International Commodity Policy in the UN System: two decades of experience

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The Pre-UNCTAD Period

International trade in primary commodities has been a subject of concern to governments since colonial times. However, it was not until the early decades of this century that efforts to evolve an international policy among governments on a cooperative basis began to receive serious attention. Early attempts at international cooperation in trade in primary products included the World Economic Conference in Geneva in 1927, which recommended in its Final Report, among other things, the establishment of international commodity agreements (ICAs) whose object was limited to rationalisation of production and reduction of costs, and the more efficient use of existing equipment [Gordon-Ashworth 1984].

Subsequently, against a background of deepening crisis, declining world trade and a collapse in commodity prices, a sub-committee of the League of Nations Monetary and Economic Conference meeting in London in 1932 and 1933 addressed the question of ICAs as a potential solution to the commodity price crisis. It recommended that their main object should be to attenuate excessive price fluctuations and improve the incomes of producers by raising the export prices of commodities to 'reasonable' and 'fair and remunerative' levels. The appropriate price levels were to be determined by International Commodity Organisations (ICOs) consisting of consumers and producers, and strong domestic measures were to be used to support the international agreements. Even at this early stage, stock control or quota systems and buffer stocks were regarded as essential instruments to regulate periodic instabilities in international commodity trade.

These budding ideas for widespread cooperation in trade in primary commodities fell casualty to the overall collapse of international cooperation and the beggar-my-neighbour policies of the inter-war years. Only a few ICAs were established (for tin, wheat, tea, sugar and rubber). Second World War brought renewed interest. Two dimensions to international commodity policy emerged during this period. The first was the conclusion by the 1943 United Nations Conference on Food and Agriculture that ICAs were a suitable means of promoting world economic growth. This conclusion clearly linked international action in the area of trade in primary commodities with development.

The second was the concept of a unified approach to international commodity price stabilisation advocated by Keynes (1974).[1] Influenced by conditions which prevailed in 1919-20 and opposed to the producer cartels and ICAs of the 1930s, he proposed a comprehensive plan for international action over a range of commodities, to be administered by a general council for commodity controls on which producers and consumers would be equally represented. Buffer stocks managed by the general council would be financed by an 'international clearing union'. The case for the use of internationally financed buffer stocks rested on Keynes' perceived divergence of private and public interest in holding stocks for long periods for the purpose of stabilising commodity prices. These proposals were in essence the same as the Common Fund which was eventually included as an essential part of UNCTAD's Integrated Programme for Commodities (IPC), 30 years later.

Even before the end of the Second World War, governments were expressing interest in international commodity regulation, and references in the Atlantic Charter of 1941 and the UN Charter of 1945 are evidence of this. The Havana Conference of 1947-48 led to the Havana Charter, which recommended *inter alia* the formation of an International Trade Organisation. Although the Charter disapproved of restrictive practices and cartels of any kind, it recognised that ICAs could be employed to stabilise prices around trend, ensure reasonable and stable incomes for producers and correct adverse situations

[1] Keynes' views are set out in a memorandum of 1942, recently rediscovered in his papers and reprinted in Keynes [1974:299-315].

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resulting from 'burdensome surpluses'. Since international measures of commodity control were to be the exception rather than the rule, it was provided that ICAs should run for not more than five years, to allow periodic reviews at the end of the life of each agreement. Also, to avoid cartelisation, producers and consumers were to be represented on an equal basis.

Establishment of UNCTAD

For various reasons the International Trade Organisation (ITO) as proposed in the Havana Charter was never established [Brown 1980:5]. In the United States for instance, protectionists and firms, especially the large oil companies, opposed it for fear that they might become targets of international scrutiny. In its absence, the Economic and Social Council of the UN (ECOSOC) established in 1947 an Interim Coordination Committee for International Commodity Agreements (ICCICA) to coordinate international efforts towards establishing commodity control schemes along the principles of the Charter. Although a number of commodity stabilisation agreements — for coffee, sugar, tin and wheat — were concluded under the aegis of the ICCICA, the machinery was inadequate. Pressure in the General Assembly in response to these and other failures of the existing international institutional machinery led to the creation of UNCTAD in 1964. The General Assembly transferred, among other things, the functions of the ICCICA to UNCTAD which was mandated as the agency within the UN system responsible for formulating international commodity policy, including ICAs.

The Early Years

From the inter-war years to the early post-Second World War period, the main elements of international policy on commodity trade and development had been enunciated in various forums, albeit in an uncoordinated way. Dr Prebisch's report to UNCTAD I as its first Secretary-General [UNCTAD 1964] was an important milestone. In his report Prebisch not only established the links between trade in primary commodities and development, but also provided a theoretical framework (in its essentials the same as the views put forward simultaneously elsewhere by Hans Singer).[2] He argued, contrary to the conventional wisdom of the time, that there was not only a tendency for the terms of trade of primary products to deteriorate *vis-à-vis* manufactured products, but that this phenomenon was due to inherent structural differences between the economies of the developing and the developed countries. He also observed that technological innovation was an important factor in extending the frontiers of diminishing returns and *per capita* productivity beyond the constraints recognised by earlier theorists. This could of course apply to both primary and manufactured products. The significant difference is that the strong bargaining power of labour in the industrialised countries, which predominantly produce manufactured goods, leads a greater share of the increase in productivity in manufacturing industry than in primary production to be appropriated by labour. In the labour surplus primary product-based economies of developing countries, the bargaining power of unions is weak and producers fail to influence the market. Consequently, the benefits of increased productivity are passed on to the consumer in developed countries in the form of lower export prices. The tendency towards inferior terms of trade for primary commodities is further perpetuated by two factors. On the supply side, if the market clearing process tends to raise prices, excess supplies of labour are attracted to the sector to increase production, thereby further depressing the price. On the demand side, low income elasticities of demand for many primary products are an important contributory factor. The Prebisch-Singer argument, with refinements and additions from others [especially Lewis 1953] was a major breakthrough in the analysis of these relationships [Spraos 1982]. It provided the basis for proposals for structural diversification of productive capacities through increased processing of primary products in developing countries and enhanced access of those products to the markets of the developed countries.

The period between UNCTAD I and UNCTAD IV (1964-76) was a difficult one. The final act UNCTAD I outlined a set of new principles and a global framework for development, but the developed market economy countries expressed reservations on a number of critical issues. Twelve countries opposed the recommendation on price stabilisation agreements for primary commodities, while most others abstained. A large number abstained from a recommendation to developed countries to modify their price support policies for primary production, and the United States opposed recommendations on disposal of stocks of primary commodities held by developed countries.

At UNCTAD II, held at New Delhi in 1968, discussion was focussed on a comprehensive analysis of the commodity problem presented by the UNCTAD secretariat [UNCTAD 1968a]. The Conference agreed that the difficulties faced by some 19 problem commodities should be considered in the relevant specialised bodies.[3]

[2] Spraos [1982] reviews the contributions made by Singer, Emanuel, Lewis and others as well as Prebisch.

[3] Resolution 16(II) listed cocoa, sugar, oils, oilseeds and fats, natural rubber, hard fibres, jute and allied fibres, bananas, citrus fruits, tea, wine, iron ore, tobacco, tungsten, cotton, manganese ore, mica, pepper, shellac and phosphates.

However, by the time of UNCTAD III, held at Santiago de Chile in 1972, no noticeable progress had been achieved in these fora. It is significant to note, however, that the Conference entrusted an important role to the World Bank to support price stabilisation agreements in certain commodities in accordance with previously accepted principles. Specifically, the Conference recommended that the World Bank make price stabilisation an object of its loan policies and encourage the conclusion of such agreements, give priority in its lending policy to agro-industrial projects and promote local processing. The Bank was also requested to pay particular attention to the implications of loan proposals submitted to it in the light of their effects on export earnings and their implications for the terms of trade of the country concerned. It was urged further to provide direct financing to international agencies whose object was to stabilise prices of raw materials in accordance with the provisions of the individual ICAs, particularly where prefinancing, stabilisation over the long-term and direct assistance for diversification, adjustment or improvement of production was required. There is little evidence that the World Bank took any serious notice of this recommendation. What would have been an important step forward in providing substantive support for international commodity policy through appropriate lending by the World Bank was thus successfully blocked. On the contrary, international financial institutions and bilateral donors proceeded to encourage supply expansion of primary products, thereby contributing to the current conditions of structural over-supply in some commodities [de Silva 1983].

The Integrated Programme for Commodities

The next stage in the evolution of UNCTAD commodity policy is set against the background of the emergence of OPEC in 1973 as a major determinant in international economic relations and the adoption by the United Nations of the principles of the New International Economic Order (NIEO). At UNCTAD IV in 1976 the Integrated Programme for Commodities was launched. This new approach, while recognising the importance of dealing with specific problems of commodities on a case-by-case basis, brought into sharper focus the common difficulties facing all commodities and in which all developing countries exporting primary commodities had a common interest. It sought to depart from the fragmented approach of the past and to present problems of international commodity trade and development within an integrated framework of problems, principles, objectives and instruments. Commodity problems were thus presented as a single complex whole, affecting the interests of all developing and developed countries and transcending the specific trading problems of individual commodities.

The Integrated Programme included a number of elements which fall into two broad groups: those directed towards reducing the short-term instability of commodity markets, and those concerned with improving the longer-term structures of those markets. The short-term problem was to be tackled by a dual set of negotiations. First, it had been agreed at UNCTAD IV to enter into negotiations for the establishment of a Common Fund to finance international buffer stocks, or internationally co-ordinated national stocks, within the framework of international commodity agreements. Second, negotiations were to be launched on a wide range of commodities in order to establish new commodity agreements designed to reduce market instability. These two elements were closely interrelated, since it was envisaged that the Common Fund, by providing as assured source of finance, would act as a catalyst in promoting the speedy conclusion of commodity agreements.

The Common Fund

The nature, structure and method of operation of the proposed Common Fund came under intensive discussion in the four years of negotiation which followed the UNCTAD IV resolution. A major difference of viewpoint emerged concerning the nature and type of finance to be provided by the Fund. The developing countries pressed for a strong financial institution with adequate resources so that it could discharge its functions effectively. On this view (the 'source of finance' model), the Fund would be the sole, or the main, source of finance for buffer stock operations. The Fund's resources would come from government contributions and from government-guaranteed loans. This would provide a strong capital base, maximise its credit rating for borrowing, and encourage the establishment of price-stabilising commodity agreements. Reservations were, however, expressed by some governments on the size of contributions.

The developed countries, on the other hand, discouraged the idea of a strong Common Fund, not only because of the size of direct contributions, but also because of their traditional aversion to intervention in the international commodity markets. They proposed instead that the Common Fund should be financed by deposits of surplus cash balances held by individual International Commodity Organisations (ICOs), the latter continuing to be responsible for their own financial requirements (the 'pool of finance' model). Though this proposal involves a lower incidence on governments as sources of finance, it

offers no particular advantage to ICOs, and thus could not be expected to have the catalytic effect that had originally been envisaged. Moreover, commodities not amenable to stocking would be denied assistance, whereas a Fund with its own resources would be capable of market intervention in emergency situations.

After prolonged negotiations, an agreement was reached in June 1980 establishing a Common Fund, essentially on the 'pool of finance' model. In addition to assisting ICOs in financing buffer stock operations (the First Account), the Fund is also empowered to help finance longer-term development in the commodities field (through its Second Account), a function which had not been envisaged in the original concept.

As a response to the call for structural change, there was a novel attempt in the design of the voting structure of the new Common Fund to shift the dominant voting power of the developed market economy countries in favour of the developing countries. The latter have been in a disadvantaged position on the policy boards of the Bretton Woods institutions. It was felt that the Common Fund should depart from the existing form, creating for the first time a financial institution in which developing countries would have a major voice.

Though the final provisions remain a far cry from the original proposals, the agreement represents an important new instrument of international commodity policy. For the first time the international community has agreed to establish a financial institution specifically designed to promote trade in primary commodities, and to serve the interests of the developing countries in particular. There is some reservation among countries, however, that the Common Fund may not be very effective because of the heavy dilution of the original concept during negotiations. Those who argue this way point to the reduced capital, and the later tendencies to place greater emphasis on developmental measures as against buffer stock financing, which was the original purpose. On the other hand, the Common Fund must be viewed as an organic institution capable of adapting to an evolving environment. The dramatic changes in the capital resources of the IBRD and IDA and evolution of policy in the IMF are a source of encouragement. There is no reason why the Common Fund, when it comes into operation, should not expand its resources as and when considered necessary by its member states.

Individual Commodity Negotiations

Though consultations and negotiations on the need for price-stabilising agreements on a wide range of commodities have been in progress since UNCTAD IV, results have been generally disappointing. Only one new price-stabilising agreement, for natural rubber, has been negotiated, while two additional agreements, for jute and tropical timber, do not include price-stabilisation provisions. Many factors are involved in this slow progress. The fact that the Common Fund is not yet operational may well have acted as a disincentive. Then there are the inevitable conflicts of perceived interest between exporters and importers about price ranges, and among exporters about market shares. There is also the underlying problem, mentioned earlier, of the aversion of the developed countries to market intervention. But the failures of the international community to provide a 'safety net' for commodity price support has already had drastically adverse consequences for developing countries heavily dependent on commodity exports.

The Proposal for a Compensatory Financing Facility

One other complementary element of the IPC consists of proposals on compensatory financing for developing countries suffering export earnings shortfalls. This idea is not new. The Secretariat's analysis at UNCTAD II[4] had shown the effects of short-term price fluctuations on export earnings and economic growth, on the incomes of individual producers in producing countries, and on the longer-term growth of demand and supply of the commodities concerned. Also, an instrument directed towards price stabilisation will not necessarily always or fully obviate the need for earnings stabilisation. For instance, sudden changes in supply conditions — say, a bumper crop or a drought — can cause serious fluctuations in export earnings. To attack the negative effects of export earnings instability, such as the disruptions to mechanisms for economic development planning, debt servicing capacity, external borrowing programmes or credit ratings of developing countries, erratic investment responses which in turn could exacerbate instability in the future, a programme of export earnings compensation measures was proposed as a major element of the IPC, additional to the existing Compensatory Financing Facility of the IMF and the EEC's STABEX scheme. Although the IMF's compensatory financing and buffer stock financing facilities have some general commodity orientation, they are predicated on balance of payments needs, and do not address the problems of the commodity sector as a central object of policy. The STABEX facility attempted to meet this void but also lacks the integrated policy approach. The UNCTAD proposal attempts to fill this gap in the two facilities through a commodity-specific compensatory financing facility with a commodity focus and an integrated approach.

[4] Adopted in UNCTAD Resolution 156(VI).

This is particularly important for commodities where long-term structural problems are indicated.

This issue, first articulated in Nairobi, was further expanded at UNCTAD V, held in Manila in 1979, but was received with extreme suspicion by the developed countries. Some member countries felt the proposal went beyond UNCTAD's basic mandate, straying, as it were, into the IMF's territory. After further intensive negotiations at UNCTAD VI, the developed countries grudgingly agreed that an expert group be set up by the Secretary-General of UNCTAD to study the need for such a facility and, without prejudice to any final outcome, make proposals on it, taking into account, amongst other things, existing facilities.

Processing, Marketing and Distribution

The second complementary element of the IPC relates to proposals on processing, marketing and distribution of primary products of developing countries. To respond to the problem of the secular decline in demand for primary commodities, the IPC called for a programme to support the efforts of developing countries in the increased processing of their products. This was to be supported by efforts to remove barriers to the access of developing countries' processed commodities to developed country markets as well as to increase their share in the distribution and marketing of these products. These latter aspects of the IPC were further elaborated at UNCTAD V. This approach is seen not only as a means of promoting structural change in developing countries but also of countering both the long-term decline in the global significance of primary commodities in international trade and the highly organised control by transnational corporations over the channels of distribution of primary products in their processed or unprocessed forms.

The proposal caused considerable concern among the developed market-economy countries. Moreover, the international economic environment of 1980-82 was not the most ideal for demands on developed countries to reduce or restrain productive capacity in certain products in favour of similar ones from developing countries. Even more difficult to accommodate at this time was the demand that investment in productive capacity in the processing of certain commodities should be diverted from developed to developing countries. But this is not to deny that the proposal has some basic merits. It is only to say that the merits are not as self-evident to the developed countries as the presentation so far seems to suggest.

Typically, the developed countries have resisted attempts by the developing countries to move the proposals to the negotiating stage, calling again for a commodity-by-commodity approach, arguing that the problems differed for each commodity. The developing countries, while acknowledging this, insisted nevertheless that the problems of increased processing and barriers to markets were common to many commodities. As a compromise, the UNCTAD Secretariat was again requested to elaborate the elements of the frameworks for cooperation in processing, marketing and distribution of processed and semi-processed commodities from the developing countries.[5]

A Missing Link: self-reliance and domestic policies

The NIEO principle of self-reliance has been interpreted as group self-reliance, and has, therefore, been dealt with in the context of the South-South debate or within the context of regional groupings and programmes such as the Lagos Plan of Action and the Caracas Programme. Discussions on international commodity policy and its relationship to development have avoided the issue of domestic policies, even in relation to commodities. One reason for this is that domestic policy is seen as the sovereign prerogative of states and as an inappropriate subject of international discussion or negotiation. A second reason is the fear that this approach might be used to influence the chosen socioeconomic systems of sovereign states. This latter point is a particularly sensitive one.

Granted that countries should retain the sovereign right to determine their own systems, it is not at all clear that by discussing domestic policies one will necessarily always seek to change the basic system. Such influences, if they occur, should be resisted if judged by the sovereign authorities to be undesirable. On the other hand, one cannot deny that domestic policies should be directed in such a way as not to frustrate the aims of international commodity policy. Questions of consistency between overall domestic policy and sectoral or global policies on commodities in structural over-supply and access to markets of developed countries are not issues which can easily be set aside. Besides, by avoiding a discussion, the opportunity is lost for proposing alternative policy options to some of those currently offered.

Conclusion

In their efforts to achieve structural change through increased processing, marketing and distribution of their primary products, domestic policies provide an important policy environment which can contribute in an important way to their success or failure. A major

[5] The centrally planned economy countries of Europe abstained on this proposal.

dimension could be added to the evolutionary process with the acceptance of suitable domestic policies as an essential underpinning for the various elements of the IPC.

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