UNCTAD and Commodities: towards a new agenda for research and action

Carlos Fortin

Has UNCTAD made a difference to the world commodity economy? Can it make a difference in the future, and if so how? The facile and even cynical answer to the first question is that the activities of UNCTAD have made no difference to the fundamental operation of the international commodity markets and industries and to the solution of their problems.

There is, of course, some basis for that answer. As is well known, UNCTAD's efforts since 1975 have focused on the Integrated Programme on Commodities and, within it, more specifically on price stabilisation proposals involving the setting up to joint consumer-producer buffer stocks backed by a Common Fund, also to be jointly financed and administered by industrialised and Third World countries. To be sure, Resolution 93 (IV) adopted in May 1976 at UNCTAD IV in Nairobi included references to other important elements of commodity policy: expansion of processing of primary products in developing countries, diversification of exports, stabilisation of export earnings through compensatory finance. But it was the price stabilisation scheme that caught the imagination of Third World policy-makers and analysts; this was the time when they were vicariously experiencing the success of the oil producers in dictating terms to the market, and with the Common Fund appearing potentially as a new international financial institution with more of a Third World presence than the World Bank or the International Monetary Fund, the overall promise was one of increased participation of the Third World in the structure of political and economic power at the world level. At the same time, the stabilisation objective attracted development-minded sectors in the industrialised countries.

It is understandable, therefore, both that the price stabilisation component of the Programme became the focal one and that high hopes of a relatively speedy implementation followed the adoption of Resolution 93 (IV). But events have turned out quite differently. In the nearly 10 years since the Programme was first put forward only one new commodity agreement of the kind that is at the heart of the Programme has been concluded, the International Natural Rubber Agreement, which came into force in April 1982.[1] Two other new agreements — on jute and tropical timber — are concerned only with exchange of information, consultation and promotion of uses, and do not include price stabilisation objectives [Wasserman 1983, 1984].

Moreover, some of the agreements that were in existence before UNCTAD IV have since faced difficulties and are arguably weaker today than they were then. Thus, the Sixth International Tin Agreement which was to have entered into force definitively on 1 July 1982 failed to achieve the required level of acceptance among producers and consumers (80 per cent of production and consumption), and could not even gain provisional entry into force automatically as it had not been accepted by governments representing 65 per cent of consumption. In the event, the governments that had ratified the agreement decided to bring it into operation provisionally among themselves on 1 July 1982. The level of acceptance went up later to reach 82 per cent of production and 51 per cent of consumption, but the largest consumer, the US, and the fourth largest exporter, Bolivia, opted out of the Agreement [UNCTAD 1983a]. In cocoa, the market intervention powers of the Agreement were suspended indefinitely in 1983, and the negotiations for a new agreement to come into force in September 1984 have run into serious difficulties, not least because of the refusal of the largest producer, the Ivory Coast, to take part [*The Guardian*, 26 March 1984].

The International Sugar Organisation proved unable to face the dramatic decline in the price of sugar that started in 1982, thus casting doubt on the adequacy of the agreement to fulfil its role in the world market [UNCTAD 1983a; Smith 1983]. Finally, the Common Fund, that was to be the cornerstone of the

[1] The text of the Agreement is contained in UNCTAD 1979. See also Wasserman 1980 and Stubbs 1984.

IDS Bulletin, 1984, vol 15 no 3, Institute of Development Studies, Sussex

stabilisation scheme was only agreed in a highly diluted form in June 1980, and since then it has not entered into force because of the failure to gather the required number of ratifications [UNCTAD 1983c].

Thus, judged against the original expectations the results seem little short of dismal. But that indeed would be too facile an assessment. While the large number of commodity agreements envisaged by the Programme have not materialised, it is hard to deny that the Programme has had an impact on the world commodity economy and more generally on international economic relations. The new rubber agreement has, on the whole, been successful in implementing price stabilisation; this does not preclude complaints by the producers that the floor price is too conservative and that they are therefore trading off stability for low prices [Stubbs 1984]. The Common Fund, although not operational, represents the beginning of a new international organisation that may have a profound influence on world commodity markets. More generally, the idea that the international commodity economy has structural problems and that these must be tackled through purposive intervention on the part of the world community has slowly gained some degree of acceptance at the international level, although clearly the extent to which the governments of the industrialised countries of the West have accepted the notion varies considerably: in particular, the United States has reaffirmed its preference for a non-interventionist policy for the international community in the commodities field [Helman 1981]. This, of course, contrasts oddly with the formidable array of instruments of intervention in the internal commodity markets displayed by the US, notably in minerals; they include stockpiling, tariffs, quotas, subsidies, etc.[2]

The balance sheet, therefore, is mixed. There is no doubt, however, that the high expectations that accompanied the launching of the Integrated Programme in 1976 have not been realised. In a sense, the fifth session of UNCTAD in Manila in 1980 recognised the fact that the market intervention approach to commodity policy was coming to a standstill, and shifted the emphasis towards the notion of commodity development and processing. This, as indicated, was already present in the Integrated Programme, but it was only with Resolution 124 (V) that it was put at the centre of the commodity debate. It was a path, however, that was itself not exempt from serious pitfalls; while a series of valuable studies by the UNCTAD Secretariat on the marketing and processing of various commodities has been produced, no significant progress has been made up to now in implementing the recommendations.[3]

In the meantime, of course, the commodity problem had not gone away, and by the time preparations began for the sixth session of UNCTAD, to take place in Belgrade in June 1983, there had been a veritable collapse in the prices of primary commodities, which had reached their lowest level for 30 years by 1981, and whose level of instability remained high [UNCTAD 1983b].

In this context, the UNCTAD Secretariat put forward a series of proposals for consideration at UNCTAD VI, including action aimed at speeding up the entry into operation of the Integrated Programme by calling on governments to ratify the Common Fund agreement and to renew efforts to complete new commodity agreements; an immediate action programme involving the negotiation of a series of interim agreements with a view to maintaining prices above 1981-82 levels; and an expansion and liberalisation of the IMF compensatory financing facility. Proposed longer term measures included compensatory financing for shortfalls in commodity export earnings, improving market access, and expanding and developing the processing of primary commodities in the producing countries [UNCTAD 1983c]. The debate in Belgrade was long and difficult, and the resulting resolutions, while reaffirming the support of the organisation for the Integrated Programme for Commodities, amounted solely to a mandate to carry out studies on the feasibility of the proposals made by the Secretariat [UNCTAD 1983d].

The reasons why the preceding initiatives on international commodity policy have not borne the hoped for fruit have been the subject of some debate among both analysts and officials. While there is discussion on the extent to which the price stabilisation proposals are feasible from an economic viewpoint,[4] most observers seem to agree that the failure in the implementation of the programme is due to political reasons. But there the agreement ends. Official UNCTAD documents and a number of outside observers resort to the notion of 'political will' to explain the problem. This is helpful up to a point, in that it highlights the importance of ideologies and perceptions of decision-makers in the final outcome of negotiations and the extent to which dynamic leadership by some member countries can be instrumental in achieving consensus and progress. It is not helpful, however, if it is taken to mean that

[2] It has in fact been argued that the relative stability of the world tin market is due less to the International Tin Agreement than to the intervention of the US General Services Administration strategic stockpile transactions [Smith and Schink 1979].

[3] The studies dealt with cocoa, bauxite, manganese, hard fibres, phosphates, coffee, copper, jute, sugar and tea. For a comparative summary of conclusions see UNCTAD 1982.

[4] For a carefully balanced view see Behrman and Tinakorn-Ramangkura 1978.

governments are entirely free agents who can decide at will which course of action to take in the international arena. 'Political will' in this sense becomes a black box within which further investigation is ruled out. This might be understandable in official documents, which must adhere to the notion that governments are unified representatives of the national will and which have to tread warily on the territory of sensitive political analysis. But an adequate examination of the reasons for the difficulties of the Integrated Programme must go beyond the concept of 'political will' and ask what constellations of concrete interests, groups and political factors determine the positions of governments in the negotiating arena. To what extent is the rejection by some of the industrialised countries of the West of the idea of organised intervention by the international community a reflection of the views of transnational corporations? What specific political pressures within the developing countries explain the reluctance of many of them to embark on the implementation of the Programme?

In a number of cases, the lack of success of negotiations concerning commodity agreements has indeed been due in part to the reluctance of producer developing countries to commit themselves to a price stabilisation scheme. Thus, in the case of copper — regarded by many as the most likely commodity for the setting up of an international commodity agreement — an important factor in stopping progress was the fact that the largest Third World producer (and the current largest world producer) Chile, was more concerned with taking advantage of its competitive cost position to dispute markets to other Third World producers than in cooperating in the setting up of a copper agreement [Fortin forthcoming]. By contrast, the success in achieving a natural rubber agreement is largely to be attributed to the extent to which natural rubber producers were united in their determination to bring the agreement into being. As a recent assessment puts it:

> Why were the [International Natural Rubber Agreement] negotiations successful? The key here was that the producers were united and had in place the [Association of Natural Rubber Producing Countries] agreement to which they could return if the UNCTAD-sponsored negotiations failed. The producers were few in number, they had a well-prepared position, they controlled over 90 per cent of world exports and they had a political cohesion based on their common membership in the regional grouping of ASEAN [Stubbs 1984:30].

This heightened the political motivations of the United States and Japan to do something for the region in the form of participating in the Agreement. Exploring the real determinants of the behaviour of governments in negotiations is no doubt a major item in any serious reassessment of international commodity policy and its difficulties, which in turn is a prerequisite for the formulation of alternative proposals for the future.

A particularly important question in connection with Third World producers is the true extent to which price stabilisation is regarded as a priority objective. Clearly, in a situation in which the price level is extremely depressed, Third World producers are more concerned with arrangements that would guarantee a minimum price rather than with smoothing out fluctuations *per se*. The introduction of realistic floor prices, to be implemented through export quotas and stock management — whether national or international — might be a considerably more attractive proposition for hard-pressed Third World producing countries; for consumer countries the attraction would be that prices of commodities would remain at levels that would guarantee investment and adequate supplies for the future. This, again, was a strong determinant of the participation of the consuming countries in the natural rubber agreement [Stubbs 1984].

Also, price instability is a problem for producer countries only insofar as it generates instability of foreign exchange earnings; the latter, however, is to a substantial degree caused not by fluctuations in price but by fluctuations in volume of exports. Given realistic targets for reduction of price instability, the net impact on the stability of earnings of even successful price stabilisation schemes might be modest, and the point is probably not lost among Third World producer governments.

More generally, the time has come to ask seriously, what is the impact on international commodity policy of changes in the structure of commodity industries and markets whose effects are beginning to be felt now and will continue to intensify in the medium and long run? Perhaps the most important of those changes have to do, on the one hand, with the pattern of world demand and consumption for primary commodities and on the other with the pattern of output and exports of the producer countries. In the first area, it seems clear that demand for primary commodities in the industrial markets is stagnating and thereby falling in relative importance in total world demand. This is probably due to changes in the relative importance of natural raw materials in the process of economic reproduction of advanced economies, resulting from technological progress, demographic changes, the stabilisation of consumption patterns and the increasing importance of the tertiary sector in the generation of total demand. This is, of course, a long term trend, but one whose effects are already being felt. Thus, work recently carried out at the Institute of Development Studies in Sussex has identified the declining level of metal intensity in the economies of the EEC countries — a phenomenon which is also common to the US and to a lesser extent to Japan — as one of the central elements in the current and future state of the market for base metals; the forecast is a pattern of oversupply in the medium and long run which in most cases will prevent prices from going back in real terms to those prevailing in the early 1970s [Daniel 1984].

In a sense, this raises questions about the fundamental assumptions of the Integrated Programme. The Programme is an attempt at managing the relationships between developing producing countries and developed consumer countries in a context of underlying long term stability of supply and demand; the price stabilisation proposals aim precisely at smoothing out short term fluctuations. By contrast, if the preceding assessment of trends in the demand for primary commodities in the industrialised countries is correct, this highlights the need for the developing producer countries to direct their attention to the potential markets in other developing countries rather than in the developed economies. UNCTAD is already engaged in work on the possibilities of expansion of South-South trade, but the work could — and should — be linked more closely to primary commodities and commodity policy.

South-South relations are also relevant to the question of increased processing of primary commodities in the developing countries. So far, proposals in this direction have met with opposition from firms and companies in the industrialised countries which are engaged in processing and related activities. This is a major factor in explaining the already mentioned lack of progress in reducing tariff and non-tariff barriers in the industrialised countries which discriminate against the export of processed commodities by developing countries. But there have also been problems with Third World consumer countries which want processing to take place within their own national frontiers. The question, of course, is not only one of location but of ownership and control. An effort at redirection of commodity trade within the South must deal from the beginning and systematically with these issues. It would be a way of giving concrete meaning to the concept of collective self-reliance which is now generally accepted — at least at the level of rhetoric —among Third World countries.

There is a second structural trend that needs attention if a reformulation of international commodity policy is to take place. It is that the process of diversification of the economies of a number of developing countries is increasing the importance of manufactured exports at the expense of that of primary commodity exports. This has already led to situations in which the largest Third World exporters of a given commodity have nonetheless a relatively minor interest in it, since it represents a small part of their exports. If the trend is to continue in the future, this raises difficult questions about the mobilisation of political consensus in the Third World towards the reform of the international commodity economy: the Third World countries with the greatest interest in reform might turn out to be those with the least economic leverage to bring it about. Also, the differences in approach between commodity producer and consumer countries in the Third World are becoming increasingly visible, a point that is also applicable to the countries of the COMECON. Further research on these trends seems to be a prerequisite for a reformulation of international commodity policy proposals.

Lastly, the evolution of the world commodity economy in relation to the international economy as a whole has underlined the importance of systematically exploring the interdependence of the various components of international economic and political relations. In particular, a serious reappraisal of international commodity policy must take on board the linkages between commodity markets and industries and the world financial markets and arrangements.

We can now come back to the second of our initial questions. UNCTAD can make a difference to the international commodity economy, and will probably be called upon to make an increasing difference as the structural problems of commodity markets and industries become apparent. In order to make that contribution, however, UNCTAD must initiate a fundamental reexamination of international commodity policy and its assumptions, including some of the aspects highlighted above. This will allow the identification of the elements of the Integrated Programme that can be rescued and on which renewed efforts should be placed. Some elements of the research agenda might not be suitable for exploration by UNCTAD itself; in such cases UNCTAD's work should link up with, and support, work carried out elsewhere that is less subject to political and diplomatic sensitivities. In its 20th year of life, UNCTAD could through such an initiative re-enact the catalytic role that UNCTAD I had in 1964 in generating creative thinking in the search for cooperative solutions to the problems of the world economy and of the developing world.

References

Behrman, J. R. and P. Tinakorn-Ramangkura, 1978, 'Evaluating integrated schemes for commodity market stabilisation' in F. G. Adams and J. R. Behrman (eds), *Econometric Modelling of World Commodity Policy*, Lexington Books, Lexington (Mass), pp 147-85

Daniel, P., C. Fortin, M. L. O. Faber, S. Griffith-Jones and M. Radetzki, 1983, *Role of the Mining Sector in the Development of ldcs: Opportunities and Constraints*, IDS Sussex, December

Fortin, C., forthcoming, 'Copper investment policy in Chile', *Natural Resources Forum*

The Guardian, 1984, 'Rocks on the road to a new cocoa pact', 26 March, p 15

Helman, G. B., 1981, Statement made on behalf of the United States delegation at the meeting of the Trade and Development Board of UNCTAD, 5 October. Reproduced in *Journal of World Trade Law*, vol 16, no 5, September-October 1982, pp 455-60

Smith, I., 1983, 'Prospects for a New International Sugar Agreement', *Journal of World Trade Law*, vol 17 no 4, July-August, pp 308-24

Smith, G. W. and G. R. Schink, 1976, 'The International Tin Agreement: a reassessment', *The Economic Journal*, vol 86 no 344, December, pp 715-28

Stubbs, R., 1984, 'The International Natural Rubber Agreement', *Journal of World Trade Law*, vol 18 no 1, January-February, pp 16-31

UNCTAD, 1979, *International Natural Rubber Agreement*, Doc. TD/Rubber/15, 17 October

—1982, *Approach to Frameworks of International Cooperation on Processing and Marketing of Primary Commodities*, Doc. TD/B/C.1/PSC/27, 14 December

—1983a, *International Activities Outside UNCTAD Concerning Individual Commodities*, Doc. TD/B/C.1/240, 20 January

—1983b, *World Commodity Trade: review and outlook*, Doc. TD/B/C.1/236, 4 May

—1983c, *Commodity Issues: a review and proposals for further action*, Doc. TD/273, 11 January

—1983d, *Resolutions, Recommendations and Decisions of the Sixth Session*, Belgrade, Yugoslavia, 6 June to 2 July 1983, Doc. UNCTAD/CA/2168 (unofficial version)

Wasserman, U., 1980, 'UNCTAD: International Rubber Agreement, 1979', *Journal of World Trade Law*, vol 14 no 3, May-June, pp 246-8

—1983, 'UNCTAD: International Jute Agreement', *Journal of World Trade Law*, vol 17 no 1, January-February, pp 65-7

—1984a, 'UNCTAD: International Tropical Timber Agreement', *Journal of World Trade Law*, vol 18 no 1, January-February, pp 89-91

—1984b, 'UNCTAD: International Agreement on Jute and Jute Products, 1982', *Journal of World Trade Law*, vol 18 no 2, pp 173-4