

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 (¹ 000 tons)	Purchase Cost, at average prices in:	
		1970-1974	1972-1974
		(\$ 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/E/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 food-grain 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 be 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.