t.	$63.2 m.t.	47	52
Alumina (Al.content)	562	$148.0 m.t.	$150.0 m.t.	83	85
Iron ore g/	26 000 h/	$11.0 m.t.	$12.0 m.t.	286	312
Total				10,673	13,149

Sources: Annex I for volume requirements. Prices: Wheat: US, No.2 Hard Red Winter; Maize: Argentina cif United Kingdom; Sugar: New York, contract No.11; Coffee: All coffee ICO; Cocoa: Ghana, spot New York; Tea: all teas, London; Rubber: Singapore, No.1 RSS; Cotton: Mexican, S.M.1-1/16"; Jute: Pakistan; Sisal: East African U.G., Wool: United Kingdom Dominion clean 50 S; Copper, Tin, Lead, Zinc: London Metal Exchange; Bauxite and Alumina: unit value of world exports; Iron Ore: average of Liberia, North Sea ports and unit value of exports from developing countries.

a/ For 1974, January-September average. Prices are given in US cents per pound or dollars per metric ton.

b/ Averages of wheat and maize prices, which were almost identical in the periods considered. The price of rice was more than double but the share of rice in the aggregate grain stock is likely to be small.

c/ Thousands of bags of 60 kg (132 lb).

d/ Based on stock/export value ratio of 0.125 in 1972 adjusted for price changes.

e/ See annex I for comments on stock requirements for hard fibres. Other hard fibres and probably manufactures should also be included.

f/ The computer value has been adjusted to take account of the 33 per cent difference between market prices and export unit values recorded in 1970-1972.

g/ Estimates subject to further investigation (see chapter III).

h/ Actual quantity may be smaller, depending on the stage of processing.

inflation. If it is assumed that the commodities would have been bought at average prices of the three-year period 1972-1974, the aggregate cost would have been one-fourth higher ($13.1 million) whereas at 1970-1972 prices it would probably have been one-fourth lower. To facilitate judgement concerning prices used, annex III contains price series for each commodity, both in current terms (actual prices) and in constant 1973 terms. 28/ In the case of sugar and zinc, the 1970-1974 average prices used in table 4 are clearly above the historical level in real terms, and this is more frequently the case if 1972-1974 prices are used. For some other commodities, (tea, coffee and jute), both the 1972-1974 and the 1970-1974 average prices are clearly below the past level in real terms.

(c) For some commodities it is known that the prices used understate the likely purchase cost. For tea, where prices can be expected to respond significantly to changes in volume, it is likely that each successive purchase would take place at higher prices than the recent depressed level. For bauxite, prices are now increasing substantially above the past level, and this would affect the value of the purchases. On the other hand, the cost to the stock may be overstated to the extent that market quotations (which are the basis of most prices used in table 4) are higher than prices actually obtained for all qualities on the average. This difference may be important for coffee, and also in some other cases 29/.

(d) The total purchase cost for all commodities is a gross figure, for three reasons:

(i) Conceptually, the estimates for each commodity represent the maximum stock which may be accumulated; in practice, stocks will vary between zero and the maximum;

(ii) If a multi-commodity stock is in operation, purchases of some commodities will be offset by sales of others in particular periods. The extent of the offset will be determined by the amplitude of the international business cycle: the stronger the cyclical movements, the more likely that most commodity prices will move together, with consequently little offset. During 1963-1972, commodity prices were moving in opposite directions in most years (usually between one-third and two-fifths in one direction and the rest in the other), but in 1973 they all moved together. If cyclical movements in the world economy prove in the future to be stronger than in the past two decades, the offsetting action will be weaker. The policy implication seems to be that the access to resources should be as large as possible, although the actual call on funds in particular periods may be substantially below the gross commitment needs;

(iii) If the stocking system is successful in reducing the amplitude of price fluctuations it is likely to result in a gradual dampening of output fluctuations as well. This should work in the direction of reducing capital requirements. At the same time, however, the volume of output, consumption and trade will be expanding in absolute terms, which would necessitate carrying a growing volume of stocks. Only the future can tell what would be the net effect on stocking needs of reduced percentage variations around a rising trend.

28/ Current prices were deflated by the United Nations index of prices of exported manufactured goods from industrialized countries.

29/ For a group of 14 commodities, market quotations were on average 8 per cent above export unit values during 1967-1972. The margin reflects other factors besides quality differentials.

Chapter VI

SUGGESTIONS FOR FURTHER WORK

50. Four areas of future work are suggested:

(a) Selection of commodities, size of stocks and price ranges;

(b) Storage costs and location of stocks;

(c) Operating principles and rules of intervention; and

(d) Institutional questions.

51. It is proposed that further work on the selection of commodities, the volume of stocks, price ranges, and length of the period during which the stock would be committed to a given price range, could proceed in two directions simultaneously. First, an investigation could be made by the UNCTAD secretariat of the factors influencing, for each commodity, the stocking needs, and the feasibility of stocking operations in complex cases (e.g., oilseeds and vegetable oils); the work would be done in co-operation with other international bodies. Secondly, the secretariat proposes to consult with governments in order to obtain their reactions to the suggested scope of operations of an international stocking system, including the questions of commodity composition and price ranges.

52. Work on storage costs and the location of stocks could perhaps be undertaken best in two phases. The first phase would consist of fact-finding (see chapter III above), and the second would be concerned with the appropriate location of stocks. Since national administrations, including marketing, port and railway authorities, are in the best position to compile and review the relevant information, consideration could be given to appointing a group of governmental experts to carry out the first phase of work. The secretariat would co-ordinate this work and expand it as necessary by direct contact with trade and industry. The second phase could be organized at a later date.

53. Work on operating principles and rules of intervention of the stocking system could focus on two fields. First, the secretariat could review the existing theoretical work and empirical studies in order to derive any possible guidance for future operations. Secondly, and assisted by consultants as necessary, it could analyse the experience of national and regional price stabilization systems in selected industrialized and primary-producing countries having long experience of such systems. The analysis would focus on the objectives of intervention, the techniques applied, auxiliary mechanisms and their effectiveness, with a view to deriving necessary guidance for the operations of an international system. The co-operation of governments in providing the secretariat with all possible assistance would be necessary.

54. Institutional questions on which further work is needed are of three kinds: the relationship between the international stock and national policies, particularly national stocking policies; the merits of a multi-commodity stocking system as against those of individual commodity schemes; and the financing of schemes. All three groups of issues call for consultation with governments.