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ECONOMIC COMMITTEE

SUMMARY RECORD OF THE THREE HUNDRED AND NINETEENTH MEETING

held at the Palais des Nations, Geneva,
on Monday, 23 July 1962, at 11 a.m.

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Present:

	<u>Chairman</u>	Mr. PATINO (Colombia)
<u>Members:</u>		
Australia		Mr. DONOVAN
Brazil		Mr. DIAS CARNEIRO
Colombia		Mr. ROLDANIGUEZ
Denmark		Mr. NAEGELI
El Salvador		Mr. CARRILLO
Ethiopia		Mr. WAKWALA
France		Mr. JANTON
India		Mr. PARATHI
Italy		Mr. MARCHETTI
Japan		Mr. KAKITSUBO
Jordan		Mr. HUSSEINI
Poland		Mr. PAJESTKA
Senegal		Mr. DIOP
Union of Soviet Socialist Republics		Mr. VASILKOV
United Kingdom of Great Britain and Northern Ireland		Mr. UNWIN
United States of America		Mr. BLAU
Yugoslavia		Mr. POPOVIC

Observers for States Members of the United Nations:

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Belgium	Mr. PIRSON
Bulgaria	Mr. PETROV
Canada	Miss SELLENS
Greece	Mr. CARANICAS
Hungary	Mr. VARGA PERKE
Indonesia	Mr. SUWASTOYO
Iraq	Mrs. AFNAN

Observers for States Members of the United Nations (continued):

Ireland	Mr. O'ROURKE
Netherlands	Mr. WALRAVEN
New Zealand	Mr. BOLT
Romania	Mr. IONASCO
Spain	Mr. MANUECO
Sweden	Mr. MALM
Tunisia	Mr. AYARI

Observers for non-member States:

Federal Republic of Germany	Mr. EISEL
Switzerland	Mr. BONNANT

Representatives of specialized agencies:

International Labour Organisation	Mr. FRANKLIN
Food and Agriculture Organization of the United Nations	Mr. YATES
International Bank for Reconstruction and Development	Mr. LOPEZ-HERNANDEZ
International Monetary Fund	Mr. WILLIAMS
Interim Commission for the International Trade Organization	Mr. PAPANICOLAOU

Secretariat:

Mr. MOSAK	Director, Division of General Economic Research and Policies
Mr. JUDD	Assistant Director, International Trade Relations Branch
Mr. LISTER	Secretary to the Committee

INTERNATIONAL COMMODITY PROBLEMS (item 8 of the Council agenda) (E/3614, E/3644; E/CN.13/43, E/CN.13/45, E/CN.13/54 and Add.1; E/AC.6/L.278, E/AC.6/L.280 and Add.1) (continued)

Mr. JANTCH (France) observed that the downward trend in the prices of primary commodities would, according to the projections prepared by the United Nations and the Food and Agriculture Organization of the United Nations (FAO), persist throughout the Development Decade if governments took no steps to reverse it. If their action was to be effective it would have to be bolder than in the past.

The figures were impressive; taking 1953 as the base year (100), the global unit price index for 1961 stood at 91 for primary commodities and at 110 for manufactured goods, while the quantitative level of commodity exports by the under-developed countries was 141. It was only because of the level of the last index that the export earnings of the primary producing countries had risen appreciably, that those countries had not felt the effects of the decline in prices too severely and that a serious crisis, which would have adversely affected the entire world, had been avoided.

It was true, therefore, that the steps taken to ensure the continuing development of the industrialized countries had directly benefited the countries producing raw materials. It was also true that industrialization would open up new resources to the countries that achieved it; but the head of his delegation had already given a warning about certain limitations on outlets and drawn attention to some of the precautions that must be taken. It was doubtful whether crop-diversification would provide a remedy in view of the strength of the downward trend of prices; moreover, if it was done by introducing crops which were already the speciality of other countries, it would merely intensify competition. The intergovernmental commodity agreements had, despite certain successes, not so far been sufficient to modify the general trend. Something new had to be done, therefore, to counteract the decline of prices and the deterioration of the terms of trade from which the primary producing under-developed countries were suffering.

The Commission on International Commodity Trade (CICT) had before it a proposal aimed at the granting of financial compensation to countries whose export earnings underwent fluctuations. In his delegation's opinion, the measures proposed might be a useful palliative pending the adoption of long-term solutions, but they could not replace such solutions because they did not get to the root of the evil and were dangerous when they increased a country's indebtedness.

Among the many studies which had been devoted to the problem since the preparation of the Havana Charter, special importance attached to the report by the Group of Experts set up in 1953 under General Assembly resolution 623 (VII) to consider the subject of commodity trade and economic development; it was stated in paragraph 7 of that report (E/2519) that the economic progress of the under-developed countries was affected by the prices they received for primary products and by the relation between those prices and the prices of the manufactured goods and services they bought abroad. France approved of that axiom, which had governed its economic relations with the African countries. While advocating solutions on a world scale, France did not reject the idea that regional solutions might constitute an initial step towards wider agreements. Its agreements with the African territories and Madagascar concerning such products as sugar, coffee and groundnuts, constituted a model for measures to be adapted to other products and to be applied within a wider framework embracing all producers. France did not consider it right that the developed countries should purchase primary products at unremunerative prices which did not leave a sufficient margin of profit to ensure a higher level of living for the producers, nor permit the self-financing of investments. How could the industrialized countries regard as equitable for foreign producers prices which they would not tolerate for their own producers? It was wrong that manufactured goods should be sold at increasingly high prices enabling the level of living of industrial workers and suppliers of services to rise progressively when the primary producers did not share in that increased prosperity. The fact was that the international prices of primary products, and especially of agricultural produce, reflected, not total supply and demand, but a marginal supply and a marginal demand, and that their fluctuations were often aggravated by psychological factors and speculation. Nor was it right that consumers should not pay a fair price for the produce they consumed, but should instead require the taxpayer to subsidize the producers; subsidies only worsened the situation, for they increased the gap between the international and external levels of prices.

France's view was that efforts should be made to determine a fair price that disregarded neither the interests of the consumer nor those of the producer and was closer to those prevailing on the protected markets than to those quoted on the marginal international market. That approach should lead to an overhaul of

policies in the direction - generally desired - of systems of protection and assistance for exports. A deliberate effort should be made to raise prices to a level sufficient to meet production costs, to enable a certain amount to accrue to the exporting countries' ordinary budget revenue, and to leave a margin for investment. An endeavour should be made to solve the problem commodity by commodity, in stages and in accordance with flexible rules. In some cases it might be possible to maintain the existing system, while establishing one or more compensation funds at the world or regional level from which the producing countries would be indemnified when prices fell below a specified level. His delegation was not unaware of the objections and difficulties to which its argument might give rise. It was convinced that there was no ideal solution to the commodities problem; but it considered short-term measures to be no more than a palliative. It was of the opinion that action should proceed along such lines as would eliminate the inequalities which existed among primary producers by raising the prices of their products and restoring the terms of trade. It considered, moreover, that the raising of prices was bound up with the development of assistance in kind to the peoples with inadequate purchasing power. That programme was, indeed, nothing more than the implementation of one of the ideas by which the 1953 Group of Experts had been guided. But there could be no further delay; if the Development Decade did not solve the commodities problem, an important factor in the establishment or upsetting of equilibrium, it was to be feared that it would fail to fulfil the hopes which the community of nations placed in it.

As to the draft resolutions before the Committee, it was regrettable that they did not reflect the concern which he had voiced in his statement; indeed, they did not even strike a note consonant with the importance and urgency of the matters with which they dealt.

It was unfortunate that in the draft resolution submitted jointly by Colombia, Jordan and Uruguay (E/AC.6/L.280 and Add.1), no stress was laid on the importance of primary commodities, especially during the Development Decade. All that the Council proposed to do, according to that draft resolution, was to take note of the report of CICT without mentioning how satisfactory it was that the Commission, after much hesitation, had finally embarked on the study of concrete problems and constructive measures, and without any expression of the Council's appreciation of the information provided by the Commission every year. It was surprising that there should be no

reference in the draft resolution either to the Commission's joint session with the FAO Committee on Commodity Problems, or to the work of the Interim Co-ordinating Committee for International Commodity Arrangements (ICCICA). The Council should give its specific approval to the decision by CICT concerning the establishment of a technical working group and concerning the membership and terms of reference of that body (E/3644. para. 52). His delegation accordingly considered that, on the basis of the existing draft resolution, it should be possible to evolve a text that would be more constructive and more precise and which would give more encouragement.

With regard to the draft resolution (E/AC.6/L.278) submitted jointly by Japan, the United States and Uruguay, he had to point out that operative paragraphs 1 and 2 dealt with two different matters. Under the paragraph 1, the Council would invite experts to review the activities of various international organizations with a view to avoiding duplication, whereas, under paragraph 2, the Council would invite the experts to give due attention to the relationship between the studies to be made and the measures to be taken, and assistance and planning as a whole. The fact was that the two subjects did not lend themselves to examination by the same experts. Moreover, although it had no objection to the studies proposed in paragraph 1, his delegation was convinced that the results could not be other than extremely limited. There was no doubt that there was duplication and even triplication of work - as for example between FAO and CICT -, but such a state of affairs was often inevitable and in the case in point was due to the Constitution of FAO and the Council's terms of reference. The FAO could hardly be told to cease concerning itself with agricultural products, nor could the Council be told that CICT would no longer be dealing with them because such matters came within the province of a specialized agency. Nor could the General Agreement on Tariffs and Trade (GATT) be prevented from considering the question. There was no point in calling together a group of experts in order to establish that duplication of work existed. What the Council could do was to make sure that there was close co-operation in carrying out the work between the secretariats, between governments and also within governments and delegations.

With regard to operative paragraph 2, which dealt with the steps to be taken, the French delegation did not deny that facts and opinions had undergone some change since the report of the group of Experts had been written. It did not object to a study being made of such change; what it did desire was that the experts making the study should base themselves on the 1953 report - which, incidentally, had never been considered by an international organization - bring it up to date and make it more comprehensive.

Although draft resolution E/AC.6/L.278 could thus provide a basis, it would be best to keep operative paragraphs 1 and 2 entirely separate. Further, so far as the review of international activities provided for in paragraph 1 was concerned, use could be made of ICJICA, which was certainly the best qualified body to undertake work of that kind in the minimum of time and with the maximum efficiency. The experts referred to in paragraph 2 should be appointed by their governments rather than by the Secretary-General, since such a course would, on the one hand, make it possible to learn the views of governments and, on the other hand, make it more likely that the report would be thoroughly examined by international agencies.

Accordingly, his delegation, while not opposing either of the draft resolutions, wished them to be re-drafted in bolder terms so that they would form a basis for the important decisions which it would shortly be necessary to take in connexion with commodity problems.

Mr. BLAU (United States of America) said that he agreed with the Chairman of CICT that the basic question was whether that body could move from study to action. From that point of view, its recent session was disappointing in that insufficient progress had been made towards reaching a decision on compensatory financial measures. The joint session of CICT and the FAO Committee on Commodity Problems had been useful, but he wondered whether there were not less costly ways of avoiding duplication than by holding large conferences such as the Rome meeting. Useful work had also been done by ICJICA.

Developments during the period under review gave little ground for optimism since, for the fourth successive year, commodity prices had declined while those of manufactured goods had risen, albeit slightly. In other words, most of the increase in the exports of the primary producing countries had been offset by the decline in commodity prices, and thus had failed to contribute as much as had been hoped to the financing of their development. The discussion of the problem had indicated a growing recognition of the fact that the more important international commodity trade problems were of a secular and not a short-term nature. That was important, since correct diagnosis of the problem was necessary before adequate measures could be taken to cope with it.

However, certain countries tended to over-simplify the problem and to attribute all economic ills to the allegedly unsound policies followed by some consumer countries. Some such statements were politically motivated and the members of the Committee could no doubt evaluate them appropriately. He wondered for instance

why the USSR, as one of those consumer countries, had failed to take any action to correct the situation. If that country were as interested in contributing to the solution of the problem of demand as had been suggested at the previous meeting, he wondered why it had not increased its imports of butter from Denmark and New Zealand or its meat imports from Argentina, Australia, New Zealand and Uruguay, instead of raising the domestic prices of those commodities.

The United States Government was in no doubt that the policies of the industrialized countries could contribute to the solution of commodity problems or that variations in business activity had a bearing on short-term fluctuations in commodity prices. However, he would point out that Professor Brown's study on the impact of fluctuations in economic activity in industrial combines on international commodity trade (E/CN.13/L.68), if read in extenso, gave a much more balanced picture of the effects of such variations than that given by the selection of certain extracts from the study at the previous meeting.

His government considered that certain types of protectionist policies were threatening the interests of the primary producing countries and would continue to do so. It had therefore taken exception, in a number of forums, to some aspects of the European Economic Community's common agricultural policy, which was prejudicial to the interests of many countries producing temperate zone commodities, including those of his own country. The United States was also interested in opening up tropical markets, and considered that the preferential access to European markets granted to certain African countries was not in their long-term interests; that situation might well result in an unsound allocation of resources. That was in addition to his government's concern about possible damage to the interests of Latin American, Asian and African countries producing similar products.

It was a mistake to concentrate on the demand side of the problem at the cost of supply factors. For example, although coffee consumption could be increased if certain countries reduced the domestic charges they imposed on their product and if consumers in the socialist countries were allowed greater freedom of choice, that would not solve the coffee problem unless action were taken to bring supply into relation with market possibilities.

His country had taken action along the lines of the new commodity policy announced by the United States representative in the Economic Committee at its previous session.

Special attention had been paid to coffee, owing to its importance in world trade and to the fact that the economies of a large number of developing countries depended largely upon it; a draft coffee agreement was being drawn up in New York, and work on a regional level was being undertaken in Central America. His country had also participated actively in the examination of cocoa and tin problems, and had carried out studies on compensatory financing measures to offset short-term fluctuations in export earnings due to variations in commodity prices. Compensatory financing was indeed, as had been pointed out, a palliative, but one that could be of vital importance in offsetting short-term fluctuations while a solution to the general long-term problem was being sought. Both compensatory financing and commodity agreements, the latter as conceived by the Havana Charter, dealt with short-term problems, however.

With regard to the report submitted by FAO to the joint session (E/CN.13/48), and to the similar report of the United Nations (E/3644), projections were useful and a necessary adjunct to planning. The joint session had adopted the right approach to the question by suggesting that work on projections was of value only if it were undertaken on a continuing basis, since the assumptions involved must constantly be reviewed. The joint session had also done valuable work by generally reaching the conclusion that compensatory financing on a commodity-by-commodity basis could not be useful.

He expressed the hope that the Economic Committee and the Council would approve the decision taken by CICT to set up a Technical Working Group, which should start work as soon as possible since the time for action and decision had arrived. He further hoped that the Council would agree that the International Monetary Fund (IMF) should be associated with that work. The technical working group should give top priority to compensatory financing to offset short-term fluctuations since, unless it concentrated on one set of problems, little progress could be made.

The United States representative at the tenth session of CICT had suggested that agreement should be sought on a common commodity policy, and in that connexion that the importance of the following six principles should be recognized: first, attention should be given, on a commodity-by-commodity basis, to the correction of long-term structural defects; secondly, it should be recognized that there was a close connexion between the work of balancing demand and supply in individual commodities, on the one hand, and development planning and economic assistance on

the other; thirdly, work relating to individual commodity markets should be viewed in a worldwide and not regional context; fourthly, a worldwide solution should leave room for non-discriminatory regional measures; fifthly, the possibility of compensatory financing should be examined and a final decision reached on the matter and lastly, activities relating to commodities should be reviewed in order to determine the existence of any duplications or gaps.

He agreed with the French representative that it would be impossible to eliminate duplication completely; however, it was nevertheless important that activities of the various bodies should be of a useful and mutually supporting nature.

He was gratified by the support given to the joint draft resolution of which his country was a sponsor (E/AC.6/L.278); the suggestions made would be taken into consideration.

Mr. VASILKOV (Union of Soviet Socialist Republics), protested against the attack made upon his country by the United States representative and against the latter's attempt to establish a link between the fall in commodity prices and the situation in the Soviet Union.

An examination of the relevant official documents would have shown the United States representative that the increase in the prices of meat and butter in the Soviet Union had been intended merely to bring those prices into line with costs of production; that increase in prices was not at all due to any desire to reduce the demand for those commodities.

The substantial purchases of primary products, especially rubber and copper, by the Soviet Union had made a definite contribution to maintaining prices in the primary commodity markets.

As for the United States of America, its action in continuing to export surpluses and to sell strategic stocks of raw materials had, as was common knowledge, had a depressive effect on prices.

Lastly, it was an incontrovertible fact that the United States recessions and production declines in 1948-49, in 1953-54 and 1957-58 had exerted a downward pressure on the prices of primary commodities.

Mr. DIAS CARNERO (Brazil) said that he had just attended the Cairo Conference on the Problems of Economic Development, in which thirty-four countries had participated. The Conference had discussed the internal and external problems of development. In connexion with the latter, it had considered the problem of the terms of trade both among the developing countries themselves, and between the

developing countries and the developed countries. In the final declaration it had adopted, the Conference had referred to the commodities problem and it was significant that, although only a minority of the countries represented at Cairo were members of CICT or of the Economic and Social Council, the Conference had been unanimous in supporting the work of CICT.

With regard to the tenth session of CICT, the Commission had had before it two basic documents: the United Nations experts' report on compensatory financing - International compensation for fluctuations in commodity trade (E/3447) and the proposal by the Organization of American States (OAS) for the establishment of an international fund for the stabilization of export receipts.

The United Nations report had been before CICT since March 1961, and the Council had expressed the hope that at its tenth session the Commission would express its views on the suggestions contained in the report. The OAS proposal had been circulated as an information paper and as a contribution from a regional organization to the solution of the problem of the stabilization of export earnings.

The Brazilian Government had received the OAS proposal only a month previously and was not yet prepared to commit itself on any of its details. He would, however, express his government's preliminary views on the proposal and would compare it with the suggestions contained in the United Nations report.

The first major difference between the two sets of suggestions concerned the approach to long-term fluctuation problems. The OAS proposal was exclusively concerned with cyclical and other short-term variations in the export earnings of low-income countries; the United Nations report, for its part, attempted to approach short-term fluctuations within the context of the underlying trends in commodity markets.

The OAS proposal envisaged the granting of export stabilization loans on a virtually automatic basis; all loans were repayable with interest, as the resources available were intended to constitute a revolving fund. In addition, interim or stand-by loans could be made on the basis of expected entitlement. The scheme resembled IMF, but with automatic drawing rights.

The United Nations report, on the other hand, suggested two types of compensation arrangements: under the first type, compensation for declines in export proceeds would be made in the form of grants; under the second type, compensation would take the form of loans repayable in whole or in part if export proceeds revived sufficiently

during a specified period. Neither type of compensatory financing attempted to stabilize price or quantum fluctuations, since it was understood that stabilization must be approached through commodity agreements.

Neither the United Nations nor the OAS scheme attempted to deal with the causes of fluctuations.

The OAS proposal involved a total capital outlay of \$1,800 million, one-third of which would be contributed by the low-income countries. The suggestions in the United Nations report involved a smaller initial capital outlay, but would result in a net transfer of resources from higher income countries to low income countries. For that reason, the long-term cost would be greater.

The OAS proposal was more amenable to management by an existing institution such as IMF, but the suggestions in the United Nations report did not seem to fit in with any existing international lending machinery.

The suggestions contained in the United Nations report did practically nothing to eliminate the fundamental causes of long-term difficulties; since they involved periodical replenishing of the resources of the development insurance fund, their effect might well be to diminish the total amount of funds moving from the industrial countries to the under-developed countries in the form of aid.

The OAS proposal was presented only as a palliative and as a partial solution, but his delegation regarded it as better than nothing at all.

In CICT, the representative of one under-developed country had pointed out that neither of the two schemes was satisfactory because his country was not subject to short-term fluctuations, but was suffering from the long-term decline in prices; under either scheme, his country would be constantly increasing its indebtedness. The representative of one developed country had also criticized both schemes as unsatisfactory and had urged an attack on the actual causes of both short-term and long-term fluctuations.

For its part, Brazil favoured both schemes; while believing that the United Nations scheme was more favourable to the long-term interests of the under-developed countries, it could not help thinking that any insistence on that scheme would only lead to indefinite delay in action both in CICT and elsewhere towards the solution of the trade problems of the primary producing and exporting countries, both short-term and long-term. Inertia must be avoided at all costs.

He would not elaborate any further because he agreed with many of the remarks of the French and United States representatives; nor would he discuss the draft resolutions at that stage.

Lastly, due attention be given to the time-table of the technical working group. It was essential that the documents prepared by the Group should be submitted to governments in the four languages by 6 March 1963, i.e. two months before the CICT session, which was due to begin on 6 May 1963. The documents would accordingly have to be delivered to the Secretariat by 6 January 1963, so as to allow the necessary time for reproduction and translation.

In the light of those considerations, his delegation would agree to the convening of the group in New York from 4 to 14 September 1962, immediately before the IMF meeting. The second session of the Group could then be held at Geneva from 1 October to 15 November 1962. If that interval of two weeks between the two sessions was considered too short, the second session might perhaps be arranged for the period 15 October to 30 November 1962; his delegation would be prepared to attend concurrent meetings of the Group and GATT.

He urged that such a time-table should be laid down, in order to avoid the objection by representatives at the CICT session that they had not had sufficient time to study the documents, an objection which could lead to the whole issue's being deferred for an entire year.

The CHAIRMAN declared the general debate on item 8 of the Council agenda closed.

The meeting rose at 12.55 p.m.