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Volume II

Commodity problems and policies



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NOTE

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Commodity Problems and Policies

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Explanatory notes

Unless otherwise indicated, the following symbols have been used in volume II :

Two dots (..) indicate that data are not available or are not separately reported.

A dash (—) indicates that the amount is nil or less than half the unit used.

An oblique stroke (/) indicates a season or crop year, e.g. 1965/66.

Use of a hyphen between years, e.g. 1965-1966, signifies the full period involved, including the beginning and end years.

A comma (,) is used to distinguish thousands and millions in the text. In the tables, a space is used for that purpose.

Use of parentheses around a figure, e.g. (25.0), shows that the figure is an estimate.

“Tons” refer to metric tons and “dollars” to United States dollars, unless otherwise stated.

The term “billion” signifies one thousand million.

Annual rate of growth or change refer to compound rates.

Details and percentages in tables do not necessarily add to totals, because of rounding.

ABBREVIATIONS

AID	Agency for International Development (United States)
API	American Petroleum Institute
Benelux	Belgium, Luxembourg, Netherlands Economic Union
BTN	Brussels Tariff Nomenclature
c.i.f.	Cost, insurance, freight
CMEA	Council for Mutual Economic Assistance
DAC	Development Assistance Committee (of the Organisation for Economic Co-operation and Development)
DPA	Defence Production Act (United States)
ECE	Economic Commission for Europe
ECLA	Economic Commission for Latin America
EEC	European Economic Community
EFTA	European Free Trade Association
FAO	Food and Agriculture Organization of the United Nations
f.o.b.	Free on board
GATT	General Agreement on Tariffs and Trade
GDP	Gross domestic product
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IDB	Inter-America Development Bank
IFC	International Finance Corporation
IMF	International Monetary Fund
ITC	International Tin Council
LAFTA	Latin American Free Trade Association
m.f.n.	Most-favoured-nation
OAS	Organization of American States
OECD	Organisation for Economic Co-operation and Development
OEEC	Organization for European Economic Co-operation
OPEC	Organization of Petroleum Exporting Countries
SITC	Standard International Trade Classification

Document TD/8/Supp. 1*
THE DEVELOPMENT OF AN INTERNATIONAL COMMODITY POLICY
Study by the UNCTAD secretariat

[Original text: English]
[14 November 1967]

The following study on international commodity policy (TD/8/Supp.1) is based essentially on an extended outline¹ which was discussed at the second session of the Committee on Commodities. In preparing the present document, the secretariat of UNCTAD has taken into account, so far as possible within the time available, the numerous comments and suggestions made by delegations at the second session of the Committee,² and at the fifth session of the Trade and Development Board.³ A summary of the main points of this study has already been circulated.⁴

* Incorporating document TD/8/Supp.1/Corr.1.

¹ TD/B/C.1/26 and Corr.1 and Add.1.

² *Official Records of the Trade and Development Board, Fifth Session, Supplement No. 4.*

³ *Official Records of the General Assembly, Twenty-second Session, Supplement No. 14, part one.*

⁴ TD/8.

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Introduction

1. This study ranges over the whole field of international policies affecting primary commodity markets, particularly as regards their influence on exports of such commodities from developing countries. Such a wide and complex variety of problems is involved in any attempt to evolve a commodity policy suited to the needs of developing countries that the present document must properly be considered as an initial attempt at a systematic and comprehensive analysis. In preparing it, many important gaps in our present knowledge of various aspects of commodity markets have been uncovered. None the less, it is believed that the paper provides a sufficiently accurate frame of reference for the consideration of the merits and demerits of particular alternative courses of action

open to the international community with regard to commodities. Within this general context, the paper focuses attention on three principal objectives.

An analytical framework

2. The first of these is to review the entire range of possible international commodity policies within a single analytical framework. Only in this way can the inter-relationships between different policies—whether conflicting or complementary—be revealed, and the net advantage of a particular policy, or combination of policies, be reasonably assessed. The basis of this analytical framework is that the foreign exchange earnings of the developing countries constitute a critical constraint in their economic growth process and that existing commodity policies should be co-ordinated, and suitable new

policies evolved, so as to minimize this constraint. The objectives of international commodity policy are discussed in further detail in chapter I.

Issues for inter-governmental action

3. The second objective of the study is to focus the attention of Governments on certain key issues in the commodity field where immediate inter-governmental action seems to be both desirable and practicable. The detailed discussion does, in fact, reveal some of these issues concerning which priority could be assigned to action in the immediate future. On is the need for *reducing excessive short-term fluctuations* in selected primary commodity markets. The various practical problems involved in inter-governmental arrangements designed to even out these fluctuations, and alternative methods of dealing with these problems, form the principal themes of chapters II and III. Though the particular methods of mitigating short-term market fluctuations would, in practice, have to be adapted to the peculiarities of the individual commodity markets concerned, there would seem to be need for a new, and concerted, inter-governmental attack on this problem. In chapter III—which discusses the operational problems of international buffer stocks—it is suggested that consideration should be given to detailed feasibility studies for new market stabilization schemes, including buffer stocks, for a limited number of specified commodities.

4. Another key issue arising from the analysis in the paper relates to *improving market access* in the developed countries for the commodity exports of developing countries. In this context, commodity exports should be interpreted broadly as covering processed commodities, as well as those in crude form. Various possible policy approaches to the objective of improving market access are discussed in chapter V and their implications for both developed and developing countries are explored. The practical issues involved in achieving this objective within the framework of UNCTAD are discussed in a separate document.⁵

5. A further major issue which merits special attention relates to international measures to support appropriate *diversification* programmes in developing countries. The problems involved in devising such programmes for primary commodities and their relationship with the more general questions of economic development planning are examined in the final chapter of this study. A distinction is there made between commodities which are subject to international agreements and those which are not. For the first group, the agreements can be adapted, where appropriate, to make special provision for financial assistance to diversification programmes. For the commodities in the second group, however, there would seem to be a case for Governments to consider some special form of financial support to promote needed diversification.

Further studies

6. The third objective of the paper is to reveal the gaps in existing knowledge of particular aspects of the working of primary commodity markets. The possibility of new policy approaches has been touched upon, at various points in the detailed argument, but in most cases time has not allowed a thorough investigation to be undertaken of all the implications of such new approaches. Where it seemed useful to do so, the most important areas requiring further study have been grouped together at the end of certain chapters. Taken as a whole, these indicate the need for a considerable programme of further systematic study of commodity problems and international commodity policy.

Chapter I

The basic objectives of commodity policy

A. THE PROBLEM AND ITS SETTING

7. Up to the first session of the United Nations Conference on Trade and Development in 1964, the generally agreed principles of international trade policy in the post-war world were those enunciated in the Havana Charter,⁶ which was drawn up in 1948. At that time, it was widely believed that the post-war recovery of Western Europe and the pursuit of full employment policies in the industrial countries would lead over the long term to an expanding demand for primary commodities on a scale sufficiently large to remove the need for any inter-governmental intervention in the free working of commodity markets, except under temporary or exceptional circumstances. These, in turn, were largely conceived of in terms of over-supply and depressed prices, or the development of widespread unemployment or under-employment in connexion with primary commodities, which could not be corrected within a reasonable time by the normal operation of market forces.⁷

8. The approach underlying the Havana Charter implicitly assumed that the free working of commodity markets would normally provide an optimum allocation of the world's resources and that the upward trend in demand in the developed countries for primary commodity exports from the developing countries would provide the required motive force for the economic growth of the latter group of countries. The objective of optimum resource allocation could, however, be attained only if these markets were perfectly competitive and resources freely mobile between and within countries; in fact, neither of these conditions is met in practice, and this affects with particular force the developing countries whose capacity to adjust to restrictions on the international movement of factors of production and commodity trade is very much weaker than the capacity of the devel-

⁵ See "Programme for the liberalization of trade in primary commodities" (TD/11) and "Programme for the liberalization and expansion of trade in commodities of interest to developing countries : report by the UNCTAD secretariat (TD/11/Supp.1) (see this volume, p. 69).

⁶ Charter for an International Trade Organization, signed at Havana on 24 March 1948. See United Nations Conference on Trade and Employment, *Final Act and Related Documents* (E/CONF.2/78).

⁷ Havana Charter, article 62.

oped countries. Few primary commodity markets have, in fact, been freely competitive over the post-war period; most have reflected, to a greater or lesser extent, the intervention of national Governments or the operations of large-scale private enterprises. The resulting imperfections in such commodity markets have been a major factor in preventing the achievement of a rational allocation of resources in world commodity production, which has generally tended to work to the detriment of the developing countries.

9. Moreover, the expansion in real incomes of the developed countries since the time of the Havana Charter has not been accompanied by a corresponding economic growth in the developing countries. Exports have risen, for some countries and for some commodities, at substantial rates. None the less, the developing countries as a group have faced a persistent trend towards external imbalance that has become more acute as their development needs have risen, since their import requirements (including capital and other development goods) have grown at a faster rate than their export income—still derived largely from the sale of traditional primary commodities to the developed areas. It was against this background of a growing foreign trade constraint on the rate of economic growth of the developing countries that the first session of UNCTAD was convened.

10. The Final Act of the first session of the Conference⁸ brought a new emphasis into international trade policy in that it related the objectives of inter-governmental action to the development requirements of the developing countries. As regards primary commodity trade, this new emphasis can be interpreted as a need for inter-governmental co-operation in order to improve the long-term rate of growth of the commodity export earnings of the developing countries and to reduce short-term fluctuations in those earnings, while taking into account the interests of consumers in importing countries. A faster rate of economic growth of the developing countries than has hitherto been found possible will largely depend on an acceleration in the rate of growth of their capacity to import. Since primary commodities are likely to continue to provide by far the greater part of the foreign exchange earnings of the majority of developing countries for a considerable time to come, the successful implementation of policies designed to increase the rate of growth of those countries' exports of commodities would provide a context within which the attainment of their economic growth targets would become much more practicable. Moreover, since many of these countries are still heavily dependent on one or two commodities for the bulk of their foreign exchange earnings, the successful operation of international measures designed to reduce the short-term fluctuations in the markets for these commodities could well have a considerable additional beneficial impact on the rate of growth of the developing countries principally affected.

11. More specifically, to the extent that the actual operation of some commodity markets reflects impediments—such as tariffs or price support for domestic production in the developed countries—to the free flow of trade, intervention by the international community would be designed to reduce, and ultimately to remove, such impediments. In other primary commodity markets, inter-governmental intervention would be justified if it were designed specifically to expand the export earnings of the developing countries, or to reduce short-term instability in those earnings. Moreover, such intervention should no longer be conceived purely in terms of temporary measures, designed to cope with emergency situations such as accumulated surpluses, but rather as an integral part of economic development planning.

12. The attainment of the general objectives of commodity policy—as outlined above—would require, in practice, consideration on a commodity-by-commodity basis, in view of the wide diversity in market structures existing for the different primary commodities. Inter-governmental action, to be successful, needs to be specifically adapted to the particular conditions of the world market for each commodity concerned. It is, none the less, useful as an analytical device to group commodities into broad categories with similar market structures in order to explore the different ways in which the achievement of the aims of commodity policy can most effectively be sought in practice.

13. The particular grouping, to be relevant to possible new policy changes, must be closely related to the specific objectives to be served. Thus, the relevant grouping of commodities for consideration of possible short-term commodity stabilization schemes would be different from the one most suited to consideration of longer-term issues, such as facilitating market access or diversification. For short-term stabilization purposes, the relevant grouping must be based on some measure of the degree of market instability of the different primary commodities considered. The concept of instability is a somewhat complex one, and the problems involved are discussed further in chapter II.

14. As regards the longer-term problems of commodity markets, the classification of commodities needs to be related primarily to the underlying factors which most influence the secular trend of exports from developing countries. These factors can conveniently be considered in two broad groups: those reflecting economic and technological changes, and those arising, directly or indirectly, from government policies. As regards the former, a major factor is that, as real incomes rise in the developed countries, the pattern of demand tends to shift in favour of certain products—such as capital goods, chemicals, durable consumer goods and certain types of foods (meat, poultry, frozen vegetables, etc.)—and away from other types of products—such as textiles and staple foods and beverages. It would seem that the great majority of the primary commodity exports of developing countries face world demand conditions which are not very responsive to changes in income. Though there are a number of notable exceptions to this—such as petroleum, mineral ores and metals—the low income-elasticity

⁸ *Proceedings of the United Nations Conference on Trade and Development*, vol. I, *Final Act and Report* (United Nations publication, Sales No. : 64.II.B.11).

of demand is likely to remain a major limiting factor in the potential export growth of a wide range of primary commodities from developing countries.

15. The magnitude of the income-elasticity of world demand for particular primary commodities is thus of major importance for individual developing countries in considering their optimum strategy for economic diversification, both in respect of different primary commodities and between the primary and other sectors of their economies.⁹ Differences in income-elasticities for different primary commodities may also have implications for export promotion policies.¹⁰

16. The economic growth of the developed countries cannot, however, be dissociated from rapid technological change. Developments in technology, based on a large and growing investment in scientific research, are an integral part of the economic growth process in the advanced industrial countries. Since the war, a major element in this application of science to industrial development has been the emergence of a complex of industries producing an ever-increasing variety of synthetic materials. Since the new uses of those synthetics have been in direct competition with those of the natural materials traditionally produced by developing countries, the latter have tended to bear the brunt of the adaptation in the structure of the world economy to the emergence of the new synthetic industries.

17. Since it would not be rational to attempt to halt the progress of technology, and the consequent further development of synthetic substitutes for the natural products exported by developing countries, the existence of such substitutes places an important limitation on the scope for international action designed to increase the earnings of developing countries from the exports of the natural products affected. For this reason, a division of commodities according to whether or not they are subject to severe competition from synthetic or other substitutes would seem to be of major relevance to the development of an international commodity policy.

18. As regards government policies affecting the long-term trend of primary commodity exports from developing countries, the policies of the latter must be considered separately from those of the developed countries. Certain economic policies which some developing countries have pursued from time to time involving, for example, unrealistic foreign exchange rates or undue emphasis on the development of high-cost import-saving industries, must be expected to result in a serious constraint on the growth in the volume of their commodity exports. Remedial action, though of major importance to the economic development of the countries concerned, none the less lies outside the scope of international commodity policy proper.

19. The domestic economic policies of developed countries, however, impinge directly on the size of the market facing the commodity exports of developing countries to the extent that they hinder the free flow of trade. Barriers

to free access to the markets of the developed countries reflect essentially their policies of protection for relatively high-cost domestic primary producing industries. For certain products such as tropical beverages, however, the volume of trade is restricted by the imposition of fiscal charges by certain developed importing countries. In addition, all developed countries impose tariffs or other barriers on imports of processed forms of primary commodities, again essentially to protect their domestic producers.

20. The existence of such barriers to trade has resulted not only in the restriction of the total volume of commodity exports, including commodities in processed form, but also in a considerable distortion in the commodity pattern of world trade, particularly in the pattern of exports from developing countries. The progressive lowering of such trade barriers would encourage a more efficient allocation of the world's resources and so benefit both developed and developing countries. The existence or otherwise of trade barriers is thus of major relevance to international commodity policy.

B. A CLASSIFICATION OF COMMODITY MARKETS

21. The technological and commercial policy factors can usefully be combined into a single classification of commodities for analytical purposes, as shown in table 1. That table also groups commodities according to whether or not they are wholly or mainly produced in developing, or in developed, countries. This is a convenient distinction since the problem of competition from synthetics relates very largely to the specialized products of developing countries, while limitations on market access are imposed by developed countries essentially on commodities which they themselves produce in substantial amounts. These three criteria—technological, commercial policy and the importance of developing countries in world production—have been combined to yield five major commodity groups.¹¹ Table 1 also shows the principal commodities which fall in each group, together with the value of exports of each group from developing countries in a recent period (1963-1965). In all, the commodities listed accounted for some \$16,000 million of exports from developing countries, representing over four-fifths, by value, of all primary commodity exports (other than petroleum) from these countries in that period.

22. Exports of commodities produced wholly or mainly in developing countries and not facing serious competition from substitutes in consumption (Group I) consist in the main of tropical foods and beverages.¹² This group

¹¹ In principle, the use of these three criteria would yield twelve separate commodity groups; these twelve have been combined, for convenience of analysis, into the five shown in table 1. It should be noted that some commodities do not fit easily into the simplified classification of table 1; for example, textile fibres and vegetable oils are subject to substitution by synthetics as well as to trade barriers.

¹² Tin has been included in this group since, although it has begun to encounter substitution (particularly by aluminium and plastics), competition from substitute materials has been confined to a limited range of end-uses.

⁹ The issues involved here are further discussed in chapter VIII.

¹⁰ See the discussion in chapter IV.

TABLE 1

A classification of commodities* exported by developing countries, according to the existence or otherwise of substitutes in consumption and trade barriers

	Principal commodities ^a	Exports from developing countries 1963-1965 average	
		\$ U.S. billion	Per cent
1. <i>Commodities produced wholly or mainly in developing countries :</i>			
(a) Not facing serious competition from substitutes (Group I)	Coffee, tea, cocoa, tin, bananas, spices	4.2	26
(b) Facing serious competition from substitutes (Group II)	Raw cotton, ^b natural rubber, raw wool, ^b hard fibres, hides and skins, ^b raw jute	3.3	20
2. <i>Commodities produced in substantial amounts in both developed and developing countries :</i>			
(a) Not facing appreciable trade barriers (Group III)	Copper, iron ore, fish and fishmeal, bauxite, lead, zinc, manganese ore	2.9	18
(b) Facing appreciable trade barriers (Group IV)	Sugar, vegetable oils and oilseeds, ^b cereals (including rice), wood, tobacco, wine, citrus fruit, dried fruit and nuts, furskins	5.1	32
3. <i>Commodities produced wholly or mainly in developed countries (Group V)</i>	Meat (including live animals and canned meat), dairy products (including eggs)	0.7	4
Total of above		16.2	100

Source: FAO, *Trade Yearbook*, 1966; national statistics.

* Excluding petroleum.

^a Within each group, commodities are listed in order of importance, by value, in the total exports of developing countries in 1963-1965.

^b Cotton, wool, hides and skins and vegetable oilseeds are also produced in substantial amounts in developed countries.

accounts for roughly one-quarter of the total exports of principal commodities from developing countries. The particular relevance of this first group to international commodity policy lies in the fact that commodities which do not face strong competition from synthetics or other substitutes will generally have a low price-elasticity of demand. For such commodities international agreements designed, *inter alia*, to maintain or raise the level of world prices above what they would otherwise be, would be technically feasible, since the improvement in prices in such cases would lead to a less than proportionate decline in demand. The conditions under which such agreements would be viable in the longer-term are discussed in some detail in the next chapter.

23. Commodities produced wholly or mainly in developing countries, but facing serious competition from substitutes in consumption (Group II), consist almost entirely of agricultural raw materials. This group still represents a substantial proportion (one-fifth in 1963-1965) of the total value of commodity exports, other than petroleum, from the developing countries. For such commodities, there would generally be little or no scope for policies designed to raise prices to consumers since such action would tend merely to induce a faster rate of substitution. The essential problem here is, rather, how to

increase the competitive position in the world market of the natural products exported by developing countries. This might involve measures to improve productivity and marketing methods, changes in the internal fiscal policies of the producing countries, as well as more research into the possibilities of technical improvements and new uses for the natural products concerned.¹³

24. The commodities which are produced in substantial amounts in both developed and developing countries fall into two large groups: those which do not face appreciable barriers to trade (Group III) and those which do (Group IV).¹⁴ Commodities in Group III consist very largely of mineral ores and metals, while those in Group IV are predominantly agricultural produce, the trade barriers reflecting in the main the protection of

¹³ These issues are discussed further in chapter IV.

¹⁴ In this respect, the classification used here diverges from that of the Advisory Committee to the Board and to the Committee on Commodities. The Advisory Committee subdivides commodities produced in substantial amounts in both developed and developing countries according to whether or not they are exported wholly or mainly by developing countries (see the report of the Advisory Committee to the Board and to the Committee on Commodities on its second session, *Official Records of the Trade and Development Board, Fifth Session, Annexes*, agenda item 5, document TD/B/127).

domestic agricultural production in the developed countries. In spite of the existence of these trade barriers, Group IV constitutes the largest of the five commodity groups distinguished, accounting in 1963-1965 for about one-third of the non-fuel commodity exports of the developing countries, compared with less than one-fifth for Group III. For commodities in Group IV, policy changes designed to improve access to the markets of developed countries must necessarily be a major objective of international commodity policy.

25. Finally, there are the primary commodities produced wholly or mainly in developed countries (Group V), such as meat and dairy produce. These currently represent only a very small proportion of developing countries' exports since the major constraint here is the inadequacy of production in developing countries. It should be noted, however, that there are substantial barriers to the free flow of trade among the developed countries in this group of commodities; and these barriers would also act as a deterrent to the creation of an export potential of developing countries in a number of commodities in this group (such as vegetables and horticultural produce).

26. The classification of commodities in table 1 relates entirely to primary commodities in the form in which they normally enter international trade. As the developing countries industrialize their economies, they will tend to process the primary commodities and export them in various stages of manufacture, as well as in the crude form. This would help them to diversify their economies, as well as provide them with additional export revenue arising from the export of higher-valued produce. However, processed commodities produced by developing countries face serious trade barriers, which generally rise as the degree of fabrication increases. There is therefore a general problem of market access which applies to the processed forms of all the various groups of primary commodities shown in table 1.

27. The widespread importance of trade barriers, of competition from synthetics, and of low income-elasticities of demand, suggest that a variety of policy measures will be necessary in order to achieve the objectives discussed earlier over the whole range of primary commodities.

C. THE CASE FOR AN INTEGRATED INTERNATIONAL COMMODITY POLICY

28. The general case for evolving an integrated international commodity policy is simply that in view of the complex issues involved, and the wide variety of alternative policies open, there is need for the adoption of an over-all strategy to deal with primary commodities. Such an over-all approach would allow international action affecting primary commodity markets to become considerably more effective than hitherto. Firstly, it would make possible a rational selection of the most urgent issues requiring remedial action and of the most appropriate policy approaches, which could be welded together into a specific programme. Secondly, while the particular characteristics of individual commodity markets may require the use of different combinations of policies in each, there is need of an over-all review of progress in

the commodity trade of developing countries, so that gaps in policy or action can be recognized and suitable remedies sought. Thirdly, the effectiveness of action relating to particular commodities is likely to be enhanced if such action is consciously related to the more general objectives of the economic development of the developing countries. Moreover, rational action in any one commodity market can be taken only when the probable effects on the markets for other commodities have been taken fully into account.

29. A particular illustration of the close inter-connexion between different types of commodity trade policy is that of measures dealing specifically with short-term and long-term problems. The stabilization of the world price within prescribed limits, for example, must be expected to affect the rate of investment in new capacity, as well as the rate of growth in world consumption and the level of normal stocks, all of which will powerfully influence the way in which the world economy in general, and the developing producing countries in particular, adjust to the new situation over the long-term. Similarly, to achieve certain desirable "long-term" policy aims, such as diversification of the structure of production in the developing countries, it might be necessary to adopt appropriate "short-term" measures which could help the developing countries concerned to finance such diversification programmes. All the various possible measures, whether carried out in the immediate future or over the longer-term need, therefore, to be integrated within the context of an over-all commodity policy.

30. Another important inter-relationship is that between policy measures which are essentially of a self-financing nature, and those requiring international financial (and technical) support. For example, some policy measures (such as the setting-up of a buffer stock scheme) may require initial financial support, but may become self-financing after a period of years. None the less, the division of the whole field of commodity problems into short and long-term, and the distinction between self-financing and other measures, helps to focus attention both on the period within which the results of policy action are sought, and the balance of cost and benefit which is likely to arise.

31. At the same time, it is important to achieve a fuller co-ordination of international measures of commodity policy with related measures, such as diversification policies or compensatory financing, which are also devoted to improving the trend or offsetting the fluctuations in the export earnings of developing countries. These and related fields of action—which are discussed in some detail in later chapters—are essentially mutually supporting.

32. Since primary commodities are likely to remain the most important sources of export earnings of the majority of developing countries for a considerable time to come, the successful achievement of an integrated commodity policy would create trading conditions much more favourable than those now existing for the achievement of the economic growth targets of the developing countries. Such changes in world trade conditions would, moreover, imply a more rational allocation of resources,

both within and between the developed and the developing areas, and would thus yield corresponding increases in real income to both groups of countries. Furthermore, to the extent that such an integrated policy would also lead to a greater degree of stability in the different commodity markets, this would also benefit the international community as a whole. The following chapters explore the implications for policy of such a general approach, as well as seeking to focus on those areas which appear suitable for immediate action.

Chapter II

The short-term problems of commodity market regulation

A. COMMODITY MARKET INSTABILITY AND ITS EFFECT ON THE ECONOMIES OF DEVELOPING COUNTRIES

1. The factual background

33. Though the post-war period has not in general witnessed the violent swings in the value of world trade in primary commodities which occurred before 1939, the developing countries, while still deriving the greater part of their foreign exchange earnings from the exports of primary commodities, have none the less continued to experience considerable short-term fluctuations in their export earnings. These fluctuations have been the result of a number of factors on both the demand and supply sides of primary commodity markets, which have manifested themselves in a combination of variable prices and sales.

34. Short-term fluctuations in primary commodity prices are complex in character and origin. Daily and weekly fluctuations are more likely to reflect random factors, while monthly and annual changes tend very largely to reflect intra- and inter-seasonal elements. These relatively short-term fluctuations tend in turn to follow a cyclical pattern, itself mainly determined by the general business cycle of the major developed countries.

35. Price fluctuations, from year to year, have continued to be substantial for a number of commodities, whether produced wholly or mainly by developing or by developed countries. Nevertheless, as indicated in table 2, many of the major export products of the developing countries have been among the least stable in terms of annual fluctuations in export unit values.¹⁵ Of the twenty-eight commodities for which instability indices have been computed for the period 1953-1964, two (pepper and tungsten) have shown unusually violent annual

fluctuations. Though these two commodities are relatively small export earners, in terms of the total value of primary commodity exports from developing countries,

TABLE 2

Primary commodities classified according to the degree of instability in world trade (1953-1964)

	Instability indices <i>a</i>		Exports from developing countries (annual average) <i>b</i>
	Unit value	Value	
(\$U.S. million)			
I. <i>Extreme instability</i> <i>c</i>			
Black pepper.	47.3	47.2	60
Tungsten	39.3	..	13 <i>d</i>
II. <i>Substantial instability</i> <i>e</i>			
Cocoa beans	19.8	13.7	499
Manganese ore and concentrates	18.9	26.7	119 <i>f</i>
Raw jute	17.0	7.4	166
Natural rubber	16.3	17.0	1 342
Hard fibres	15.7	15.8	136
Lead metal	14.2	13.6	108
Zinc, ore and concentrates	14.0	18.4	68 <i>f</i>
Coconut oil	13.8	15.9	85
Copper	13.7	13.3	1 068
Zinc metal.	13.6	19.4	58
Jute goods.	12.9	11.2	381
Sugar (raw)	12.8	11.3	1 085 <i>h</i>
Coffee	12.0	7.5	1 941
Copra.	12.0	8.2	248
Palm kernels	10.1	11.6	94
III. <i>Moderate or slight instability</i> <i>g</i>			
Tin	9.5	19.9	263
Tea	8.5	7.0	597
Rice	8.3	9.0	507
Palm kernel oil.	7.7	25.8	11
Ground-nut oil.	7.5	11.3	96
Maize.	7.4	18.3	270
Bauxite	5.6	7.2	114 <i>f</i>
Palm oil.	5.5	5.5	111
Cotton	5.2	9.0	1 239
Ground-nuts.	5.1	8.4	229
Tobacco.	3.1	4.3	380

Sources : United Nations, *Yearbook of International Trade Statistics*, and *Commodity Survey 1962*; FAO, *Trade Yearbook*; United Nations Statistical Office.

^a Instability as measured by the coefficient of variation of residuals from a linear trend. Calculations were based on exports from developing countries for certain commodities (black pepper, cocoa, manganese ore, jute and jute goods, natural rubber, lead metal, copper, zinc metal, tin, tea, rice and bauxite). For other commodities, the calculations relate to total world exports.

^b 1961-1965 average for metals; 1960-1964 average for other commodities.

^c Instability indices (unit value) exceeding 20.

^d 1965.

^e Instability indices (unit value) between 10 and 20.

^f 1961-1964 average.

^g Instability indices (unit value) below 10.

^h Including refined sugar.

¹⁵ Unit values of exports tend generally to fluctuate less than world market prices, partly because for some commodities exports under negotiated or preferential prices are important (as for sugar), while for others exports are at times subject to producers' agreements (as for copper). Moreover, the volume of transactions tends to be small when the world price is high, so that the fluctuation in prices is likely to exaggerate the impact of fluctuations on the exports of the producing countries.

they are of importance to the export trade of particular countries.¹⁶

36. For the other commodities covered, there is an almost continuous distribution, from commodities—such as tobacco—for which export unit values have shown very small annual variations from the long-term trend, to commodities—such as cocoa, sugar and manganese—for which such variations have been very substantial. Though it is convenient to subdivide this range of commodities into those showing substantial instability and those with only moderate or slight instability, as has been done in table 2, any such distinction is necessarily an arbitrary one. None the less, it does indicate that a number of important primary commodities of export interest to developing countries have been subject to a considerable degree of price fluctuation in the recent past. The fifteen commodities included in Group II (substantial instability) accounted for \$ 7,400 million worth of exports from developing countries, on average, during the first half of the 1960s, representing some two-thirds of the export value of all the commodities listed.

37. Of the eleven commodities classified as exhibiting only moderate or slight instability, tin is already covered by an international stabilization agreement, while unit values of cotton exports depend heavily on United States export prices. It should be noted, however, that for certain commodities (tin, palm kernel oil, ground-nut oil and maize) in this group the moderate fluctuation in unit values has been associated with substantially greater fluctuations in the value of world trade.

38. This analysis in terms of annual fluctuations conceals the extreme price swings which have been a notable feature of the market for certain commodities. For example, since 1950 the price of raw sugar on the world market has ranged from less than 2 United States cents per pound to over 11 cents; cocoa prices have varied from under 13 cents per pound to 44 cents; and coffee prices from 27 to 79 cents.

39. For a number of commodities price instability has been more pronounced in recent years than in the later 1950s. Of those distinguished earlier as suffering from substantial instability, three (sugar, hard fibres and lead) showed appreciably greater price fluctuations over the first half of the 1960s than during the later 1950s (see table 3). The increase in the instability of sugar prices reflected the dramatic price rise of 1963, followed by the equally sharp decline in 1964. For hard fibres, an increase in consumption and restocking raised prices to a high level in 1963 and 1964; this led to increased substitution by synthetic fibres which, combined with an expansion in output of hard fibres, resulted in a sharp price decline. A substantial rise in demand for lead in 1964 changed a world surplus into a deficit situation and resulted in a steep rise in prices; this stimulated production and prices fell subsequently.

¹⁶ Tungsten ore, for example, accounted for over 9 per cent of exports of primary commodities from the Republic of Korea in 1965, while pepper (including pimento) represented 13 per cent of the corresponding total exports from Malaysia (Sarawak) in the same year.

TABLE 3

Commodity price instability in the later 1950s and the first half of the 1960s

	Instability indices ^a		
	Later 1950s ^b	First half of 1960s ^c	(2) as a percentage of (1)
	(1)	(2)	(3)
I. <i>Extreme instability</i>			
Black pepper ^d	37.4	29.8	80
Tungsten	38.7	49.7	129
II. <i>Substantial instability</i>			
Cocoa beans	36.2	22.7	63
Manganese ore and concentrates	19.2	5.9	31
Sugar (raw) ^d	7.1	19.1	269
Raw jute	15.9	12.3	77
Natural rubber	19.8	4.7	24
Hard fibres	9.0	22.6	251
Lead metal	11.5	23.7	206
Zinc ore	13.6	16.5	121
Coconut oil	14.9	11.5	77
Copper	14.8	14.9	101
Zinc metal	14.2	18.1	127
Coffee	14.4	9.3	65
Copra	15.9	10.5	66
Palm kernels	12.1	10.9	90

Sources : United Nations, *Yearbook of International Trade Statistics*, and *Commodity Survey 1962*; FAO, *Trade Yearbook*; United Nations Statistical Office.

^a Average of year-to-year percentage changes (irrespective of direction of change).

^b 1953-1960.

^c 1960-1966.

^d Instability indices based on export unit values.

40. On the other hand, for a number of other commodities classified as suffering from substantial price instability, the degree of instability declined appreciably during the first half of the present decade (see table 3). This decline in short-term price fluctuation has been particularly notable for natural rubber and manganese ore, but has also been of importance for cocoa, coffee and copra. The degree of price instability has, however, remained high for some of these commodities, especially cocoa. For coffee, the smaller price fluctuation in recent years would seem to reflect to a large extent the operation of export quotas under the International Coffee Agreement of 1962. For natural rubber, the decline in price instability is probably associated with increasing competition from the more stable-priced synthetic rubbers; the underlying problem, however, is the long-term downward trend in the price of natural rubber rather than its short-term instability. The extent of price fluctuation has also declined somewhat for the lauric acid oils and oilseeds—copra, coconut oil and palm kernels—a major factor here also being competition from lower-priced substitute products.

41. The majority of commodities experiencing extreme or substantial instability in prices have also been cha-

racterized by extreme or substantial instability in the value of world exports, and thus in the export income they have earned for the developing countries concerned. The close association between price and value instability is indicated by the indices in table 2.¹⁷

2. Reasons for market instability

42. Seasonal, cyclical and random factors all play a part in the short-term movements of demand for, and supply of, individual primary commodities on world markets.

43. On the *supply* side, the principal causes of fluctuations in output are seasonal variations in agricultural crop, random or other special factors such as strikes, variations in weather conditions, political crises, etc., and cyclical movements in capacity resulting from relatively long gestation periods, as is the case particularly for tree crops like coffee, tea, cocoa and rubber.

44. On the *demand* side, consumption is likely to vary with changes in business activity (in the case of raw materials and intermediate products) and with changes in disposable real income per head and in patterns of personal consumption (in the case of food, beverages and tobacco). One feature of post-war developments has been that cycles in business activity have not always coincided as between different industries—textiles and automobiles, for example, tending to have rather different phases of recovery and recession from those of other industries—so that fluctuations in demand for consumption of particular primary commodities have often been out of phase with the general business cycle in the developed countries.

45. Furthermore, for a wide range of primary commodities both supply and demand are price-inelastic in the short run, so that any change in one or both of these variables tends to have an exaggerated effect on the market prices of these commodities.

46. However, from the point of view of price stability on world markets, a distinction must be made between demand for consumption and demand for imports. The two do not necessarily move in the same direction or to the same extent, and it is the latter which has an immediate effect on the market. This difference between demand for imports and for consumption arises in two circumstances.

47. The first is where countries which are not importers of a commodity also produce domestically a substantial part of their total requirements. In such cases, variations in domestic output are likely to be reflected in greater proportionate variations in import demand. If, in addition, domestic prices are maintained at a stable level, declines in production would lead to increased import demand, while production surpluses would add to supplies coming on the world market. The greater the proportion of world production accounted for by these net importing countries, the narrower the residual world

markets will be and the greater the effect of fluctuations in import demand and export supply on the world price.

48. In the second case, a difference between demand for consumption and import demand will arise owing to the existence of large stocks in the importing countries. Such stocks can be price-stabilizing or price-destabilizing. Where, for example, erratic fluctuations in demand are cushioned by changes in stocks held, then stocks will have played a stabilizing role. But where, as often happens, a given percentage change in demand leads to disproportionately large changes in demand for stocks, this will accentuate the resulting price fluctuations. In this case, stocks will have played a negative or destabilizing role. A further problem arises from certain types of speculation in stock-holding: when prices are expected to rise, stock purchases on the part of speculators will accentuate the upward price movement. The reverse tends to happen when prices fall and speculators anticipate a further price decline.

3. Effects of market instability on the economies of developing countries

49. It has long been recognized that substantial short-term fluctuations in commodity prices can have important adverse effects on the economies of primary producing countries. This recognition was also embodied in the Final Act of the first session of the United Nations Conference on Trade and Development which recommended in recommendation A.II.1 the consideration of a number of alternative techniques including, *inter alia*, "quota arrangements and buffer stocks, in order to secure 'stable, remunerative and equitable commodity prices'... to assist the economic development of developing countries."¹⁸

50. A distinction needs to be made, at the outset, between the effects of short-term commodity price fluctuations on the export earnings and economic growth of the developing countries, as such, and the effects on the individual producers within those countries. A third aspect to be considered is the longer-term influence of price instability on the rate of growth of demand for the commodities concerned.

(a) Effects on the developing countries

51. The immediate effect of commodity price fluctuations is on the *export earnings* of the developing countries concerned. Since, as was shown earlier, the degree of price fluctuation varies widely from commodity to commodity, the effect of such fluctuations on the stability of export earnings of a given developing country will depend, in the first instance, on its particular commodity specialization.

52. It cannot, however, be concluded that countries specializing in commodities subject to large price fluctuations will necessarily suffer greater fluctuations in their export earnings than will countries specializing in the

¹⁷ The coefficient of rank correlation, based on these indices of instability of unit value and total value, is 0.63 (which is significant at the 1 per cent level).

¹⁸ See *Proceedings of the United Nations Conference on Trade and Development*, vol. I, *Final Act and Report* (United Nations publication, Sales No.: 64.II.B.11, pp. 26-30).

export of relatively stable-priced goods. The effect on earnings depends not only on the degree of fluctuation in export prices but also on that in export volume.

53. For commodities facing inelastic demand conditions, there will always be an appropriate price range within which the world price can be stabilized, which will also result in a reduction in the fluctuations in total export earnings. The more inelastic the demand, the narrower can be this range within which the price is stabilized without adverse effects on the stability of total export earnings.

54. The effect of fluctuations in export earnings on the rate of economic growth of developing countries is considerably more difficult to quantify. Indeed, quantification may not be possible as regards some of the more important possible effects, such as those on the efficiency with which economic development plans can be implemented. *A priori* it would seem that unexpected shortfalls in commodity export earnings, coupled with uncertainty about the future movement of foreign exchange receipts, would be likely to disrupt the detailed mechanisms of economic development planning in the absence of other arrangements for compensatory financing facilities. Such disruption in the economic growth process could take a number of forms, including the postponement of or interruptions in planned investment projects and the development of excess capacity in secondary industry owing to the scarcity of imported intermediate products or spare parts for machinery.

55. Another major impediment to economic growth may arise if fluctuations in export earnings adversely affect the capacity of developing countries to meet interest and amortization payments on foreign loans. In so far as instability in export earnings leads to situations in which a decline in such earnings coincides with fixed servicing requirements on bonded external indebtedness, the resulting uncertainty with regard to repayment ability—even for a relatively few years—could prejudice the longer-term credit-worthiness rating of developing countries, which would in turn reduce the incentive of lenders to increase the flow of funds for development purposes.

56. Short-term fluctuations in export earnings of many developing countries do not appear to be significantly reflected in corresponding *short-term* fluctuations in national income, either because exports contribute only a small proportion of the total national income or because their effects can be cushioned by short-term borrowing, or because of the operation of a number of internal stabilizing factors. One internal stabilizing element of particular importance for developing countries with substantial mineral exports could arise from the operation of expatriate corporations, if fluctuations in earnings from exports are associated with corresponding variations in profits remitted abroad rather than in variations in local expenditure.¹⁹

57. However, whereas internal stabilizers can help to reduce the impact of short-term fluctuations in export earnings on domestic income, there is typically a much closer and more direct link between export instability and fluctuations in the capacity to import. Indeed, if foreign-exchange reserves are low, and unless external financing happens to be offsetting in both timing and magnitude, export instability will be mirrored by corresponding fluctuations in total imports (including imports of investment goods, which are often most subject to deferment).

58. To the extent, therefore, that instability in export earnings results in both erratic changes in essential imports and a retardation in the inflow of development funds, such instability could well have a serious adverse impact on the rate of economic growth in those countries most affected. Given the relatively rigid pattern of import requirements in many developing countries, it would seem that stabilization of export earnings could be an important pre-requisite for promoting more effective long-term economic planning and growth.²⁰

59. Export instability also adds to the difficulties of avoiding inflation. During a boom period, higher foreign exchange earnings as well as increased government revenue from import duties and export taxes often lead Governments to initiate new investments and long-term projects which, however, require continued local expenditure and import requirements even when the boom has come to an end. This may therefore force the Government into heavier deficit financing and stricter import controls, particularly on consumption goods. The combination of these two policies is likely to increase inflationary pressures domestically. Another inflationary effect might result from a wage-profit spiral. When export earnings rise and lead to larger profits in the export sector, labour—particularly where unionization is strong—demands a share in these larger profits in the form of wage increases. When export earnings later fall, however, wage incomes do not fall, given the usual downward rigidity in wages. In these circumstances, Governments are often forced to support domestic incomes in order to avert the risk of unemployment.

(b) *Effects on individual producers*

60. Though the effect of instability in commodity markets on the aggregate national income of a developing country may be damped by various stabilizing factors, such instability will be directly communicated to the incomes of the producers of the export commodity concerned, unless the quantity sold fluctuates in inverse proportion to the price, so that total producers' earnings are kept stable. If the price received by producers is fixed internally by the operation of a marketing board or by the use of variable export taxes, producers' incomes would still vary if the quantity sold fluctuated; however, a marketing board which adopted a flexible price

¹⁹ For a more detailed discussion of the operation of short-term 'built-in stabilizers' in developing countries, see Alasdair I. MacBean, *Export Instability and Economic Development* (London, G. Allen & Unwin, 1966), chapter III.

²⁰ This effect of export instability is discussed in greater detail in R. G. Hawkins, J. Epstein and J. Gonzales, "Stabilization of Export Receipts and Economic Development" *Bulletin No. 40* (New York University, November 1966).

policy—adjusting prices to some extent in accordance with the world supply and demand situation—is likely to achieve greater stability in total producers' earnings than would otherwise be the case.

61. However, there is a particular problem for individual producers arising out of price instability *per se*. For some commodities, there is an appreciable time lag between investment and output—such as, for example, in the case of tree crops—while for other commodities, the capital cost of substantial variations in the scale of output is large—as in the opening-up or closing-down of mines. In such circumstances, erratic short-term swings in prices, though they may accurately reflect current or spot prices in the market, in fact serve little or no useful longer-run purpose as a guide to production and investment decisions, or for the global allocation of resources. Indeed, they may prove positively misleading and de-stabilizing in the long run. An example of such situations was the excessive planting of coffee which resulted from the steep rise in prices in the early 1950s, and which led to the over-production crisis of the 1960s. The opposite can also occur as, for example, when the drastic falls in the prices of tin and tungsten in 1958 and 1963, respectively, forced a large number of small mines to close. Subsequent recovery of output was in fact inadequate and delayed.

(c) *Effects on demand*

62. Price instability of primary commodities subject to competition from synthetic materials has been an important factor in the competitive advantages enjoyed by synthetics over the past decade. The instability—and consequent unpredictability—in prices of natural materials means that manufacturers using such materials have very much less control over their production costs than they would have if they used alternative synthetic materials available at stable, and reasonably predictable, prices. Moreover, the ever-present possibility of unforeseen price fluctuations inevitably involves the manufacturing consumer of natural materials in extra costs of 'hedging' by stocking or de-stocking in anticipation of future price changes. A reduction in the price instability of these natural materials would thus have a beneficial long-term effect on their competitive position and, to this extent, would result in a long-term gain for the producing countries, as well as for the industrial consumers. This point moreover, is not limited solely to the problems posed by competitive inroads of synthetic substitutes. In the case of cocoa, for instance, it has been demonstrated that price fluctuations can have major long-lasting adverse effects upon cocoa consumption, owing to changes in production and packaging techniques that lower the raw cocoa content of confectionery items by manufacturers.²¹

²¹ For example, by changing their product mix away from chocolates in favour of sugar confectionery; by reducing the cocoa content of existing chocolate products; and by raising the proportion of substitutes for cocoa butter and cocoa flavour in the com-

4. *The purpose of commodity market regulation*

63. One distinct objective of inter-governmental intervention in the workings of primary commodity markets would be to reduce the excessive short-term fluctuation in prices or revenues, as the case may be, without, however, interfering with the underlying trend. The elimination of the violent fluctuations that have traditionally characterized a number of these markets would, in itself, be a major gain for the international community, bringing benefits to producers and consumers alike. Such inter-governmental action operates, in effect, to offset the various short-term rigidities in the world economy which were discussed earlier. This objective would seem applicable to commodities in all of the broad groups distinguished in chapter I which suffer from excessive market instability and which are in other ways suitable for the application of market stabilization schemes.

64. A second possible objective, which needs to be considered quite separately from the first, is the use of commodity market regulation to raise the price above the long-term equilibrium level. This could be a feasible objective for certain commodities exported by developing countries. Broadly speaking, these are commodities produced wholly or mainly in developing countries and without close substitutes in consumption, and also those which, though produced in substantial amounts by both developed and developing countries, are exported wholly or mainly by the latter. Though various types of market control could, in practice, be used in appropriate circumstances to achieve both objectives (i.e. stabilizing and raising prices), it is important to distinguish the two and to consider each on its own merits.

65. The next section is concerned essentially with the first objective: that of eliminating excessive fluctuations in primary commodity markets, by attempting to stabilize prices or, where appropriate, total proceeds from individual commodities. After considering the principal features and problems involved in the operation of various forms of commodity market regulation in the post-war period, an attempt is made to distil from this experience the lessons to be learned for the successful operation of inter-governmental schemes of this type. The following section then considers separately the conditions under which the objective of raising prices could be accepted as compatible with other international policies designed to promote the economic growth of developing countries. That section also considers the role of commodity market stabilization in relation to compensatory and supplementary financing schemes.

position of their final product. According to the *Study of Contemporary Ghana* (London, Allen & Unwin, 1966, vol. I), p. 374. "All these methods were adopted after a sharp rise in world cocoa prices in 1954, and they exerted a depressing influence on world demand and prices for several years thereafter . . . The result was that although the value of the [British chocolate] industry's sales to the public rose by 16 per cent between 1955 and 1960, its usage of cocoa beans in the same period declined by 4 per cent".

B. THE TECHNIQUES OF SHORT-TERM COMMODITY MARKET REGULATION

1. *The post-war experience*

66. A number of formal inter-governmental commodity agreements involving the regulation of supplies and/or prices, in which both producer and consumer interests have participated, have been in force at various times during the post-war period.²² Those operative at present cover coffee, tin, wheat and olive oil; the economic clauses of the remaining agreement (for sugar) were suspended at the end of 1961. In addition, an international agreement for cocoa has been under negotiation in UNCTAD since 1965. Apart from these, less formal arrangements for market regulation, involving voluntary action by participating Governments outside the context of international commodity agreements, have been evolved for certain other primary commodities, such as lead and zinc and jute.

67. These various commodity agreements and arrangements differ among themselves in several ways. First, they do not all cover commodities produced or exported mainly by developing countries. For some commodities (for example wheat, lead and zinc) the exporting interests are essentially those of developed countries, while sugar is a special case since substantial amounts are produced in both developed and developing countries.

68. Secondly, while the general objectives of these agreements and arrangements are similar in that they aim at some aspect of market stabilization by the regulation of supplies and/or prices, they vary considerably in their detailed objectives.²³ The International *Tin* Agreement seeks to defend an agreed price range, provision being made under specified circumstances for altering the price range as changing world market conditions require. In the case of *sugar*, the basic objective is to maintain prices at a given range by export quota controls. The informal stabilization arrangement for *jute* also aims to maintain price within an agreed range. The International *Coffee* Agreement of 1962 included as an objective that the general level of coffee prices should not decline below the general level of such prices in 1962.²⁴ By contrast, the initial international *wheat* agreements established a price range within which a minimum volume of trade must take place between the participating exporting and importing countries. In effect, this arrangement aimed indirectly at establishing, for the

guaranteed volume of trade, a minimum level of export revenue for the exporting member countries, and a maximum cost for the importing member countries (see, however, paragraph 89).

69. The International *Olive Oil* Agreement has more limited objectives, its primary purpose being to even out the temporary shortages in some countries by transferring to them temporary surpluses available elsewhere. Since output varies sharply in a two-year cycle, the phases differing between producing countries, these transfers are usually self-cancelling over a short period of years. Unlike the agreements mentioned earlier, that for olive oil is not a market-control agreement in the sense of the terms laid down in the Havana Charter, since it has no price range provisions nor equal participation by producers and consumers, while it depends on voluntary co-operation rather than on mandatory regulation.²⁵ A more elaborate system of market regulation, involving the use of an international buffer stock is, however, under consideration by the International Olive Oil Council.

70. For *lead* and *zinc*, no formal inter-governmental agreement exists for market stabilization. The Governments members of the International Lead and Zinc Study Group do, however, keep the movements in the world lead and zinc markets under continuous review and, it is understood, have taken voluntary action to restrict production or exports to support the market when they see a temporary excess of supply.

71. Thirdly, these various commodity market regulation arrangements have employed a number of techniques, sometimes singly and sometimes in combination. It is important, in the present context, to review briefly the actual experience in the use of these techniques, so as to be able to assess their relevance for future inter-governmental action in this field.

(a) *Export quotas*

72. Export quota schemes aim at stabilizing the price of a commodity by regulating the quantity entering the world market from producing countries. To be effective in achieving such stabilization in the short term, such schemes must satisfy a number of conditions, which are discussed below. A further problem arises, however, to the extent that the operation of export quota schemes could also influence the underlying secular trends in the world market, particularly the rate of growth of world production.

73. One condition for the effective short-term operation of such schemes is that they must cover a *sufficiently high proportion of world trade*. Export quota schemes which do not cover all the important, or potentially important exporting countries are liable to be undermined by exports from non-members at prices below the agreed minimum. This danger is greater the smaller the proportion of world trade covered by participating countries. Both the International Coffee and Sugar agreements have provisions for importing member countries

²² The present discussion is confined to arrangements involving both consumer and producer participation. Apart from these, there have also been a number of international agreements over the post-war period between producer countries only (those for petroleum and for sultanas are currently in force; the International Tea Agreement lapsed on 30 March 1965 and the producers' agreement for cocoa (International Cocoa Producers' Alliance) came to an end in February 1965).

²³ Most agreements also include the objective of increasing demand for the commodities concerned through measures to promote consumption. This aspect falls outside the scope of chapter II but is discussed further in chapter IV.

²⁴ See International Coffee Agreement, 1962, article 27, in *United Nations Coffee Conference, 1962. Summary of Proceedings* (United Nations publication, sales No.: 63.II.D.1), annex III, p. 56.

²⁵ See Havana Charter, articles 57, 60 and 63.

to limit imports from non-member countries. For coffee, these provisions proved difficult to enforce when surplus supplies exerted a downward pressure on the world price. An appreciable trade in 'tourist' coffee shipped from member exporting countries to member importers via third (non-member) countries arose during 1964-1966, induced by the higher level of prices compared with those of the immediately previous years. The adherence of additional producing countries to the International Coffee Agreement in the course of 1966, together with the introduction of certificates of origin,²⁶ would seem likely to eliminate this source of circumvention of the purposes of the agreement.

74. In the case of the International Sugar Agreement, the participating member countries accounted for only two thirds of world net imports from the free market.²⁷ If imports under preferential arrangements are excluded, a much smaller proportion of world sugar imports would be covered. Consequently, a requirement on importers to limit their purchases from non-members was an essential element in the 1959 agreement and would be so in any new agreement that might be negotiated.

75. For tin, in spite of the high proportion of world exports accounted for by members of the International Tin Council (ITC), the effective regulation of the market has involved various arrangements with other potential suppliers. Agreement was reached between the ITC and the USSR in 1958 under which exports of tin from the Soviet Union to certain markets were temporarily limited, while in 1966 the ITC reached an agreement with the United States whereby the latter undertook in principle to moderate its programme of stockpile sales if it should prove to be inconsistent with the operations under the International Tin Agreements.

76. Though the "policing" of the agreed provisions of existing or recent export regulation schemes has posed considerable difficulties from time to time, these have generally proved amenable to international action. The experience of the coffee scheme, in particular, has shown that, with the active co-operation of both exporters and importers, a viable policing system can be operated. An additional approach to policing which could be used alone or to support the policing action of export quotas would be for the importing countries to prohibit the import of a commodity from non-member countries at a price below the agreed minimum. Alternatively, the importing countries could impose a levy on such imports from non-member countries equal to the difference between the import price and the (higher) agreed mini-

mum. If, further, the proceeds from such a levy were made available, either wholly or in part, to the participating exporting countries, this arrangement would be a powerful incentive for all producing countries to join the export regulation scheme. Furthermore, refunding such import levies would also prevent importing Governments from favouring non-members in order to gain tax revenue.

77. A second condition for the successful operation of an export regulation scheme is that effective provision should be made for *appropriate adjustment of country export quotas* to meet the changing conditions of the world market.²⁸ The sharing of a market already in oversupply among a number of exporting countries tends to create conflicts of national interests, since it is in each country's interests to obtain a maximum quota though, at the same time, it is in the interest of all producers that the aggregate of quotas be minimized. While initial quotas are typically based upon historical shares of the world market, though there may be special exceptions, difficult problems can arise if the basic quotas are fixed for more than a relatively short period. If productivity and costs in the different producing countries are changing sufficiently and/or there is a shift in the pattern of world demand in favour of the products of certain producing countries relatively to those of others, pressures will arise for changes in country quotas. This problem can be met in principle by allowing for changes in country quotas, as appropriate, during the term of a particular agreement. However, where a structural surplus necessitates substantial quota reductions to bring about a balance between world supply and demand, some countries might find it difficult to accept such reductions, since they might involve too large a burden of adjustment in their economies.

78. Another difficulty arises where—as for coffee—countries tend to specialize in different varieties of the product. The 1962 International Coffee Agreement laid down country quotas for coffee as such; as world demand shifted in favour of *robusta* coffees, so the pressure for changes in country quotas mounted. The International Coffee Council supplemented the export quota scheme in 1966 in a number of ways, a prominent feature of the change being the classification of coffee into four varieties, for each of which separate export quota arrangements were instituted, each of the four schemes being related to its own agreed minimum price level. Though this arrangement would allow for a more flexible response in the pattern of world coffee production to changes in consumer preferences, the problem of periodic re-allocation of quotas within each variety remains.

79. A third major consideration in the effective operation of an international export quota scheme is the *speed with which changes in quotas react on the market situation*. Where an excess of supply arises, cuts in quotas may have a delayed effect on the actual flow of supplies reaching the market and a downward pressure on prices

²⁶ In addition, a system of export stamps, to be affixed to the certificates of origin, was introduced at the beginning of 1967 to prevent any possibility of circumvention of the control scheme.

²⁷ Under the International Sugar Agreement, the free market includes, *inter alia*, imports into the United Kingdom under the Commonwealth Sugar Agreement and imports into the Soviet Union from Cuba, both of which involve trade at preferential prices. If these trade flows are excluded, the proportion of world net imports covered by the International Sugar Agreement would have been only 13 per cent in 1961 (see International Sugar Council, London, *The World Sugar Economy: Structure and Policies*, vol. II. The World Picture, 1963, pp. 212 and 220).

²⁸ This would be facilitated to the extent that realistic estimates can be prepared of world import requirements for the coming marketing year.

could continue for some time in spite of the quota reduction. Moreover, in a narrow market, such as the free market for sugar, changes in the market situation can be relatively violent, and quota reductions alone could not necessarily be expected to support a minimum price. A further and more difficult problem arises when changes in the market situation result in a temporary scarcity of supplies. In this situation, an increase in quotas would be effective only if exporting countries held national stocks which could be drawn upon to expand the flow of supplies.²⁹ For agricultural commodities with long gestation periods and for mineral ores a reduction or abolition of export restrictions could not be expected to result in any substantial increase in supplies in the short run. Export quotas for tin, for example, were abolished in September 1960 but tin production, after allowing for the effects of political instability in some of the principal countries concerned, did not rise appreciably for some years thereafter. Even for annual crops, the precise timing of the application of quota reductions or increases may be critical, depending on whether they are made before or after the main planting season.

80. For some commodity markets, however, the time lag between changes in quotas and the consequent changes in the volume of supplies entering the market may not be a disadvantage. This would be the case where the time lag is known with a reasonable degree of certainty to be short enough for the effects of the quota change to be discounted immediately in the market. Automatic quota adjustments related to changes in the world price—as operated, for example, in the current coffee agreement—would make market price response more certain. Where a futures market is in operation, this discounting of anticipated changes in supplies is likely to be the normal case. None the less, to the extent that there is uncertainty about the effects of a particular quota change on the volume of supplies—this would seem more likely where quotas were raised, rather than where they were reduced—the effect of such changes on the current market situation cannot be predetermined with any great accuracy.

81. The effect of quota changes on the volume of production and the world price of individual commodities can be expected to vary widely according to the conditions of supply and demand of the particular commodity and the organization of the world market. The relationships involved would seem to merit further detailed study, particularly as regards the operation of export quotas for coffee, sugar and tin.

(b) *International buffer stocks*³⁰

82. The use of a buffer stock introduces a stabilizing element into the working of a commodity market, since

²⁹ The 1958 International Sugar Agreement, for example, included a provision requiring member countries to hold carry-over stocks and a minimum of 12.5 per cent of their basic export quotas. This was intended respectively, both as a check on excessive production increases and as a guarantee of additional supplies in times of relative scarcity.

³⁰ The problems involved in setting up viable international buffer stocks for commodity market regulation schemes are discussed in greater detail in chapter III. The discussion in this section is therefore confined to certain major issues.

the buffer stock would aim at selling when the price was high—thus increasing supplies in time of scarcity—and buying when the price was low—thus increasing demand in time of relative abundance of supply. This stabilizing function applies whatever the size of the buffer stock and whether there are a number of independent buffer stocks (operated, for example, on behalf of national authorities and co-ordinated at an international level) or a single international buffer stock.

83. Almost all stabilization schemes so far have left the financing of stocks to the producing country in which they arose. However, this is not necessarily the optimum method from the point of view of equity or resource allocation. This is because the accumulation of stocks in a net exporting country may not reflect changes in the commodity situation in that country as much as the production and price policies pursued in the net importing countries in which these exports would normally be sold. In fact there has often been an implicit assumption that it is the net exporters that have to make all or most of the adjustments that the world market seems to require. Sugar is a case in point. In fact, however, the proper distribution of responsibility for financing and managing stocks are problems which should be dealt with on an international level in the light of all the relevant factors operating in each market which may have to be stabilized.

84. The applicability of the buffer stock technique is, however, limited largely to those commodities which can be stored at relatively little cost and where an effective and homogeneous market with well-defined and generally recognized grades exists, so that world prices can serve as an indicator for effective buffer stock action. The latter action is, moreover, likely to be more effective for those commodities facing inelastic demand conditions. The difficulties of practical application depend essentially on the objective for which the buffer stock is to be used. Two alternative objectives can be distinguished in principle. The first would be to seek to stabilize prices, either within an agreed range, or as close to the long-term trend as possible. The second objective would be to aim at a stabilization of total export earnings rather than of market prices. These two objectives are discussed below.

85. If, as in the tin scheme, it is used (in conjunction with an export restriction scheme) *to stabilize the market price within an agreed range*, then there is a danger that the buffer stock may exhaust either its funds or its commodity stock if the market price falls persistently outside the agreed range in either direction. One lesson to be drawn from the operation of the tin buffer stock is that it is easier to defend the minimum of a price range than the maximum. The reason for this is that, if the buffer stock exhausts its funds by persistent buying at the minimum price, there is always the possibility that additional funds can be raised to continue the operation³¹ or, as

³¹ Under the Third International Tin Agreement, 1966, not only has the buffer stock been provided with government contributions totalling £10 million, but an equivalent sum (or its equivalent in metal) is also available on call from member Governments, while a further £10 million has been established as a line of credit by a consortium of private banks.

under the provisions of the tin agreement, producers can make voluntary contributions in kind to the buffer stocks, thus relieving the market surplus. However, if the buffer stock exhausts its commodity stock at the maximum price, there is normally no other readily available source of supply sufficient to prevent the market price exceeding the agreed maximum. Where the buffer stock has to defend either the minimum or the maximum of a price range for an extended period of time, the conclusion to be drawn is that the initial price range ought to be appropriately altered to accord more closely with underlying market forces.

86. Though the agreed price range could then be altered, the resultant discontinuity in the market might have to be substantial, if there was a sharp change in the balance of world supply and demand. If, moreover, there is a time lag between such a change in world market conditions and the amendment to the agreed price range, the consequent discontinuity in the price would need to be substantially greater than would otherwise be required. Large and discontinuous shifts in the world price of this character might, in some circumstances, have similar adverse effects on the level of demand as short-term price instability.³² There is also the problem, in defending an agreed price range, of deciding when a given change in world market conditions reflects an underlying trend which would justify a change in the price range itself.

87. Another approach to the objective of short-term price stabilization might be to aim to *minimize fluctuations in the price around the long-term trend*, without operating within a previously negotiated price range. One advantage of aiming to stabilize the price around the trend would consist in the avoidance of those discontinuities in the market situation which are liable to arise when stability is sought within a predetermined range. However, an essential prerequisite for implementing a scheme to stabilize the price around the trend is that reasonably accurate forecasts of future supply and demand can be made. Such forecasts, which might be possible for a limited number of commodities would, however, require the solution of a number of difficult forecasting problems, particularly in regard to the probable future movement in world supplies. Moreover, this second approach—following the trend in market prices—would undoubtedly face difficult negotiation problems, since it would not, by itself, guarantee an internationally agreed minimum price in future seasons for the producing countries nor an agreed maximum price for consumers. Such guarantees would then have to be sought by separate action designed to influence the rate of growth of world production and world demand.

88. The discussion so far has focused on the problems of stabilizing the *world price* of a given commodity. For commodities for which buffer stock operations of this type are feasible, the reduction in price fluctuations would tend to result in a reduction in the associated fluctuation

in the export earnings of the producing countries.³³ However, even if such fluctuations were reduced, they might still be substantial if the volume of trade continued to be subject to short-term instability. An alternative approach to short-term commodity market stabilization for such commodities would therefore be to aim at minimizing short-term fluctuations in the total *export earnings* from the commodity in question. For this to be a technically feasible operation, it would be essential for the buffer stock management to be able to make reasonably accurate forecasts of the volume of supplies likely to enter the market over the coming season; moreover, it would be desirable to have such buffer stock action supported by an effective export quota mechanism. By this criterion, when there was a temporary excess of supplies, which would normally result in a more than proportionate drop in price so that export revenues would decline (assuming inelastic demand conditions) the buffer stock would aim to produce a price reduction such that the higher quantity of supplies would yield much the same total revenue as before, and vice versa.³⁴ Since prices would be allowed to fluctuate (though there could be agreed minimum and maximum levels for the total value of world exports), the buffer stock would require considerably less resources to fulfil this function than if its primary objective were to achieve price stabilization.

(c) *Multilateral contracts*

89. The multilateral commodity contract also aims to moderate excessive fluctuations in the export earnings of producing member countries and in the import costs of consuming member countries. Under this type of agreement, as exemplified in the earlier International Wheat Agreements, exporting member countries undertake to supply given minimum quantities to importing member countries (or specified percentages of the latter's commercial import needs) at the ceiling price level if the world price rises above that level; while such importing countries undertake to purchase given quantities (or specified percentages of their commercial import needs) at the floor price, if prices fall below that level. Trade remains free within the contract price range, while provision may also be made for exports outside the agreement at free market prices. So far, the International Wheat Agreement has been the sole example of this type of arrangement.³⁵

90. The principal advantages of a multilateral contract are that it gives some assurance to member countries that a limit is set on fluctuations in their export revenues, or import costs, owing to price fluctuations; it preserves the free market mechanism as an indicator of the underlying equilibrium position and it avoids the problem of quota adjustments involved under an export regulation scheme. There are, however, a number of

³³ See paragraph 53.

³⁴ It is possible that the resultant price range would be sufficient from the point of view of price stability.

³⁵ An essential pre-condition for the implementation of a multilateral contract would be the existence of national governmental machinery capable of assuring that the transactions at the limits of the agreed price range would be forthcoming.

³² In principle, this problem of discontinuity could be avoided by adopting a sufficiently wide range of prices, but, in this case, the objective of market stabilization might be largely vitiated.

possible disadvantages to be taken into account in this type of commodity arrangement. The most important, perhaps, is that to the extent that such contracts cover only a proportion of world trade, any underlying instability in the world market situation for the commodity concerned could be shifted into the free, or residual, market.³⁶ If instability in the free market becomes substantial this could have an adverse effect on the long-term growth of the industry in countries not participating in the multilateral contract, or whose exports are covered only in part by such a contract. On the other hand, the obligation to carry stocks assumed by participating exporting countries to fulfil supply commitments under a multilateral contract would tend to be a stabilizing influence on the market.

91. Apart from the proportion of world trade covered, the effects of a multilateral contract arrangement would depend on the range of prices within which the contract provisions operated. If the underlying trend in the equilibrium price fell outside the agreed price range, a transfer of real income between exporting and importing countries would occur, unless the contract was broken by sales or purchases in the free market.

92. It is difficult to draw very general conclusions from the operation of the only post-war multilateral contract system, namely the one embodied in successive International Wheat Agreements, because of the very special circumstances prevailing in the world wheat economy over almost the entire period of operation of these agreements. The successive agreements had two basic objectives: to achieve a measure of price stability within an agreed price range, and to guarantee participating exporters minimum access to markets and participating importers a minimum level of supplies.³⁷ It is true that the world price of wheat was supported at a relatively stable level after 1954, but this was not due exclusively to the operation of the agreements; during certain periods, the world price was also largely influenced by the stabilizing operations of the Canadian and United States wheat authorities, who used their large reserves, as already indicated, in a manner analogous to that of an international buffer stock, to support the price objectives of the various agreements. A second unique feature of the situation (up to the 1966/1967 season) which worked in favour of stable prices for exports was that an appreciable proportion of United States surplus production was taken off

the commercial market and sold on concessional terms, including food aid.³⁸

93. As regards the second objective of the agreements, the assurance of markets and of supplies, the change in the character of the guarantee, as from the 1959 Agreement, from minimum quantities to a minimum percentage of commercial import requirements has, in effect, made less certain the assurance of a minimum revenue for exporting participating countries despite the assurance of a minimum price. Indeed, under the more recent agreements, actual wheat purchases by importing countries could vary, among other things, because of changes in the degree of self-sufficiency or in the degree of reliance upon imports under concessional terms.

94. One conclusion which might reasonably be drawn from the wheat experience is that stock operations have, by supporting the price provisions of the agreements, substantially helped to stabilize prices in this commodity market. As world stocks of wheat have fallen since mid-1966 to relatively low levels, the scope for the use of national or international stocks for market regulation has correspondingly diminished. Another conclusion might be that national policies must support the underlying objectives of a commodity agreement. The isolation of national markets, particularly in developed countries, and the stimulation of high-cost protected production are not compatible with the objective of improving access to markets.

(d) *Foreign trade levies*

95. Within the context of commodity agreements, a system of foreign trade levies could assist market stabilization if used in conjunction with other market control instruments such as export quotas. Earlier³⁹ reference was made to the use of import levies as a "policing" measure to induce participation by all exporting countries in a commodity agreement. An import levy system could also provide for the attainment of agreed minimum price objectives. Past experience of export quota schemes has shown that, when prices are declining, the remedial effect of quota reductions sometimes tends to be slow.⁴⁰ This problem of temporary lags in price response could be overcome, in suitable cases, by compensation to exporting developing countries, through collection and subsequent transfer, on a proportionate basis, of import levies equal to the difference between world market prices and the agreed minimum.⁴¹ Another possibility is that the generation of funds through import levies could be used, where appropriate, for disposal of surpluses, diversion to non-traditional uses and, possibly, for diversification in developing countries. An analogous scheme on the export side, which might merit further

³⁶ See H. G. Johnson, "The De-Stabilizing Effect of International Commodity Agreements" on the Price of Primary Products, *Economic Journal*, (*Journal of the Royal Economic Society*, London, MacMillan and Co. Ltd., September 1950).

³⁷ The 1949, 1953 and 1956 Agreements provided for guaranteed quantities to be traded at the minimum and maximum prices. During the period of the 1949 Agreement, world prices were continuously above the agreed maximum, so that the Agreement operated entirely in the interests of the importers. For the second Agreement, 1953, the price range was increased, but some importers—including the United Kingdom—withdraw, since they expected world prices to fall. When the Agreement was renegotiated in 1959, the provision for guaranteed quantities was replaced by an undertaking by importing member countries to purchase a specified minimum percentage of their commercial requirements from exporting member countries, so long as prices remained within the agreed range.

³⁸ An analogy might be drawn between the above-mentioned stabilization techniques for wheat and those under discussion for the proposed cocoa agreement, e.g. an international buffer stock (as compared with the use of national buffer stocks) and disposal for non-traditional uses (as compared with food aid).

³⁹ See paragraph 76.

⁴⁰ See paragraph 79.

⁴¹ This would in fact approximate Professor J. E. Meade's scheme which is discussed in paragraph 134.

consideration, would involve the imposition of a uniform export levy when export quotas are reduced, so as to prevent prices falling below the agreed minimum.

96. Systems of variable foreign trade levies could in principle be used on their own as a technique of commodity market stabilization. However, they would be subject to a number of defects. The first problem is the effect of this "price compensation" scheme on the stability of the producers' earnings. To the extent that the refundable levies aim to compensate for price changes but do not take into account quantity changes, if price instability is due to fluctuations in export supply, this scheme will tend to de-stabilize earnings. This problem could however be overcome by a system of "partial compensation". This would be analogous to a buffer stock maintaining a price "range" that would stabilize earnings.⁴²

97. A second problem would arise, however, if it was certain that the revenue of the tax would be paid to the producing countries *pro rata* to their exports to the importing participating countries, since "it would be to the interest of each producing country to capture as large as possible a slice of the affected market".⁴³ The resulting competition on this market would drive down prices ex-taxes. This, however, might be limited in the short run by the ability of exporters to divert supplies from the residual markets to the high-paying markets, particularly if the residual market is relatively small. The serious threat, however, would come from attempts by these countries to expand their production to obtain a bigger share of the market. Here again, the problem can be tackled by imposing export quotas for individual countries. This would, in fact, reduce the scheme to one of export quotas supplemented by variable import levies, similar to the scheme envisaged above.

(e) Other techniques of commodity market regulation

98. A new application of commodity stabilization measures is the informal arrangement adopted in August 1965 under the auspices of the FAO Study Group on Jute, Kenaf and Allied Fibres.⁴⁴ This arrangement is based on short-term forecasts of supplies and requirements and involves action by producing countries to adjust the volume of output in the coming season to meet the estimated volume of world demand within a previously agreed price range and action by the consumers to phase their purchases during the year to meet the seasonal flow of supplies coming on the market. Such an informal arrangement would seem to be particularly suitable for annual crops, such as jute, where production is highly localized, so that only a few producing countries are concerned in the regulation of production. This type of arrangement would be more difficult to implement if the commodity concerned was produced in a large number

of countries. A second requirement for the effective adoption of this approach is that there should be relatively few consumers (or an effective organization of consumers) so that the appropriate phasing of purchases during the season can be achieved. These considerations would seem to limit this informal type of arrangement, as it now stands, to a limited number of commodities.

99. An even looser type of arrangement is that operated by the International Lead and Zinc Study Group, the membership of which covers over 90 per cent of world exports and imports of these metals (including ores and concentrates). Though the Study Group has considered the possibility of an international agreement for lead and zinc, no formal agreement or arrangement has so far been prepared. The Governments members of the Group did, however, at one stage take voluntary action to restrict production or exports in order to prevent a serious fall in world prices.

100. The stabilization arrangement adopted for olive oil is peculiar to that commodity. Since, as already indicated, supply fluctuations generally follow a two-year cycle, which differs in phasing in the different producing countries, temporary surpluses in one or more countries could well arise simultaneously with temporary deficits elsewhere. Under the agreements, countries can make voluntary declarations of surpluses or deficits, and compensatory exchanges between the two groups of countries are arranged. Deficit countries importing from surplus countries have the option of repayment in cash or kind during the following season.

101. The need for such special arrangements to facilitate trade between the countries concerned arises because of the problems of financing national stocks and the fact that each of the national olive oil markets is largely isolated from the rest. With a unified world market, the fact that the production cycle is out of phase as between the different producing countries would result in greater, not less, stability in the flow of total supply. So long as the underlying problem of the protection of relatively high cost production in certain countries remains, however, there will be need for special measures to prevent excessive price fluctuations in olive oil due to temporary surpluses or deficits in particular countries, but it seems unlikely that such special measures would be applicable over a wider range of primary commodities.

102. The *disposal of excessive surpluses for non-traditional uses* is a technique of market support which has been used on occasion in the past.⁴⁵ A new application of this technique has recently been suggested in the proposals for an international cocoa agreement, to be used as accessory to other principal measures of commodity market regulation.⁴⁶ Under these proposals the world price of cocoa would be stabilized by the operation of an international buffer stock within a range agreed by both

⁴² See the discussion in paragraph 53.

⁴³ See M. J. 't Hooft-Welvaars, "The Organization of International Markets for Primary Commodities", *Proceedings of the United Nations Conference on Trade and Development*, vol. III, *Commodity Trade* (United Nations publication, Sales No.: 64.II.B.13), p. 458.

⁴⁴ After having become *de facto* inoperative in the following season, the jute arrangement was re-activated and agreement has been reached on an indicative export price for the season 1967-1968.

⁴⁵ An extreme example is the destruction of coffee in certain years before the Second World War.

⁴⁶ See "Draft International Cocoa Agreement" (TD/COCOA.1/12) and the report by the Secretary-General of UNCTAD on the results of the United Nations Cocoa Conference 1966 (*Official Records of the Trade and Development Board, Fourth Session, Annexes*, agenda item 9, document TD/B/81).

producers and consumers, the buffer stock to be supported in periods of excess supply by an export quota scheme. A quantitative limit would, however, be imposed on the purchases of the buffer stock representing, in principle, the maximum seasonal swing in world production likely to occur apart from exceptional circumstances. Provision needs to be made in such a scheme for exceptionally high output and thus for surplus stocks in a particular season. Such an excess, above the limit authorized for the buffer stock, would be disposed of—under the cocoa proposals—by taking it off the cocoa market and diverting it into the manufacture of margarine or other non-traditional uses, albeit at substantially lower prices. The use of this technique is, however, confined to those relatively few commodities which can find a ready outlet in such non-traditional uses and would not adversely affect the markets of related commodities.

2. *The lessons of post-war experience*

103. Despite the continuance throughout the post-war period of considerable instability in the prices of many primary commodities, efforts to achieve market stabilization by means of international commodity agreements have remained limited to a relatively small number of commodities. This limited coverage reflects, to some extent, the prevailing view during most of this period that commodity agreements were appropriate measures only for emergency situations of chronic imbalance between supply and demand. A more important limitation, probably, has been the requirement, as enunciated in the Havana Charter, that an international commodity agreement should be negotiated by, and be acceptable to, both the producing and the consuming countries principally interested in the commodity concerned. Though this latter provision has tended to make negotiations more complicated, there seems little doubt that agreements acceptable to the main consuming (and importing) countries, as well as to the producers, are likely to be more viable and thus in the long run more successful than agreements based on producers' interests alone.

104. Though it is not possible to measure the degree of success of any of the post-war commodity agreements with any pretence of accuracy, it would seem reasonable to conclude from actual post-war experience that they have contributed, in greater or lesser measure, to a reduction in market instability. The International Agreements on Coffee, Tin and Sugar (when the economic clauses were operative) are examples of a reasonable degree of success in effectively reducing the instability of market prices while, as pointed out earlier, the wheat agreement was also associated with effective price stabilization. Such stabilization benefited consumers on some occasions and producers on others. In the first wheat agreement, for example, consumers gained a substantial monetary benefit, since the maximum price under the agreement remained below the world price for virtually the entire five-year period of the agreement. For certain periods, also, consumers gained from the tin agreement, when ceiling prices were defended by buffer stock sales. At other times, producers benefited by support of minimum

prices by export regulation, as under the coffee and sugar agreements, or by buffer stock purchases, as for tin.

105. To extend the range of commodities covered by international stabilization arrangements, it is necessary to build on the successful aspects of past agreements and to be prepared to adopt new, or more flexible, arrangements where these seem appropriate to meet the particular conditions of specific commodity markets. Moreover, new commodity stabilization arrangements must avoid, so far as possible, the difficulties of practical operation that have occurred, at one time or another, in most of the existing agreements.

106. The first lesson that can now be drawn, with hindsight, from the post-war experience, is that insufficient provision was made, in some agreements, for the resources needed to achieve effective market stabilization. The new and extended financial backing for the tin buffer stock under the Third International Tin Agreement, 1966, is an acknowledgement of this point. To some extent, also, the instability in sugar prices during the later 1950s reflected the insufficiency of resources for stockholding, and this has certainly been a major factor in price instability in the cocoa market. The question of adequate provision for stockholdings did not arise in the wheat and coffee agreements, owing to the willingness of certain major exporting countries to finance and operate their own stocks so as to support the price objectives of the agreements.

107. Secondly, some difficulties have undoubtedly arisen from purely technical problems of administering the international agreements. Some of the main issues have been discussed above, including the problems involved in adjusting export quotas in a changing world market situation and the perhaps more difficult problem of judging whether a given change in the market is fundamental enough to justify an alteration in the agreed price range. These and other similar operational problems need to be approached with some degree of flexibility. Hard and fast rules tend to break down as the situation changes and much initiative may have to be vested in the executive bodies responsible for particular agreements.

108. Thirdly, the main technique of market regulation—export quotas and international buffer stocks—would both seem to have particular advantages according to the conditions operating in specific commodity markets. Buffer stocks would seem to be an important stabilization technique, capable of wider application than hitherto; moreover, this technique has the advantage of immediate impact on a commodity market situation and, given sufficient resources, could be expected to eliminate excessive short-term fluctuations in prices, or in export revenues, in suitable cases. Export quota systems would seem equally appropriate as stabilization devices, in suitable cases, either on their own, or used in conjunction with buffer stocks, and ancillary measures (such as disposal for non-traditional uses).

109. The principal lesson relating to control techniques which emerges would appear to be that a combination of several different control techniques—the particular combination depending on the peculiarities of the commodity

market concerned—is likely to be considerably more effective than reliance on a single technique alone. The use of an export quota scheme in conjunction with a buffer stock, for example, can be expected to cope more effectively with the vagaries of particular commodity markets than would either technique in isolation. Moreover, this combination of techniques would involve appreciably smaller resources for the buffer stock than would be required if the latter had to bear the full burden of market stabilization. Since the conclusion of international commodity agreements is only a means to the end of market stabilization, a more flexible approach would also include the consideration of less formal international stabilization arrangements, possibly on the lines of the jute stabilization scheme described earlier.

110. However, in view of the wide variation in market conditions as between different primary commodities, the most appropriate combination of market stabilization techniques needs to be considered on a commodity-by-commodity basis. This would require detailed feasibility studies of the applicability of alternative stabilization measures, including buffer stocks, to the markets for specific commodities.

111. Finally, it would seem vitally important to consider short-term market stabilization within a longer-term context. The immediate objectives of a short-term stabilization arrangement, if attained, could nevertheless have longer-term effects which might work to undermine the continuance of the arrangement. Such would be the case if the stabilization scheme resulted in a growing volume of stocks overhanging the market. Perhaps the most important lesson of all is that adequate provision should be made, wherever practicable even within a short-term stabilization scheme, for the achievement of a better long-term balance between the flow of world supplies and the level of world requirements.

112. A more effective integration between the short-term and long-term aspects of international commodity policy would also be achieved if national policies of Governments participating in international commodity arrangements operated effectively to support the objectives of such arrangements. Where the structural balance of the world market has been substantially distorted—as in the case of sugar, to take perhaps the outstanding example—no short-term stabilization scheme could work effectively, even with export control and stock provisions, without appropriate action by Governments to control the growth of production.⁴⁷

C. STABILIZATION, PRICE RAISING AND COMPENSATORY AND SUPPLEMENTARY FINANCING

113. The discussion in the preceding section focused on means of achieving a reasonable degree of stabilization in the price of individual primary commodities (or, in some cases, in total export earnings), without interfering with the underlying market trends. Such a “pure”

stabilization objective is not, however, the only one to be considered. A second possible objective, which could be applicable in certain commodity markets, might be to raise the price (and total export earnings) above the level that would otherwise obtain through the free play of market forces. This price-raising objective could, in such cases, readily be incorporated in the same international arrangement designed for price (or revenue) stabilization. A third possible objective might be to achieve a reasonable degree of stabilization in the export earnings of individual developing countries by the use of compensatory or supplementary income transfers. These two additional objectives are considered in turn below.

1. International commodity arrangements to raise prices

114. Since the underlying objective of international commodity policy is to increase the level—as well as promote the stability—of the export earnings of developing countries, consideration should be given to the possibility of raising commodity prices by means of international commodity agreements. The essential conditions to be fulfilled for the implementation of such a policy are, first, that demand for the commodity in question should be inelastic with respect to price changes,⁴⁸ and, secondly, that production should be capable of being effectively controlled.⁴⁹

115. It has frequently been argued⁵⁰ that price-raising commodity agreements could entail serious costs for the international community and for the producing countries in the longer term and that such costs are likely in practice to outweigh the short-term gains to producers from the rise in price. For an adequate assessment of the possible role which price-raising agreements might play in achieving the broader objectives of international commodity policy—particularly in promoting the rate of economic growth of the developing countries—it is necessary to examine the costs of such agreements and to define the conditions under which price-raising could be an acceptable policy objective.

116. The principal cost of a price-raising scheme arises from its stimulus to increased production simultaneously with its adverse effect on consumption. If demand is relatively inelastic, however, the adverse effect of the higher price on consumption may not be of major importance. The main cost would then consist of the continued profitability of sub-marginal production, manifested in a

⁴⁸ In theory, it might still benefit producers to restrict exports and raise prices even for commodities facing elastic demand, if the factors of production thereby released contribute to national product more than is lost on export earnings (see Harry G. Johnson, *Economic Policies Toward Less Developed Countries* (Washington, D. C., The Brookings Institution, 1967), chapter V.)

⁴⁹ Problems of controlling production are discussed further in chapter VIII.

⁵⁰ See, for example, Alasdair I. MacBean, *Export Instability and Economic Development*, (London, G. Allen and Unwin, 1966); R. G. Hawkins, J. Epstein and J. Gonzales, “Stabilization of Export Receipts and Economic Development”, *Bulletin No. 40*, (New York University, November 1966); H. G. Johnson, *Economic Policies Toward Less Developed Countries* (Washington D. C., The Brookings Institution, 1967).

⁴⁷ The longer-term issues involved are discussed in greater detail in chapters V and VIII.

growing accumulation of stocks. Over the longer term, the loss in real income to the producing countries arising from such a mis-allocation of resources might conceivably exceed the gain from higher export revenues. Apart from its effects on consumption and production, a third cost to be considered would be the additional burden on the balance of payments of the importing countries, which could be considered, in effect, as a disguised form of aid, since it would involve the explicit acceptance by the Governments of the importing countries concerned of a transfer of real resources to the exporting countries.

117. As regards the effects on *consumption*, a policy of raising prices would in fact be viable for those commodities facing inelastic demand. The group of primary commodities concerned would include, in principle, the main tropical products, such as coffee, cocoa, tea, bananas, and sugar, but rather few agricultural raw materials, since for most of these the availability of synthetic and other substitutes (or potential substitutes) has resulted in more elastic conditions of demand. Even for tropical products, however, there may be an important distinction to be drawn, in some cases, between the short-term and the long-term demand elasticity, since a price maintained above the long-term equilibrium level for any period could result in substantial induced substitution over the long-term, even though the short-term reaction of demand was relatively slight.

118. One circumstance in which no adverse impact on consumption would occur would be if revenue taxes imposed on the commodity in question in the importing countries were reduced simultaneously with the increase in prices under an international agreement, so as to allow the retail price in those countries to remain unchanged. This would appear to be a feasible arrangement for the beverage crops in a number of western European countries which levy revenue duties or internal sales taxes on these commodities, while for sugar a similar downward variation in import or excise duties would seem to be much more generally applicable.

119. Another approach designed to prevent a rise in price from adversely affecting consumption would be to distinguish between high-income and other importing countries. Though demand in the developed countries would necessarily be inelastic with respect to changes in price for the commodities under consideration, this would not necessarily be so in the developing importing countries. Indeed, the empirical evidence indicates that the demand elasticity for most foods and beverage crops would exceed unity in the majority of developing countries.⁵¹ A price-raising arrangement for particular commodities could take this asymmetry in demand conditions into account by some form of waiver for exports to developing countries. The present international coffee agreement attempts to achieve this by establishing a list of 'new markets' not subject to quota restrictions.⁵² Such

demarcation between markets would prevent a price-raising agreement from having an adverse impact on consumption in markets with elastic demand, it being assumed that the adverse impact in other (high-income) markets would be relatively small, or would be offset by appropriate changes in fiscal policies in those countries.

120. The practical application of such a system of differential prices (or quotas) as between different groups of markets would require additional safeguards, such as an effective collaboration by developed importing countries to prevent the importation of lower-cost supplies transhipped *via* developing countries.

121. As regards the effect on *production*, a price-raising scheme under which the full benefit of the higher prices went to the producer would tend to protect inefficient producers and might eventually result in burdensome surplus stocks. An essential prerequisite for a viable price-raising agreement would therefore be the incorporation of provisions to isolate the producer from the higher world market price by interposing a national marketing board, imposing export taxes, production controls or some other similar arrangement, so that the additional export revenue would accrue solely to the Governments of producing countries while, at the same time, the danger of accumulating surpluses would not arise.

122. To the extent, however, that the increase in price resulting from the agreement did, in fact, retard the rate of growth in consumption, this would necessitate a slower growth in production than would otherwise be required to avoid a stock accumulation. In such circumstances, Governments will find that they will have to reduce the price to producers below what the long-term equilibrium price would have been in the absence of the international price-raising agreement. Alternatively, the Governments concerned would need to impose some form of production control, either by restrictions on acreage or on output or, more indirectly, by imposing a tax on the producers.

123. While the isolation of the producer from the world price is a necessary condition for the operation of an international price-raising scheme in the general case of commodities facing inelastic demand, it is not in itself a sufficient condition in two special cases. The first of these is where there is already a chronic surplus of supply in the form of large stocks overhanging the market, as is the case for both sugar and coffee. For such commodities, the raising of the world price, combined with the isolation of the producer, would not necessarily alleviate the underlying structural imbalance in the world market. A further condition for the successful operation of an international agreement in such cases would be the incorporation of provisions designed to shift resources out of production over a period of years. Since the essence of the price-raising scheme is to provide additional export revenue, it should be possible so to arrange the agreement that some proportion of this additional revenue is used to finance part, or all, of the cost of the required diversification.

124. One difficulty involved in the concept of devoting part of the additional export revenue derived from price-raising agreements to help finance diversification

⁵¹ See, for example, FAO, *Agricultural Commodities—Projections for 1975 and 1985*, October 1966, document CCP 67/3; vol. II, especially pages 28-33, table 1-8.

⁵² See International Coffee Agreement, 1962, article 40 and annex B, in *United Nations Coffee Conference, 1962, Summary of Proceedings* (United Nations publication, Sales No.: 63.II.D.1), annex III.

programmes is that the exporting countries to which the additional revenue accrues may not be the ones for which such diversification is most appropriate. For a tropical beverage crop, e.g. coffee, the countries in greatest need of financial assistance for diversification would not necessarily be the greatest gainers from an increase in prices. To meet this kind of difficulty, an international fund to support the costs of an agreed diversification might be contemplated, the fund being financed possibly by an export or import levy on foreign trade in the commodity subject to the price-raising agreement.

125. The second special case is one where commodities are produced jointly as, for example, lead and zinc. Any scheme which raises the price of one such commodity above its long-term equilibrium level will tend to cause a surplus position in the other. If producers of the first commodity are isolated from the increase in its world price, any adverse effect of the higher world price on consumption would tend to cause a surplus position in the market for that commodity. To the extent that the growth in production is correspondingly reduced, however, this would tend to result in a relative scarcity in supplies and hence a rise in price of the second commodity. For such commodities a more complex scheme aiming, for example, at a higher joint revenue for both commodities taken together, would need to be devised.⁵³

126. One incidental effect of a price-raising commodity agreement, worthy of special mention at this point, concerns the case of commodities where preferential channels of trade are of substantial importance. Sugar is by far the most important example, but there are a number of others.⁵⁴ If an international agreement could be reached in the case of sugar, for instance, under which the world price was raised to about the level of prices paid under preferential arrangements currently in force, the net effect would approximate to a situation of non-discrimination as a result of the global extension of these special preferences.⁵⁵

127. The third cost of price-raising commodity agreements which was distinguished earlier consists of the additional *balance-of-payments* cost to the importing countries. This effect is often described as a form of disguised aid, since it involves the transfer of real resources from importing to exporting countries.⁵⁶ Analytically however, such a transfer is a mixture of two elements; to the extent that price-raising reflects the monopoly power of the producing countries, the increase in revenue is more in the nature of an economic rent; but to the

extent that this monopoly power is only potential and can be exercised only by the active collaboration of the consuming countries, the act of collaboration provides an element of aid. The extent to which any given agreement involves aid proper could thus not be determined on an *a priori* basis. However, in so far as consumer participation would generally appear to be highly desirable, if not essential (particularly to ensure the policing of an agreement of this type), it can reasonably be assumed that a significant aid element is involved.

128. It could be argued that the provision of aid in the form of an international commodity agreement would result in a higher flow of resources to developing countries. This might be a relevant consideration where legislatures in developed countries are reluctant to increase direct financial aid appropriations. Moreover, the aid element involved in a price-raising commodity agreement is equivalent to an outright grant to the exporting countries concerned, whereas a substantial proportion of aid in the form of financial transfers consists of loans carrying interest charges. If, as suggested earlier, the additional revenue accruing from the increase in prices were devoted, wholly or in part, to financing needed diversification, this could be a new and effective organizational mechanism for promoting appropriate adjustments in the structure of world commodity production.

129. Viewed as a wider instrument for the raising, allocation and use of economic aid in general, such agreements would, however, inevitably suffer from several major limitations. For one thing, countries would provide aid on the basis of their relative imports of particular primary commodities, which would have no necessary relationship with their relative abilities for aid provision. The allocation of aid through price-raising agreements would suffer from similar limitations since relative needs for financial support of economic development programmes of developing exporting countries could not be expected to accord with the relative gains of each of these countries from the increase of prices of particular commodities. But within the narrower context of primary commodity diversification, the use of price-raising agreements could well be considered as one among a range of appropriate international policies.

130. A recent careful study of this subject concluded that international agreements designed to raise the export earnings of developing countries would be appropriate for a number of primary commodities of which five (coffee, tea, cocoa, bananas and sugar) were deemed to merit priority attention. For these five this study estimates that exports from developing countries in 1961 could have been in excess of \$5.0 billion, instead of the actual \$4.4 billion (an increase of almost \$700 million, or 16 per cent), if price-raising agreements had been in force for them in that year.⁵⁷ The particular safeguards that would have to be incorporated in, or associated with, such agreements in order to minimise the real costs involved and to further the required longer-term adjust-

⁵³ The technical prerequisites, such as coverage of the preponderant proportion of world trade, ease of control, etc. would, of course, also need to be satisfied.

⁵⁴ For example, the former French African territories receive preferential prices in the French market for certain products, such as coffee.

⁵⁵ The problems of longer-term readjustments in the world sugar market are discussed in chapter V.

⁵⁶ See, for example, John Pincus, *Economic Aid and International Cost Sharing* (Baltimore, Johns Hopkins Press, 1965) chapter VI; and H. G. Johnson, *Economic Policies Toward Less Developed Countries* (Washington, D. C., The Brookings Institution, 1967), chapter V.

⁵⁷ John Pincus, *op. cit.*, pp. 157-159. An alternative estimate by Professor H. G. Johnson (*op. cit.*, p. 161), places the estimated increase in 1961 at \$ 900 million, or 20 per cent above the actual level of that year.

ments would need further detailed research in the light of the circumstances of the individual commodity markets concerned.⁵⁸

2. Compensatory and supplementary financing schemes

131. In view of the difficulties that have been experienced in the negotiation of international commodity agreements and the fact that such agreements are suitable for only a limited range of commodities, much attention has been devoted in recent years to working out various possible schemes for international compensatory and supplementary financing to offset unforeseen fluctuations in the exports of developing countries. Basically, both compensatory (and supplementary) financing and commodity market stabilization have the same objective, namely, to minimize the extent to which instability in export markets inhibits the economic stability and growth of developing countries. Their approaches to this common objective, however, are quite different.

132. A major difference is that, whereas commodity stabilization implies intervention in the free play of market forces, the compensatory financing approach involves no such intervention, but takes short-term variations in prices and earnings as given, and seeks to compensate for shortfalls from an agreed "norm".⁵⁹ A second difference is that compensatory finance is generally conceived as offsetting variations in exports from individual countries; commodity stabilization, by contrast, can be applied only to certain international commodity markets, so that the proportion of the export trade of individual countries that would be covered by this means would vary widely.

133. Proposals for compensatory financing schemes can be grouped into two broad categories according to whether they seek to compensate for fluctuations in prices and export volumes of particular *commodities* or for fluctuations in total earnings of individual *countries*. The former type⁶⁰ entails the establishment of a "normal" price and trade quantity by agreement between the producing and consuming countries, and complete or partial compensation by one party to the other for deviations of the actual trade volume and value from their agreed "norm". The chief difficulty about this kind of scheme is the same as that raised by export quota agreements, namely, that of deciding on criteria for the initial allotment and the regular re-allocation of such norms or quotas.⁶¹ Furthermore, since such compensation will not in fact affect market prices as such, then the problems

arising from the de-stabilization of investment in the expansion of capacity; and the detrimental effect of price instability on the long-term trend of consumption will remain.⁶²

134. Several types of compensation schemes for fluctuations in total earnings of individual countries have been evolved or proposed in recent years, one based on the extension of short-term credit through the International Monetary Fund (IMF), a second group consisting of a large variety of alternative schemes containing an insurance element, and a third involving supplementary financing to offset shortfalls in exports of developing countries within the framework of their development plans.

135. The IMF compensatory facility, inaugurated in 1963, was further extended in 1966. In its latest form, it allows any member country to draw compensatory finance from IMF to offset a short-term loss from a "norm" measured as a weighted average of exports in the current year and in the two previous years. Such compensatory drawings may not exceed 25 per cent of the country's quota in any one year, nor may the total amount outstanding of such unrepaid drawings exceed 50 per cent of the quota. Normally, drawings under this facility must be repaid within three to five years. So far, however, relatively few countries have availed themselves of this new compensatory facility. This may have been because relatively few developing countries have qualified for compensatory finance under the IMF rules, or because they have in practice preferred to use their normal drawing rights.

136. A number of international compensatory financing schemes incorporating an insurance against unforeseen fluctuations in export earnings have been under intensive international discussion over the past decade.⁶³ The various proposals can differ considerably according to whether they are based on strict insurance principles with premium payments and compensation grants or on a revolving fund basis with loans and repayments and whether or not they include an element of aid from developed to developing countries and the precise formulae used for calculating the export "norm" for individual countries and the shortfall from that "norm". A statistical analysis made in 1962 of a number of compensatory schemes of this type has shown, however, that the schemes advanced up to that date would have been only partially successful in stabilizing export earnings of a large group of developing countries had they been in operation during the decade up to 1964.⁶⁴ This analysis

⁵⁸ The main lines of such safeguards have already been indicated by Pincus (op. cit., pp. 169-177).

⁵⁹ Another way in which developing countries can offset unforeseen declines in export earnings is to draw on monetary reserves. However, most developing countries would not be in a position to accumulate reserves of any significant size, given the much lower return on reserve holdings compared with the use of this capital to finance imports for development purposes.

⁶⁰ See for example the proposal by Professor J. E. Meade "International Commodity Agreements", in *Proceedings of the United Nations Conference on Trade and Development*, 1964, vol. III *Commodity Trade* (United Nations publication, Sales No.: 64.II.B.13), page 451.

⁶¹ See paras. 72-81.

⁶² See paras. 61 and 62.

⁶³ See, in particular, United Nations, *International Compensation for Fluctuations in Commodity Trade*, 1961; Organization of American States, *Final Report of the Group of Experts on the Stabilization of Export Receipts*, Washington, D. C., 1962; Gertrud Lovasy, "Survey and Appraisal of Proposed Schemes of Compensatory Financing", *IMF Staff Papers*, July 1965, pp. 189-221.

⁶⁴ See, M. Fleming, R. Rhomberg and L. Boissonneault, "Export Norms and their Role in Compensatory Financing", *IMF Staff Papers*, March 1962, pages 97-143. The analysis showed, *inter alia*, that none of the schemes proposed by the United Nations or Organization of American States (OAS) experts reduced the deviations from trend of the export earnings of a group of developing countries by as much as 20 per cent.

indicates, however, the directions in which a more efficient compensatory financing scheme based on insurance principles might be devised.

137. The effective offsetting of fluctuations in earnings from merchandise exports by compensatory financing would not, however, necessarily solve the entire problem of short-term fluctuations in the foreign-exchange resources of individual developing countries. Merchandise exports normally make the major contribution to total foreign exchange inflows of developing countries but stabilization of such earnings would not necessarily stabilize total monetary inflows (which also include other elements, such as capital borrowings, invisible receipts, etc.). Still, the achievement of stability in the principal element—export earnings—would greatly assist in reducing short-term fluctuations in total foreign exchange resources and, to that extent, it would undoubtedly constitute a major gain for the majority of developing countries.

138. The fact that compensatory financing has the advantage (compared with commodity price stabilization arrangements) of operating directly on the level of export earnings of developing countries is, however, by no means the only relevant consideration in the context of the economic growth of developing countries. In particular, the two approaches—compensatory financing and commodity market stabilization—are likely to have very different economic effects, particularly over the longer term, on producers and on consumers.

139. As regards *producers*, commodity price stabilization arrangements as already mentioned, would be likely to lessen fluctuations in the level of investment and of output. Moreover, in so far as the commodity stabilization arrangements include provision for production controls, the result would be to mitigate an existing problem of excess supply on the world market, or to reduce the likelihood of such a problem arising in the future. With a compensatory financing scheme, there would be no automatic guarantee that incomes of individual producers would be stabilized; this would depend entirely on the ways in which the Governments of the developing countries concerned used the funds received under the compensation arrangement. The probability that compensation would, in practice, be only partial would, moreover, make it very difficult for Governments to ensure producers income stability.⁶⁵

140. As regards *consumers*, the use of compensatory financing would not help—at least in the short run—to improve the competitive position of natural materials vis-à-vis synthetics, whereas a reduction of excessive price fluctuations of the natural production (by commodity market regulation) would improve that position.

141. Their common objective, combined with their very different mode of operation and effects on pro-

ducers and consumers, implies that compensatory financing and commodity market regulation are essentially complementary. Though both are subject to limitations, they each contribute towards alleviating the problems of developing countries in adapting their economies to unforeseen changes in the world commodity situation. The greater the success of commodity market regulation schemes in stabilizing primary product prices and in reducing fluctuations in the export earnings of individual developing countries, the smaller would be the need for compensatory financing. Moreover, since commodity market schemes would not be appropriate for more than a certain range of primary commodities, they may not succeed in stabilizing the total export earnings of any one developing country, so that compensatory financing would be required, on a residual basis, to offset unforeseen fluctuations in export revenues.

142. Another approach to compensating developing countries for unforeseen shortfalls in their export earnings has recently been worked out by the International Bank for Reconstruction and Development (IBRD).⁶⁶ Such short-falls would be compensated, either wholly or in part, from a fund administered by a central agency, provided the country concerned adhered to the economic policies agreed by it with the agency at the beginning of the plan. Any excess of actual exports over expectations in any particular year would be set against shortfalls in other years, though such excess exports would not be carried forward into a subsequent plan period. Finance provided under this type of scheme would be additional to other available offsetting financial flows, including the IMF compensatory facility and drawings on the monetary reserves of the countries concerned. The purpose of this scheme would be to fill the gap which would arise if exports from individual developing countries fell short of reasonable expectations at the beginning of their development plans. Without such supplementary finance, a failure of exports to reach planned targets would jeopardize the implementation of development programmes.

D. FURTHER STUDIES

143. Of the many issues arising in the above discussion of the problems of moderating short-term commodity market fluctuations, the following would seem to warrant prior consideration:

(a) An assessment of the relative effectiveness and costs of different types of measures, including buffer stocks, designed to stabilize the markets for selected commodities (paragraph 110).

(b) An assessment of the practicability of a system of differential prices or quotas as between developed and developing country markets within the context of an international commodity agreement (paragraphs 114-120).

⁶⁵ Partial compensation arrangements are generally favoured over full compensation schemes, because the latter could have undesirable effects on economic policy. Moreover, if compensation is made by loans rather than grants, repayments in later periods could be out of phase with new compensation requirements.

⁶⁶ *Supplementary Financial Measures*, a study requested by the United Nations Conference on Trade and Development, 1964, (International Bank for Reconstruction and Development, December 1965).

Chapter III

The operation and financing of international buffer stocks

A. THE SUITABILITY OF BUFFER STOCKS AS A MEANS OF STABILIZING PARTICULAR COMMODITY MARKETS

1. *The case for market stabilization by buffer stocks*

144. The benefits of international intervention to achieve a reasonable degree of stability in a number of primary commodity markets, which habitually tend to suffer from substantial short-term fluctuations, have been set out in chapter II. For the developing countries, the advantages of greater stability in their export prices and export earnings would be primarily in facilitating the rational planning and implementation of economic development programmes; in improving the competitive position of their exports of natural materials vis-à-vis competitive synthetic materials; and in increasing their ability to service external loans, thereby facilitating an expanding flow of funds for development.

145. For the developed countries, too, market stabilization would bring positive gains. For Governments, greater predictability of the import cost of primary commodities would facilitate the operation of policies designed to safeguard their balance-of-payments position. For the industrial consumer, price stabilization would allow for greater predictability of the probable future movement of costs; it would also permit a reduction of stocks to lower working levels in so far as the need to hold stocks as a hedge against unforeseen price increases would be minimized. Price stabilization, when achieved by evening out supplies, would also mitigate the difficulties caused to consumers by temporary commodity shortages.

146. It was argued earlier that the appropriateness of particular market stabilization techniques would need to be studied on a commodity-by-commodity basis. Whether or not the appropriate combination of measures for a given commodity included a buffer stock would depend on a number of conditions which are discussed below. However, the use of a buffer stock would have certain definite advantages over other techniques.

147. Firstly, a buffer stock acts directly, and with immediate effect, on the commodity market concerned. In this respect, it is a more sensitive regulatory instrument than other stabilization techniques, particularly export quotas. Appropriate changes in export quotas are subject to delay in their operative effect. In particular, an increase in permitted exports, unlike sales from a buffer stock, does not automatically bring the commodity on to the market. In any case, the precise effect of such changes on the world price is necessarily subject to some uncertainty. Consequently, the immediate market impact of buffer stock operations, allowing quicker and more precise adjustments to be made, is one of the most important useful functions of the buffer stock technique. Secondly, it avoids the difficult practical problems, which arise in export quota schemes, of ensuring that all important importing and/or exporting countries participate and that they agree on the allocation of quotas. Thirdly, it provides for internationally agreed criteria for the financing of a central stock, whereas under an export

quota scheme the distribution of the burden of financing excess stocks is determined haphazardly.

148. Nevertheless, while recognizing these advantages, it is necessary to note also the limitations of the buffer stock technique. In particular, it is evident that a buffer stock scheme should not be initiated under conditions in which its resources are clearly likely to be exhausted within a relatively short time owing to a severe and/or persistent disequilibrium between supply and demand for the commodity concerned. For practical purposes, therefore, the usefulness of buffer stock schemes is limited to commodities which either do not face such conditions, or for which the threat of severe and/or persistent disequilibrium can be overcome by the use of additional control measures.

2. *Selection of commodities suitable for buffer-stock schemes*

149. The criteria for selecting those commodities for which market stabilization by means of buffer stocks—with or without other stabilization measures—would appear practicable can conveniently be considered under two aspects. The first relates to the physical characteristics of the commodities concerned, the second to the economic characteristics of the world market for these commodities.

(a) *Physical characteristics*

150. A major criterion for a viable buffer stock would be that the commodity can be stored, with little loss in quality, at relatively small cost. Highly perishable products, such as fresh fruit, would not qualify on this criterion, though their prices may be subject to substantial fluctuation. At the other extreme are minerals and metals, which can be stored almost indefinitely, and which require no special storage facilities. Some agricultural products—for example, fibres, rubber and sugar—can also be stored for long periods without serious deterioration, but only if they are stored in dry conditions and adequately protected from insects and rodents. Aromatic products like coffee, cocoa, tea and spices gradually lose their quality in storage, and stocks need to be turned over by sales and new purchases, even though this would not be necessary for price stabilization purposes.

151. The cost of holding a buffer stock is therefore likely to vary widely from commodity to commodity as a result of these physical differences. The cost will also depend heavily on the situation of the stocks held, particularly when the type of protection needed against deterioration and pests differs substantially as between tropical and temperate climates.

152. The actual cost of stock-holding likely to be incurred by a newly established buffer stock would have to be estimated in the light of the prevailing conditions of the particular commodity market concerned. At this stage, only provisional indications can be given of the probable orders of magnitude of the storage charges likely to arise for particular commodities. Taking the commodities identified in chapter II as having experienced extreme or substantial price instability, there are five commodities, all metals, for which storage charges

TABLE 4
Criteria for selection of commodities suitable for the operation of an international buffer stock

	Exports from developing countries ^a (\$US. billion)	Rank in price instability	Storage costs	Demand elasticity ^b
1. Coffee	1.94	12 ^c	Moderate	Under 0.5
2. Natural rubber	1.34	7	Low	0.5-1.0
3. Sugar	1.09	5	Low	Under 0.5
4. Copper	1.07	11	Negligible	0.5-1.0
5. Jute and jute goods	0.55	6	Low	About 0.5 ^d
6. Cocoa	0.50	3	Moderate	Under 0.5
7. Lauric acid oils and oilseeds	0.44	10	Moderate	0.5-1.0
8. Lead }	0.23	9	Negligible	Under 0.5
9. Zinc }				About 0.5
10. Hard fibres	0.14	8	Low	Under 0.5
11. Manganese ore	0.12	4	Negligible	Under 0.5
12. Black pepper	0.06	1	Low	Under 0.5
13. Tungsten	0.01	2	Negligible	.. ^e

Sources: FAO, *Trade Yearbook*, Hang Sheng Cheng, *A Collection of Statistical Estimates of Elasticities and Propensities in International Trade*, IMF, 1957; estimates by the UNCTAD secretariat; national trade statistics.

^a 1960-1964 average.

^b Relating to demand in developed market-economy countries. The elasticities shown are all negative (the negative signs have been omitted for convenience of presentation).

^c Already subject to a price stabilization scheme.

^d Relating to United States imports of Indian jute goods.

^e No estimate available; probably under 0.5.

would almost certainly be negligible in relation to the value of stocks likely to be held. In addition, for five agricultural commodities—rubber, sugar, jute, hard fibres and pepper—storage charges are likely to be relatively small. For three other commodities—coffee, cocoa and lauric acid oils and oilseeds—storage charges could be moderately high, and for these the operating revenue of a new buffer stock would need to be carefully related to the probable costs of stock operations (see table 4).

153. Another physical characteristic relevant to the practicability of buffer stock operations for a particular commodity is the existence or absence of clearly defined and generally recognized grades. The existence of such grades on the world market is one condition for the viability of a buffer stock scheme.⁶⁷

(b) Economic characteristics

154. A buffer stock is most likely to be effective in minimizing price fluctuations in the case of commodities for which small changes in supply or demand give rise to disproportionately large fluctuations in price. Without the intervention of a buffer stock, the entire exportable production of a primary commodity would normally be offered for sale on the world market in each season. For some commodities, such as annual agricultural crops, production is subject to wide seasonal changes; for others, such as tree crops, production is subject to relatively long gestation periods, thus greatly increasing the possibility of the emergence of temporary shortages or surpluses. Where, in addition, demand is inelastic in

the main consuming countries, the variation in supplies coming on the world market is likely to result in large fluctuations in world prices.

155. For commodities facing inelastic demand conditions, a given purchase or sale by a buffer stock will produce a more than proportionate effect on the world price. Thus, the lower the elasticity of demand, the smaller the resources needed by the buffer stock to effect a given price change.

156. Estimates of the magnitude of demand elasticity in the world market for commodities identified as suffering from extreme or substantial instability in price are shown in the final column of table 4. In view of the inevitable margin of error in such estimates, they have been shown only in terms of ranges. All the thirteen commodities listed would appear to face inelastic demand on the world market and thus all qualify on this criterion as suitable for buffer stock operations. Of the total, moreover, rather more than half face very inelastic demand (elasticity below 0.5); for these commodities, the use of a given amount of funds for the operation of buffer stocks would serve, in principle, to achieve maximum results in terms of market stability.

B. OPERATIONAL PROBLEMS OF AN INTERNATIONAL BUFFER STOCK

1. General problems

157. There are a number of practical issues which would arise when buffer stock schemes are being elaborated for particular commodities. For some of these, past experience—for example in the operation of the tin

⁶⁷ See also paras. 167-169.

buffer stock—could be drawn upon for useful guidance; for others, of which no actual experience is yet available, further detailed study would be required. The following are among the more important of the problems involved.

(a) *The price range*

158. The range within which a buffer stock would aim to stabilize the price would need to be accepted as reasonable by both producing and consuming countries. Too narrow a range would be virtually equivalent to defending a fixed price, which would greatly increase the operational burden on the buffer stock and/or necessitate frequent adjustments to export quotas or other supporting measures. Too wide a range, on the other hand, would frustrate the objective of price stability.

159. The actual range to be adopted in any particular scheme would have to be determined in the light of these general considerations, taking into account the special characteristics of the world market for the commodity in question. It would also seem necessary to allow for the agreed price range to be subject to occasional changes in the light of actual experience in operating the scheme.⁶⁸

(b) *The point of intervention*

160. The point at which the buffer stock intervenes in the market to support the price, or to prevent the price from exceeding the agreed maximum, could be made automatically subject to specific rules; or it might be left to the discretion of the buffer stock manager; or a combination of both automatic and discretionary provisions might be laid down. Under the tin scheme, for example, the agreed price range is divided into three sectors. When the price is in the middle sector, the Manager has no power to intervene, unless the International Tin Council decides that he should; when the price falls into the lower sector, the Manager has discretionary powers to buy, in the upper sector he has discretionary powers to sell, while he must act when the price is at the floor or ceiling. It is important to note, however, that action by the buffer stock manager may be restricted or suspended if such action would not achieve the purposes of the International Tin Agreement.

161. It could be argued, however, that a buffer stock should not interfere with the free play of market forces until the price has actually reached the agreed minimum, or the agreed maximum. Only at one or other of these points would the buffer stock itself intervene to defend the agreed price limits. While this approach would, in principle, be a possible alternative, it would place a much more concentrated burden on the resources of the buffer stock at particular critical moments. The more flexible approach, which would allow the buffer stock to intervene while the price was approaching either of the agreed limits, allows the buffer stock more time in which to deploy its resources and to influence the world market situation. Similarly, the buffer stock is supported if action on quotas is taken as the market price approaches the agreed limits. However, it would seem generally

desirable to establish a reasonably wide sector in the middle of the price range in which intervention by the buffer stock would not normally take place; the free movement of prices within this sector would provide a valuable guide to underlying market trends.

(c) *The purchase price*

162. Conventionally, the buffer stock would begin to purchase the commodity when the price is at, or approaching, the agreed minimum of the price range. There are, however, a number of alternative possibilities here which merit further consideration. One would be to empower the buffer stock to purchase at the normal floor price up to an agreed quantitative limit; beyond that limit, buffer stock purchases from producing countries would be at a lower price in order to discourage excessive overproduction. Another possibility would be for the buffer stock to buy at the minimum price, but to make only a part-payment as an advance at the date of purchase, with payment of the balance being deferred until after the commodity had been sold by the buffer stock. In so far as the payment to the producing country depends on the price at which the buffer stock sells the commodity, this may be regarded as a sale to the buffer stock on consignment. While purchases in the conventional way at the minimum price would be the generally desirable practice, the part-payment formula might exceptionally be considered in special circumstances (e.g. when there is a persistent downward trend in prices, or when the cash resources of the buffer stock had fallen to a relatively low level).

163. In the case of the initiation of a new buffer stock in a period of surplus, consideration might be given to building up the stock, not by purchases, but by direct deposits of the commodity by producing countries. This would eliminate or reduce the need for cash resources to be made available to the buffer stock at its inception.⁶⁹

(d) *Defence of a ceiling price*

164. The defence of an agreed maximum price by buffer stock operations could, in practice, be more difficult than the defence of the minimum price. This is because the burden of defending the maximum is likely to fall wholly or mainly on the buffer stock. If the buffer stock is operated in conjunction with an export quota scheme, for example, the relaxation of quotas when the price is in the upper part of the prescribed range may not result in an increased flow of supplies until after some period has elapsed. This asymmetry of operation implies that a buffer stock would need sufficient resources to allow it to build up an adequate commodity stock during a period of falling prices, though this might be difficult to achieve if supply is erratic in the interim. In any event, a periodic review of the agreed price range would be essential as a final safeguard of the longer-term viability of the buffer stock operation; such a review would in any case be necessary towards the end of the period to which an agreement related.

⁶⁸ The price range adopted would affect the amount of resources required by the buffer stock (see also para. 205).

⁶⁹ In the case of the First International Tin Agreement, producing countries had the option of making up to 75 per cent of their initial contributions in either tin or cash, the remainder to be in cash; in practice, all the contributions were made wholly in cash.

(e) *Conventional and "reserve" operations*

165. A conventional type of buffer stock would intervene in the market as the price began to approach one or other of the agreed price limits. An alternative method of operation, which might be applicable to some agricultural commodities, would be a buffer stock which intervened at the end of each year, by purchasing the excess of exportable production over an agreed limit (such as an export quota), and up to an agreed amount. This "reserve" stock type of operation may be more applicable for commodities, such as cocoa, which are normally sold for forward delivery. Under the proposed international cocoa agreement, for example, the buffer stock would be empowered to buy surplus cocoa—resulting either from cuts in export quotas or emerging at the end of the year—up to a certain limit at the end of the year at the minimum price. However, under this proposed arrangement, the producers would receive only one half of the minimum price at the time the cocoa is delivered; the remainder would be paid when the cocoa is sold at a later date.

166. In some cases, it would seem important to ensure that when purchases by the buffer stock have reached a certain agreed limit, any further excess production should be taken off the normal commercial market. The intake into the proposed cocoa buffer stock, for example, would be limited to 250,000 tons, while any excess above that figure would be sold by producers to the buffer stock at a much reduced price for the manufacture of margarine.

(f) *Price relations for different grades and qualities*

167. The operation of a buffer stock would be greatly simplified if the commodity is of uniform composition (e.g. tin), or if it is sold on the basis of metal content (as for certain ores). All agricultural products, however, and some others, are variable in quality; for these an established and recognized system of grading becomes a prerequisite for operating a buffer stock, so that a way can be found of establishing appropriate price differentials between the grades.

168. A rigid price differential between grades does not, however, seem to be practicable, especially where a commodity—such as coffee or vegetable oils—includes qualities with different markets and end uses; one type or grade may then be in ample, while another is in short, supply. In such cases, a separate price range might have to be negotiated for such main type or grade and largely separate buffer stocks maintained for each. This method may be less cumbersome than it appears at first sight, since the management, the method of operation and the point of storage, would usually be the same for each type.

169. An implication of this reasoning, however, is that an important pre-condition for the operation of a buffer stock may be the rationalization and, if possible, the simplification, of the system of grading of a commodity in order to establish a limited number of clearly defined and readily recognized grades. An ill-defined or unduly elaborate system of grading would greatly increase the difficulty of price stabilization for different grades.

(g) *"Spot" and "forward" transactions*⁷⁰

170. There might be a number of situations in which it would be advantageous for a buffer stock to operate both on the spot and forward markets. For example, when both spot and forward prices are falling towards the agreed minimum, the buffer stock could support its purchases of the commodity concerned in the spot market by buying for forward delivery also. The resultant decrease in the probable level of supplies likely to come on the market in the relevant future period would tend to increase the forward price and this, in turn, would help to support the "spot" market. In practice, it would seem desirable that the manager of a buffer stock should be permitted the maximum possible flexibility in carrying out whatever type of transaction he considers will best help to bring about the price objectives of the commodity agreement concerned. In the case of the only existing international buffer stock, that for tin, the objective is to maintain the price of cash tin (i.e. tin for prompt delivery) on the London Metal Exchange within agreed limits. However, the Manager of the buffer stock may, in furtherance of this aim, buy or sell tin for forward delivery as well as buy or sell cash tin. It would appear that most of the operations of the tin buffer stock have been for cash tin; however, unofficial reports suggest that transactions for forward delivery have also been made.⁷¹

171. A forward purchase (or sale) may either be followed by the physical delivery of the commodity, or it may be offset by a corresponding sale (or purchase) before delivery has been made. In some circumstances, e.g. when the price trend in the market has been reversed after the forward purchase (or sale) has been made, a buffer stock may be able to further the aim of price stabilization by making a corresponding sale (or purchase) before delivery. In the case of a purchase followed by a sale, such a procedure, when practicable, would be particularly convenient, in that it would eliminate storage costs for the buffer stock and either reduce or eliminate financial charges.⁷²

172. Forward transactions by a buffer stock might, in principle, be made either by private negotiation with a buyer or seller—in which case the terms of the contract would be entirely at the discretion of the two parties—or by means of purchases or sales of "futures" contracts on a "futures" market. In the latter case, the terms of the contract would be subject to the rules of the market concerned. In practice, the contract rules of a futures market (which exists primarily for hedging and speculative transactions, most of which do not involve physical delivery of the commodity) might not always be convenient for the purposes of buffer stock operations.

⁷⁰ A "spot" transaction is a purchase or sale for prompt delivery; a "forward" transaction is a purchase or sale for delivery at a future date.

⁷¹ For example, Press reports suggest that the buffer stock made forward purchases on the London Metal Exchange during 1967 in order to help to support the price of cash tin.

⁷² Since payment for forward transactions is not usually made until shipment or delivery.

For example, if the buffer stock were trying to support the price of a particular grade of the commodity concerned, a purchase on a futures market might be ineffective if the contract rules (as is often the case) gave the seller the option of delivering any one of a number of different grades. In the particular case of the London Metal Exchange, where physical delivery is not uncommon, the contract rules have been found compatible with buffer stock operations. In some other futures markets, on the other hand, physical delivery is not encouraged by the contract rules and almost never occurs in practice; the question of whether buffer stock operations might usefully be undertaken in such markets would therefore need to be studied with great care in each particular case.

(h) *A buffer stock/export quota scheme*

173. When a buffer stock operates jointly with an export quota scheme under the same international commodity agreement, special consideration has to be given to their respective roles in price stabilization, and to the process of mutual adjustment of the two stabilization measures. A fall in the world price, for example, could be countered either through purchases by the buffer stock or an appropriate reduction in export quotas, or by some combination of the two, according to the extent to which buffer stock operations and quota changes were made dependent on the movement in the world price. In the case of the International Tin Agreement, for example, the mechanism of buffer stock operations is coupled, where necessary, with export controls: provided the tin in stock exceeds a certain level, the International Tin Council is authorized to impose quota restrictions on exports from producing countries in order to adjust supply to demand. Similarly, under the proposed cocoa agreement, provision is made for quota adjustments when the world price reaches certain levels, though quotas would be automatically suspended when the price reaches the agreed maximum; at this point, sales from the buffer stock would be mandatory.

174. The most appropriate combination of the two stabilization measures—transactions by a buffer stock and changes in export quotas—would need to be determined in the light of the particular circumstances of each commodity market.

2. *The special circumstances of particular commodity markets*

175. Commodity stabilization schemes would need to be tailored to fit the special circumstances of the individual commodity markets concerned. Consideration would have to be given to the advisability of combining several different stabilization techniques in a single scheme. The special market characteristics that would have to be taken into account in devising short-term stabilization schemes for the more important commodities listed in table 4 are briefly discussed below. For convenience, the various commodities have been grouped into non-ferrous metals, agricultural raw materials and foods and beverages.

(a) *Non-ferrous metals*

176. It is useful to preface any consideration of possible buffer stocks for copper, lead and zinc by a brief review of the operation of the tin stabilization scheme—the only intergovernmental commodity regulation scheme so far which incorporates a buffer stock.

177. *Tin.* Each of the three post-war International Tin Agreements has provided for holding the price within agreed limits by export quotas and buffer stock operations. Since the First International Tin Agreement (1956), the tin market has experienced a phase of over-supply (1956-1958), and one of under-production (1961-1966). Broadly speaking, the scheme was successful in holding the price at, or above, the agreed minimum during the first phase, but only partially successful in holding the price below the successive agreed maxima during the second phase.

178. In the earlier period of over-supply, effective control over the market was achieved by a number of measures which supported the buffer stock's action in buying tin. The principal support measure was the application of export restrictions on producing member countries, which was reflected in a reduction of their mine production. This was an essential part of the mechanism of the agreement. To meet special circumstances, other action was necessary such as the raising of a "Special Fund" which enabled the buffer stock to buy tin after its original cash resources had become exhausted; and, at one time, the limitation of tin exports from the USSR after discussions between the International Tin Council and the Soviet authorities.

179. In 1961, following a short period of relative balance in the market, supplies rapidly fell behind world demand, in spite of the removal of export controls. The remaining tin in the buffer stock was quickly sold and the market passed largely out of the Council's control. During the period of the Second International Tin Agreement (1961-1966), the Council's most important activity consisted of periodic discussions with the United States authorities about the scale and manner of disposals of tin from the latter's surplus stockpile.

180. One lesson which may be drawn from the tin experience is that the resources of an international buffer stock need to be large enough to deal with unforeseen contingencies. Allowance for additional contingency resources was made in the Second International Tin Agreement of 1961, and carried over into the Third Agreement of 1966. Contributions to the buffer stock from producer countries total £20 million, of which one half was contributed in cash at the time of entry into force of the Agreement, the balance remaining on call as required; in addition, a £10 million line of credit was established with a consortium of private banks. A second lesson is that a commodity stabilization authority must try to ensure that actual or potential sources of supply outside its direct control (such as output of non-member countries or government stockpiles) should not act so as to undermine the purposes of market stabilization. An intergovernmental authority may be able to act more effectively in this respect than individual Governments acting alone.

181. *Copper.* Two recent efforts to stabilize copper prices have been made by copper producers themselves, the first during a period of relative price weakness (1961-1963), the second during a period of relative shortage (1964-1966). The first attempt, which proved extremely successful, was in some ways analogous to the International Tin Council's efforts to maintain a minimum price for tin in 1957-1958. It began late in 1961 in a situation of moderate surplus which had already led many producers, about a year earlier, to announce restrictions of their output. In these conditions, certain major producers began to support the market by buying copper on the London Metal Exchange. By this means, in conjunction with continued restraints on output or exports, the London price was effectively pegged at £234 per ton for nearly two years. At the beginning of 1964, most major copper producers outside the United States adopted a system of producer pricing similar to that in operation in the United States itself. Scrap supplies, as well as the output of the smaller producers of primary copper, continued to be sold at "free market" prices. This stabilization experiment was, however, frustrated by the unforeseen expansion in demand which took place from 1964 onwards. This caused a steep rise in "free market" prices, and the resulting gap between these and the producer's prices (which were themselves raised on several occasions) eventually became so great that the stabilization experiment was abandoned.

182. Any new attempt to stabilize the copper market would have to allow for the fact that the world market has become divided into two distinct price systems, the first applying to domestic mine output in the United States (for which prices are set by the producers) and the second to most other supplies from both primary and secondary sources (for which a "free market" price—at present considerably higher than the United States producers' price—is established on the metal exchanges). Allowance would also be needed for the fact that secondary metal (produced from scrap) is of much greater importance in the copper market than it is for tin; consequently, careful examination would be required of the problems of dealing with variations in the supply of secondary metal within a possible market stabilization scheme for copper.

183. *Lead and zinc.* These two metals can conveniently be considered together as they are commonly produced by the same mines, though in different proportions in different areas, often in association with other metal ores. The close association is recognized in the existence of an International Lead and Zinc Study Group, which has on a number of occasions informally initiated discussions and voluntary measures to stabilize prices. The United States stockpile authorities have also on occasion acted to support the market, or to relieve a current market shortage. None the less, prices of both metals have continued to show substantial variations. The possibility of a formal stabilization arrangement has been discussed on occasions. The feasibility of such an arrangement incorporating a buffer stock would thus seem to warrant careful examination. In many respects, conditions would seem favourable for a re-assessment of possible international stabilization measures. World demand for both metals appear likely to continue to rise—though at

times falling behind the growth of production—and there would seem to be no serious storage problem.

184. The United States Government's non-commercial stocks would have to be taken into account in any consideration of a possible buffer stock scheme, particularly in view of the stated objective of the United States to release from its stockpile as much of each metal as the market could absorb without disruption. For lead, variations in the supply of secondary metal from scrap—which accounts for roughly half the consumption of refined lead in the United States and the United Kingdom—would also have to be allowed for in formulating a buffer stock scheme for these two metals.

(b) *Agricultural raw materials*

185. Since this group of commodities faces particularly serious competition from synthetic materials, international action designed to stabilize prices would need to aim at stabilizing the price within a range which is fully competitive with the relevant synthetic substitute. Moreover, to the extent that synthetic materials decline in price in the future, the agreed price range for the natural product would have to be correspondingly reduced.

186. *Natural rubber.* Though the wide price fluctuations which formerly characterized the natural rubber market have been considerably reduced in recent years, mainly as a result of increasing competition from synthetic rubber, appreciable short-term price fluctuations remain.⁷³ Such fluctuations inevitably weaken the competitive position of natural rubber.

187. The use of a buffer stock would seem to be an appropriate method of minimizing these price fluctuations. Stabilization of natural rubber prices by an export quota system would not appear, *prima facie*, to be as relevant in the particular circumstances of the rubber market as would a buffer stock, particularly since effective control over export shipments may not easily be obtained in all the producing countries. The inauguration of a national stock by one major producing country in 1967 could well have a stabilizing effect on the world rubber market. An international buffer stock, if established, would have to operate in collaboration with national stock-holding authorities, including the United States stockpile.

188. *Jute.* A price stabilization arrangement is currently in operation for jute under the auspices of the FAO Study Group for Jute, Kenaf and Allied Fibres. As already indicated,⁷⁴ this arrangement is designed to maintain the price, for a given season, within previously agreed limits by the phasing of purchases by consumers and appropriate adjustments of production in the principal exporting countries. In both India and Pakistan, there are price stabilization schemes for raw jute while both also hold reserve stocks. Jute has, however, a long

⁷³ For example, the highest average monthly price in 1966 exceeded the lowest monthly average by 17 per cent (about 4 US cents per lb, Ribbed Smoked Sheet No. 1 quality (R.S.S. No. 1), New York).

⁷⁴ See chap. II, para. 98.

history of substantial price instability,⁷⁵ with sharp fluctuations within each season, as well as variations from one season to another. The uncertainty surrounding the future level of jute prices has probably been a significant factor in the substitution of jute by other materials in certain end uses, particularly in packaging.

189. The existing price stabilization arrangement is on a purely voluntary basis and provides no commitment by any participating country to take the action recommended. As already indicated, it is designed to achieve a measure of price stability for one season at a time. Further consideration should be given to the possibility of continuing this arrangement in conjunction with an international buffer stock. The latter could take a longer view of price trends and attempt to stabilize the price of raw jute within a certain range over a succession of years. In this way, its operations would be complementary to those of the existing stabilization arrangements.

190. Two other special features of the raw jute market are also the relevance in considering the possible operation of an international buffer stock. Firstly, one principal reason for the sharp price fluctuation in the raw jute market is that changes in prices generate corresponding changes in production in the following season, when demand conditions are already likely to have changed. This lag in production response would, however, facilitate the operation of an international buffer stock, to the extent that it would allow for an annual turnover of the stocks held.

191. Secondly, an international buffer stock could consider the desirability of including standard types of jute goods, as well as raw jute, in its operations. Since prices in the jute market are determined ultimately by the demand for jute goods, on the one side, and the supply of raw jute, on the other, it is possible that some combination of raw jute and jute goods would be the most effective way of operating a buffer stock scheme. This aspect would require more detailed study, particularly as regards relative storage costs of raw jute and jute goods.

192. *Hard fibres.* During the period from 1960 to 1967, the world market for sisal, henequen and abaca has witnessed a sharp price cycle. During the price boom of 1963 and 1964, considerable additions to the planted area were made in producing countries which came to fruition in 1965 and 1966, when world demand had begun to contract. Prices of sisal and henequen fell in 1966 to little more than half the 1964 levels, while for abaca the decline was about one-fifth. Developing countries heavily dependent on hard fibre exports, such as the United Republic of Tanzania, suffered a sharp contraction in their total export earnings over this latter period.

193. The market for hard fibres also faces a substantial longer-term problem of competition from synthetic materials. Abaca has been facing this problem for many years and, if polypropylene twine becomes available in

large quantities at competitive prices, it could become a critical threat to sisal and henequen. Disposals from the United States stockpile have also affected the recent trend in hard fibre prices.

194. A recommendation designed to achieve stabilization of sisal and henequen prices within an agreed price range has recently been made by the principal producing countries.⁷⁶ These countries decided to operate an informal system of export quotas in order to bring export supply into line with the estimated requirement. They agreed on basic export quotas for each exporting country and on a uniform reduction of 4.8 per cent in these figures as their quotas. The scheme is thus essentially a voluntary export regulation mechanism; the underlying problems of successful operation of schemes of this general type have already been discussed in chapter II. The possibility of strengthening this stabilization mechanism by use of an international buffer stock would seem to warrant urgent consideration.

(c) *Foods and beverages*

195. A general problem facing buffer stocks for commodities in this group would be to make adequate provision to meet costs of storage, which could be appreciable. Provision would also have to be made for regular turnover of stock for beverage crops, and for vegetable oils, to prevent quality deterioration. There are, however, certain special features of each commodity market which also need to be taken into account.

196. *Coffee.* The world coffee market is already subject to stabilization measures under the International Coffee Agreement, 1962. Since October 1966, a system of semi-automatic export quota changes was instituted, for each of four types of coffee, which operates when prices reach one or other of the relevant price limits agreed for each type. This type of market regulation involves national authorities in holding in stock production in excess of their quotas. For coffee, this system of market regulation is an appropriate one, as certain major producing countries have held large stocks for many years in order to prevent the world price from falling to low levels. Consideration of an international buffer stock could reasonably be deferred, in the case of coffee, since the present stabilization system of export quotas combined with national stocks would seem to be generally effective.

197. *Cocoa.* Measures to stabilize the world cocoa market have been under intensive discussion in recent years under UNCTAD auspices, and a Memorandum of Agreement, adopted in October 1967 by the principal importing and exporting countries concerned, made provision, in a proposed International Cocoa Agreement, for market regulation by means of a combination of export quotas and a buffer stock. A quantitative limit is envisaged for buffer stock holdings, any excess of supplies above this limit being sold at relatively low prices for the manufacture of margarine.

⁷⁵ See "Instability and Stabilization of the World Market for Raw Jute", FAO, *Monthly Bulletin of Agricultural Economics and Statistics*, December 1964 and January 1965.

⁷⁶ Under the auspices of the Study Group on Hard Fibres. The recommendation was agreed to by the Study Group as a whole; however, the consuming countries drew attention to the fact that in their view the prices adopted were too high in the light of competition from synthetics.

198. *Sugar*. A large proportion of world trade in sugar takes place under preferential arrangements at prices intended to be remunerative for producers. The residual world market tends to bear the full force of fluctuations in world supply and demand, and the world price of sugar thus tends to be relatively unstable; moreover, in the past few years, the world price has fallen to levels below the cost of production in the exporting countries. A buffer stock alone could not be expected to bear the full burden of off-setting the short-term fluctuations on the residual world market, but it would be worthy of consideration as part of a package of stabilization measures which could be introduced under a new international agreement. However, such an agreement would also need to incorporate long-term measures to reduce the excess of production over consumption so as eventually to eliminate the problem of surplus stocks overhanging the market.

199. *Oils and fats*. A major characteristic of this market is that there is a considerable degree of interchangeability between different oils and fats in particular uses. To stabilize the oils and fats market by means of an export quota scheme would present serious difficulties because of the wide range of oils and fats, and the large number of exporting countries that would have to be covered. Moreover, for many oils and for animal fats, control over world production would be virtually impossible.

200. However, the fact that many oils and fats are highly substitutable means that a buffer stock could be successfully operated, even though it was confined to only relatively few vegetable oils. Increased market stability in these selected oils, resulting from buffer stock operations, would also have a stabilizing influence on the markets for the other oils and fats not covered by buffer stock.⁷⁷ A partial buffer stock operation of this type would, however, need to aim at "pure" price stabilization around the long-term trend in the market. The addition of production controls—even if these were practicable—designed to raise the trend of prices would tend to result in a secular substitution of oils and fats for those subject to control.

201. Since price fluctuations have generally been most severe for lauric acid oils and oilseeds—copra, coconut oil, palm kernels and palm kernel oil—an international buffer stock covering this group only could be considered. An alternative approach would be for the buffer stock to limit its operations to a few major oils, including one or two of the lauric acid oils. This would allow it to have a much wider stabilizing influence, for a given amount of resources in the buffer stock, than if it concentrated its operations entirely on one group of oils.⁷⁸ On this approach, a buffer stock covering, say, soya bean oil, groundnut oil, coconut oil and palm oil might be considered. As experience of market operations was gained by the buffer stock, consideration could be given at a

later date to the advisability of extending the range of oils covered.

202. Since an important part of the demand for vegetable oilseeds consists of demand for oilcake and meal for animal feed, it would be preferable for an international buffer stock to hold its stocks in the form of oil rather than oilseeds to avoid disturbances to the animal feed market. Consideration would then have to be given to the optimum geographic situation of stocks and to a procedure for regular stock turnover to avoid deterioration in quality.

3. *The need for feasibility studies*

203. In addition to the more important commodities discussed above, there are a number of others—such as manganese, tungsten and pepper—which are of particular importance to certain developing countries, and which would also qualify (on the criteria used earlier) for consideration of possible market stabilization scheme using buffer stocks. In view of the very different circumstances prevailing in the markets for these various commodities, the most appropriate combination of stabilization measures would have to be specially designed for each commodity separately. A separate, detailed, feasibility study would therefore be required, for each of the commodities⁷⁹ listed in table 4, of the practicability of market stabilization by an international buffer stock in combination, as appropriate, with one or more of the other stabilization measures discussed in chapter II.

C. CAPITAL REQUIREMENTS AND SOURCES OF FUNDS

1. *Capital requirements*

204. It is convenient to consider the financial resources required to operate an international buffer stock as consisting of capital assets and current revenue. Estimates of the required magnitude of both would need to be made, before a new buffer stock was set up, in the light of the objectives and proposed mode of operation of the buffer stock.

(a) *Capital assets*

205. The estimate of required capital resources would depend on a number of factors, the more important of which are listed below:

(a) A buffer stock which operated in conjunction with an export quota scheme would require an appreciably smaller capital, to achieve a given stabilization objective, than one which bore the entire burden of market stabilization. Allowance would have to be made, however, for the buffer stock being the sole means of market stabilization if the price reached the agreed maximum.

(b) Assuming that the aim would be to stabilize the price within an agreed range, the resources required would then depend primarily on:

⁷⁷ The derived stabilizing influence on these latter markets will be greater, the greater the price-elasticity of substitution between these products and those covered by the buffer stock, and the greater the relative importance of the stabilized markets in total world consumption of oils and fats.

⁷⁸ For the reason given in foot-note ⁷⁶.

⁷⁹ Other than commodities for which a stabilization agreement is in existence (coffee), or under negotiation (cocoa).

- (i) The width of the agreed price range (the wider the range, the smaller the capital resources required);⁸⁰
- (ii) The degree of disequilibrium between supply and demand in the commodity market concerned (the greater the disequilibrium, the greater the resources required);
- (iii) The degree to which surpluses or shortages are bunched in adjacent years (the greater the bunching, the greater the resources required);
- (iv) The magnitude of the demand elasticity (the more inelastic the demand, the smaller the resources required).

(c) Apart from structural factors in the market, the required resources of the buffer stock would also depend on whether or not a maximum limit is set to purchases by the buffer stock, and whether or not such purchases are made at the agreed minimum, at the current market price or at some other level. Under the proposed cocoa agreement, for example, the buffer stock would be empowered to buy up to a maximum of 250,000 tons, paying only one half the minimum price at the date of delivery, the remainder to be paid when the cocoa is sold at a later date.

(d) In addition, account might be taken of the effect of buffer stock operations on transactions by speculators in the commodity market in question. Speculators can have a stabilizing effect on the market if they anticipate that a rise in price will be followed by a price decline, and *vice versa*. If, however, they anticipate that price rises (falls) will be followed by further price rises (falls), their action on the market will accentuate the price fluctuations. The resources of the buffer stock in such situations must be large enough to convince speculators that the price limits can be successfully defended—in which case, their transactions will tend to reinforce the stabilizing influence on the buffer stock.

(e) The cash requirements of a buffer stock at its inception might be substantially reduced, or entirely eliminated, if the buffer stock were built up by direct contributions of the commodity concerned during a period of surplus, or if (as in the proposed cocoa scheme) provision were made for stocks of the commodity to be supplied against part payment.

206. The above considerations would need to be quantified, as far as possible, in detailed studies of particular commodity markets for which stabilization measures are proposed. Any such quantification is inevitably subject to some uncertainty, and it would seem prudent therefore to make provision for the buffer stock to have access to a line of credit (as under the third International Tin Agreement of 1966) to safeguard its future trading position.

(b) Current revenue

207. In addition to the cost of purchasing a commodity stock, and of keeping a cash balance, a buffer stock will

need current revenue to meet its operating costs. These would consist of storage, freight and handling charges, together with interest charges on loans (if any) and administrative expenses.

(c) Joint financing of several buffer stocks

208. Appreciable financing economies would accrue if a number of separate buffer stocks arranged to pool their financial resources. These economies would arise because fluctuations in the different commodity markets would not necessarily coincide, so that funds arising from the sale of one commodity could be made available for the purchase of another commodity, as required. Such an arrangement could reduce consistently the capital resources required for the various buffer stocks taken as a whole. The individual buffer stocks would, however, have to retain complete autonomy in decisions affecting their current market operations.

2. Sources of funds

209. The inauguration of a number of new international buffer stock schemes could well create an important problem of raising capital funds for pre-financing, that is, for the initial operations of such buffer stocks before a new source of regular income is built up. The possible sources of funds for pre-financing purposes thus need to be separately considered.

(a) Pre-financing requirements

210. There would seem to be several different sources of funds available, in principle, for meeting the pre-financing needs of any new buffer stock scheme. These are, first, direct contributions from Governments; second, advances from the existing international financial institutions; and third loans from commercial banks. Funds for pre-financing purposes could, in principle, be raised from any one source alone, though a combination of different sources of funds would offer substantial advantages.

211. There are two ways in which such funds can be channelled into the pre-financing of any proposed buffer stock schemes. The first would involve raising the necessary funds for pre-financing each of such schemes separately, the money being placed at the disposal of the authorities set up under the relevant international agreements. An alternative approach—which is discussed in more detail below—would be the creation of a central fund specifically designed for financing buffer stocks operations. The relative advantages and disadvantages of raising funds for the pre-financing of buffer stock schemes from each of the various available sources, as well as those of a central commodity stabilization fund, compared with the raising of funds for each scheme separately, are considered further in the following paragraphs.

212. *Direct contributions from Governments.* One advantage of financing a buffer stock partly through government contributions would be that a proportion of the money advanced might possibly be in the form of grants; loans, if made, might perhaps be advanced on special terms and conditions. Another advantage would be that a buffer stock scheme supported even partially by direct

⁸⁰ It is assumed that the price range would be fixed around the estimated longer-term trend in the market. Provision would need to be made for periodic review of the price range to allow for possible shifts in the trend.

government contributions would find it easier to raise loans in the commercial market.

213. If it were agreed that such contributions should be made for the pre-financing of a new bufferstock scheme, the contributions of the different Governments would have to be determined according to a generally acceptable criterion. One difficulty which would have to be taken into account is that new authorizing legislation would be required in some countries to allow the Governments concerned to make funds available directly for buffer stock operations. Another difficulty, of a more transient character, is that general tightness in the main capital markets (as during 1966 and 1967, for example) might well limit the amount of the funds which some Governments might find it possible to advance for this purpose.

214. If a new central fund is established to finance short-term commodity stabilization schemes which are agreed by Governments to be desirable, it could also be envisaged that special contributions for the pre-financing of a new buffer stock for a particular commodity might be forthcoming from Governments of countries with special interests in that commodity, if the pre-financing requirements for that buffer stock exceeded the resources of the central fund.

215. The above considerations apply to contributions made in cash. However, governmental contributions have the added flexibility that they may, in certain circumstances, be made in the form of the commodity itself. To the extent that this was done, the initial cash requirements of the buffer stock would be correspondingly reduced. In some cases (for example, if a contribution were made from existing national stocks), the problem of making cash payments, even within the contributing countries, would be eliminated altogether.

216. *Existing international financial institutions.* Considerable advantage would accrue if the existing international financial institutions could assist in the pre-financing of buffer stock schemes. They possess an immediate and substantial amount of potential finance, as well as great experience in international financial and banking matters. It might be possible for these agencies to provide such finance, as required, under the terms of their existing charters. Alternatively, some appropriate amendments to the charters may be required to allow finance to be extended for purposes of short-term commodity market stabilization. These are matters which require more detailed study by the agencies concerned.

217. *Commercial sources.* The main difficulties here are that commercial loans from banks may cover only a proportion of the pre-financing requirements of a buffer stock (the proportion depending largely on the collateral value of the proposed stock), while commercial interest charges would tend to be a heavy burden on the finances of a buffer stock in its initial years of operation. Moreover, in periods of tight money markets such loans may be difficult to raise. A guarantee against such a loan, issued by the Governments of developed countries, would make it relatively easy to borrow in the commercial market and would also probably result in a lower rate of interest being charged. In addition, consideration could be given by these Governments to the possibility

of their contributing a part of the annual interest on such commercial loans so as to minimize the financial burden on the buffer stock.⁸¹

218. *A new central fund.* The creation of a central fund specifically designed to assist the financing of international buffer stocks would constitute a major improvement over the present position in that a source of funds would then become readily available to support the inauguration of any new commodity stabilization scheme agreed by Governments as desirable. As already indicated, however, the establishment of such a central fund should not preclude the possibility of additional finance being made available, if necessary, by Governments of countries with special interests in the commodity concerned. If, in addition, such a fund were to act as a central banking mechanism for a number of separate and autonomous buffer stocks, appreciable financial economies would accrue as a result of the pooling of resources.⁸²

219. The establishment of a central fund could, in principle, be approached in two ways. One approach would involve the creation *ab initio* of a broadly-based fund which would assume responsibility for the pre-financing of any buffer stock scheme negotiated as part of an international commodity agreement. An evaluation of the resources required for such a broad central fund would emerge from the series of detailed feasibility studies of market stabilization schemes for selected commodities which was proposed earlier.⁸³

220. On the other hand, a more modest and pragmatic approach could be envisaged whereby a new central fund would be established at an early date, endowed with a specified and limited pool of resources. These resources would be used to support buffer stock operations for one or two commodities in the first instance. In the light of the experience gained in the actual operation of such a scheme, consideration could be given later to broadening its scope progressively to cover such additional commodities as might be included under new international stabilization agreements.

221. On this basis, it would seem reasonable to suppose that a central fund could begin effective operations for one or two primary commodities, such as cocoa and tin, if it had an initial capital at its disposal of about \$100 million. These resources could be supplied by capital subscriptions from Governments, supplemented wherever possible by contributions from international financial institutions and, in addition, by deposits made by commodity councils. An additional source of funds could be direct or stand-by credits obtained from commercial banks on the security of the commodities in stock (the International Tin Agreement, for instance, allows the ITC to borrow on the security of tin warrants held by it). The over-all total available from initial capital subscriptions and subsequent commercial credits

⁸¹ See also the report of the Advisory Committee to the Board and to the Committee on Commodities on its first session (*Official Records of the Trade and Development Board, Fifth Session, Annexes*, agenda item 5, document TD/B/109, para. 27).

⁸² See para. 208.

⁸³ See para. 203.

should then be fully adequate to enable the central fund to finance, for example, the existing tin buffer stock as well as that for cocoa, as and when the latter is negotiated.⁸⁴

222. One objection which has been advanced against the idea of setting up such a new central fund is that it would lead to the immobilization of scarce capital which might otherwise be made available for long-term development purposes. However, a modest beginning, as proposed above, which used a relatively small capital would minimize the chances of immobilizing funds. There is, moreover, always the possibility of a central fund itself making loans (including loans to the various commodity councils), should it find itself with any substantial amount of funds not required for financing commodity schemes. Another possible arrangement, which would also avoid the danger of immobilizing scarce capital, would be for the capital of the central fund to be held by participating Governments in the form of stand-by credits, on which the central fund would be entitled to draw as and when needed.

223. There would, however, be a further useful function for a central fund in the negotiation of new buffer stock schemes. As the central fund gained experience in the financing problems posed by international commodity stabilization schemes, it could usefully act as a check to ensure that any proposed buffer stock or other market stabilization scheme was financially viable. For this purpose, it would be most desirable that the central fund should be consulted about the commercial credibility of any proposed scheme while the relevant negotiations were in progress. Such prior consultations would forestall the possible risk that the central fund might object to a scheme on commercial or financial grounds after it had been approved in an intergovernmental commodity conference.

(b) *The provision of regular current income*

224. For certain commodities such as cocoa, for which a buffer stock may have to meet appreciable storage charges, a regular current income for the management of the buffer stock would have to be provided. The proposed cocoa scheme includes a provision for a levy on foreign trade in cocoa to meet the current operating costs of the buffer stock. For certain other commodities, other possible sources of current income could be considered in addition to a foreign trade levy; for example, a levy on production in the importing countries. The most appropriate method, or combination of methods, for raising the income required for the current operations of a buffer stock would have to be determined in the light of the actual circumstances of the commodity market in question.

225. If a central fund was established, its financial resources could be augmented in several ways. It might, for example, invest, in short-term government securities, that part of its capital which is not required for the pre-financing operations of buffer stocks. Another way would be through the receipt of interest on loans extended to commodity councils for pre-financing or other requirements in connexion with market stabilization arrangements. If, at a later date, it became necessary to find an additional large sum for the pre-financing of a new commodity buffer stock, further government contributions, as appropriate, might be considered if the amount required exceeded the existing resources of the central fund.

(c) *Institutional arrangements*

226. If a new central fund on these lines was established, the advantages and disadvantages of constituting it as an independent entity would have to be compared with those of incorporating it in one of the existing international financial institutions. The advantage of the latter approach would be that the central fund would have at its immediate disposal the great experience and knowledge of the international financial and banking mechanism possessed by the existing institutions. On the other hand, some countries which may wish to contribute to a central fund, and to participate in its general direction, are not members of the existing international financial institutions. Some compromise arrangement might be possible; for example, the central fund might be incorporated in one of the existing institutions for a limited initial period, subject to review, with special provision for the association of countries not members of the institution concerned.

D. FURTHER STUDIES

227. Further research into the practicability of a wider use of international buffer stocks for purposes of short-term commodity market stabilization should take the form of detailed feasibility studies for a selected list of primary commodities. Such feasibility studies should also take into account the possibility of combining the use of buffer stocks with that of other market stabilization techniques (para. 203).

Chapter IV

The promotion of consumption and the challenge of synthetics

228. The long-term problems involved in improving the trend of commodity export earnings from developing to developed market economies fall, broadly speaking, into three groups. The first, which is the subject of the present chapter, relates to efforts to raise the level of demand by promotional methods in the widest sense, including not only mass marketing and promotion techniques, as employed in the developed economies, but also appropriate policies in the producing countries designed to improve the quality of the product concerned. The second—discussed in chapter V—concerns measures designed to improve access to markets for the primary commodity exports of developing countries. The third,

⁸⁴ The ITC received initial governmental contributions totalling £10 million on the entry into force of the 1966 Agreement, and a like sum, (or its equivalent in metal) is available on call from participating Governments, while a further £10 million has been established as a line of credit by a consortium of commercial banks. A cocoa buffer stock of up to 250,000 tons can be financed from a capital sum of \$55 million on the basis of payment at one half the minimum price to producers at time of delivery (see para. 165).

which is examined in chapter VIII, relates to measures designed to control the growth of production of commodities that are in persistent surplus on world markets and to promote appropriate diversification programmes in developing countries.

229. The promotion of consumption, in the narrower sense of influencing consumer demand for particular commodities, would appear to be a relevant consideration for the entire range of the developing countries' exports. However, promotional measures are likely to differ from one commodity, or commodity group, to another, since the problems for commodities facing serious competition from synthetic or other substitutes are different in kind from those, for example, facing a market situation of persistent surplus and falling prices. There are two main types of policy designed to promote consumption which parallel these two broad commodity situations. First, there are measures designed to influence consumer preferences in one way or another; second, there are measures designed to improve the competitive position of the commodities concerned, either by changing their technical characteristics in accordance with consumer requirements, or by reducing their prices, or both. These two groups of measures are not mutually exclusive, though greater emphasis will need to be given to one or the other according to the situation in particular commodity markets. Thus, for commodities faced with the threat of substitution by synthetics, the major aim for policy is to ensure the continued competitiveness of the natural product.

A. INFLUENCING CONSUMER PREFERENCES

230. Sales promotion campaigns designed to shift consumer preferences in favour of particular products have for long been an important feature of the marketing of a number of primary commodities in developed market-economy countries. Such campaigns are financed by private firms, by national trade associations, by international federations of producers and by international bodies. Some of these promotional efforts are being made under the auspices of international commodity agreements. The 1962 International Coffee Agreement, for example, provides for a continuing programme for promoting coffee consumption. In accordance with this provision, a World Coffee Promotion Committee was established and finances for its operation are provided by a small levy on coffee exports. The International Wool Secretariat was created in 1937 in order to develop the use of wool by research and promotion. It has substantial funds—raised by a levy on wool sales in Australia, New Zealand and South Africa—for running a sales promotion campaign which stresses the virtues of pure wool in relation to synthetic fibres. The International Tea Committee, a co-operative venture between the major tea producers and the tea trade in the United Kingdom, aims to promote tea consumption by modern advertising methods.

231. The various efforts to influence consumer preferences can usefully be divided into two broad groups. Firstly, there are promotional campaigns in favour of particular varieties or brands of a given commodity, or

of the exports of a particular country. Secondly, there are promotional campaigns—such as those mentioned above—in favour of a commodity as such, as distinct from particular brands or source of supply. The promotion of a general preference for a given commodity would seem more likely to occur when the operating agency is an international body than when it is a private firm or a national producers' association.

232. The first type of promotion probably accounts, at present, for a major proportion of total expenditure of money and effort on influencing consumer preferences. However, its principal result is essentially a redistribution of total sales as between competing sources of supply, not more consumption of the commodities concerned. For commodities produced wholly or mainly in developing countries, this type of promotion would result in one developing country gaining at the expense of another. Where commodities are produced by both developed and developing countries, there may be some possibility of diverting demand in favour of the developing countries' exports if a recognizable technical demarcation can be made (for example, cane *versus* beet sugar). Moreover, much of the promotion in this category is concerned with brands of a given commodity in processed form: there has been, for example, a great deal more promotion of different brands of soluble coffee than of coffee *per se*. Since the developing countries are not, at present, major exporters of such processed goods, such promotion would appear unlikely to have a significant impact on efforts to increase the trend of their commodity exports.

233. The second type of promotion—relating to commodities as such—is more likely to benefit all the producing countries involved. However, there is still a useful distinction which can be made according to whether or not the resultant shift in consumer preferences is towards commodities which compete, in the main, with other export products from developing countries. Sales promotion of wool or natural rubber, for example, would be at the expense of synthetic materials produced in the industrial countries, but campaigns in favour of, say, tea would be partly at the expense of coffee, and *vice versa*. This would suggest the need for developing countries to co-ordinate their promotional efforts more effectively than at present.

234. One noticeable feature of existing promotional efforts is that they are largely concerned with the bulk, traditional, commodity exports of developing countries. It may well be, however, that a more effective use of promotional campaigns would be to devote greater attention to "newer", or non-traditional, exports of developing countries. Not only would this support national diversification programmes, but demand in the developed market-economy countries is likely to be more dynamic for such products. Tropical fruits, for example, face relatively high income and price elasticities of demand in the industrial countries, yet the range of such fruits actually known to consumers in these countries is probably quite small.

235. An important prerequisite for more effective action in this connexion is the collection of a great deal more information than is available at present. A survey of

current expenditures by the different international bodies would be a useful first step, since it might indicate possible additional areas in which promotional efforts might be made. Research needs to be conducted in order to establish not only the most effective promotional measures for different commodities, but also which products can most benefit from such measures from the point of view of export growth. Furthermore, information would be required to establish to what extent the distributive systems of the developed countries helped or hindered such promotional activities on behalf of developing countries' commodity exports.

B. IMPROVING THE COMPETITIVE POSITION OF EXPORTS FROM DEVELOPING COUNTRIES

236. The competitive position, in the markets of developed countries, of commodities exported by the developing countries can be enhanced by improving their technical characteristics, by developing new uses, and by reducing their unit costs relative to competing products. Apart from these purely competitive aspects, however, the demand for certain natural products, such as rubber, may be limited by vertical integration between producers of synthetic materials and enterprises manufacturing the finished product (e.g. tyres).

1. *Improvement in technical characteristics and the development of new uses*

237. Improvements in the quality of primary products could lead in many instances to a significant increase in consumer demand. Such improvements have for long been the objective of government policy in many developing countries.

238. Among the more important ways in which quality improvements are sought are research into the development of new varieties of crops with more desirable properties and the general improvement of agricultural productivity (for example, by extension services giving advice on better farming methods and by the provision of rural credit arrangements). Another approach that might merit further consideration, where marketing boards are in operation, would be an arrangement to increase the price premium for better qualities of particular commodities. Such schemes, however, require international co-operation to ensure that producing countries operate the same grading system for any given commodity.

239. For commodities facing serious competition from synthetic or other substitutes, a more concentrated research and development effort would seem to be urgently required. Though statistical data on research and development expenditures are not available in any systematic form, it appears probable that they amount to only a small proportion of the corresponding expenditures on synthetic materials in the developed market economies, which are, currently, probably of the order of \$1,000 million a year. Fundamental research into the chemical structures of wool and natural rubber has been going on for some years, and similar research into other natural products may well lead to improvements in their technical characteristics for particular uses. One aspect

of increasing importance in recent years has been the development of combinations of natural and synthetic materials, textile fibres being perhaps the main example where this has occurred. There would seem to be need for further research into such possible combinations, in order to utilize the most desirable qualities of both natural and synthetic materials in particular end-uses.

240. Scientific and technical research on a substantial scale is also a pre-condition for the development of new uses for natural products. Such research has been intensive for some products, such as wool, natural rubber, jute, and some non-ferrous metals, but only limited success has been achieved in most cases in developing new uses on any substantial scale. Some of the outstanding successes of research in this direction have, in fact, been achieved in the developed countries—including the use of natural products, or by-products from an industrial process, in the manufacture of synthetic materials—but these are often detrimental to the export prospects of the developing countries. For many natural products faced with serious competition from synthetics, research into possible new end-uses appears to have been on too small a scale to have had any appreciable effect on the total level of demand.

241. Improvements in technical characteristics, in the broadest sense, would also include the introduction of standard grades and improvements in packaging and presentation. In the case of natural rubber, for example, Malaysia has introduced a grade with standard technical specifications, known as Standard Malaysian Rubber. This is an attempt to replace the system of visual grading and to improve the competitive position of the natural product against the synthetic, which has a uniform standard of quality. The Malaysian effort has been particularly successful with the largest producers, but the standard of quality maintained by smaller units remains uneven. This experience suggests that standardization and quality improvement would be assisted by setting up large, centralized, processing plants. However, an extension of standardization procedures on these lines to other countries and for other products may well involve an appreciable capital investment, as new equipment would be necessary to guarantee uniform quality. Consideration might, therefore, be given to the possibility of international financing of part of the costs of the additional research and development required to develop new technical characteristics and higher standards of quality control for natural products facing serious competition from synthetic substitutes.

2. *Reduction of costs*

242. The main avenue for cost reduction is through the improvement of physical productivity in primary production in the developing countries. Higher productivity depends on a variety of factors, among which provision for increased inputs (in the form of fertilizers, machinery, insecticides, etc.), better labour utilization and the use of higher-yielding varieties of stock are, perhaps, the most important. Governments of developing countries—as well as the producers—have a major responsibility here. The problem is particularly acute for commodities which face competition from synthetics. Where replanting with

higher-yielding varieties has become essential for the continued viability of the industry, substantial financial assistance to producers may be required, while a higher level of agricultural inputs would involve an additional burden on the balance of payments if a significant amount of fertilizers and agricultural machinery has to be imported. In other situations, the emphasis may be less on higher-yielding crop varieties and more on better methods of production and husbandry with a consequent shift in emphasis toward technical assistance. In particular, where a substantial proportion of output is produced by smallholders, as in the case of natural rubber, pilot projects and financial incentives may be required to overcome the obstacles to the adoption of new methods. In all these cases, the financial cost of achieving the required increase in productivity may well be beyond the resources of many of the developing countries concerned. To this extent, there is a case for international financial and technical assistance to such developing countries for productivity-raising programmes.

243. An additional way of reducing the cost of natural products facing competition from synthetics would be to improve the techniques of processing such products, to match the technical advances in the processing of synthetics. Manufacturers of synthetic materials have frequently played a leading part in the development of machinery for processing these materials, and of defining "optimum" combinations of synthetic and natural materials in the production of particular manufactured articles. This has been especially true in the case of synthetic fibres, where the processing of synthetic filament yarn has a cost advantage (over the processing of natural fibres) in that it involves no spinning charges. The development of new types of processing equipment, which might use natural and synthetic materials in a proportion more favourable to the natural product, yet with fully competitive cost and technical characteristics, might well require a considerable financial investment.

244. In the longer run, the improvement of productivity and the reduction in cost of natural products facing competition from synthetics will depend heavily on the level of investment in new and improved capacity in the developing countries. The level of investment is itself the product of many factors, including the availability of domestic and foreign capital, and the relative profitability of alternative uses of resources. The investment decision necessarily implies a view about the size of the future export market for the natural products concerned, and about the probable future level of costs and prices. This, in turn, implies a view about the extent of future competition from synthetics and other substitute materials. More rational investment decisions than in the past could be made if they were related to reasonably reliable projections of world demand for some period ahead, and to firmer knowledge of the probable trend of supplies, and unit costs, of substitute materials.

245. Projections of the probable future trend of world demand for particular primary commodities have been made in recent years by various international agencies. Though still at a provisional stage, such projections will eventually become more reliable as techniques of pro-

jection become more refined. Insufficient knowledge of the investment plans of the synthetic materials industries constitutes a major gap at present. It would seem likely that a greater exchange of information between producers of natural and synthetic materials regarding their investment plans and probable future trends in their respective outputs and costs would enable both groups of producers to make more rational and profitable investment decisions. To the extent that this led to a reduction in excess capacity in the synthetic materials industries, the depressing effect of synthetics competition on the prices of natural products would to some extent be relieved.

3. "Captive" markets

246. A further limitation on the growth of demand for natural products exported by developing countries is caused by the spread of vertical integration between synthetics producers and the processing and manufacturing industries in the developed market-economy countries. Examples of such integration are joint ownership of vehicle tyre and synthetic rubber plants, and of textile, clothing and synthetic fibre factories. A major effect of such integration, although not always a major motive for it, is the establishment of secure, or "captive", markets for the synthetic materials concerned. The most effective way—indeed, perhaps the only way—in which the developing countries can expand their exports in this situation is to compete in the market for the processed goods and finished manufactures in question. However, this means not only the establishment of the relevant manufacturing industries in the developing countries, but also the lowering by the developed market-economy countries of the barriers to their markets for the processed products and finished goods concerned.

247. The general policy approaches, outlined above, designed to mitigate the adverse effects of competition from synthetic materials on the exports of natural products from developing countries, would have to be implemented on a commodity-by-commodity basis, because the nature of the competition between synthetic and natural products varies considerably from one commodity to another, so that different strategies are required for each. Where, for example, the competition is largely based on changes in the relative prices of the synthetic and natural products, efforts to promote productivity of the latter must play a dominant role in policy. Where, however, the synthetic material possesses superior technical characteristics for particular end-uses, research devoted to improving the technical characteristics of the natural product and to developing new end-uses should receive preference. A more systematic analysis of the precise nature of the competition from synthetics in each main end-use than is at present available would seem to be necessary before a strategy of research and development can be devised for each of the natural products concerned.

C. FURTHER STUDIES

248. It may be useful at this stage to summarize some of the principal lines of further research that appear to emerge from the above discussion. These are:

(a) A survey of current expenditures by international bodies on the promotion of exports of primary commodities; and an assessment of the effectiveness of such expenditures (paragraph 235);

(b) A review of the research and development expenditures on both natural and competing synthetic materials (paragraphs 239 and 240);

(c) A study of the possibility of reducing the costs of processing natural materials (paragraph 243);

(d) Projections of longer-term trends in supply and demand for competing natural and synthetic products (paragraph 245);

(e) An analysis of the nature of the competition between natural and synthetic materials in each main end-use of the natural products concerned (paragraph 247).

Chapter V

Improving the access to markets in the developed market-economies for commodity exports from developing countries

249. In view of the prevalence of trade barriers affecting exports of primary commodities from developing countries to developed market economies, the first session of the United Nations Conference on Trade and Development attached great importance, in its recommendations, to the objective of improving market access. The first session proposed in recommendation A.II.1 that, in respect of such commodities, no new tariff or non-tariff barriers should be created; that existing tariffs, internal fiscal charges and quantitative restrictions should be reduced or eliminated; and that policies in support of domestic production in developed countries should be modified so as to reduce their adverse effects on imports.⁸⁵

250. The problems involved in the implementation of these recommendations can conveniently be grouped into three categories. There is, first, the question of how important, quantitatively, the present barriers are to imports of primary commodities into the developed market countries, and to what extent their reduction or abolition is likely to benefit the export earnings of developing countries. Here, it is convenient to distinguish barriers to trade which protect domestic producers of primary commodities against foreign competition, and those which are imposed wholly or mainly for revenue purposes, and also those barriers protecting domestic industries which process primary commodities. Secondly, there is the problem of how a reduction or abolition of trade barriers might be approached, in terms of possible new intergovernmental arrangements. Thirdly, the problems of possible structural readjustments in the economies of the developed market countries, made necessary by the reduction or abolition of trade barriers, call for separate consideration.

A. PRESENT SYSTEMS OF TRADE BARRIERS

1. Protection of domestic primary production

251. Though the forms of protection in force in developed countries vary considerably, as will be seen below,

they all have one general objective in common, namely, to provide domestic producers of primary commodities with a level of real income judged to be reasonable in relation to the corresponding levels in other sectors of the economy.⁸⁶ In most developed market countries, this income objective is sought indirectly through the support of domestic prices at remunerative and stable levels. In some countries, in addition, direct subsidies to domestic producers are made in order to maintain or increase the incomes of primary producers. However, the concern of Governments to limit the budgetary cost of such assistance has generally restricted the scope for direct subsidy payments.⁸⁷

252. In some developed countries, the main effect of such protectionist measures is often to increase land values and rents, rather than to increase wages for farm workers, who usually represent an important part of the population engaged in primary production. Thus, in practice, these policies might well not succeed in achieving their stated objective of increasing real incomes in the primary sector. Moreover, by resulting in higher domestic prices for food and other goods, protectionist policies bear heaviest on the level of living of the poorer sections of the community.

(a) The forms of protection

253. The markets for most of the major agricultural commodities, and many of the minor ones, produced in the developed countries are subject to some form of official intervention, though the forms of such intervention vary widely. Broadly speaking, such market intervention can be classified into three categories, according to whether they act primarily to support producer prices, to reduce the costs of agricultural inputs, or to influence the volume of foreign trade.

254. The *support of producer prices* has generally been the most important method of providing a desirable level of farm income while, at the same time, achieving a substantial measure of internal price stability. Producer price support can be achieved in two ways: either by leaving the market price free and making direct payments to producers up to a guaranteed price level (the "deficiency payments" system), or by supporting the market price at the desired level by means of government purchases supplemented, where necessary, by import restrictions. The deficiency payments system has been a major method of price support only in the United Kingdom though, in recent years, it has been supplemented by the introduction of minimum import prices (for grains) and by market

⁸⁵ See *Proceedings of the United Nations Conference on Trade and Development*, vol. I, *Final Act and Report* (United Nations publication, Sales No. 64.II.B.11), pp. 26-30.

⁸⁶ Subsidiary objectives which are pursued in many developed market economies include the improvement of agricultural productivity, the rationalization of the farm structure, and improved domestic marketing arrangements. For a detailed discussion of these policies in OECD countries, see OECD, *Agricultural Policies in 1966*, (especially pp. 13 and 14 and 59-62). In addition, protection of domestic production of particular commodities may be the result of strategic considerations.

⁸⁷ Protection has sometimes been justified on balance-of-payments grounds. While, however, import restriction will result in a short-term gain to the balance of payments, the longer-term effects might well be adverse, since domestic resources in protected activities could more profitably be employed elsewhere, including employment with export potential.

sharing agreements with principal supplying countries for certain important agricultural products (meat, bacon and cereals).

255. Market price support can be achieved in a number of ways, including the fixing of internal prices for particular commodities as, for example, the prescribing by Governments of the price paid to sugar beet producers in a number of countries of Western Europe; the intervention in the market by government agencies to purchase at a specified price as, for example, under the United States price support programmes, and the purchases of certain "intervention prices" under the common agricultural policy of the European Economic Community (EEC); and the various systems of import restriction discussed below.

256. Another approach to the support of farm income is the *subsidization of the cost of farm inputs*; such as fertilizers, feeding stuffs, seeds and machinery. To the extent that such subsidization leads to an increase in productivity and a reduction in costs of production, the amount of deficiency payments or the degree of market price support is correspondingly reduced. This approach has become an important element in agricultural policy in a number of less-advanced OECD countries, where the scope for further increases in productivity as a result of large agricultural inputs remains substantial, but subsidies on particular inputs are also in force in a number of more advanced countries in Western Europe.⁸⁸

257. *Restriction of imports* remain a widespread method of protection of domestic producers of primary commodities in the developed countries. The forms of import restriction vary considerably. They include import duties (particularly on fruit and vegetables, and on processed foods and materials); variable import levies (particularly on commodities subject to the common agricultural policy of EEC); quantitative import restrictions on a wide variety of primary products; minimum import prices; and market sharing arrangements.⁸⁹

258. The general pursuit of agricultural support policies by one, or a combination, of the measures outlined above has tended to insulate national markets in the developed countries from price movements on the world market for a range of temperate-zone primary commodities. For many such commodities, world prices have been appreciably lower than internal prices, and this has led to increasing subsidization of agricultural exports by a number of developed countries. The effect of such subsidization of exports is both to put a downward pressure on prices in the world market and thereby to reduce the export earnings of the developing countries from the commodities concerned. Moreover, to the extent that the

volume of such subsidized exports fluctuates, this would tend to accentuate the instability of prices on the world market.

259. These various measures of protection and of income support for domestic producers are used in different degrees and in different combinations in the several developed countries. In the United Kingdom, for example, the predominant method used is to make deficiency payments to producers, corresponding to the difference between the average market price and the guaranteed price (as determined in annual discussions between the Government and the farmers' unions). For beet sugar, a special arrangement exists, under which producers receive a guaranteed price for the output of allotted acreages.

260. In the United States, the main method of supporting farm income is the price support and related programmes, the level of support for most commodities being related to the "parity price" of the commodity. For certain storable commodities, such as cotton and grains, producers can obtain a cash loan for an amount corresponding to the value of the commodity at the support price. The various price supports have, however, been contingent upon measures to adjust production and marketing. Production controls, working mainly through restrictions on the area planted, form an integral part of the various commodity support programmes. An important new development in recent years has been the introduction of direct subsidies as an element in the price support programmes for feed grains, wheat and cotton.

261. In EEC, a system of variable import levies is used as the basic method of protection against imports for those commodities covered by the common agricultural policy. For such commodities, the amount of the levy on imports from outside EEC corresponds to the difference between the "threshold price" of the importing country and the import price,⁹⁰ the "threshold price" being closely related to the domestic price support level. For commodities, such as grains, for which domestic prices are above world prices, the import levy on supplies from outside EEC can be substantial.⁹¹ These import levy arrangements form an integral part of the market organization for agricultural commodities which has been set up to give effect to the various objectives laid down in the Treaty of Rome.⁹² They constitute an effective technique for protecting the domestic producer against lower cost competition from external suppliers, and also insulate the domestic markets of the member countries from fluctuations in the world market situation for the commodities concerned.

⁸⁸ See OECD, *Agricultural Policies in 1966*, pp. 78 and 79.

⁸⁹ In addition, other protective measures used in some developed countries include seasonal import prohibitions for particular fresh fruits and vegetables, compulsory purchases by importers of a given quantity of the same commodity from domestic producers, and restrictions imposed for health and sanitary reasons (for detailed descriptions of these systems, see OECD, *Agricultural Policies in 1966*).

⁹⁰ During the transitional period, before the final establishment of price harmonization between the member countries, a standard amount (*montant forfaitaire*) is added to the threshold price to afford a preferential margin to supplies from other EEC countries.

⁹¹ For example, for soft wheat the import levy expressed as a proportion of the import price was 61-71 per cent for France and 99-113 per cent for the Federal Republic of Germany over the period 1962-1965 (see FAO, *Monthly Bulletin of Agricultural Economics and Statistics*, March 1965).

⁹² Treaty establishing the European Economic Community, signed at Rome on 25 March 1957.

(b) *The level of protection*

262. The wide variety of forms of protection in use in different developed countries makes it difficult to identify with any degree of precision the importance of protection in different countries and for different commodities in restricting access to these markets for imports from external suppliers. Since, however, the underlying purpose of all forms of protection, as already indicated, is to maintain producer incomes—by raising prices or by direct income support—a reasonably approximate method of assessing the level of protection can be obtained by comparing the return realized by domestic producers of particular primary commodities with the corresponding prices on the world market.

263. A recently published calculation on this basis for the principal developed market economies is summarized below (table 5). The figures represent the average level of price support in each country for six major agricultural products, namely, wheat, sugar, milk, beef, pork and eggs. As the authors point out, if domestic price supports were removed in the whole of Western Europe, then world market prices would rise to the extent that supply is inelastic in the short run, so that the percentages of price support, as shown, give a somewhat exaggerated picture of the level of support. None the less, the calculations enable some broad conclusions to be drawn. For the EEC area, the average degree of price support for the six commodities has risen from about 35 per cent in the later 1950s to about 50 per cent in a recent period (1963/64). For both the European Free Trade Association (EFTA) and the United States, however, the degree of price support for the same commodities has fallen somewhat, the level of support in the United States being very much lower than in western Europe. Within the latter region, the magnitude of price support varies widely from country to country. In 1963/64, for example, five countries had price supports exceeding 60 per cent (the Federal Republic of Germany, Italy, Sweden, Switzerland and Finland), whereas—at the other extreme—support averaged under 15 per cent in two countries (Ireland and Denmark).⁹³

264. An approximate indication of the relative degree of support given to agriculture and manufacturing industry can be obtained by comparing the average price support for the agricultural products already mentioned with calculations recently made by Professor Balassa of the average tariff rate on imports of manufactures. In this context, the relevant tariff rate is the "effective" rate (that is, the degree of protection on the value added in manufacturing) rather than the nominal rates applied on imports of the various manufactured products, and as table 5 indicates, the effective rates are substantially higher than the nominal rates. This type of comparison of the degree of protection for agriculture and manufacturing industry cannot purport to be very precise, but the results would seem to indicate that, broadly speaking, the degree of effective protection is of the same order

TABLE 5

Price support for agriculture and industry in certain developed market economies
(Percentages)

	Price support for selected agricultural products ^a		Weighted averages ^b of tariffs on imports of manufactures, 1964	
	1956/57	1963/64	Nominal	Effective
EEC	36	52	12	19
EFTA	40	36	..	..
United Kingdom of Great Britain and Northern Ireland	47	31	16	28
United States of America	21	18	12	20

Sources: Odd Gulbrandsen and Assar Lindbeck, "Swedish Agricultural Policy in an International Perspective", *Skandinaviska Banken*, 1966, No. 4 (Stockholm, Torsten Carlsson); Bela A. Balassa, "Tariff Protection in Industrial Countries: an Evaluation", *Journal of Political Economy* (Chicago, Illinois, University of Chicago), December 1965.

^a Difference between the average prices of wheat, sugar, milk, beef, pork and eggs at the producer level, and the corresponding prices that would prevail on the basis of world market prices expressed as a percentage of the latter and weighted by total west European production of each commodity (for EEC and EFTA), and by United States production for the calculations for the latter country.

^b In averaging tariffs, 1964 data on the individual countries' non-preferential imports from all sources of supply have been used as weights.

of magnitude for both sectors in the United Kingdom and in the United States, though the absolute level of protection is appreciably higher in the former country. In the EEC countries, however, the comparison indicates that agriculture is supported to a far higher extent than is manufacturing industry, the average price support for the selected agricultural products in these countries being over two and a half times the average tariff level on imports of manufactures.⁹⁴

265. The calculations summarized in table 5 are of interest in that they indicate the orders of magnitude of protection enjoyed by producers of temperate-zone foods in some of the main developed market economies. Of the products covered, however, only sugar is currently exported in substantial quantities by developing countries.⁹⁵ Since, moreover, sugar is by far the most important primary commodity export of developing countries at present affected by protection of developed countries, the following discussion draws heavily on illustrations from the sugar position. It should be stressed, however, that the present pattern of commodity exports from developing countries is itself a reflection, in part, of the pattern of protection in the developed countries. A general reduction in the level of protection would thus tend to broaden the range of commodity exports from developing countries, and reduce the current heavy dependence on certain bulk items such as sugar.

⁹⁴ It must be noted, however, that the weighted averages of tariffs on imports of manufactures shown in table 5 underestimate the degree of protection against manufactures of particular interest to developing countries. These tend to face higher tariffs, while some are also restricted by quantitative controls (e.g. textiles) which are not taken into account in the measure of average tariffs.

⁹⁵ Exports of beef are important for certain developing countries such as Argentina, Uruguay and Yugoslavia.

⁹³ Details for individual countries are given in the source indicated in table 5.

266. A calculation for sugar similar to that summarized in table 5 indicates that domestic beet sugar production is, in effect, price-supported, to a greater or lesser extent, in all countries of Western Europe and in the United States. For the majority of these countries, the margin of support in a recent period (1962-1964) ranged from 25 to 50 per cent, with the United States, Sweden and the Federal Republic of Germany in the upper part of the range, and Belgium, the Netherlands, Italy and the United Kingdom towards the lower end. For France and Denmark, exceptionally, the margin of support was under 10 per cent, though for France this percentage will be increased under the common agricultural policy of EEC.

At the other extreme, the margin of support for domestic sugar beet is in the region of 75 per cent for Spain and 150 per cent for Finland. These various margins of support have, moreover, remained substantially unchanged since the late 1950s.⁹⁶

267. Though sugar is the main primary commodity export of developing countries adversely affected by protection in developed countries, similar calculations for other commodities, particularly vegetable oilseeds, tobacco, meat and fruit, would also indicate that domestic production of these commodities also enjoys a substantial margin of support in many developed market-economy countries, though the extent of the support would vary considerably among the different developed countries.

(c) *Effects of reduction or abolition of protection*

268. Protection imposes economic losses on both developed and developing countries. In the developed countries, resources are used in protected activities in which they have a comparative disadvantage in relation to alternative uses. As a result, total real product is lower than it would otherwise be; there may, however, be an offsetting gain—though probably a relatively small one—to the extent that import restrictions turn the terms of trade in favour of the developed countries. At the same time, the developing countries concerned suffer a real income loss by having to channel their resources into less economic activities in the primary sector. For those countries which continue to export the commodities in question, there will also be a terms-of-trade loss arising from the developed countries' import restrictions.

269. For the developed countries a reduction in protection would allow the deployment of resources in more economic activities and, to this extent, would result in a gain in real income. For example, it has been estimated that, for Sweden, the abolition of protection of domestic agriculture would, in the long run, release four fifths of the agricultural labour force and result in an increase in national income of some Kr. 4,000 million (5 per cent of the 1964 total). If protection were not totally abolished but retained for a range of agricultural products sufficient to provide from domestic production for what might be regarded as emergency needs, then the corresponding long-term gain would be in the region of

Kr. 3,000 million.⁹⁷ For most developed countries, however, the reduction of protection would conflict with the policy aim of ensuring a desired level of income for domestic producers of primary commodities, unless at the same time other policies were initiated to maintain the income objective. Such policies, which could aim to influence producers' incomes either directly or through appropriate structural changes in the primary sector, are discussed in greater detail in the last section of this chapter.

270. For the developing countries, easier access to the markets of developed countries, resulting from a reduction in protection of commodities of particular interest to developing countries, would allow them to expand their export earnings. Moreover, in so far as the reduction in protection led to a reduction in world supply of particular commodities, prices could also tend to rise, thus adding to the expansion in export earnings resulting from the increased volume of exports to the developed countries.

271. For certain primary products, the insulation of national markets in the developed countries has reduced the size of the residual world market. Since, for these commodities, it is the residual market which bears the burden of adjustment to changes in world supply and demand, the insulation of national markets tends to accentuate fluctuations in the world price, as measured in the residual market.⁹⁸ To the extent that the reduction in protection results in a more unified market, operating on a wider base of transactions, fluctuations in world supplies will tend to result in smaller price fluctuations than under the present system and, for many commodities, in greater stability in the export earnings of the developing countries concerned. Moreover, in so far as natural materials facing competition from synthetics would benefit from a reduction in price fluctuations, this would enhance their longer-term competitive position in the world market.

2. *Revenue duties*

272. A number of developed countries impose duties for revenue purposes on the import, or internal sale, of a range of agricultural products, principally coffee, cocoa, tea, sugar, oilseeds and tobacco, and of petroleum. It has been estimated that, in a recent year (1962), nine major developed market economy countries collected about \$6,000 million from revenue duties and internal fiscal charges on primary commodities imported from developing countries. The bulk of this total was raised on petroleum, tobacco, coffee and sugar, with smaller amounts being derived, *inter alia*, from wine, tea, cocoa, oranges and tangerines and coconut oil.⁹⁹

⁹⁷ See Odd Gulbrandsen and Assar Lindbeck, "Swedish Agricultural Policy in an International Perspective", *Skandinaviska Banken*, 1966, No. 4 (Stockholm, Torsten Carlsson), pp. 105 and 106.

⁹⁸ See chapter II for a more detailed discussion of fluctuations on residual markets.

⁹⁹ See *Proceedings of the United Nations Conference on Trade and Development*, vol. III, *Commodity Trade* (United Nations publication, Sales No. : 64.II.B.13), pp. 33-35.

⁹⁶ For similar calculations for the period 1956/57-1958/59 for the countries of Western Europe, see United Nations, *Economic Survey of Europe in 1960*, chap. III, page 57.

273. Revenue charges on primary commodities tend to fall on commodities of mass consumption, the demand for which is relatively inelastic with respect to price. Revenue taxes on petroleum and tobacco contribute a substantial proportion of total tax receipts in most developed market countries, so that their abolition—or even appreciable reduction—might well involve radical changes in the whole tax structure; this might not be feasible, at least in the short term. Revenue taxes on tropical beverages and sugar, however, generally contribute only marginal amounts to total tax revenues¹⁰⁰ and their abolition would therefore appear to be feasible without any major changes in the tax structure of most developed market countries. However, as demand for these commodities is inelastic, the rise in consumption—and in exports from developing countries—consequent upon the elimination of these revenue charges would tend to be relatively small. None the less, the elimination of these revenue charges could be of some importance to particular developing exporting countries, especially if all the commodities now subject to revenue duties are considered as a whole (see, however, paras. 303-306).

3. Protection of processing industries

274. In addition to barriers to trade in certain primary commodities, arising either from protection of domestic production in developed countries or from the imposition of revenue duties, all developed countries impose tariffs or quantitative restrictions on the processed forms of these commodities. For many commodities, the restrictions on imports of the processed forms are combined with duty-free entry for the crude materials, thus providing the domestic processing industries of the developed countries with a substantial degree of protection against imports, including imports from developing countries. Moreover, the degree of protection generally increases with the stage of fabrication, from semi-processed to further-processed commodities, and from these to fully manufactured goods.

275. As indicated earlier, the extent of protection which is relevant in the present context is the protection, in the developed countries, of the processing stage only, that is, the protection given to the value added to the cost of raw materials. The protection of value added (usually known as the “effective” tariff) depends both on the import tariff levied on the finished product (that is, the ‘nominal’ tariff) and on the duties levied on the raw materials and intermediate goods used in its manufacture. The effective rate of protection for a given product will be higher than the nominal rate, the greater the difference between the nominal rate and the import duty on the constituent raw materials, and the smaller the value added in relation to the price of the product.¹⁰¹

¹⁰⁰ The tax revenue collected from import duties and internal sales taxes on coffee, cocoa, tea, oranges and bananas represented about 1½ per cent of total budgetary revenues in Denmark, Italy and the Federal Republic of Germany in 1961, and between ½ and 1 per cent in Belgium, France, Norway and Sweden.

¹⁰¹ Thus, if t and s are the nominal *ad valorem* tariff rates on imports of the product and of the constituent materials, respectively, m represents the ratio of raw materials cost in the final price of the

276. The rate at which import tariffs escalate as the degree of processing rises varies considerably from one commodity group to another and from one developed country to another. The results of a recent statistical exercise by Professor Balassa¹⁰² provide, however, a general picture which usefully demonstrates the point. Taking the crude and processed forms of a fairly wide range of commodities imported into the United States, the United Kingdom, EEC, Sweden and Japan, Professor Balassa has calculated weighted average rates of import duty on four broad stages of processing, from the original crude forms up to the fully manufactured products. His results (summarized in table 6) show a sharp escalation in tariff barriers from an average nominal rate of duty of about 4½ per cent on the crude forms (which include metallic ores, as well as foods and agricultural raw materials), to about 8 per cent on the simply processed forms, to much higher levels (16 and 22 per cent) on the higher stages of fabrication. In terms of effective tariffs, the escalation is very much sharper, the average rate on the simply processed forms being over 20 per cent, while on the more manufactured forms the rates rise to 30-40 per cent.

277. One result of these high rates of protection in the developed market countries for their domestic processing and manufacturing industries can be seen in the pattern of their imports from developing countries. As table 6 shows, over 70 per cent of such imports in 1964 (in the commodities covered by the calculations) consisted of the crude forms, while almost another 25 per cent consisted of simply processed goods. Imports of fully processed goods represented only about 5 per cent of the total imports of these commodities from developing countries.

278. These proportions exclude United Kingdom imports from developing Commonwealth countries, since such imports are generally not subject to United Kingdom import duties. The availability of the United Kingdom market on a duty-free, or preferential, basis to developing Commonwealth countries has resulted in a substantial shift in this flow of trade towards more processed forms. In 1964, for example, less than 50 per cent of United Kingdom imports from these countries (in the commodities covered) consisted of goods in crude form; over one third, by value, were simply-processed, while as much as one sixth were further processed or fully manufactured.

279. A modification of the present tariff structures of the developed market economy countries, designed to reduce the escalation in tariff rates on processed commodities, together with the removal of quantitative restrictions, would substantially widen the potential market for the

product; and v the value added, then the effective rate of duty on the product (z) would be:

$$z = \frac{t - \Sigma ms}{v}$$

(See Bela A. Balassa, “The structure of protection in the industrial countries and its effects on the exports of processed goods from developing nations” in *The Kennedy Round — Estimated Effects on Tariff Barriers* (United Nations publication, Sales No.: E.68.II.D.12)).

¹⁰² See Bela A. Balassa, *op. cit.*

TABLE 6

Weighted averages of nominal and effective tariffs by stage of fabrication in developed market-economy countries* and their imports from developing countries, 1964

(Percentages)

	Total, excluding United Kingdom imports from Commonwealth		United Kingdom imports from developing Commonwealth countries	
	Weighted average of tariffs		Imports from developing countries	
	Nominal	Effective		
Crude forms ^a	4.6	..	71.2	47.8
Simply processed ^b	7.9	22.6	23.8	35.6
Further processed ^c	16.2	29.7	2.9	10.1
Fully manufactured ^d	22.2	38.4	2.1	6.5
TOTAL	..	..	100.0	100.0
Value in 1964, \$U.S. million . . . . .	..	..	(8,626)	(890)

Source: Bela A. Balassa, *op. cit.*

* United States of America, United Kingdom of Great Britain and Northern Ireland, EEC, Sweden and Japan.

^a Fresh and frozen meat and fish, fresh fruit and vegetables, cocoa beans, hides and skins, groundnuts, copra, palm kernels, natural rubber, wood in the rough, pulpwood, raw wool, raw cotton, raw jute, sisal and henequen, iron ore, bauxite, copper, lead and zinc, ores and concentrates.

^b Meat and fish preparations, preserved fruit and vegetables, cocoa powder and butter, leather, groundnut oil, coconut oil, palm kernel oil, rubber products, wood simply worked, plywood and veneer, woodpulp, wool yarn, cotton yarn, woven jute fabrics, cordage, pig iron and ferro-alloys, unwrought copper, alumina, unwrought lead and zinc.

^c Chocolate, leather goods, including footwear, wood manufactures, paper and paper articles, woven wool fabrics, woven cotton fabrics, hosiery, jute sacks and bags, steel ingots, wrought copper, lead and zinc, unwrought aluminium.

^d Cotton clothing, rolling-mill products, specialty steel products, wrought aluminium.

processing industries of developing countries. This would help to diversify the pattern of exports from developing countries and enable them to gain the benefit of the value added at the processing stage. It would, at the same time, allow the developed countries to use their resources more profitably in the production of the more advanced and sophisticated types of manufactured goods, in which they have a substantial comparative advantage.

B. ALTERNATIVE APPROACHES TO IMPROVING MARKET ACCESS

1. Changing the form, but not the level of protection of primary production

280. An important distinction which can usefully be made, to begin with, is between those forms of protection which adversely affect the level of consumption and those which do not. Into the first group would fall all forms of restriction on the free flow of competing imports, including internal price support systems, import tariffs, import quotas and variable import levies. Under both import quota and variable import levy systems, improvements in productivity in external supplying countries would lead to a decline in the world price of the primary commodity concerned, not to increased imports into the protected

market. Such systems of protection, by raising domestic prices, either directly or indirectly, result in a lower volume of consumption than consumers would otherwise have preferred.¹⁰³

281. The second group of protectionist measures include deficiency payments and other forms of direct income support to domestic producers.¹⁰⁴ Under this type of protection, domestic prices are closely related to the level of world prices, so that domestic consumption is not adversely affected.

282. In principle, therefore, the deficiency payment type of protection would allow greater scope for exports from developing to developed countries than would those protective systems associated with higher domestic prices. The extent to which a change in the form of protection would result in a higher level of consumption and therefore in a higher level of demand for imports would depend on the effects of the change on the average level of retail prices and on the price-elasticity of demand in the developed countries concerned.

283. For purposes of illustration it can be estimated that, if internal prices for refined sugar in developed market countries in the period 1963-1965 had been related to the world price for raw sugar,¹⁰⁵ instead of higher domestic support prices, consumption in that period would have been higher by some 1.5 million tons (7½ per cent), of which about two thirds would have represented increased consumption in the United States and Japan. Assuming that this hypothetical change in the form of protection left domestic production in the developed countries unchanged, the entire increase in consumption would be met by imports. Assuming also that the share of imports from developing countries in this increase was the same as their share in total sugar imports into each country in 1965, the resultant rise in sugar imports from developing countries would have been about 0.9 million metric tons, representing some \$78 million, f.o.b. This calculation assumes that the monetary return received by certain developing countries under existing preferential arrangements is maintained. This hypothetical expansion in the market for sugar would have represented 11 per cent of domestic sugar production in the years 1963-1965 in the developed market economies, and its value would have increased the reanings of developing countries from sugar exports by about 8 per cent (see table 7, line 1).

284. A shift in the form of protection from domestic price support to deficiency payments (or other forms of direct income support to domestic producers) would require certain institutional changes in the developed

¹⁰³ An incidental effect of this type of protection is that it tends to increase the instability of prices in the world market (see the related discussion in chapter II).

¹⁰⁴ Including subsidies on farm inputs.

¹⁰⁵ The price of raw sugar on the residual world market averaged 3.2 U.S. cents per lb f.o.b. during the period 1964-1966. The increase in demand of 1 million tons that would have resulted from the hypothetical change in the form of protection would probably have resulted in a rise in world sugar prices. It is assumed here, purely for illustrative purposes, that the world price in these circumstances would have been 4 U.S. cents per lb, f.o.b. basis.

TABLE 7

Illustrative estimates of effects of alternative policies in developed market economies on sugar exports from developing countries 1963-1965

	Estimated increase in sugar exports from developing countries		Increase as proportion of total sugar exports from developing countries ^b	Estimated or required fall in sugar production in developed market economies
	Quantity	Value ^a		
	(Million metric tons)	(\$U.S. million)	(Per cent)	(Per cent)
1. Changing the form but not the level of protection	0.9	78	8	—
2. Reducing the level of pro- tection:				
(a) Reducing domestic sugar acreage to level of:				
1958/59-1959/60 average .	2.0	173	17	18
1962/63-1963/64 average .	1.2	107	11	13
(b) Reducing the margin of support to domestic pro- ducers:				
By 25 per cent	1.1-1.9	95-170	10-17	10-20
By 50 per cent	2.2-3.9	190-341	19-34	20-40
(c) Increasing the share of imports in consumption to level of:				
1958-1960 average	1.6	144	14	15
1962-1964 average	0.8	74	7	8

Sources: International Sugar Council, *Sugar Year Book 1965*, London 1966; FAO, *Trends and Forces in the World Sugar Economy*, 1962.

^a Assuming an average unit value of \$88 per metric ton (4 U.S. cents per lb.), f.o.b. basis.

^b Approximate value in 1963-1965 was \$U.S. 1,000 million, f.o.b.

^c Production in developed importing countries in 1963-1965 averaged 13.8 million metric tons.

countries concerned. Though a general change in the form of protection of domestic primary production might not be feasible in the short term, such a change might be less difficult if confined to particular commodities of export interest to developing countries. Moreover, such a change would also benefit the lower-income groups in the developed countries to the extent that it resulted in a fall in the cost of living.

2. Reducing the level of protection of primary production

285. The objective of achieving a more rational allocation of productive resources in the production of primary commodities, as between developed market economies and developing countries, could be met by a reduction in the level of protection for domestic producers of commodities which can be produced more economically in developing countries. The advantage of this approach lies in its not requiring changes in the institutional forms of protection which, as already indicated, could well prove difficult to achieve in practice.

286. There would seem, in principle, to be two ways in which this objective can be achieved within the present institutional framework of protection in the developed market countries. One approach would be for the latter to adjust their domestic production, either by direct

controls on output, or by restriction of acreage. A second approach would be to reduce the margin of price support afforded to domestic producers. These alternatives are discussed in more detail below.

(a) Production or acreage control

287. It would be possible, at least in some developed market countries, for official limits to be set to the quantities of domestic production for which guaranteed support prices would be paid. The United Kingdom, for example, applies the principle of "standard quantities", for which the guaranteed price applies to milk and cereals, while a variant of the principle is applied to pigs and eggs. Under this system, the average return to producers falls if output exceeds the "standard quantity", so that a disincentive is provided to excess production. A similar system, in operation in France for wheat, has been abolished under the EEC market regulations. The United States operates a variety of production and acreage controls, compliance with which is encouraged by a number of incentives. In general, only producers who restrict their plantings within specified acreages are entitled to price support, while for certain commodities further cuts in acreage may be encouraged by acreage diversion payments; for some other primary commod-

ities, sales from acreage above allotments are penalized.¹⁰⁶

288. As regards sugar, government regulation of production or acreage already exists in a number of developed market economy countries. For illustrative purposes, it is assumed here that direct controls over production or acreage are possible in all the developed market countries. During the decade 1954 to 1964, sugar production in the developed market countries rose by 5.7 million tons, whereas their consumption rose by only 5.2 million tons, thus reducing their import requirements by half a million tons a year. Over the same period, the excess production of developing countries (above their consumption) rose from 7.1 million tons in the earlier period to 9.7 million tons in the latter period.¹⁰⁷ A reduction in current levels of sugar production in developed market countries would not only lead to greater access to their markets for relatively low-cost sugar produced by developing countries but would also make an important contribution towards reducing the world sugar market surplus.

289. In order to provide some illustrative orders of magnitude of the quantities that would be involved, it is assumed here that acreages planted to sugar beet or cane in developed market economies in 1965 were restricted to the levels of an earlier period, here taken as either the average of the 1958/59 and 1959/60 seasons, or the average of 1962/63 and 1963/64. Allowance has been made for the rise in yields between these periods and 1965. Even at the higher rates of yield, however, there would have been a shortfall in supplies had acreage been restricted to the lower levels obtaining during these earlier periods, which presumably would have been met from additional imports.¹⁰⁸

290. Assuming that developing countries' share of such additional imports would equal their existing shares of each country's sugar imports in 1965, the additional exports of sugar from developing countries in that year would have amounted to 1.2-2.0 million tons, according to the degree of acreage restriction in the developed countries, representing 11-17 per cent of the value of their total sugar exports to developed market countries in that year (see table 7, line 2(a)). A restriction of domestic sugar production on the lines assumed would, however, have involved an over-all reduction of some 13-18 per cent compared with the average level of sugar production in the developed market economies in 1963-1965.

(b) *Reducing the margin of support*

291. An alternative approach to achieving greater market access for exports from developing countries, within the present institutional framework of protection, would be for developing countries to reduce the margin of support for the relevant primary commodities, by agreed amounts. In practice, this could be done by reduc-

ing target prices in agricultural support systems such as that operated in EEC, by reducing the rate of deficiency payment, where applicable, by increasing import quotas or reducing import tariffs, or by other appropriate measures.

292. The effect of any given reduction in the margin of support is likely to vary from commodity to commodity, and from country to country, according to the effect of such reduction on net profits of the producer, and on the cost, and probable profit, of diverting resources to alternative uses. Any realistic estimate of the likely effect on domestic production of a given reduction in the margin of support afforded to particular commodities would necessarily have to be based on detailed inquiries into production costs in producing units of different types and sizes, and in different areas, of each developed country. Allowance would also have to be made for the probable cost and net gain of alternative lines of production.

293. Though the data available at present are insufficient for such estimates to be made with any reasonable accuracy, some illustrative orders of magnitude can be computed for the probable impact of such a policy on sugar production in developed countries. For this purely illustrative purpose it is necessary to make some arbitrary assumptions about the proportion of domestic production that would cease for any given reduction in the margin of support. It has been assumed here that a reduction of 50 per cent in the margin of support would result in a decline in production of between 20 and 40 per cent, while a reduction of 25 per cent in the margin of support would lead to a 10-20 per cent fall in domestic output.

294. The resultant gain to the market for developing countries' exports would be twofold. First, the reduction in the margin of support would allow domestic prices to fall, thus encouraging an increase in consumption; and, secondly, the decline in domestic production¹⁰⁹ would result in a corresponding increase in demand for imports. Assuming, also, that exports from developing countries benefited on both counts in proportion to their share of each developed country's imports in 1965, their net gain with regard to sugar would have been of the order of 2.2-3.9 million tons (19-34 per cent in value terms) had the margin of support in that period been only one half of what it actually was, and 1.1-1.9 million tons (10-12 per cent in value terms) if the margin of support had been cut by one quarter (table 7, line 2(b)).

295. This approach—of reducing the margin of support for domestic production—would also need to be considered as a gradual process over a period of years, if undue dislocation of production in developed importing countries is to be avoided.

(c) *Increasing the share of imports in consumption*

296. The result of either approach discussed above would be to increase the share of consumption met by

¹⁰⁶ See OECD, *Agricultural Policies in 1966*, pp. 69-71.

¹⁰⁷ See UNCTAD, *Commodity Survey, 1966* (United Nations publication, Sales No.: 67.II.D.9), p. 44.

¹⁰⁸ The calculation assumes that retail prices and domestic sugar consumption would have remained unchanged.

¹⁰⁹ This decline in sugar production in the developed countries might, however, be limited in so far as the growing of sugar beet is of agronomic value in a crop rotation.

imports. Consequently, since different developed countries make use of different techniques of protection, negotiations might concentrate on the share of imports in consumption and each country could be left to make whatever adjustments were necessary in its own protective system in order to achieve the agreed objective in terms of this import share. For some countries, this would mean granting additional quotas for imports; for others, an appropriate reduction in the domestic support price or other protectionist measures would be required. This approach thus avoids the complications of an international negotiation on particular measures of protection and import control and aims at an agreement in principle in terms of "market sharing" between domestic producers and external suppliers.¹¹⁰ The particular problems involved in achieving such increases in the share of imports in consumption would need detailed study on a commodity-by-commodity basis.

297. To take sugar once again for illustrative purposes, table 7 (line 2(c)) shows that, had developed importing countries in 1965 taken appropriate measures so as to increase the share of imports to the average level of the years 1962-1964, their sugar imports from developing countries would have been higher than they actually were by some 800,000 tons (7 per cent in value terms); domestic production in the importing countries would, however, have been about 8 per cent lower. Had the import proportion of consumption been raised to the (higher) average level of the years 1958-1960, the gain to the developing exporting countries would have been 1.6 million tons (14 per cent in value terms), but production in the importing countries would have had to be cut by some 15 per cent.

298. The substantial reduction in sugar production in the developed countries which this approach would imply indicates that measures to increase the share of imports in consumption would need to be applied gradually over a period of years, so that the effects of any decline in domestic production could more easily be absorbed by the economies of the countries concerned. A variant of this approach would be an arrangement which slowed down the *growth* in domestic production in developed importing countries, so that production did not suffer an absolute decline. One way of achieving this would be an agreement which reserved a stated proportion of any increment in consumption, from a base period, for imports from developing countries.

299. Over the first half of the 1960s, virtually all the expansion in consumption in the net sugar-importing developed countries was met by an increase in domestic production while, over the same period, their imports from developing countries declined by 10 per cent (see table 8). An assessment of the probable effects of different market-sharing policies can be derived from FAO projections of production and consumption by developed

TABLE 8
Illustrative estimates of effects of alternative "market sharing" policies on sugar imports into developed market economies* from developing countries, 1965-1975
(Million metric tons)

	Production	Consumption	Balance ^a	Imports from developing countries
1959-1961 average	10.2	19.7	9.5	8.0
1964-1966 average	12.5	22.1	9.6	7.2
Change	+2.3	+2.4	+0.1	-0.8
1965 to 1975 (FAO projections) ^b				
Low	+2.9	+3.2	+0.3	+0.2 ^c
High	+3.8	+4.1	+0.3	+0.2 ^c
1964-1966 to 1975, assuming proportion of increase in consumption reserved for imports is:				
(a) 35 per cent				
Low	+2.2	+3.2	+1.0	+0.8 ^c
High	+2.8	+4.1	+1.3	+1.0 ^c
(b) 50 per cent				
Low	+1.7	+3.2	+1.6	+1.2 ^c
High	+2.1	+4.1	+2.0	+1.5 ^c

Sources: International Sugar Council, *Sugar Year Book 1965*, FAO, *Agricultural Commodities—Projections for 1975 and 1985*, October 1966.

* Net sugar-importing countries only.

^a Imports plus stock changes.

^b The FAO projections relate to the base period 1961-1963; the figures in this table are derived by applying the projected annual growth rates in production and consumption to the actual 1965 figures.

^c Derived by assuming that the share of developing countries in any increase in sugar imports into the net importing developed market economy countries would be the same as their share of imports during the period 1964-1966 (i.e. about 70 per cent). Future changes in stocks in the importing countries are assumed not to be large enough to affect the figures for imports from developing countries to any significant extent.

countries over the period 1961-1963 to 1975. Using these projections, which assume no change in government policies and a continuation of past trends in productivity, it can be estimated that over the decade 1965-1975 the probable further expansion in domestic sugar production in net-importing developed countries will be almost as great as the projected growth in their total demand for sugar. Consequently, the possible growth in their imports from developing countries would be very small, and such imports could decrease if supplies from low-cost developed exporting countries were expanding.

300. If, however, a proportion of the projected rise in consumption is reserved for imports, the volume of exports from developing countries could rise appreciably. With an import reservation of, say, 35 per cent of the increment in consumption, exports from developing countries might rise by as much as 0.6-0.8 million tons over what they would otherwise be, representing an additional export of some 8-11 per cent in their total sugar exports to this group of developed countries. A greater reservation for imports, say, 50 per cent of the increment in consumption, would be likely to result in an additional flow of exports of the order of 1.0-1.3 million tons, or 13-18 per cent of the total that would otherwise be

¹¹⁰ A more detailed discussion of the implications of a "market sharing" approach on these lines is given in an UNCTAD secretariat study entitled "Programme for the liberalization and expansion of trade in commodities of interest to developing countries" (TD/11).

attained. These estimates are on the high side, to the extent that low-cost developed exporting countries increase their share of the import markets of developed countries over the coming decade, but they are none the less a useful illustration of the possible order of magnitude of the gain to the exports of developing countries from this kind of incremental market sharing. It should be noted that, even on the 50 per cent share basis, production of sugar in the developed importing countries in 1975 would be appreciably higher than in 1965. This would indicate that this is a "minimum" approach to the solution of the longer-term problems of the world sugar market.

3. *The special case of revenue duties*

301. As indicated earlier,¹¹¹ a reduction or even abolition of revenue charges imposed by a number of developed market economy countries on certain exports of developing countries could not be expected to result in any substantial increase in developing countries' export earnings. This reflects the inelasticity of consumer demand for the principal commodities on which such revenue charges are imposed. It was previously argued that a case could be made for the abolition of these charges, at least on tropical beverage crops, the tax revenue from which represents a very small proportion of total tax receipts in the importing countries concerned. A similar case could be made out for a number of other export commodities of developing countries subject to revenue charges, such as oranges and bananas.

302. For these five commodities, it is useful to consider the order of magnitude of the benefit to the exporting countries which would accrue from the abolition of the relevant revenue charges. A calculation on these lines for the year 1961 indicates that such abolition in the EEC and EFTA countries would have resulted in an increase in export earnings of developing countries by about 3 or 3½ per cent, in the case of coffee and cocoa, but there would have been no significant increase for tea since the predominant importing country—the United Kingdom—imposes no revenue duties whatever. For oranges the price-elasticity of demand is appreciably higher than for tropical beverage crops, so that a relatively greater rise in consumption may be expected from the elimination of a given rate of duty. The estimates for 1961 indicate that the export earnings of the main producing countries would have been some 10 per cent higher in that year had there been no revenue duties imposed in EEC and EFTA countries. For bananas the corresponding increase in export earnings would have been in the region of 6 per cent (see table 9).¹¹²

¹¹¹ See paragraph 273.

¹¹² Since 1961, there have been a number of reductions and abolitions of particular revenue charges on tropical products, including the suspension or abolition of the import duty on bulk tea by all the EEC and EFTA countries, while the import duty on cocoa and coffee has been reduced by a number of countries, particularly France, Germany (Federal Republic) and Italy. However, internal sales taxes remained substantially unchanged, with the notable exception of Sweden, which abolished the sales tax on raw coffee at the beginning of 1964. Taking both tariffs and internal sales

303. An alternative approach to increasing the export proceeds of developing countries from commodity exports subject to revenue charges in developed countries would be to consider some form of monetary compensation to the developing countries affected for the resultant loss in real income. In principle, such compensation to exporting countries should be equal to the difference between the value of their exports, in any period, to countries imposing revenue charges and the value of exports of the same commodities that they would have attained in the absence of such charges (after deducting the value in alternative uses of the resources released owing to the lower level of exports resulting from the existence of the revenue charges). Any monetary transfer above this amount would, in principle, be another form of aid, rather than a compensation for loss of trade.

304. In practice, however, such a distinction would not only be extremely difficult to make with any precision, but would also undoubtedly indicate very different proportions of revenue collected in the different developed countries as appropriate for transfer back to the developing exporting countries concerned. For these reasons, any proposal on these lines might find more general acceptance, in principle, if the proportion of revenue collected to be transferred to the exporting countries was both small—at least to begin with—and standard for all the developed countries concerned.¹¹³

305. An illustrative calculation, also for 1961, indicates that the exporting countries would gain considerably more from even a modest proportionate transfer to them of the revenue duties collected on coffee, cocoa and tea, than they would from the complete abolition of the duties themselves (table 9). The difference in the gain to exporting countries, comparing the two alternative policy prescriptions, would be greatest for coffee, which is subject to the highest revenue charges, both in absolute terms and in relation to the value of the trade. A transfer of 20 per cent of the revenue collection for coffee, for example, would yield at least double the gain that would accrue from the abolition of revenue charges in EEC and EFTA countries. For cocoa, the gain from a revenue transfer would be relatively modest, compared with that resulting from abolition of duties; for tea, a revenue transfer would be relatively small indeed. For both oranges and bananas, the abolition of revenue duties would bring a greater gain to the exporting countries than would a modest (say, 20 per cent) transfer of revenue collected, as a result of the relatively higher demand elasticity for these products, compared with beverage crops.

taxes into account, the higher level of consumption in 1966 would seem to indicate that total tax revenue collected on cocoa, coffee and tea in that year probably exceeded the corresponding 1961 total. For bananas, however, the impact on consumption of the elimination of revenue duties would now be appreciably less than indicated for 1961 because of the abolition of the Italian State banana monopoly in the interim.

¹¹³ A suggestion on these lines, for transferring, say, 10 per cent of the revenue collected by developed countries on coffee, cocoa and tea to the developing exporting countries, has recently been made by the Advisory Committee to the Board and to the Committee on Commodities (see *Official Records of the Trade and Development Board, Fifth Session, Supplement No. 4*).

TABLE 9
Estimated effect of alternative fiscal policies on the export earnings of main producing countries *
(\$U.S. million and percentages)

	Coffee	Cocoa	Tea	Oranges ^a	Bananas	Total
Imports of EEC and EFTA countries	707	243	333	283	159	1 725
Revenue collected	591	70	20	77	27	785
Revenue as a percentage of imports	83	29	6	27	17	45
Effect of:						
(a) Abolition of all fiscal charges:						
Assumption A ^b	41	9	—	17	8	75
Assumption B	51	12	—	26	16	105
(b) Transfer of revenue						
20 per cent	101	14	4	15	5	139
50 per cent	253	31	10	37	13	344
Values of exports of countries included (to all markets) . .	1 460	450	550	270	270	3 000
Percentage increase under:						
(a) Assumption B	3.5	3	—	10	6	3.5
(b) Transfer of 50 per cent of revenue	17	7	2	14	5	11

Sources: A. Maizels, "Alternative Fiscal Policies for Tropical Export Products", FAO Special Studies Program, September 1965 (to be published).

* On the basis of 1961 data.

^a Including tangerines.

^b Assumptions A and B refer to the behaviour of retail margins in case of elimination of charges. Under A the (gross) retail margin *per unit*, and under B the total margin, would remain constant. In the second case, the decline in the retail price (and hence the increase in demand) would be greater.

306. There may well be, at present, legislative difficulties in some developed market economy countries in implementing such revenue transfers, even if these were considered desirable for particular commodities. However, the principle of such transfers, if accepted, could well become a useful additional element in a wider framework of policy designed to support and expand the export earnings of developing countries.

4. Reducing the protection for processing industries ¹¹⁴

307. As table 6 indicated, the tariff structure of the developed market economy countries has resulted in a distortion in the commodity pattern of their imports from developing countries. In particular, the escalation in tariff rates with the degree of processing has imposed severe limits on the potential export markets for processed goods made in developing countries. A systematic and comprehensive relaxation of these barriers to trade in processed commodities would allow a number of developing countries to branch into profitable processing activities

which would also help to raise their export earnings. Moreover, an increase in the proportion of processed and semi-finished goods (as well as fully manufactured goods) in their exports would tend to reduce the instability in their total export receipts.

308. The developing countries' prospects of exporting processed commodities should also be considered in the context of trade liberalization for primary commodities proper. Where a primary commodity is also the raw material of a processing industry and both the primary and processed forms are subject to tariffs or to non-tariff trade barriers, a relaxation of the trade barriers on the primary material alone would result in an increase in the effective rate of protection for the corresponding processing industry in the importing country. The benefit to developing exporting countries of trade liberalization for primary commodities alone might thus be offset, or more than offset, in such cases, by a deterioration in their market position as regards the processed forms of those commodities. A reduction in trade barriers on primary commodities should therefore be accompanied, as a minimum policy, by a corresponding ¹¹⁵ reduction

¹¹⁴ A discussion of approaches to reducing barriers to trade in commodities would not be complete without some reference to reducing protection of processed commodities. Proposals for reducing such protection, however, fall under item 11 of the provisional agenda for the second session of the Conference ("Expansion and diversification of export of manufactures and semi-manufactures of developing countries"),

¹¹⁵ In terms of the notation previously used, the nominal tariff on the processed form would have to be reduced by the tariff reduction for the raw material, multiplied by the ratio of raw material reduction for the raw material, multiplied by the ratio of raw materials cost in the final value of the product (i.e. by $\Sigma m\Delta s$) in order to maintain the effective rate of protection at the processing stage unchanged.

in the tariff or non-tariff barriers on the processed forms, so as to prevent an incidental increase in the effective rate of protection at the processing stages. A more rational policy, however, would be—as indicated earlier—to reduce the effective rates of protection on the whole range of industries processing primary commodities in the developed market economy countries, if possible on a preferential basis.

C. EFFECTS OF IMPROVED MARKET ACCESS ON ECONOMIES OF DEVELOPED COUNTRIES

309. The relaxation of restrictions on access to the markets of developed countries for primary commodities of interest to developing countries—both in crude and in processed forms—is not likely, in general, to result in substantial readjustments in the economies of the developed countries. As already indicated, the principal primary commodities affected are sugar, vegetable oils and oilseeds, tobacco, and certain tropical beverages and fruits. Apart from particular localities in the developed countries which tend to specialize in the non-tropical products concerned, any restraint on the production of these commodities is not likely to have any major implication so far as structural readjustments in the agricultural sectors of these countries are concerned. As regards the processed forms, imports from developing countries are likely to remain fairly concentrated in certain labour-intensive products, such as textiles, and in simply processed foods and industrial materials. While the relaxation of restrictions on market access for primary and processed commodities is likely to benefit the exporting developing countries substantially, the effects on the economies of the developed countries are unlikely to be great.

310. None the less, before changes in existing policies are made affecting the share of consumption of these commodities in developed market economy countries provided from domestic production, it would seem necessary to study in some depth the existing resources employed in their domestic production and the costs and benefits of possible alternative uses of some or all of these resources. Such alternatives can be considered on either of two levels, namely, alternative uses of resources within the existing structure of the primary sector and alternative uses of resources in other economic sectors. Since no major structural readjustments are likely to be involved in measures designed to improve market access for the particular commodities concerned, the major focus here will be on the alternatives open in developed market economy countries within the primary sector itself.

311. Once again, it is useful to take a specific commodity—sugar—in order to illustrate the principal issues involved. One of the alternative approaches discussed earlier involved the reservation of some proportion of the increment in sugar consumption in developed countries for imports from developing countries. This approach would evidently minimize any problems which developed countries might face in adjusting their primary sectors to allow for a higher share of imports of such commodities in domestic consumption. Other approaches, involving a phased reduction in the level of (high cost) domestic

output would involve a number of problems which merit some detailed consideration.

312. Given that the basic purpose of agricultural protection in developed market economy countries is, as indicated earlier, the support of farmers' incomes, then the essential question involved in measures designed to increase market access for imports of primary commodities from developing countries is whether such measures—for example, reducing the level of support for domestic producers—are likely to affect adversely the level of farmers' income.

313. The degree to which farmers' incomes would be affected by a given change in the level of support for one particular commodity—say, sugar—depends on the proportion of those incomes initially derived from sugar cultivation and on the net loss involved in switching into alternative crops or other activities. This is not a matter which can be determined *a priori*, since the net impact on incomes of producers will no doubt vary greatly according to size and type of farm and local conditions of production. The contribution to farmers' incomes, in different developed market economy countries, of the production of protected commodities available at lower cost from developing countries, would seem to merit detailed study. None the less, it might be possible for developed countries so to change the *commodity pattern* of support, by reducing the level of support on commodities of interest to developing countries (e.g. sugar and vegetable oilseeds) and increasing the level of support on other commodities (e.g. temperature-zone foods) so as to maintain the total value of farmers' incomes at its previous level. If this approach were accepted, the actual pattern of change in the system of protection could then be left to individual developed countries to decide. The result would then be a shift in the pattern of domestic output in developed countries such as to allow greater access for the primary commodity exports of developing countries.

314. Though such a shift in the pattern of support might be made in certain developed countries without adversely affecting the average level of farmers' incomes, the change could, in practice, result in hardship for certain classes of farmers who tend to specialize in products for which the level of support is reduced. Conversely, other farmers would tend to gain from the change. These differences could be adjusted by appropriate fiscal changes, which might possibly include direct subsidies to small farmers, as well as to those adversely affected by the change.

315. In principle, once the desirable level of farmers' incomes has been decided upon, the most economic allocation of resources would result from the application of a uniform degree of price support for every commodity, or a uniform rate of subsidy on total output, such that the desired income level is attained. In practice, however, most developed market economy countries provide appreciably higher levels of support for labour-intensive activities, such as dairy farming, than they do for cattle raising and cereals production, which use relatively little labour. Any substantial shift in the pattern of support away from labour-intensive activities—which would

include sugar beet production—might well create difficult problems of rural unemployment, at least in certain local areas of the developed countries in the short run. This labour aspect of possible economic adjustments would also merit further study in some depth, taking account of differences in farm size and farm conditions.

316. In the longer run, it would prove economically advantageous for the developed countries to reorientate their economies so that a higher proportion of the labour force is engaged in those activities in which they generally have a comparative advantage, in relation to the developing countries. The outflow of labour from agriculture has been a marked phenomenon in the developed countries for some generations, and this is likely to continue in the future. However, the general objective of achieving a more efficient agriculture with a smaller labour force could be attained more rapidly if the present asymmetry in the pattern of price support within the agricultural sector were appreciably reduced in the near future. Similarly, a substantial reduction in trade barriers on imports of processed commodities—both agricultural and mineral—into the developed market economy countries would greatly assist in achieving a more rational allocation of resources.

D. FURTHER STUDIES

317. In the course of the above discussion, a number of areas were revealed in which further study would seem desirable. Among the more important of these are:

(a) Studies of the problems involved in increasing the share of imports from developing countries in domestic consumption of developed countries for selected commodities (para. 296); and

(b) An examination of the practicability of changing the commodity pattern of income support to domestic primary producers in developed market economy countries, so as to favour the export products of developing countries without adversely affecting the incomes of domestic producers (paras. 313-315).

318. Whichever of the various approaches discussed earlier is adopted for improving access to markets for commodities of interest to developing countries, experience indicates that intensive inter-governmental consultations will be required to explore in depth the possibilities of implementing practical liberalization measures. Such consultations would need to take into account the different circumstances of the various commodity markets, and would need to be carried out on a commodity-by-commodity and/or country-by-country basis.¹¹⁶

319. It would seem desirable that any further empirical studies, such as those indicated above, that might be required relating to the problems arising from particular policies designed to increase access to markets; should be carried out within the framework of such inter-governmental consultations.

¹¹⁶ The issues involved in setting up such inter-governmental consultative machinery are examined in a separate document (TD/11) entitled "Programme for the liberalization and expansion of trade in commodities of interest to developing countries".

Chapter VI

Increasing commodity exports from developing to socialist countries

A. THE BACKGROUND

1. Recent trends

320. The trade between developing and socialist countries has expanded very rapidly in recent years. The exports of the former to the latter, consisting predominantly of primary commodities, more than doubled in value between 1956 and 1960 and nearly doubled again between 1960 and 1965. The major part of this expansion was in food and beverages, exports of which from developing to socialist countries rose, on the average, by 26 per cent a year from 1960 to 1965. For raw materials (excluding fuels), however, the corresponding rate of growth was only about 5 per cent a year.

321. Despite this rapid rate of growth in trade, the share of the socialist countries in exports of primary commodities from developing countries to all destinations still remains relatively low—a little over one tenth in 1965 as against about 6 per cent in 1960. The socialist countries have nevertheless become an important destination for the expanded volume of exports of primary products from the developing countries, nearly one third of the total increase in their exports of primary commodities (other than fuels and non-ferrous metals) from 1960 to 1965 being due to the growth in their exports to the socialist countries.

322. Of their total exports of primary commodities, the greater part (70 per cent in 1965) has been accounted for in recent years by eight items, namely, sugar, cotton, natural rubber, coffee, cocoa beans, tea, citrus fruits and jute (in descending order of importance). The three most important commodities in this flow of trade (sugar, cotton and natural rubber) represented, however, only a small proportion (in 1965) of the total value of imports of primary products of developed market economies from the developing countries,¹¹⁷ while the eight commodities together accounted for only one quarter of the 1965 total.

323. These differences in the structure of import demand as between socialist countries and the developed market-economies may have considerable relevance as regards assessing the over-all prospects of primary exports from the developing countries. It seems that the import demand of the developed market-economies had the maximum expansionary impact on exports of crude petroleum products, whereas imports of the socialist countries exercised a significant influence on the expansion of trade in other primary commodities.

324. The increases in the imports of a number of primary products by the socialist countries in recent years

¹¹⁷ Crude petroleum and products alone accounted for nearly one third of the imports of primary commodities by the developed market economies from the developing countries in 1962 see *Proceedings of the United Nations Conference on Trade and Development*, vol. III, *Commodity Trade* (United Nations publication, Sales No.: 64.II.B.13), p. 12; the corresponding figure for 1965 was 38 per cent (United Nations, *Monthly Bulletin of Statistics*, March 1967).

have led to their becoming important destinations for the exports of these products. The import demand of the socialist countries now absorbs nearly one-fifth of the developing countries total exports of sugar and natural rubber, their share in world exports of cocoa beans, jute and raw cotton being about one-seventh, and of citrus fruits and tea about one-tenth. For these commodities, variations in the import demand of the socialist countries would be likely to have a major impact on the trend and fluctuations in the world market.

325. The country pattern of imports into socialist countries shows an appreciable concentration on a certain number of developing countries. Three of them (Cuba, India and the United Arab Republic) accounted for about one-half of the total value of trade between developing and socialist countries both on the export and import side. Socialist countries absorbed in 1965 over one-fifth of the exports from seventeen developing countries, and they accounted for nearly three-quarters of the total expansion in the exports of this group of countries between 1960 and 1965. A broadening of the country pattern of trade between the countries in question has been taking place since the beginning of the present decade and the continuation of this process is to be expected.

326. Some broadening of the commodity composition of imports from developing to socialist countries has also been going on during the first half of the Development Decade. The eight commodities in question represented in 1960 about 97 per cent of total primary commodity imports into socialist countries, while in 1965, as mentioned earlier, they represented 70 per cent.

2. New developments in the socialist countries

327. A number of recent developments in the socialist countries would appear to indicate that their imports of primary commodities from the developing countries are likely to continue to increase rapidly. The most relevant of these new developments are the growth of personal consumption, the problems of increasing raw material supplies within the socialist countries, and the new economic reforms in these countries.

328. *Personal consumption.* In their new development plans, the socialist countries of Eastern Europe are paying considerable attention to raising the level of personal consumption. Present levels of *per capita* consumption of many tropical products—such as cocoa beans, coffee, tea and citrus fruits—are substantially below the corresponding levels in many developed market-economy countries at similar levels of real income per head. In 1965, for example, *per capita* consumption of cocoa and bananas in the Soviet Union was one fifth and one tenth, respectively, of the corresponding levels in Western Europe; for the other socialist countries of Eastern Europe the corresponding proportions were two fifths and one fifth, respectively. The consumption is considerably higher per head in the USSR than in the other socialist countries of Eastern Europe, the reverse being true for coffee; for both tea and coffee, however, consumption per head in the socialist countries is still well below the Western European average (see table 10). Any

TABLE 10
Per capita consumption of selected tropical products in Eastern and Western Europe in 1965
(Kilogrammes)

	USSR	Other socialist countries of Eastern Europe	Western Europe
Cocoa	0.26	0.57	1.46
Coffee	0.15	0.72	3.07
Tea	0.31	0.10	0.79
Bananas	0.10 ^a	0.20 ^{a b}	9.10
Vegetable oils	6.4	5.9	11.8

Sources: FAO, *Agricultural Commodities—Projections for 1975 and 1985*, October 1966; FAO, *Commodity Review, 1967 and Trade Yearbook, 1966*.

^a Imports.

^b Excluding Albania and Eastern Germany.

appreciable expansion in the consumption of these commodities would generally require corresponding increases in imports from developing countries.

329. *Raw materials.* The rapid growth in industrial production in the socialist countries has resulted in a correspondingly fast growth in the demand for raw materials and fuels. These countries have so far depended to a large extent on supplies available within the countries members of the Council for Mutual Economic Assistance (CMEA). In recent years, however, the raw material importing socialist countries have begun to study the possibilities of meeting their growing demand for raw materials and fuels through imports from developing countries.

330. *The economic reforms.* The exact content of these reforms, their timing and the implementation of the necessary institutional framework vary from country to country; but they all have one common feature, namely, the introduction and emphasizing of economic considerations in planning programmes of investment and foreign trade, and in carrying out reforms in management. Considerations of comparative cost are likely to play, within the limits of balance-of-payments requirements, an increasingly important role in determining whether the supplies of a particular commodity should be made available from domestic output or from imports. Measures aimed at a reform of the domestic price structure and the elimination of some of the discrepancies between external and domestic prices could play an important role in determining, more precisely than has hitherto been possible, the cost-benefit ratios of supplying a commodity from domestic output and imports. Foreign trade, both with developing and developed market-economy countries, is thus likely to play a more important role in the economies of the socialist countries.

331. For these various reasons, it would seem that there is ample potential for a further substantial growth in commodity exports from developing to socialist countries. Moreover, the rising requirements of the developing countries for imports of machinery and equipment furnish the basis for a continued increase in exports in the reverse direction.

332. Firm bases are not available for assessing the probable future growth of import demand of the socialist countries for individual primary commodities, since the recent plans in most cases provide no indicators for foreign trade while, even where indicators are available, they refer to broad totals only. Still, it might be useful to discuss, by way of illustration, the import prospects for the three most important commodities, sugar, cotton and natural rubber, which in 1965 accounted for nearly one half of the value of imports of the socialist countries from the developing countries. Such a discussion may have considerable relevance not only because the three commodities represent a large share of imports of socialist countries, but also because their imports compete with domestic products and, therefore, the precise level of their imports is dependent upon the net effect of a large number of interrelated policies affecting the level of imports and of domestic production. Such policies are also important for commodities, such as cocoa and coffee, which are not produced in the socialist countries; for these, the main determinants of policy are related more to balance-of-payments considerations than to the complex network of decisions concerning investment criteria.

333. *Sugar.* Imports of sugar by socialist from developing countries (Cuba being the sole source of supply) rose sharply in 1961 to almost 5 million tons, fell to 2.0 million tons in 1963 and rose again to 3.2 million tons in 1965 and 1966; in the two latter years, these shipments represented over one-fifth of the total exports of sugar from the developing countries. Accommodating these large imports of sugar necessitated a number of adjustments in the exports of sugar from some of the socialist countries. The USSR, Czechoslovakia and Poland, for example, exported some 2 million tons a year in 1961-1962 when prices were high, but in the years 1964-1966, exports from these countries declined to an average of only about 1½ million tons.

334. As a result of the sharp expansion in sugar imports, and of a notable rise in domestic production, *per capita* consumption in the socialist countries of Eastern Europe rose to about 40 kg in 1965 and 1966, or about the same as the average level in the developed market economies. To accommodate a further substantial growth in sugar imports from Cuba, the level of domestic consumption in the socialist countries would have to rise further and/or the rate of growth in domestic sugar output in these countries would have to be slowed down.

335. *Cotton.* Imports of raw cotton by the socialist countries of Eastern Europe (other than the Soviet Union) rose from 744,000 tons in 1960-1961 to 883,000 tons in 1964-1965. Part of these imports, however, were from the Soviet Union; those from the developing countries rose by some 160,000 tons (43 per cent) from 1960 to 1965. The main suppliers of cotton, mostly long-staple varieties, were the United Arab Republic, Syria, Sudan, Brazil and Afghanistan. The socialist countries accounted in 1965 for about one-fifth of the total exports of cotton from the developing countries.

336. The only producer of cotton in the socialist countries of Eastern Europe is the Soviet Union. Its new plan provides both for an increase in raw cotton output (from

5 million tons in 1965 to 6 million tons in 1970), and also for a rapid growth in the production of synthetic fibres.¹¹⁸ Raw cotton imports by socialist countries are thus unlikely to rise by a substantial amount unless domestic consumption is allowed to expand more than is currently planned and/or some appropriate reductions are made in the plan targets for domestic fibre production.

337. *Natural rubber.* Imports of natural rubber by the socialist countries of Eastern Europe decline somewhat from a high point of about 475,000 tons in 1961, to an average of some 410,000 tons in 1965 and 1966. The socialist countries of Eastern Europe remain a major market for natural rubber exports, accounting for nearly one-fifth of the total in 1965-1966, compared with one quarter in 1961.¹¹⁹ This fall in their imports of natural rubber was, to a large extent, the result of a rapid expansion in synthetic rubber production, which more than doubled between 1960 and 1965. The new plans of the socialist countries provide for major increases in the output of synthetic rubber in the main producing countries. The new plan for the Soviet Union, for example, provides that "the output of synthetic rubber must be increased by 120 per cent . . . and the life service of tyres must be increased by 50 per cent".¹²⁰

338. The demand of the socialist countries of Eastern Europe for natural rubber will depend on the rise in domestic demand for rubber and on that part which cannot be met by increased synthetic output. The Soviet plan's directives provide for substantial increases in the output of road vehicles. Here again, the prospects for a significant expansion in imports of natural rubber do not appear promising unless the total demand for rubber increases much faster than the output of synthetic rubber.

339. It would seem that, unless consumption grows faster than at present planned, the imports of these primary commodities by the socialist countries cannot be expected to show a rapidly rising upward trend over the years to come. In general, for the period 1966-1970, a slowing down of the 1961-1965 average growth rate of food imports into socialist from developing countries can be expected because of the fall in the previous extremely high growth rate of imports of sugar from Cuba. This could, however, be partly balanced by an accelerated rise in imports of other foodstuffs, such as cocoa, coffee, citrus fruits and tea, as well as vegetable oils and oil-seeds. Imports of raw materials and fuels into socialist countries from developing countries, on the other hand, could well rise at a higher rate in 1966-1970 than in 1961-1965.

¹¹⁸ In the Soviet Union alone, the new plan provides for increasing synthetic fibre output from 407,000 tons in 1965 to 780,000-830,000 tons in 1970 (see *Directives of the XXIIIrd Congress of the Communist Party of the Soviet Union for the Five-year Economic Development Plan of the USSR for 1966-1970* (Moscow, Novosti Press Agency), p. 335).

¹¹⁹ The estimated volume of natural rubber imports into Mainland China, however, rose from 83,000 tons in 1961 to an average of 153,000 tons in 1965-1966.

¹²⁰ *Directives of the XXIIIrd Congress, op. cit.*, p. 341.

B. MAIN AVENUES FOR EXPANDING TRADE

340. The possibilities of expanding the exports of primary commodities from the developing to the socialist countries would appear to be considerable. The translation of the potential into an actual expansion of trade, would, however, depend upon a number of measures to be taken by trade partners in both groups of countries. For one thing, the widening of the geographical and the commodity base of this trade would depend upon progress in establishing stable trade relations between the socialist countries and a large number of developing countries. Moreover, as the trade flows and the volume of credits extended by the socialist countries expand, the problems of settling trade balances and repaying credits are likely to become increasingly complex. New or supplementary methods of settling payments balances may need to be devised which are specifically suited to these trade flows.

341. These various approaches to the expansion of trade discussed below would require a long period for their full implementation. Attention may also be devoted to short-term policies, so that effective steps can be taken during the current period. In the light of the experience gained, it may then be easier to co-ordinate actions aimed at a longer-term perspective. In considering the practical application of different possible policies, separate assessment needs to be made of the relevance of each to the prospects for the different commodity groups.

1. *Bilateral agreements*

342. Bilateral agreements have been the most important instrument in the expansion of trade between the socialist and the developing countries. The content of these agreements has varied from country to country. Some establish only general conditions of trade, while others provide for a fairly detailed list of commodities to be exchanged on both sides, with or without specifying the value or quantum of each important item. The methods of settling balances also vary, the main alternatives being payments in convertible currency, the settlement of net balances in convertible currency, and payments through clearing accounts, often in the national currency of the developing countries concerned. The trading agreements are often supplemented by economic co-operation agreements, which contain provisions for the granting of credits from the socialist to the developing countries for the establishment of a number of national projects, as well as other conditions.

343. Bilateral agreements providing for specified commodities to be traded, as well as the magnitude of trade, have so far been more suitable than other types of trade arrangement to the operation of the economic planning system in the socialist countries. An important feature of these bilateral trade agreements is that there is a certain degree of assurance of deliveries of goods and of settlement of balances. Where credits are granted, there are usually provisions for their repayment through the deliveries of goods exported by the developing countries. These bilateral agreements have been essentially "trade

creating" rather than "trade diverting" so that a net economic gain has accrued to both trading partners from exploiting mutual complementarities of their economies. Moreover, they have resulted in an increase in demand for a number of primary commodities exported by developing countries, which has offset, or more than offset, the failure of demand for some of these commodities to rise appreciably in the developed market-economy countries. In the absence of such agreements, the developing producing countries concerned would have been faced with even more difficult problems of readjustment to a sluggish rate of growth in world demand for their specialist export commodities.

344. The possibilities of expanding trade by means of bilateral trade agreements would appear to be far from exhausted, particularly in view of the present concentration of the trade of socialist countries on a limited number of developing countries. The possibility might be considered of arranging, under international auspices, a round of general negotiations between the interested developing and the socialist countries for the purpose of assessing the effectiveness of existing bilateral agreements and of concluding new ones. Such negotiations could involve countries which have so far remained outside the sphere of these trade arrangements and might also be widened to include a broader range of commodities. Such new agreements could take account of the potential of the socialist countries to supply both capital and consumer goods of required quality at competitive prices, and of the potential export surpluses of the developing countries. In addition, the possibilities of introducing a greater degree of flexibility into the operation of bilateral agreements seem worthy of further study. Where, for example, agreements specify strict bilateral balance, a broader use of "swing" credits and/or a provision for supplementary trade outside the specified limits, might be contemplated. The problems arising from the financing of such supplementary trade through blocked accounts, or through accounts which can be transferred into convertible currencies under specified conditions, could usefully be given further attention.

2. *The approach to multilateralism*

345. As the volume of trade between developing and socialist countries expands, and as more countries become involved, payments problems will no doubt assume increasing importance; and unless these are satisfactorily solved, they are likely to exercise a restraining influence on the future growth of trade. The currencies of the socialist countries would seem likely to remain inconvertible in the near future. However, the establishment of a system of multilateral payments within the CMEA area through the International Bank for Economic Co-operation has introduced an element of multilateralism in the mutual trade and payments of the member countries. The Bank provides facilities for third countries to participate in these multilateral payments arrangements. Any further extension of the area of multilateralization of payments could be expected to introduce an element of flexibility into the trade relations between the socialist and the developing countries.

346. In view of the difficulties of achieving a general multilateral system of trade and payments between socialist and developing countries, it would seem expedient to adopt a more gradual approach, possibly including some experimental schemes which might furnish the necessary practical experience for further progress. One possible approach to extending a multilateral element into the the present system of bilateral trade relations between developing and socialist countries might be through the development of some form of triangular clearing arrangements involving two or more bilateral agreements. Another possible approach, which merits further study, might be to establish transferable multilateral accounts between developing and socialist countries, confined to trade in specified commodities.

347. In addition, it is important to bear in mind the fact that world trade reflects a complex of inter-connexions between the various countries of the world, and the repercussions of obstacles in one part of the world market are inevitably felt in every other part. Accordingly, the normalization of East-West trade, and the attainment of a wider network of multilateral arrangements, would also allow a faster rate of expansion in trade of the socialist countries with developing countries than would otherwise be possible. However, for such expansion to make a net contribution to the export earnings of developing countries, due attention should be paid to the interests of the latter where both groups of countries export competing products to developed market economies. Furthermore, developing countries should consider the application of a policy of non-discrimination towards imports from socialist countries, in particular by extending to them most-favoured-nation treatment, where appropriate.

348. It would be a great advantage if the developing countries could obtain a clearer idea of the trends in import demand in the socialist countries for a number of primary commodities, since this could facilitate the production and supply of these commodities in the required quantities. The delegations of some socialist countries presented, at the first session of the Conference estimates of the broad possibilities concerning the imports of a number of tropical products. A widening of the list of items, a lengthening of the time horizon, and the publication of such estimates more often than hitherto would represent an important step towards achieving a more co-ordinated expansion of the mutual trade of the two groups of countries.

349. A general round of bilateral negotiations, as suggested earlier, would be facilitated if such forward estimates of import requirements were to be made available by both socialist and developing countries. The detailed bilateral negotiations could usefully be preceded by more general multilateral consultations in which an exchange of views could take place on the possibilities of co-operation in developing the natural resources of the developing countries, and of facilitating the exports of the latter by the use of greater multilateral trade and payments facilities. Interested developed market-economy countries might also usefully participate in such multilateral consultations, particularly in view of possible

developments in multilateral trade, involving all three groups of countries.

C. FURTHER STUDIES

350. The main proposals discussed earlier for expanding exports from developing to socialist countries involve considerations of trade and payments much wider than those related to primary commodity trade alone. However, the following studies, which related specifically to commodities, would also seem worth pursuing:

(a) A study of the influence of changes in the import demand of socialist countries on the fluctuations and trends in the world market for selected commodities (para. 324);

(b) A study of the market potential and import possibilities in the socialist countries for selected commodity exports from developing countries (paras. 332-339).

Chapter VII

Expanding trade in primary commodities among developing countries

A. INTRODUCTION

351. In view of the role that the expanded intra-trade of developing countries could play in effectively stimulating their economic growth, the first session of the United Nations Conference on Trade and Development made several recommendations on action to be taken for the promotion of such trade. In relation to primary commodities specifically, the first session proposed in recommendation A.II.5 an expansion of trade through the lowering of trade barriers, the strengthening of trade and monetary relations, and improvements in methods of payment and export promotion.¹²¹

352. Such expansion of trade in primary commodities among developing countries is part of the wider problem of promoting their intra-trade and, indeed, the rate of growth of their total exports. The broader issues relating to the expansion of developing countries' intra-trade as an effective means of stimulating their economic growth are outside the scope of this chapter, which relates essentially to intra-trade in primary commodities, though the discussion must inevitably cover some aspects of these issues.¹²² In this wider context, it is evident that problems of expanding trade in primary commodities cannot be considered in isolation and that expansion measures related to primary commodity trade will often have to be combined with measures to expand trade in manufactured goods. Before turning to a discussion of possible alternative policies, it is necessary first to examine

¹²¹ See *Proceedings of the United Nations Conference on Trade and Development*, vol. I, *Final Act and Report* (United Nations publication, Sales No.: 64.II.B.11), pp. 31 and 32.

¹²² For a detailed analysis of these broader problems, see the report of the UNCTAD secretariat entitled *Trade Expansion and Economic Integration among Developing Countries* (United Nations publication, Sales No.: 67.II.D.27).

TABLE 11
Exports of primary commodities * from developing countries by area of origin and destination in 1965

From \ To	Developing countries			Rest of world	Total (= 100 per cent)
	Intra-regional	Inter-regional	Total		
	Per cent of total				\$U.S. billion
Latin America	8.2	2.6	10.8	89.2	7.7
Africa	5.2	4.8	10.0	90.0	5.5 ^a
Western Asia	22.1	6.7	28.8	71.2	0.6
Far East Asia	13.3	6.5	19.8	80.2	5.5 ^a
TOTAL	9.2	4.5	13.7	86.3	19.3

Source: UNCTAD secretariat computation based on United Nations, *Yearbook of International Trade Statistics*, 1965.

* SITC sections 0,1,2,4 plus divisions 67 and 68 (less 681).

^a Estimates of the *entrepôt* trade of Hong Kong and Singapore have been deducted from the recorded statistics and East African inter-territorial trade figures have been added.

the present pattern of the developing countries' intra-trade in primary commodities, the measures so far adopted to expand its flow and the lessons that can be drawn from this experience. This chapter will cover the present pattern of intra-trade in primary commodities, post-war measures to expand developing countries' intra-trade and the implications to be drawn from such experience, and policy approaches to expand the trade in primary commodities.

B. THE PRESENT PATTERN OF INTRA-TRADE IN PRIMARY COMMODITIES

353. The volume of trade among developing countries represents only a small proportion of their total foreign trade. In 1965, for example, the value of such intra-trade accounted for only one-sixth of their total merchandise exports; for primary commodities, the corresponding proportion was less than one-seventh. This pattern of trade is in sharp contrast to that of the developed countries; in the same year (1965), over three-quarters of exports of primary commodities (other than fuels) from the developed market countries, and over half of those from the socialist countries, consisted of their respective intra-trade.

354. The pattern of primary commodity imports of developing countries is also in striking contrast to that of developed countries. Whereas the greater part of all imports of primary commodities (other than petroleum), into the developed market economies, for example, consists of their intra-trade, the intra-trade of developing countries furnished less than one-third of their total primary commodity imports (other than petroleum) in 1965.

355. A second characteristic of the developing countries' trade with each other in primary commodities (other than petroleum) is that it takes place largely between countries of the same region or continent. In 1965, for instance, trade within each of the four major developing regions—Latin America, Africa, Middle East and Asia—exceeded exports to the other developing regions. The disparity between trade within and outside the region is greatest for western Asia and smallest for Africa. Thus,

for developing countries in the Far East, intra-regional trade was substantially higher than the value of their exports to other developing regions, indicating, *inter alia*, that the trading facilities between developing countries in Asia and those in other regions are relatively poorly developed compared with those among the Asian countries themselves. For developing countries in Africa, trade within the region and trade with other developing areas are both relatively less advanced, in comparison with Asia and Latin America. In 1965, for example, exports from African developing countries to all developing countries (both in Africa and elsewhere) accounted for 10 per cent of the total exports of their region, compared with corresponding proportions of over 25 per cent for Western Asia, 20 per cent for Far East Asia, and about 11 per cent for Latin America (see table 11).

356. Thirdly, though the intra-trade of developing countries covers a wide variety of primary commodities, it is fairly heavily concentrated, in terms of value, in a limited number of items. Petroleum is by far the most important single item, accounting in 1962—the latest year for which detailed information is available—for over one half the total value of intra-trade in primary commodities. In the same year, seven other commodities¹²³ accounted for a further one quarter of the total. The fact that certain of these are among the more important commodity exports from developing to developed countries would seem to indicate that some part of the present network of trade among the developing countries is, in a sense, a by-product of the main stream of trade between the developing and developed countries.

357. Finally, individual developing countries continue generally to be heavily dependent on one or a few primary commodities in their exports to other developing countries. This, too, is a reflection of the main orientation of their primary sectors towards specialized production for particular markets in the developed areas. However, to the extent that regional trading arrangements result in

¹²³ Rice, cotton, fats and oils, tea, sugar, meat (including live animals) and roundwood.

"trade creation" (in the sense of increasing the international specialization between developing countries in the production of commodities not previously traded), the commodity pattern of their intra-trade should become more diversified.

358. In considering the scope for modifying the commodity pattern of intra-trade, it is important to bear in mind its relationship with trade between developing and developed countries. In recent years, the most important primary commodities exported from developed to developing countries have been wheat, fats and oils, meat, raw cotton, sugar and rice. Together, the value of such shipments of these seven commodities amounted to some \$2.5 billion in 1965, representing well over half, by value, of all primary commodity exports from developed to developing areas in that year, other than fuels and base metals.¹²⁴ A substantial proportion of these shipments, however, are provided under commodity aid programmes, either as gifts or on concessional price and repayment terms and, to the extent that such commodity aid continues in the future, the scope for expanding the intra-trade of developing countries is thereby reduced. None the less, the possibilities of combining the continuance of commodity aid with the provision of part of the required commodities from expanded output in developing exporting countries requires further detailed study.¹²⁵

C. POST-WAR MEASURES TO PROMOTE THE INTRA-TRADE OF DEVELOPING COUNTRIES

359. Though trade in primary commodities among developing countries accounts for a relatively small segment of their total trade, many efforts have in fact been made over the post-war period by these countries to expand the scope of their trade with one another. These have been of two main kinds: first, bilateral trade agreements between pairs of countries and, second, regional trade preference arrangements, including full customs unions. The present section discusses the post-war experience of certain developing countries under these two headings and then attempts to draw from these experiences some lessons for future policy.

1. *Bilateral trade agreements*

360. Over the post-war period, developing countries have at one time or another concluded many hundreds of bilateral trade agreements.¹²⁶ A detailed analysis of their provisions and of their effectiveness in expanding trade and promoting economic development would seem to merit high priority in further studies in the context of trade policy. Though such a detailed analysis would fall outside the scope and resources of the present paper,

¹²⁴ Most of these, as already mentioned, are also among the principal commodities currently being traded among developing countries.

¹²⁵ This is the subject of an inter-agency study under General Assembly resolution 2096 (XX) of 20 december 1965. (See also para. 334).

¹²⁶ See *Trade Expansion and Economic Integration among Developing Countries* (United Nations publication, Sales No.: 67.II.D.27), chap. IX, para. 22.

sufficient is known of the more important of such bilateral agreements for some valid generalizations to be made here. Because of the large number of such agreements and the great variety of matters covered, it is essential for analytical purposes to try to classify them in some meaningful way. They do, indeed, appear to fall into two categories, according to whether or not they are accompanied by specific payments arrangements. Of all the 300 or more bilateral agreements in force at present, one third include provision for special payments arrangements.¹²⁷

361. The first group, in which payments arrangements are designed to achieve as close a bilateral balancing of trade as possible, was especially important to certain Latin American republics during the early post-war period. These agreements were evolved during a period of balance-of-payments difficulties to protect traditional trade in foodstuffs among the various countries of that region, as well as to consolidate the more recent growth of trade in manufactures that had developed as a result of wartime and initial post-war shortages. These agreements were generally of one year's duration and specified the quantity and value of each product expected to be traded during the year, provision being made for offsetting payments through special clearing accounts, with persistent debit balances to be met by payment in convertible currencies. By providing preferential channels of trade during a period of general shortage of convertible currencies and of stringent quantitative restrictions on trade, these bilateral agreements allowed traditional trade flows to continue which would otherwise have been seriously disrupted.

362. The other type of agreement, providing neither for bilateral balancing nor for payments arrangements, is by far the most common. Some of these agreements specify quantities of particular items to be traded between the partner countries; others mention the items it is hoped to trade, but without specific commitments as to quantities or values. Since no special clearing is arranged for net debtor or creditor positions, these agreements normally provide for all transactions to be payable in convertible currencies. A small number of agreements in this group relate to particular primary commodities only and are concluded with the aim of ensuring future supplies at adequate levels.

363. Any precise assessment of the quantitative effects of these various types of bilateral agreement on the trade of the partner countries could not be made without a detailed analysis of the relevant trade flows before and after the conclusion of the different agreements, having regard also to other possible factors influencing such flows. However, while no conclusions can readily be drawn relating to any particular agreement without full consideration of the relevant circumstances, it would appear to be generally true that the intra-trade in primary commodities of many of the developing countries adhering to such agreements has not shown any appreciable expansion over the past decade in relation to other

¹²⁷ *Ibid.*

sectors of their trade. On the other hand, the existence of these agreements has undoubtedly prevented a decline in trade volume in a number of cases.¹²⁸

364. This apparent general lack of success of bilateral agreements in promoting intra-trade appears to be due to four main factors. Firstly, a considerable proportion of bilateral agreements are, in effect, nominal; these agreements provide merely a legal instrument for existing trade flows, or for flows that would have taken place in any event. Some agreements, as already mentioned, are intended purely to safeguard essential supplies of one or two particular commodities, or to ensure the continuance of a major export outlet. Only a certain proportion of bilateral agreements, therefore, are genuinely designed to create new trade flows.

365. Secondly, many bilateral agreements are concluded between countries whose *existing* patterns of production are insufficiently complementary to offer substantial scope for trade expansion. In a number of instances, the effectiveness of the agreements is probably hindered by the import-substitution policies of one, or both, partner countries. For greater effectiveness, it would seem necessary for the countries concerned to extend their co-operation from trade to the planning of their production for *future* complementarities. However, the short duration of most bilateral agreements—one to three years—conflicts with the need for longer-term international co-ordination of development plans. One step towards the latter objective might be the conclusion, where appropriate, of longer-term purchase agreements for particular commodities.

366. Thirdly, as already indicated, most bilateral trade agreements currently in force provide for payment of all transactions in convertible currencies. Only under a minority of agreements are payments clearing arrangements established, with additional provision for a credit "swing" over and above the agreed bilateral balancing level. The emphasis upon settlement in convertible currencies often originates from the fact that both partners to the agreement have over-valued currencies, although to differing degrees; in consequence, the stronger trading partner may not wish to hold the currency of the other country. The payment of current transactions in convertible currencies is, however, a major limiting factor, since it tends to reduce the level of trade to that of the country with smaller exports or—in agreements with no bilateral balancing—to trade in "essential" goods.

367. Finally, in a number of bilateral agreements between developing countries, part of the increase in trade between the partner countries may be at the expense of the traditional exports of other developing countries. The net increase in the trade of the developing countries taken as a whole in such cases would thus be smaller than the expansion in the mutual trade of the partner countries resulting directly from the agreement.

368. Several provisional conclusions would seem to emerge from this review of the operation of post-war bilateral trade agreements. One is that bilateral agreements are more likely to result in an expansion of mutual trade—and of a more efficient allocation of resources—if they are associated with some form of joint planning for future complementarities.

369. A second conclusion would be that bilateral agreements should, wherever possible, allow for clearing arrangements, so that a shortage of convertible currency becomes a constraint on trade growth only when persistent debtor or creditor positions emerge.

370. Finally, consideration should be given to the possibility of introducing some multilateral element into such clearing arrangements, so as to instil a much-needed element of flexibility into what might otherwise tend to remain a rather rigid balancing system.¹²⁹

2. Preferential trading arrangements

371. One approach to the problem of accelerating economic growth which has come to assume increasing importance in the developing countries is the formation of regional groupings provided with institutional frameworks for co-ordinated trade liberalization, payments arrangements and—to a greater or lesser extent—joint investment policies. Among such regional groupings of developing countries are those evolving in Latin America and Africa—some of recent origin, others essentially derived from the customs unions operated by the former colonial Powers (such as the East African Customs Union), as well as arrangements for individual commodities, such as the common sugar market of the Afro-Malagasy Common Organization.¹³⁰

372. The workings of the regional trade groupings show an impressive expansion in the export of manufactures but, in each case, a much slower expansion in intra-trade of primary commodities. In the East African Customs Union, between 1954 and 1965, the annual rate of growth of intra-trade of primary commodities was only 5½ per cent *per annum*, while intra-trade in manufactures rose by 25 per cent a year. Similarly, in the Latin American Free Trade Association (LAFTA) between 1959 and 1963, intra-trade in primary commodities increased by 3.3 per cent a year and manufactures by 17 per cent a year. Moreover, for both these regions, primary commodity exports to third countries rose at a faster rate than their intra-trade in primary commodities. In the Central American Common Market also, the greatest impact on the groups and structure of foreign trade of member countries was in manufactures which

¹²⁸ See ECLA, *Study of Inter-Latin American Trade*, 1956, for a detailed assessment of bilateral agreements among Latin American countries in the early post-war period. For a study of such agreements among and with African countries, see "Bilateral trade and payments agreements in Africa" (E/CN.14/STC/24/Rev.1).

¹²⁹ Useful lessons in this regard would undoubtedly be obtained from an examination of operations of the voluntary multilateral compensation procedures, administered by the Economic Commission for Europe (ECE) during the past decade, relating to clearing arrangements among ECE Governments and between them and countries outside the ECE region.

¹³⁰ Other regional market arrangements include the Central African Customs and Economic Union, which entered into force on 1 January 1966 and covers Cameroon, the Central African Republic, Chad, the Congo (Brazzaville) and Gabon.

TABLE 12
Exports from countries of the Central American Common Market,
the Latin American Free Trade Association and the East African Customs Union

	Central American Common Market			Latin American Free Trade Association			East African Customs Union		
	1960	1964	Annual rate of growth	1959	1963	Annual rate of growth	1954	1965	Annual rate of growth
	\$U.S. million		Per cent	\$U.S. million		Per cent	\$U.S. million		Per cent
<i>Primary commodities^a</i>									
To: Partner countries . .	19.4	41.5	21.0	282	332	3.3	34.8	63.0	5.5
Rest of world . . .	395.4	555.6	8.9	3 811	4 568	3.7	250.4	417.6	4.7
<i>Manufactures</i>									
To: Partner countries . .	13.3	64.9	48.5	42	92	17.0	5.4	63.0	25.0
Rest of world . . .	11.9	12.2	0.6	463	655	7.2	19.0	61.8	11.3
<i>All commodities</i>									
To: Partner countries . .	32.7	106.4	34.4	324	424	5.5	40.2	126.0	10.9
Rest of world . . .	407.3	567.8	8.6	4 274	5 223	4.1	269.4	479.4	5.4
TOTAL	440.0	674.2	11.3	4 598	5 647	4.2	309.6	605.4	6.3

Sources: United Nations, *Yearbook of International Trade Statistics*, 1964 and 1965; national trade statistics; Permanent Secretariat of the General Treaty on Central American Economic Integration, *Statistical Yearbook of Central American Foreign Trade*, 1964 and *Fourth Statistical Digest of Central America*,

March 1965; Donald W. Baerresen, Martin Carnoy and Joseph Grunwald, *Latin American Trade Patterns* (Washington, D.C. The Brookings Institution, 1965).

^a SITC sections 0-4. For LAFTA, excluding processed foods and vegetable oils and fats, but including non-ferrous metal bars and ingots.

increased by 48.5 per cent a year, while the rise in intra-trade primary commodities was also appreciable (21 per cent a year), although the rise was from a small base (see table 12).

373. This divergent experience in the two main categories of exports would appear to indicate that the success in expanding the intra-trade in manufactures can be attributed largely to the development of local manufacturing industries protected from outside competition,¹³¹ whereas for primary products, the slow growth in intra-trade would seem to reflect the fact that the structure of primary production remained essentially of a competitive character orientated primarily for export to the markets of the developed countries. Moreover, where there is a potential for intra-trade in primary commodities, trade is restricted by government controls in order to protect local producers. For example, within the East African Customs Union, Kenya maintains import controls on maize, millet and certain beans; Uganda restricts imports of groundnuts and edible oils and fats; and Tanganyika controls the movement of cattle, beef and maize. All these items are consumed in large quantities in each of the three countries. Similarly, in LAFTA and to a lesser extent in the Central American Common Market, barriers continue to impede primary commodity trade. The existence of such barriers is, among other things, a reflection of the wide variation in agricultural productivity from country to country—which is itself the basic justification for the expansion of intra-trade associated with a re-allocation of resources—and of the limited opportunities for rapid agricultural diversification in many

areas. Given the latter limitation, a dismantling of existing trade barriers would undoubtedly involve acute economic dislocation in a number of agricultural areas of low productivity in which a redeployment of local resources would be difficult or impossible without substantial financial and technical assistance. The problems that would be involved in phasing out, over a period of years, such restrictions on the intra-trade in primary commodities would appear to need careful study.

Lessons to be drawn from post-war experience

374. One conclusion that can be drawn from the experience of regional groupings as regards the expansion of trade in primary commodities is that the impact of mutual preferences on such trade can be expected to vary greatly according to the degree of competitiveness of complementarity in their patterns of output and demand. In central America, intra-trade in primary commodities has grown at a substantial, though considerably lower, rate than has intra-trade in manufactured goods; this positive development of primary commodity trade despite the competitive character of the greater proportion of the primary sectors of the countries concerned, may be attributed mainly to the more intensive exploitation of existing complementarities. In LAFTA and East Africa, on the other hand, where the potential expansion would appear to be appreciably greater, the relatively low growth rate in intra-trade in primary commodities seems largely to reflect the operation of government restrictions on imports of a number of staple foods.

375. In spite of the relatively greater progress achieved so far in the smallest of the preferential areas discussed, it can nevertheless be assumed that, over the long term, the wider the geographical area covered by a given preference system and the greater the differences in the structure of output of the member countries, the greater

¹³¹ For a discussion on this point in relation to East Africa, see P. Ndegwa, "Preferential Trade Arrangements among Developing Countries", *East African Economic Review*, Oxford, December 1965.

the probability that complementarity will allow for an appreciable growth in mutual trade in primary commodities to be associated with their economic development. Thus, there would seem to be ample scope for further preference arrangements between countries, or groups of countries, in different regions, in addition to arrangements within a single region.

376. There appears to be a consensus that the achievement of significant growth in the intra-trade of regional groupings in primary commodities within a context of economic development requires, in addition to appropriate commercial policies, some co-operation between the member countries in the joint planning of increase in production and intra-trade, combined with mutual assistance in needed diversification programmes. In some countries, the harmonization of economic development plans and the creation of complementary activities might involve expenditures beyond the resources of the countries concerned; in such cases, there would be a reasonable case for special international financial and technical assistance. The potentialities of measures to organize individual commodity markets within the region also appears to merit attention.

D. POLICY APPROACHES

1. Objectives and scope for expansion of intra-trade in primary commodities

377. Earlier sections have shown that trade among developing countries in primary commodities has been small and relatively stagnant and that post-war efforts to expand this trade have generally had limited success. Even so, it is generally agreed that the expansion of developing countries' intra-trade is an important aspect of the efforts to accelerate their rate of economic growth and that intensified efforts to facilitate this flow of trade would provide major benefits to them. In so far as increased intra-trade among developing countries reflects a greater degree of specialization, they will benefit from a more economic use of available resources. The most important aspect of an expansion in the intra-trade of developing countries, however, is its impact on the future allocation of additions to available resources; in so far as the expansion of intra-trade leads to greater international specialization, and to a more rational distribution of new investment and higher levels of productivity in developing countries, this would in itself be an important means of promoting the rate of economic growth in these countries. Moreover, to the extent that increases in the level of trade among developing countries result in a more economic use of resources and in increased production of foodstuffs, this would also assist in reducing the "food gap" of the developing countries, which appears likely to increase dangerously in the period up to 1975.¹³²

378. A favourable background for the adoption of measures to expand intra-trade in primary commodities

is provided by the many existing and potential complementarities in the pattern of primary commodity production as between different developing countries, which offer considerable scope over the medium term for profitable expansion of their intra-trade in such items, whether within the same region or between countries in different continents. Projections for the period up to 1975 made by FAO, for example, indicate that, under certain income and population assumptions, the demand in developing countries for a number of important agricultural commodities is likely to increase substantially. This applies particularly to cereals (including rice), vegetable oils, sugar and certain agricultural raw materials; several of these commodities are already of importance in the trade among the developing countries themselves. It is evident, however, that the potential demand will not be translated into actual trade among developing countries unless it is matched by a corresponding increase in production. Over the longer term, however, the expansion of intra-trade in primary commodities would depend on the development of new complementarities, including those arising from the industrialization of developing countries. In so far as measures to expand intra-trade lead to greater industrialization this, in its turn, could stimulate the growth of trade especially, perhaps, in industrial materials, though the magnitude of the impact on such trade would depend also on the country pattern of siting of new industrial plant.

379. The developing countries could themselves help to raise their levels of living by taking advantage of the fact that, as a group, they can supply primary commodities which are important for their economic development. The creation of freer trading links between developing countries could be an important first step in achieving such aims.

2. General policy measures

380. It would appear, from the post-war history of inter-governmental efforts designed to expand the level of trade between developing countries, that certain obstacles of a general character are operating to restrict developing countries' intra-trade. Such general constraints, applicable to trade in manufactures as well as in primary commodities, include the lack of well-established trade, communication and financial facilities, to which reference has already been made, as well as the chronic foreign-exchange difficulties of most developing countries, which lead them to restrict imports of a wide range of "less essential" goods and to develop import-substituting industries. Internationally acceptable policies designed to overcome such general constraints on the intra-trade of developing countries have been extensively discussed in other UNCTAD studies.¹³³ Such policies

¹³² See FAO, *Agricultural Commodities — Projections for 1975 and 1985*, October 1966, vol. 1.

¹³³ See *Trade Expansion and Economic Co-operation among Developing Countries* (United Nations publication, Sales No.: 67.II.D.2); *Trade Expansion and Economic Integration among Developing Countries* (United Nations publication, Sales No.: 67.II.D.20) and *Payments Arrangements among the Developing Countries for Trade Expansion* (United Nations publication, Sales No.: 67.II.D.6).

might be expected to result in a more economic utilization of the resources of developing countries generally and to a higher level of their mutual trade, including their trade in primary commodities.

381. Such general policies would cover a broad range of measures, the most important being the following:

(a) The co-ordination of investment and production policies, of diversification programmes and of economic development plans of developing countries, leading to a more rational allocation of their combined resources in both primary and other economic sectors;

(b) The improvement of the international economic infra-structure of the developing countries by the development or extension of appropriate transport and communications networks and by the development of banking and credit facilities;

(c) The improvement of facilities for freer payments between developing countries, including provision for clearing arrangements and "swing" credits in bilateral trade agreements;

(d) The establishment, as appropriate, of regional markets designed to promote international specialization. For primary commodities, the benefits of specialization are the more likely to be achieved the wider the country coverage of such regional markets;

(e) The reduction of trade barriers between countries within a region or between countries in different regions.

382. Though the implementation of such general measures, either singly or in combination, would undoubtedly help to promote the growth of the intra-trade of developing countries, including their intra-trade in primary commodities, their more detailed consideration falls strictly outside the scope of the present study, which is intended rather to focus attention on policy approaches related more specifically to the problems of expanding primary commodity trade.

3. *Factors restricting the growth of primary commodity trade among developing countries*

383. While the potential scope for expanding the mutual trade of developing countries in primary commodities may be substantial, particularly over the longer term, a number of factors peculiar to primary commodity trade make progress in this direction especially difficult in the immediate future.

384. Firstly, the acute shortage of foreign exchange in the majority of developing countries tends to have a doubly adverse effect on their intra-trade in primary commodities. One result of the pressure on foreign exchange resources is that capital goods and intermediate products directly related to investment programmes tend generally to enjoy a high priority in the import plans of developing countries; conversely, some primary commodities may be given a low priority, especially if judged to be "less essential". Another result is that production policies tend to be geared towards import substitution in order to save foreign exchange, even though domestic production may be higher in cost than alternative import supplies whether from developed or

developing countries. This type of import substitution, which promotes the growth of high-cost domestic production for home consumption in order to save foreign exchange, is fairly widespread among developing countries.

385. Secondly, for those developing countries with relatively high-cost primary production, but also with limited resources or lack of alternative employment opportunities, the relaxation of restrictions on (lower-cost) competing imports from other developing countries could lead to economic dislocation in certain areas. Restrictions on the import of staple foods, for example, can remain a major constraint on the growth of trade, even between countries of the same preference area, as was seen in the earlier discussion of the experiences of the East African Customs Union and LAFTA. The need to provide alternative employment opportunities is especially important for those developing countries where expansion of secondary or tertiary industries is required in order to absorb surplus manpower resulting from short-term economic dislocation due to increased imports of primary commodities.¹³⁴ Special financial and technical assistance to such countries may be needed to allow for the necessary readjustment of their economies over a period of years.

386. Thirdly, supplies of primary commodities, notably wheat, oils and fats, raw cotton and rice, produced in developed countries and made available on concessional terms to developing countries also tend to restrict the potential for expansion of the latter's intra-trade. On the demand side, the availability of commodities on concessional terms has undoubtedly had some limiting effect on the demand of recipient countries for commercial imports of those commodities, including imports from other developing countries.¹³⁵ There may also be indirect effects on other commodities which are fairly close substitutes. For example, the large shipments of wheat made available in recent years to developing countries on concessional terms have had an indirect restrictive effect on their demand for imports of rice from other developing countries. On the supply side, too, it would seem probable that the availability of concessional supplies of certain primary commodities on a substantial scale may have had a limiting influence on the rate of growth of production of these commodities (or of their close substitutes) in some recipient countries.

387. Fourthly, the pattern of economic growth in developing countries may be such as to favour the expansion of their mutual trade in manufactured goods rather than in industrial raw materials. Thus the tendency to base new industries on locally produced raw materials limits the demand for intra-trade in such goods. Conversely, the supply of exportable surpluses is also restricted.

¹³⁴ See, for example, "Proposals for the creation of the Latin American Common Market" by Mr. Felipe Herrera, Mr. Carlos Sanz de Santa-Maria, Mr. José Antonio Mayobre and Mr. Raúl Prebisch (*Official Records of the Trade and Development Board, First Session, Annexes*, agenda item 6, document TD/B/11).

¹³⁵ Commercial sales of primary commodities by developed countries which benefit from export subsidies (as is the case, for example, with refined sugar) tend to have a similar limiting effect on the intra-trade of developing countries as do commodities provided on concessional terms.

For example, developing countries producing raw cotton may be in a favourable position to produce and export cotton textiles rather than raw cotton; developing countries relying on raw cotton imports might, to this extent, need to find other sources of supply of raw cotton, including cotton produced in developed countries. There would, nevertheless, be considerable scope for expanding the intra-trade of developing countries in particular varieties of raw cotton, since the various producing countries tend to specialize in either extra-long or long staples, or in short or medium growths.

388. Finally, the import policies of the developed countries can materially affect the intra-trade of developing countries in certain raw materials. The classic case is that of exports from developing to developed countries of low-cost cotton textiles which at present are subject to quota restrictions under the GATT Long-Term Arrangement regarding International Trade in Cotton Textiles. To the extent that the developing textile-exporting countries rely on imported raw cotton, any expansion of their sales of cotton textiles to developed countries (resulting from relaxation of quota or other restrictions in developed countries) would thereby increase the requirements of developing countries for raw cotton imports. Provided that adequate supplies of suitable staple lengths can be made available by developing exporting countries at competitive prices, this expansion in import requirements could be met by an increase in the intra-trade in raw cotton among the developing countries. To what extent similar considerations would apply to the intra-trade in other industrial materials is a matter meriting further study.

4. *Specific policies related to trade in primary commodities*

389. Policies designed to expand the trade in primary commodities would have to take account of the various constraints discussed above and also draw on the experience of current and past efforts by various groups of developing countries to improve the level of their mutual trade. It is evident that the reduction of trade barriers in itself would not be a sufficient condition for trade expansion. A progressive expansion of trade requires measures which go beyond the scope of trade policy and form part of economic development planning. Over the longer term, internal structural changes in the economies of developing countries would be necessary to allow desirable shifts in the use of resources to take place. In order to bring about a gradual change in the existing competitive structure of primary commodity production in different developing countries and the evolution of a much greater degree of specialization and complementarity in primary commodity production based on comparative advantage, some degree of co-ordination in the diversification policies of developing countries would seem to be essential. Apart, however, from such general policies, there are a number of policies, related specifically to primary commodity markets, which need consideration.

(a) *International commodity agreements*

390. For commodities covered by a formal international agreement consideration could be given, as appropriate, to the introduction of provisions specifically

designed to favour an expansion of developing countries' trade. One possibility, which would require careful consideration in the context of particular commodity markets, would be to exempt developing countries from export quota controls over their exports to at least certain other developing countries. The international Coffee Agreement of 1962, for example, made provision for the exemption from quota restrictions of coffee exports to countries, mostly developing, with a low *per capita* consumption and considerable potential for expansion. The draft of a new international sugar agreement, submitted by the Executive Director of the International Sugar Council to the United Nations Sugar Conference 1965, had a similar provision; in addition, the draft made provision for special financial arrangements to reimburse exporting developing countries for the difference between their receipts from such special sales and the amount they would have received at the minimum price under the Agreement. The draft international cocoa agreement, prepared for the consideration of the United Nations Cocoa Conference 1966, also contained a provision exempting sales to developing countries from export quota restrictions.

391. A number of complex problems would be involved in this approach; for example, whether any corresponding waiver would be made as regards exports from developed countries and whether such non-quota exports would be subject to any conditions to prevent them from undermining the basis of the agreement. These and related problems would need further study for the particular commodities covered by such international agreements.

(b) *Multilateral commodity aid arrangements*

392. Another type of policy would be the adoption of an international programme for commodity aid to developing countries. Such a programme could be confined to food aid, or it could be conceived more broadly to cover other urgently required inputs for food production in developing countries. The need for a new multilateral approach to the problem of food aid has arisen partly because of the sharp reduction in North American grain stocks in recent years, and the consequent likelihood of smaller supplies of food from the United States on concessional terms to developing countries, and partly because of the potential scope for expanding the exportable food surpluses of some developing countries.¹³⁶ The inclusion of fertilizers and farm machinery in a wider (or separate) programme of commodity aid raises rather different problems though, given adequate financing, it should be possible to co-ordinate the needs of some developing countries for imports of these commodities with the plans of other developing countries to expand their production in the future. In view of the widening food gap, close international co-operation in promoting production of cereals, including provision for export to food deficit countries, deserves early consideration.

¹³⁶ An inter-agency study on the problems involved in such a multilateral food aid programme is currently under way, as authorized in General Assembly resolution 2096 (XX) of 20 December 1965.

(c) *Regional market arrangements for individual commodities*

393. Regional market arrangements for individual commodities would, in appropriate cases, help to promote intra-trade to the mutual advantage of partner countries. Such arrangements could range from the extension of preferences for imports of a particular commodity (or commodities), such as those gradually being introduced in the Central American Common Market, to full commodity agreements stabilizing the trade among partner countries in individual commodities, an example of which is provided by the common sugar market established by the Afro-Malagasy Common Organization. The benefits of such arrangements accrue through increased specialization among partner countries. If the arrangements relate to too narrow a range of commodities, however, these benefits tend to be concentrated on countries specializing in the commodities concerned. The potential gains will be greater the wider the range of commodities, and the number of countries, covered by preferential arrangements. Further study is required to determine the feasibility of preferential market arrangements for individual commodities on a regional or inter-continental basis, and the conditions under which the benefits of such arrangements are likely to outweigh the losses from trade diversion.

(d) *National fiscal policies*

394. A number of primary commodities are subject to appreciable rates of taxation in many developing countries. Taxes on tea and sugar, for example, bring in a substantial proportion of government revenue in a number of countries. By raising prices to the consumer, these taxes reduce the volume of consumption and, where the commodity originates in other developing countries, such taxes limit the scope for expansion of trade. On the other hand, the elimination of tariffs on imports from developing countries would result in a loss of revenue. Unless new sources of funds are found to replace the loss there could be an adverse effect on financing for development.

395. Moreover, a number of developing countries use such taxes as part of a more general fiscal policy to limit the cost of imports for balance-of-payments reasons. Whether, and to what extent, such fiscal charges on particular commodities can be reduced without at the same time conflicting with the more general objectives of fiscal policy, would no doubt vary greatly from one country to another. This is a subject which could profitably be studied in greater detail on the basis of the particular circumstances of a sample of developing countries.

5. *Indirect effects on trade in primary commodities of expansion of exports of manufactures from developing to developed countries*

396. As was indicated earlier,¹³⁷ restrictions on imports of cotton textiles and other manufactures from developing

countries, which are at present enforced by many developed countries, serve indirectly to restrict the volume of intra-trade of developing countries in certain industrial raw materials. A relaxation of these import restrictions would have a dual effect on the market for the manufactures in question in the developed countries. To take the case of cotton textiles as an example, a reduction in import restrictions would lead, firstly, to a substitution of lower-cost supplies from developing countries for some proportion of the higher-cost production of the developed countries; and, secondly, in so far as its substitution led to lower retail prices, it would also result in higher cotton textile consumption.

397. The first effect would consist essentially of a shift in the pattern of world cotton textile production, the rise in output in developing countries being offset by a corresponding decline in production in developed areas. Consequently, world demand for raw cotton would not change as a result of this effect alone. However, since cotton textile production in developing countries is highly dependent on cotton grown in those countries, while developed countries' cotton textiles are made mostly from the latter's domestic raw cotton,¹³⁸ the switch in the pattern of world output of textiles would result in an associated shift—though in reduced proportion—in the pattern of demand for raw cotton in favour of production in the developing countries. The second effect of such a shift to lower-cost sources of supply of cotton textiles would be an increase in consumption in the developed countries. This would be an additional stimulus to the export of cotton textiles from developing to developed countries, and thereby to the intra-trade of the developing countries in raw cotton.

398. Thus, the main impact of a reduction of import restrictions introduced by developed countries on cotton textile imports from developing countries would be that the earnings of developing countries from exports of such manufactures to developed countries would rise. There would, however, be a secondary effect on the intra-trade of developing countries in raw cotton, to the extent that part of the expansion in cotton textile exports came from developing countries (such as Hong Kong, China (Taiwan) and the Republic of Korea) which rely on imports for their supplies of raw cotton. In a recent period (1963/64 average), one half of all cotton textile exports from developing to developed countries originated in countries using mainly imported raw cotton. If this proportion were to be maintained, even approximately, in the future, then any expansion in imports of cotton textiles into developed from developing countries could be expected to result in a larger volume of trade in raw cotton among the developing countries concerned.

¹³⁸ In 1962, for example, 85 per cent of the raw cotton consumed in developing countries was produced in these countries, whereas the share of developing countries' raw cotton in the total cotton consumption of the developed market countries in the same year was only 37 per cent.

¹³⁷ See paragraph 388.

E. FURTHER STUDIES

399. In the course of the above discussion of policies designed to expand the intra-trade of developing countries in primary commodities, the need has appeared for more information and more analysis than is at present available.¹³⁹ For convenience, the further studies mentioned at various points in the earlier discussion are brought together below.¹⁴⁰

(a) Examination of the problems involved in introducing provisions into *international commodity agreements* in favour of trade among developing countries (paragraphs 390 and 391).

(b) An analysis of the conditions under which *bilateral trade agreements* have helped to create additional trade flows in primary commodities among developing countries; and the scope for the further development of this type of agreement between developing countries (paragraphs 360-370).

(c) Potentialities of *regional arrangements* covering particular primary commodities (paragraph 393).

(d) Study of the feasibility of reducing *fiscal charges* in developing countries on primary commodities imported from other developing countries (paragraph 394).

Chapter VIII

Commodity policy and economic development

A. COMMODITY PRODUCTION AND INCOME GROWTH IN DEVELOPING COUNTRIES

400. For the great majority of developing countries, foreign-exchange earnings are of critical importance as a means of purchasing imports (including capital goods) required for their economic development. This emphasis on exchange earnings derives from the fact that very often these countries are unable to supply such products themselves, either because import substitution is physically impossible for lack of the relevant resources, or because import substitution may be economically unduly wasteful, particularly where technical processes are too complex to be learned easily or where economies of scale are of considerable importance.

401. Such needed imports, however, have to be paid for either by current exports, visible and invisible, by drawing on foreign exchange reserves, or by capital inflows. Depletion of reserves is a limited possibility for the majority of developing countries, while capital inflows are limited by institutional, political and other factors and to the extent that they consist of loans, lead to higher service charges and repayment obligations.

¹³⁹ See also *Trade Expansion and Economic Integration Among Developing Countries* (United Nations publication, Sales No.: 67.II.D.27), chapter XII.

¹⁴⁰ This summary list excludes the study mentioned in paragraph 392 relating to multilateral programmes of food aid, which is currently the subject of an inter-agency study, and of aid in the form of farm equipment, fertilizers, etc., which is under consideration by FAO.

Given the dominant position of commodities in the export trade of most developing countries, the expansion of foreign exchange earnings from commodity exports is a necessity if these countries are to experience rapid economic growth. Failure to achieve an adequate growth in their foreign-exchange earnings may prove to be a critical constraint on their ability to implement their development plans. Commodity policy thus has a central part to play in the process of economic development.

402. An increase in production of commodities for export from developing countries might not, however, be a desirable policy in all circumstances. First, given the low price-elasticities of demand for these products, an increase in supply on the world market—unless offset by a corresponding autonomous increase in demand—would lead to a decline in total export earnings. Such a decline could, in principle, be prevented, but only by an accumulation of stocks in the exporting countries, which would be particularly serious for commodities already in persistent surplus such as, for example, coffee, sugar and tea. If, in addition, the markets for these commodities are subject to stabilization arrangements, such as buffer stocks, persistent increases in output will tend to place strains on the efficient implementation of such schemes, and might well lead to their eventual breakdown. Similarly, an attempt to raise prices of these commodities above the long-term trend would also tend to be self-defeating if the higher prices led to a further expansion of production. Thus, whether or not a market stabilization arrangement is in force, the expansion in commodity production would, in such circumstances, involve a real economic loss to the producing countries.

403. Secondly, any extra resources employed to expand commodity production may have alternative uses; whether or not these other uses are preferable is to be judged by the real return on them, taking into account, so far as possible, longer-run as well as short-run effects. To the extent that an expansion of output of primary commodities for export uses resources which would bring a higher return if employed in alternative activities, such expansion would also involve an economic loss to the developing countries concerned.

404. To avoid economic losses arising from either of these causes, two essential aspects of commodity policy would seem to be, firstly, to develop forms of international co-operation designed to secure a smoother adjustment of world commodity production to the trend of demand in the world market; and secondly, to achieve, where appropriate a diversification of the structure of production in the developing countries so as to benefit from the probable future shifts in the pattern of world demand. In both these respects, commodity policy merges into the wider issues of economic development planning.

B. INTERNATIONAL CO-OPERATION IN THE ADJUSTMENT OF PRODUCTION TRENDS

405. If the need for achieving an effective international control over the growth in world output of particular commodities—such as those in persistent surplus or for which agreements designed to raise the level of prices are

contemplated—is accepted, the principles on which such control could be based would need to be further discussed and elaborated.

406. The main problem likely to arise would be that of reconciling conflicting national interests, a problem closely interconnected with that discussed earlier in relation to the periodic adjustment of export quotas in an international export regulation agreement.¹⁴¹ Indeed, if an export quota system remains fully effective in limiting the volume of exports, the individual producing countries would eventually be obliged to take measures to ensure that that domestic production was correspondingly limited, if they wished to avoid the cost of holding an increasing volume of unsold stocks.

407. Agreements which attempt to control the growth of production of individual commodities, as well as regulating the volume of world exports, would need to include all important, or potentially important, producing countries in order to be assured of continued viability. A second condition, of vital importance, is that the control arrangement should be flexible enough to allow for appropriate changes in the country pattern of world production and exports.

408. A production regulation agreement is, in any event, unlikely to be acceptable to countries which are efficient, low-cost, producers unless they are assured of attaining a growing share of the world market in the longer run. Otherwise, low-cost producing countries might consider it in their interest to remain outside a production regulation agreement. It would, therefore, seem that a prior consensus is needed regarding the principles of production control before a viable agreement can be concluded. In practice, this would be likely to involve agreement on a method by which basic export quotas would be subject to periodic adjustment in the light of changing relative costs of production in the participating producing countries.

409. The possible methods which might be required in order to devise a workable, and acceptable, system of quota adjustments would need much further enquiry. One possible approach, proposed by Professor N. Kaldor, would be for each producing country to levy an export tax on the commodity, at a rate which limits its exports to its quota. The lower the country's relative production costs, the higher would the export tax need to be in order to achieve its purpose. Professor Kaldor, therefore, suggests that basic export quotas could periodically be redistributed in favour of countries whose rates of export tax are higher than the average.¹⁴²

410. A major problem facing such a scheme, however, arises from the fact that, for many producing countries, there are few profitable alternatives to the production of their traditional specialist commodities. Difficulties could thus arise for countries specializing in the production of a commodity in persistent surplus on the world market. In such cases, though a restriction of the growth of world production is necessary, the cost of transferring

resources into other activities may be too great for some developing countries to undertake, at least without adequate financial and technical assistance. An agreed set of principles of production control would thus have to take account of the costs of developing alternative lines of production in the different producing countries. Though the developing of such alternative lines must be considered as an integral part of any attempt to control the growth of output of a given commodity over the long term, there remains the practical short-term problem of whether and to what extent producing countries can in practice achieve effective control over the growth of output of particular commodities.

411. Governments of developing countries have in the past used a number of different methods of controlling the output of particular commodities. The most important of these methods would seem to be:

(a) Dual pricing systems which, in times of world market surplus, would offer the domestic producers a price which is below the world market price. This can be done directly by means of government marketing boards, or indirectly by means of differential exchange rates or export levies;

(b) Direct control over inputs, including, *inter alia*, acreage limitation, control of the supply of fertilizers, pesticides and seeds;

(c) General fiscal and financial devices, including taxation of output, sales or profits of producers, and the regulation of internal credit.

412. None of these methods are without disadvantages. Dual pricing systems are successful to the extent that production responds in a sufficient manner to prices. This will, in turn, be a function not of the difference between the world price and the domestic price of the commodity concerned, but rather of the relative prices of alternative lines of production. Direct controls, such as acreage limitation in the case of annual agricultural crops, cannot easily allow for increasing productivity, or for the exigencies of crop rotation, while restrictions on tree crops or on mine output may result in unemployment, unless steps are taken to develop alternative lines of production. Finally, the effectiveness of general fiscal measures depends on the degree of development of the internal financial system and tax structure of the individual producing countries.

413. There would thus seem to be need for further study of these various methods of production control, drawing on the actual experience of particular countries, bearing in mind that methods of control will not only differ in their appropriateness as between commodities, but also between countries at different stages of economic development. Not only is evidence required on the effectiveness and cost of each control method in the short-run, but it is important to attempt some quantitative estimates of the longer-run effects on supply, since it is possible that in some cases the successful control of production in the short-term might generate a supply shortage in the longer-term.

414. Effective international co-operation in regulating the growth of output of certain commodities will also need to be supported by reasonably accurate projections

¹⁴¹ See chapter II, para. 77.

¹⁴² N. Kaldor, *Essays in Economic Policy* (London, G. Duckworth, 1964), vol. II.

of future trends in world supply and demand for the commodities concerned, and for their substitutes, in consumption as well as in production.

415. Moreover, in the longer run, any production control technique, to be successful, would need to be accompanied by positive measures and incentives to encourage factors of production to move into alternative lines of activities. These measures need to be taken both at a domestic level to help individual producers, and on an international level to help countries to meet the foreign exchange content of such programmes, as well as the technical assistance that they might require.

C. DIVERSIFICATION AND RESOURCE ALLOCATION

416. The problems of developing productive activities alternative, or supplementary, to the production of particular commodities involve planning choices covering the entire economies of the developing countries concerned. The diversification of these economies—that is, increasing the variety of economic activities—would help to reduce their dependence on the fortunes of any one commodity, as well as facilitating the control over the growth of output of those commodities in persistent surplus on the world market.

417. The range of alternative activities open to individual countries in planning diversification programmes affecting primary commodities in particular would vary greatly from country to country. The main lines of development, which are not mutually exclusive, can be categorized as: (a) increased food production by developing countries which currently import substantial amounts of food; (b) broadening the pattern of production and export in favour of commodities facing relatively dynamic demand conditions on the world market; (c) processing primary commodities formerly exported in their crude form; and (d) developing labour-intensive manufacturing industries.¹⁴³

418. For many developing countries, the development of processing industries and labour-intensive manufactures would seem to offer the most promising avenues for expansion of exports in the longer term. However, resources that may be released through restrictions on the growth of output of primary commodities may not be entirely suitable for absorption in new manufacturing industries. Moreover, the protectionist policies of developed countries, unless appropriately amended, may operate to restrict the rate at which processed goods and labour-intensive manufactures can be exported by developing countries.

419. Apart from the general need for diversifying the economies of developing countries, there are two situations in which diversification becomes particularly urgent in relation to primary commodity production. The first is where the world market is characterized by a downward secular trend in prices and/or in the export

revenue of the developing exporting countries, due to growing displacement by substitutes (particularly synthetic materials). Diversification in this case is required primarily to achieve a reduction in costs of production sufficient to maintain the exports of developing countries in a competitive position with the substitute product on the world market. Such diversification would not necessarily lead to any absolute contraction in output of the commodity in question in developing countries, but it would be associated with a release of productive resources as a result of the rise in productivity, which would then be available for use in other lines of production. *Natural rubber* and *hard fibres* would both qualify under this criterion.

420. The second case relates to commodities, not subject to substitution, where there is a continuing surplus of production over world demand, leading either to an accumulation of stocks or continued downward pressure on the world price. Diversification is necessary in this case both (a) to reduce the rate of growth of production of the commodity in question, so as to raise prices to a more remunerative level for producers; and (b) to use the resources thus displaced in more profitable activities in the producing countries. On this criterion, *sugar* and *coffee* would clearly qualify. For sugar, diversification is not simply a problem of the reallocation of resources within the developing countries; a long-term solution of the world sugar problem will also involve appropriate diversification measures by producing developed countries.

421. Apart from the obvious cases already mentioned—natural rubber, hard fibres, sugar and coffee—there are some others which might also be in urgent need of diversification programmes. Of these, *tea* and certain vegetable oils (e.g. *coconut oil*), might be considered as “borderline” cases, which would need watching in case their market situation showed a secular deterioration under one or other of the criteria mentioned above. It would seem important that international agreement is reached on a specific list of commodities for which diversification programmes are urgently required.

International commodity agreements and diversification

422. For commodities included in this list, and which are already covered by international agreements (or for which such agreements are in process of negotiation), the agreements could be extended to cover agreed *guidelines* for such diversification. International commodity agreements could also be an appropriate means for *raising finance* to meet part of the cost of agreed diversification programmes in the developing countries concerned. So far, *coffee* is the only example of an international commodity agreement being used for this purpose.

423. For other commodities requiring diversification programmes, some other international assistance—outside the framework of formal commodity agreements—might be considered. Natural rubber and sisal, for example, would fall into this category. In the former case, the problems involved have been subject to intensive international discussion over the past year, with a view to evolving more effective international co-operation to safeguard the competitive position of the natural rubber industry. The similar problems for other commodities which are also in need of programmes of

¹⁴³ See report of the Advisory Committee to the Board and to the Committee on Commodities on its first session (*Official Records of the Trade and Development Board, Fifth Session, Annexes*, agenda item 5, document TD/B/109, para. 31).

diversification, and are not covered by international agreements, would appear to warrant special consideration by the appropriate international commodity bodies, in association with UNCTAD.

424. For countries specializing in the production of such commodities, the cost of appropriate diversification programmes might well be beyond their financial resources. Consideration should therefore be given to the creation of a special diversification fund for each of the commodities concerned, which could help in financing internationally agreed diversification programmes. As an alternative, special arrangements might be contemplated under which the developing countries specializing in such commodities would have preferential access to the usual sources of development finance to enable them to implement the diversification which is necessary.

425. The formulation of appropriate diversification programmes for the specific commodities concerned would require detailed study on a country-by-country basis. Such a study is already under way for coffee, and studies on similar lines for the other commodities mentioned above might also be considered.

426. The development of new export activities in the developing countries resulting from diversification would,

however, be frustrated if these were to face import barriers in the markets of the developed countries. A programme for achieving increased market access would thus complement and support the required structural changes in the economies of the developing countries. This complementarity emphasizes the need for the development of an integrated view of commodity policy.

D. FURTHER STUDIES

427. There would seem to be several major issues, arising from the above discussion, on which further research is required. These are:

(a) A study of the effectiveness of alternative methods of government control over the growth of production of selected commodities (paragraph 413);

(b) A study of alternative criteria which would be relevant for the periodic redistribution of country export and production quotas within the context of an international commodity agreement (paragraph 409);

(c) In the light of the results of the coffee diversification study now in progress, similar studies of the diversification problems for other specific commodities might be considered (paragraph 425).

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PROGRAMME FOR THE LIBERALIZATION AND EXPANSION OF TRADE IN COMMODITIES OF INTEREST TO DEVELOPING COUNTRIES *

Report by the UNCTAD secretariat

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Chapter I

Summary and conclusions on possible measures for trade liberalization

1. The material and discussion in chapters II and IV show that a widespread programme of trade liberalization in primary commodities could have a significant impact on the export earnings of developing countries and would, in addition, be to the long-term economic benefit of the developed areas. How important the results

of such a programme would be would depend on the number of commodities and countries covered and on the precise nature of the measures taken. The fact that a programme of trade liberalization would clearly not solve all the trade problems of all developing countries and that one cannot predict its results with precision does not weaken the case for action to improve access to markets for primary commodities.

2. In the light of considerations discussed in chapter IV, it is considered that, as a general rule, the question of improving the degree and conditions of access for major protected primary commodities to the markets of

* This study is a revised and expanded version of a secretariat paper on the same subject (TD/B/C.1/32) which was submitted to the Committee on Commodities at its second session in May 1967. Account has been taken as far as possible of the related discussions of the Committee on Commodities at that session (see *Official Records of the Trade and Development Board, Fifth Session, Supplement No. 4*, paras. 70-109) and of the Trade and Development

Board at its fifth session (see *Official Records of the General Assembly Twenty-second Session, Supplement No. 14*, part one, paras. 48-50). Studies of trade barriers and liberalization possibilities in selected commodities, designed to complement the general analysis in this paper, are presented in a separate document, TD/11/Supp.2 (see this volume, p. 99).

developed countries should be approached more directly than in the past. By concentrating attention on achieving, wherever possible, concrete assurances regarding the improvement or preservation of access to markets, it may be hoped to minimize those uncertainties for exporting developing countries and to reduce those problems for importing developed countries which arise from undue concentration on indirect means, such as the dismantling of barriers or reduction in margins of protection.

3. As regards the special problem of revenue charges, attention might be directed to the possibility of partial refunds of the proceeds, at least in respect of some of the commodities subject to such charges, as an alternative to the traditional (and still tenable) proposal that such charges should be abolished.

4. The chief types of measure which it is considered could be worth while and perhaps also feasible in the context of a programme for the liberalization and expansion of trade in commodities of interest to developing countries may be summarized as follows:

In respect of major protected commodities (i.e. those of which domestic production in developed areas is sheltered or stimulated by government policies):

(a) Each developed importing country which maintains protection might give concrete assurances regarding access to its market by reserving for developing countries specific shares of its total consumption—or of the growth in consumption—of the commodity concerned.

Target ratios of net imports to consumption might be established, to be achieved within a specified period, say two to five years if the ratios entail an increase in the degree of import dependence, or to be observed forthwith if they require merely the maintenance of the existing degree of import dependence; for example, the import ratio, if standing at 75 per cent or more, might at least be held; if below that, it might be increased to a specified level.¹

Such assurances might take the form of unilateral declarations of intention in respect of commodities not covered or about to be covered by operative international commodity agreements; they might, however, be incorporated into any such agreements that may be negotiated or, in the case of existing agreements, when these are next re-negotiated.

The developed countries concerned would achieve the agreed apportionment of markets by whatever means were most appropriate to their circumstances. In paragraphs 56 and 57, it is noted that the agricultural support systems of a number of major developed market economy countries lend themselves to the employment of appropriate techniques of achieving an agreed apportionment of markets, and that the essential purpose of such measures would be to limit the trade-restricting effects of existing market interventions.

¹ The most marked trade results would flow from measures which resulted in increases in the degrees of import dependence of protectionist countries in respect of major commodities (see para. 61 below).

Commitments regarding access to markets in terms of market shares should be widely applicable to major protected commodities, such as sugar, meats, cereals, oils and fats, citrus fruits, cotton and tobacco.

(b) In those instances in which such direct assurances on access might be inapplicable, the most specific possible national declarations of intention by developed countries regarding the removal or modification of existing trade barriers might be invited; and any relevant commodity agreements might include specific and binding obligations for the elimination or moderation of trade-restricting measures.

(c) Consideration might also be given by developed countries to accepting the principle that any actions taken to reduce the margin of protection in respect of unprocessed primary commodities should, in the absence of exceptional circumstances, be accompanied by at least equivalent action as regards those commodities in their semi-processed or processed forms (if of interest to developing countries), so as to obviate an increase in the margin of protection for domestic processing in the developed countries concerned.²

In respect of any revenue tariffs or levies or internal fiscal charges on selected commodities, developed importing countries might, as an alternative to removing such charges, accept the principle of making partial refunds of the proceeds to the developing countries concerned. Some possible bases for the making of refunds are as follows:

(a) The developed countries concerned would refund to supplying countries amounts equivalent to the estimated value by which the latter's export earnings are lower as a result of the application of such charges, so as to compensate the supplying countries concerned for the damage thus caused to their trade. The modalities might be worked out by agreement among the parties concerned, after expert investigation if desired. If it were considered desirable to avoid differences in the application of this method to the various supplying countries, the trade-restricting effects in each importing country might be estimated as a standard proportion of ascertained revenue collections.

(b) An alternative method, which would avoid the difficulties of estimating trade damage, would be to establish the refunds at a particular ratio of the revenue collections—say, 10 per cent, initially at least.

(c) Future increases in revenue from the relevant charges would be refunded in full.

If an approach involving refunds of commodity taxes were adopted, it might be advisable to confine its

² In relation to tariffs maintained on processed agricultural products in developed countries, the secretariat has suggested — in the context of an examination of the question of the granting and extension of preferences for imports of manufactures and semi-manufactures from the developing countries — that developed countries might consider removing or reducing the protection at present provided to the manufacturing process (TD/12, para. 14) (see *Proceedings of the United Nations Conference on Trade and Development, Second Session*, vol. III, *Problems and Policies of Trade in Manufactures and Semi-Manufactures* (United Nations publication, Sales No.: E.68.II.D.16).

scope at first to the tropical beverage crops—coffee, cocoa and tea.

Other measures

Importing countries to agree to pay prices higher than those prevailing in restricted and adversely-affected free markets

5. To the extent that any considerable direct or indirect impediments remained, notwithstanding the application of a programme of trade liberalization, an especially strong case would exist for considering that importing countries should agree to pay prices higher than those prevailing in the restricted and adversely-affected free markets. For example, developed countries which impose levies that may not be considered as equivalent to revenue tariffs but as forming part of those countries' protective régimes might remit part of the proceeds of the levies to external suppliers. In doing so, the developed countries concerned would also be reducing the disparity with price levels considered appropriate for their own domestic producers.³ Should this course be adopted, it would be a matter for consideration whether the proportions of levies remitted to developing countries should be higher than those remitted to other suppliers.

Modification of methods of support of domestic primary production

6. Feasible modifications of methods of support of domestic primary production in developed countries could be helpful in improving the scope for imports, in the absence of more far-reaching measures; they might also contribute to the fulfilment of any undertakings to reserve a proportion of consumption for imports.

Review of production and import policies

7. Developed countries might, therefore, as a matter of urgency, review their primary production and import policies—including methods of support of domestic production—with a view to so modifying them as to reduce their trade-restricting effects, especially on imports from developing countries, and it might be considered desirable that they report annually in detail—commodity by commodity as well as at the general level—on action taken.

Action by the socialist countries

8. The socialist countries could play a very useful role in the context of a programme of trade liberalization and expansion; their approach might be based on making adequate, preferably explicit, provision for increased imports of primary commodities from developing countries, under their development plans, and on reserving

shares of consumption for imports in the context of world-wide commodity agreements.

9. Measures which might appropriately be taken to ensure that developing countries obtain a due share of the benefits of a programme of trade liberalization would vary according to the circumstances. They would include the reservation of appropriate shares of consumption of protected commodities specifically for exporting developing countries; the allocation of preferential export quotas in the case of commodities regulated through world-wide export controls; the removal of trade barriers first in commodities of special interest to developing countries; and the intensification of export promotion measures.

10. These approaches might also lend themselves to the devising of special measures in favour of the least advanced among the developing countries.

Arrangements for continuing consultations

11. Should a sufficient measure of agreement emerge as to the general approach to be adopted to the problem of improving access to markets for primary commodities it might well be considered appropriate to make provision for continuing intensive inter-governmental consultations on the question immediately after the second session of the United Nations Conference on Trade and Development.

Chapter II

Recommendations by the United Nations Conference on Trade and Development at its first session, 1964

12. Recommendations A.II.1 to A.II.9 concerning international commodity trade, adopted by the first session of the Conference, called for positive measures by the whole international community to stimulate the export earnings and economic growth of developing countries and to contribute to a more rational economic distribution of primary production, especially as between industrialized and developing countries, to the mutual benefit of both groups. In the field of primary commodities, emphasis was placed upon securing prices which would be "remunerative, equitable and stable" (while taking into account the interests of consumers in importing countries), and upon improving access to markets in developed areas.⁴

13. The liberalization of primary commodity markets in industrialized countries was seen as involving a standstill on all trade barriers; the removal or reduction of direct obstacles, such as quantitative restrictions, tariffs, and internal fiscal charges; and the modification of domestic policies which stimulate uneconomic production and adversely affect trade.

³ This argument apparently constitutes one element in the reasoning underlying proposals made by representatives of France in various forums in the 1960s for the organization of commodity markets at prices above free market levels; see for example, *Proceedings of the United Nations Conference on Trade and Development*, vol. III, *Commodity Trade* (United Nations publication, Sales No.: 64.II.B.13), pp. 486-494.

⁴ See *Proceedings of the United Nations Conference on Trade and Development*, vol. I, *Final Act and Report* (United Nations publication, Sales No.: 64.II.B.11), pp. 26-34.

14. It was proposed that action should be taken mainly through international commodity arrangements formulated in the spirit of the Conference's recommendations or through appropriate national measures by developed countries without an expectation of reciprocity to be accorded by developing countries.

15. It was envisaged in a recommendation on this subject made by the first session of the Conference (recommendation A.II.1) that the necessary steps to reduce and remove obstacles to trade should be implemented at the earliest possible date and should be completed to the fullest extent possible by the end of the United Nations Development Decade.

16. In formulating its proposals for action in respect of access to markets, the Conference had largely in mind the developed market economies, which are the predominant customers for primary commodities from the developing countries. However, the Conference also in effect called for equivalent positive measures by centrally planned economy countries to expand imports of primary commodities from the developing countries—for example, by taking into account the trade needs of the developing countries when determining their economic policies and/or fixing the quantitative targets in their long-term economic plans, and by refraining from taking any measures which would adversely affect the expansion of imports from the developing countries. In addition, in some specific fields, it was explicitly recommended that the following action be taken by all developed areas: the avoidance of subsidization of exports of primary commodities in a manner injurious to the exports of developing countries; the elimination of mixing regulations which limit access to the markets of developed countries; the exercise of special care in the disposal of agricultural surpluses, stockpiles and other government-held surplus inventories so as not to affect adversely the export prospects of developing countries; and measures directed towards the attainment of an international division of labour in harmony with the needs and interests of developing countries.

Background to the recommendations

17. The chief considerations underlying the stress laid by the first session of the Conference on the need for measures to improve access to markets and other conditions of commodity trade need be recalled only briefly. They were: the long-term foreign trade difficulties of developing countries; the existence of widespread and severe impediments (direct and indirect) to exports of primary commodities to industrial countries; the failure to tackle effectively the problem posed by such impediments through existing inter-governmental machinery, such as the General Agreement on Tariffs and Trade (GATT), or within the context of international commodity agreements; and the recognition that major changes in world trade policies would be required to enable developing countries to achieve and sustain an adequate and stable rate of economic development.

18. At the time of the first session, the fundamental doctrine embodied in the Havana Charter and in the General Agreement on Tariffs and Trade had clearly not been implemented in the field of primary commodities. That doctrine was that trade barriers should be removed, and that opportunities for multilateral trade should be maximized through reductions in tariffs and other trade barriers, including reductions in subsidies adversely affecting imports or stimulating exports of primary commodities. Extensive hearings and consultations on barriers affecting trade in agricultural commodities, held by GATT in the period 1959 to 1962, had been unsuccessful. In any event, the historical approach of expecting reciprocal concessions was regarded by the first session of the Conference as not appropriate to the circumstances of developing countries.

19. Moreover, concrete measures for the reduction or removal of trade barriers, though mentioned as an objective in some post-war international commodity agreements (e.g. the International Sugar Agreements of 1958 and the International Coffee Agreement of 1962), had not, in practice, been obligatory for importing countries. Thus, in the context of the International Sugar Agreement, each member Government agreed merely to notify the International Sugar Council, at the Council's request, of any subsidy granted by it which affected international trade in sugar, and to discuss the subsidization with any aggrieved member Government; and "to take such action as it deems appropriate to reduce disproportionate burdens on sugar, including those resulting from... fiscal and tax policies".⁵ Under the International Coffee Agreement of 1962, member Governments undertook to investigate ways and means of reducing and eliminating obstacles to trade in coffee, or of diminishing their effects, and to inform the International Coffee Council of the results of their investigations.⁶ Commitments as to access into importing countries or as to the volume of their purchases were not included,⁷ and national policies of support for domestic production of like or competing commodities in developed importing countries were not effectively covered.

20. The present factual position regarding impediments to access (which also reflects broadly the situation which prevailed at the time of the first session of the Conference), is outlined in chapter IV.

⁵ See articles 3 and 5 of the International Sugar Agreement, of 1958 (in *United Nations Sugar Conference, 1958, Summary of Proceedings*) (United Nations publication, Sales No.: 60.II.D.2) annex III.

⁶ See article 47 of the International Coffee Agreement, 1962 (in *United Nations Coffee Conference, 1962, Summary of Proceedings*) (United Nations publication, Sales No.: 63.II.D.1), annex III.

⁷ In the field of formal multilateral agreements, the purchase commitments under the 1949, 1953 and 1956 International Wheat Agreements provided an exception to this. However, the International Wheat Agreement of 1962 did not contain any obligations regarding the volume of imports by importing countries or policies affecting access.

Chapter III

Developments since the first session of the Conference*

21. In the period since mid-1964, unilateral national action to liberalize trade in primary commodities has been very limited in relation to the possible scope of such action. It has included such measures as the removal or reduction of import duties on certain tropical products by a number of developed countries;⁸ the removal of import restrictions maintained by a developed country on lead and zinc⁹ and arrangements for the sharing of market growth in meat with external suppliers in one major importing country,¹⁰ and of cereals in another importing country.¹¹ However, the consolidation of the protected market for domestic producers of a wide range of primary commodities in the European Economic Community (EEC) (coupled with the payment of increasing subsidies to exports of such commodities to non-member countries), and the expansion of production of sugar in other important countries provide examples of contrary action which has increased the direct impediments to trade or might otherwise obstruct the attainment of a rational international division of labour in harmony with the interests both of developed and developing countries.

22. In the context of international commodity agreements, the problems of trade barriers have been discussed, but no real progress has yet been made towards reducing trade impediments. The United Nations Sugar Conference of 1965 discussed a proposal that at least 50 per cent of future consumption increases in developed importing countries should be met from imports. Importing countries were reluctant to agree to such a concrete commitment at that stage. In subsequent consultations within the UNCTAD Sugar Consultative Committee—designed to lay the basis for reconvening the Sugar Conference—the question of access to markets has received attention as an important element of a new international

sugar agreement. The text of the International Olive Oil Agreement of 1963, which was extended by protocol for two years from 1 October 1967 to 30 September 1969, does not contain any provisions relating to access to markets. One of the proposals in the text of a draft international cocoa agreement under discussion in the period since the first session of the United Nations Conference on Trade and Development is that importing countries assume commitments to remove, or negotiate the removal of—during the life of any cocoa agreement—import duties on cocoa beans, and also to reduce progressively internal fiscal charges applying to cocoa beans and semi-processed cocoa products. The International Coffee Council has also discussed the problem of trade barriers from time to time in connexion with the provision of article 47 of the International Coffee Agreement regarding the removal of obstacles to the consumption of coffee.

23. The text of a Wheat Trade Convention, established by an International Wheat Conference held in July-August 1967, does not contain any provisions intended to preserve or increase access to the markets of developed importing countries. In this respect, the new Convention is not more comprehensive than the International Wheat Agreement of 1962, although much attention was given, in the course of lengthy prior discussions among the members of the GATT Cereals Group, to proposals for the reservation by developed importing countries of shares of their domestic consumption of wheat from external suppliers, and for the freezing of margins of protection accorded to domestic production of cereals.

24. In the course of the Kennedy Round of trade negotiations under the auspices of GATT, the possibility of action on trade barriers affecting agricultural products, especially cereals, meat and dairy products, received intensive consideration; attention was given also to certain tropical products. Tariffs were reduced by developed countries on a variety of commodities of interest to developing countries, especially tropical products (e.g. cocoa beans and raw coffee). However, non-tariff barriers and domestic agricultural support policies which, generally speaking, constitute far more important impediments to trade in unprocessed primary commodities, remained virtually unaffected by the results of the Kennedy Round. The lack of progress on the removal of non-tariff barriers on primary commodities is the more remarkable in that concessions were being offered by some exporting developed countries to moderate such impediments, at least some of which are widely recognized as being contrary to the provisions of the General Agreement on Tariffs and Trade.¹² The rules adopted in the Kennedy Round and in part IV of the General Agreement, which was adopted in 1965, both incorporated the principle of non-reciprocity on the part of developing countries.

* For a fuller account, including an account of selected national action in the field of primary commodities, see *Review of International Trade and Development, 1967*, part two — Trade Policy Developments (United Nations publication, Sales No.: E.68.II.D.4), chap. II.

⁸ Including Austria, Canada, EEC, Japan, the Scandinavian countries, Switzerland, the United Kingdom of Great Britain and Northern Ireland and the United States of America.

⁹ United States.

¹⁰ United Kingdom.

¹¹ Measures were also taken in two major developed countries, the United Kingdom and the United States, with a view to limiting the output-increasing effects of agricultural support policies or/and limiting the cost of support in respect of certain commodities. To limit the cost to the Exchequer of support and to help maintain a balance between home-produced and imported supplies, the United Kingdom in 1964 extended to wheat and barley arrangements under which the average price received by farmers would be reduced if total production (of all producers combined) exceeded a specified "standard quantity". (However, the measures taken have not succeeded to date in arresting the long-term fall in the share of external suppliers). In the United States, since 1964 price support for certain commodities has been given partly in the form of direct payments for specified quantities from producers who comply with supply controls.

¹² For a detailed review of the results of the Kennedy Round, including those relating to particular primary commodities, see the report by the Secretary-General of UNCTAD, *The Kennedy Round — Estimated Effects on Tariff Barriers* (United Nations publication, Sales No.: E.68.II.D.12).

Chapter IV

Commercial policy impediments to trade in primary commodities and their consequences

Nature and extent of impediments

25. The precise form, essential purpose, geographical spread and incidence of policy impediments to trade in primary commodities can, and usually do, vary from commodity to commodity. Accordingly, separate brief studies on selected commodities have been prepared and are included in a separate document.¹³ At a general level, it is useful to distinguish between essentially protective measures, relating to commodities of which production in developed countries is sheltered or stimulated by government policies, and measures maintained essentially for revenue-raising purposes.

26. Measures designed to protect domestic primary production in industrial countries are, as a general rule, the more important in the context of a programme of trade liberalization, since they affect a wide range of primary commodities and are typically more restrictive of imports than are revenue-raising measures. In a recent year, as much as two-thirds by value of exports of primary commodities from developing countries to industrialized market economies faced the competition of (often protected) domestic production of like or competing commodities in those countries.

27. Policies of support for domestic production of primary commodities in industrial countries (which often involve restraints at the frontier as merely one element in the system of support) are very extensive, as table 1 in the annex shows. They take the form of measures controlling or influencing domestic market prices, or the granting of deficiency payments or other subsidies to producers. Such practices serve to inflate the returns to domestic producers and largely to insulate the latter from (usually lower-cost) external competition. In a recent year (1962), the taxpayers or consumers in the EEC, the United States and the United Kingdom, devoted an estimated \$10 billion in support of domestic agriculture through direct subsidies to domestic producers or through the payment of managed prices above the levels prevailing in free markets.^{14, 15} The position

regarding the degree of such support in developed countries as a group has not changed substantially since 1962. It might be noted that, in the same year, total imports by all industrial countries from developing countries of agricultural commodities in competition with domestic production amounted to less than \$4 billion.

28. Of protective measures at the frontier, quantitative import restrictions present the main obstacle for unprocessed primary commodities. (Table 1 indicates the spread of non-tariff barriers generally to imports of primary commodities into major industrial countries.) In some instances—for example, bananas—such import restrictions as are maintained are in the interests of preferred partner countries. Although, as table 2 shows, tariffs are widespread, they are the only obstacle and not an important obstacle except in a relatively small number of cases, in so far as unprocessed commodities are concerned. Where they occur in conjunction with other restraints, tariffs are normally of secondary importance as a protective device.¹⁶

29. The facility with which affluent countries grant export subsidies to dispose of production surplus to domestic requirements of commodities of export interest to developing countries (e.g. vegetable oils, tobacco, cereals, cotton), can constitute a further impediment, in so far as these subsidies may adversely affect export opportunities—including those of developing countries—in third markets. The increasing amount of funds derived from levies on imports and made available for “refunds” on exports by members of the EEC to non-members is a new element in the situation.

30. Revenue measures which impede the export earnings of developing countries to varying extents are maintained by some developed countries in relation to a number of major primary commodities. Such measures take the form of internal fiscal taxes or customs tariffs. The commodities involved are coffee, cocoa, tea and bananas, as well as some commodities produced partly in developed countries—tobacco, petroleum, sugar, citrus fruits and wine. It has been estimated that, in the year 1965, the four major developed market economies (United States, United Kingdom, EEC and Japan) collected approximately \$20 billion from revenue charges on the first six of the primary commodities just mentioned—whether home-produced or imported (see table 3).

¹³ TD/11/Supp.2 (see this volume p. 99). The commodity studies make special reference to the position existing in the markets of the major developed market economies: United States of America, United Kingdom, Japan and EEC.

¹⁴ See *Proceedings of the United Nations Conference on Trade and Development*, vol. III, *Commodity Trade* (United Nations publication, Sales No.: 64.II.B.13), p. 26.

¹⁵ Although the level of unit subsidization of agricultural production is probably lower in the United Kingdom than in most other industrial countries, the availability of pertinent statistics about the position in that country makes it possible to illustrate the degree of stimulus to domestic agricultural production which might be provided by existing policies in major industrial countries generally. In the United Kingdom, the cost of Exchequer support to agriculture by way of deficiency payments and grants and subsidies has been equivalent, in most years in the 1960s, to more than one-half of “aggregate farming net income”, as officially defined; it has been a little less than one half in the last two completed

financial years. If expressed as a proportion of the farmers’ total gross receipts, the cost of support has averaged a little over one-tenth in the last two completed financial years; the proportion was higher in earlier years.

¹⁶ Trade impediments other than easily identified quantitative restrictions at the frontier, tariffs, internal fiscal charges or explicit policies in support of domestic primary production may occur in some instances. They might take the form of restrictive buying policies of corporations, or administrative and technical barriers to trade—for example, protection involved in regulations maintained on grounds of health or safety. It has not been possible to examine the extent and incidence of such barriers for the purposes of the present study. (The secretariat of the European Free Trade Association (EFTA) is at present engaged in a study to define the importance of administrative and technical barriers to trade in the EFTA countries.)

Of this amount, about \$450 million was collected from revenue charges (including tariffs) on the tropical beverage crops, and an estimated sum of over \$9 billion from charges on tobacco and petroleum imported from developing countries.

Incidence by commodities

31. Some important primary commodities in their raw forms move relatively free of commercial policy impediments in major industrial countries; these include natural rubber (excluding some special types of latex); jute and hard fibres in their raw forms; tea in bulk; some tropical oilseeds; copper ore, tin ore and iron ore; bauxite and natural phosphates.

32. However, varying (often high) degrees of protection are maintained in industrial countries for most important primary commodities produced in those countries, which are usually of export interest to developing countries or primary exporting countries generally. This is true especially of sugar, cereals (wheat, coarse grains and rice), meats, tobacco, fats and oils, certain oilseeds, citrus fruits, wine; and, in a small number of countries, of cotton, wool, fish and petroleum. Although some fats and oils are not produced in developed countries, the fact that the production of others is protected tends to limit the general scope for imports, give the interchangeability which prevails amongst certain fats and oils. Moreover, an indirect stimulus is provided to domestic production of cattle hides as a by-product of policies of support of livestock production, notwithstanding the absence of any direct restraints on imports of raw hides and skins.

33. As noted earlier, revenue duties with trade-restricting effects of varying degrees¹⁷ are maintained against a number of major primary commodities of export interest to developing countries, notably the tropical beverage crops.

34. Furthermore, many commodities which are admitted duty-free or at relatively low tariffs in their raw forms (e.g. cocoa beans, oilseeds, raw cotton, raw hides and skins, copper ore) are subject to increasing impediments as the degree of processing increases (e.g. cocoa products, vegetable oils, jute goods, cotton goods, leather). In some instances—for example, tea—the commodity concerned encounters trade restraints if it is exported packaged rather than in bulk. The escalation of tariffs according to the degree of processing is evident from table 2. The problem is aggravated by the fact that the protective effects of tariffs on processed products can be substantially higher than the nominal rates would indicate, in instances in which the commodities concerned are admitted free or at low rates of duty in their raw forms.¹⁸

¹⁷ See, for example, calculations presented in document TD/8/Supp.1, chapter V (see this volume, p. 39). Those calculations indicate that the removal of all duties and taxes in the EEC and EFTA countries would, on the basis of data for 1961, result in increases in total export earnings varying from 3 per cent for cocoa, 3.5 per cent for coffee, 6 per cent for bananas, to 10 per cent for oranges — assuming that retail prices were correspondingly reduced.

¹⁸ For some examples of differential duties, see table 2 and the studies on cotton, copper and certain other commodities supplement-

General consequences of protectionism

35. For developing countries and external suppliers generally, protectionism restricts their export proceeds by reducing the volume, or the unit return, or both, of their exports to protectionist countries and to any third markets which may be affected.

36. To the extent that the primary commodities concerned are costlier than they would otherwise be for consumers, the growth of consumption tends to be retarded, especially as regards those commodities for which demand may be fairly responsive to price changes (for example, meat, fruits, sugar in regions of low consumption,¹⁹ or commodities facing competition from substitutes).²⁰ Often, however, demand for primary commodities is not very responsive to price changes, particularly in areas which have attained high levels of *per capita* consumption, and the effect on consumption may not be very marked.

37. More importantly, as a general rule, if the commodity concerned is produced in a protectionist country, production is stimulated in that country at the expense of developing countries and other external suppliers, which produce the whole range of commodities protected in developed countries. Thus, the degree of import dependence of major industrial countries has fallen over the past decade in respect of a number of primary commodities, notably sugar and cereals (see table 4).

38. In the case of commodities not produced in developed countries—such as the beverage crops, bananas and tropical spices—an adverse effect on international

ing it in document TD/11/Supp.2 (see this volume, p. 99). For additional illustrations, as well as an examination of this problem, see Bela A. Belassa, "The structure of protection in the industrial countries and its effects on the exports of processed goods from developing nations" (document TD/B/C.2/36) in *The Kennedy Round — Estimated Effects on Tariff Barriers* (United Nations publication, Sales No.: E.68.II.D.12).

¹⁹ The system of deficiency payments and production grants to agricultural producers which is operated by the Government of the United Kingdom thus has the relative advantage of not discouraging consumption of the commodities concerned. The effects on demand of the lower market prices are, however, partially offset by the reduction in the net disposable incomes of the citizens as taxpayers, which results from the increased taxation required to raise revenue for the chosen method of support — direct subsidies to primary producers.

²⁰ For example, in the report on its first session, the UNCTAD Permanent Group on Synthetics and Substitutes noted, in relation to the question of the substitution of artificial sweeteners for sugar, that "the problem was compounded by the fact that, in a number of countries, sugar faced high Customs duties, price supports or other forms of protection, including internal taxes, whereas artificial sweeteners were either from such charges or incurred only minimal charges. Moreover, in many cases where artificial sweeteners were dutiable, taxes were levied without regard to the sweetening power of the substances; the synthetic product was thus being favoured to the detriment of the natural product" (see *Official Records of the Trade and Development Board, Fifth Session, Supplement No. 4A*, para. 24). In a related document, incorporating a report submitted by the International Sugar Council, it was stated that in Japan, about one-third of the country's consumption, in terms of sweetening power, is accounted for by the use of artificial sweeteners. This fact is chiefly explained by the high retail price of sugar (TD/B/C.1/SYN/2/Add.1, para. 12).

trade results only to the extent that consumption is affected by the relevant tariffs or internal revenue duties.

39. Generally, protectionism in developed countries compounds the foreign trade difficulties of developing countries; other contributory factors are: the relative unresponsiveness of demand for many foodstuffs and beverages to increases in income levels in the principal importing countries; the substitution of synthetic for natural materials; the lower cost of production of some primary commodities in developed exporting countries as compared with that in developing countries (e.g. soya beans, linseed); possible supply limitations affecting exports of some unprotected commodities from developing countries; and related factors responsible for a decline in the share of developing countries in world exports of primary commodities (the over-all growth of which is lagging behind the expansion of total world trade, owing to the factors listed earlier).

40. Protectionism also involves real economic costs for the industrial countries themselves, although even when this fact has been recognized little practical action has resulted. Support of domestic primary production can and does, as indicated earlier, operate greatly to the disadvantage of consumers and/or taxpayers in the first instance; it tends to reduce the real output of the economy in the long term, since it involves the use of resources in less productive activities; and it limits the buying capacity of primary exporting countries, and hence affects exports from industrial exporting countries.

41. Furthermore, to the extent that protectionism reduces the volume of international trade in a particular commodity it often aggravates the price instability in the free market attributable to changes in supply or demand or to modifications in trade barriers. For example, because the free market for sugar is a small residual market of about 5 or 6 million tons a year out of a total net trade of about 16.5 million tons and an annual world production of about 60-70 million tons, a change of 1 per cent in world production or in world demand would be equivalent to a variation of more than 10 per cent in supplies for the free market. The more widespread the protective practices affecting a particular primary commodity are, the smaller the free market becomes, and the more volatile free market prices tend to be.

for taking such measures in order to improve the export earnings of developing countries coalesces with and greatly reinforces the strong case based on classical economic arguments.

43. Trade liberalization in depth and breadth—as regards the range of primary commodities and liberalizing countries—or access commitments, would undoubtedly make a major contribution to expanding the export earnings of developing countries. It should also contribute to the diversification of their exports, especially if any programme of liberalization included measures benefiting their exports of semi-processed and processed primary commodities. The result could be a significant expansion of the trade in many commodities which at present are protected in developed countries, and an improvement in their prices, for in many cases the degree of protection is high and import requirements would rise markedly given even a proportionally slight decline in (or reduction in the rate of growth of) domestic production. For example, every increase of 1 percentage point in the proportion of domestic consumption met from imports in the net importers concerned among the EEC, United Kingdom, Japan and United States in respect of each of a number of commodities protected in all or some of these markets would be equivalent to an increase in aggregate import requirements of an estimated value of about 235 million a year.²¹

44. In some instances, the expansion of exports from developing countries may be hampered by apparent supply limitations, as in the case of beef and veal and coarse grains. This is sometimes regarded as providing sufficient reason for the maintenance of protection of domestic production of such commodities in developed countries. However, a case of liberalization on economic grounds would nevertheless remain even in these circumstances as, following the removal or reduction of trade impediments, new (higher) world prices would tend to bring over-all supply and demand into balance, and a more rational allocation of world resources would thus be achieved. In a situation in which world prices for the commodities concerned were thus raised and production for export was made more profitable, at least part of the increased requirements of developed importing countries would no doubt be supplied from developing countries. If necessary, supplementary measures could be taken in order to ensure that developing

Chapter V

Considerations relevant to the formulation of a programme of action to improve access

Case for liberalization restated

42. It follows from the foregoing that the scope and need for correcting or reducing the misallocation of resources and incomes—and so of improving the export earnings of developing countries—through measures to liberalize trade remain large; indeed, they are probably greater now than ever before, as the restrictive effects of impediments to trade in primary commodities have apparently increased over the post-war period. The case

²¹ The commodities concerned and the individual estimates are as follows:

	\$U.S. million
Beef and veal	112
Coarse grains	30
Fats and oils (excluding butter)	23
Sugar	20
Rice	18
Cotton	9
Tobacco	8
Wheat	8
Citrus fruit	6

The quantities used in the calculation were estimated in relation to the average degree of import dependence in the years 1964-1966 and were valued at the average unit values of world exports in 1965, as estimated by the Food and Agriculture Organization of the United Nations (FAO) (a decrease in the degrees of self-sufficiency was assumed only in respect of net importers, the EEC being counted as one unit).

countries obtained a due share of the expanded market opportunities.²² Given the assurance of increased market outlets at improved prices, developing exporting countries would no doubt be willing and able to undertake appropriate programmes for the expansion of exportable production of the items concerned.

45. As regards the implications for liberalizing countries, the short term view highlights the balance of payments, budgetary or internal re-adjustment problems which any significant degree of trade liberalization would pose for importing industrial countries, especially in so far as it could adversely affect the position of domestic primary producers, whose average income levels tend to be below those of other sectors in the same countries. Although these problems might seem politically acute in the short term, they are essentially transitional and might be minimized by the use of adjustment assistance measures, as discussed in paragraphs 56 and 57. Apart from possible short-term benefits from the restraint on any inflationary forces in liberalizing countries, there would be longer-term benefits from the speeding up of the transfer of resources out of currently supported activities to more productive and nationally more profitable lines of activity such as production of industrial export goods.²³ The associated increase in the capacity of developing countries to import from industrial countries might be regarded as constituting a kind of "implicit reciprocity".²⁴ It follows that the removal or moderation of trade restrictions would be beneficial to the long-term balance-of-payments position of protectionist countries.

46. As explained in paragraph 41 above, a reduction of the instability in the prices of the major primary

commodities could be expected to result from the broadening of world commodity markets, which is often associated with trade liberalization.²⁵ This would benefit developing and developed countries alike.

The traditional approach to protectionism : focus on a freezing or reduction of protective measures

47. The essential objective of the traditional approach to the question of trade liberalization has been to seek a freezing of barriers or (unit) margins of support, or a reduction of trade impediments in importing countries. Indeed, some discussions of possible international measures—including ones proposed in GATT—appear to have been based on the expectation that a mere "standstill" on direct trade barriers, or such steps as the limitation of the margin of support per unit for various commodities, would greatly improve access to the markets concerned.²⁶

48. Experience shows that general obligations regarding the freezing of barriers or margins of support in importing countries might be of questionable value. As table 4 shows, the degree of self-sufficiency of major developed countries in many primary commodities can rise (and has risen over the past decade in many instances) despite the apparent absence of any widespread increase in margins of support. In any case, certain protectionist régimes can be so operated that, notwithstanding any freezing of or reduction in the margin of support, the imported commodity may, after the imposition of levies charged on entry, be over-priced in relation to the domestic commodity. Moreover, as noted earlier, quantitative restrictions are very often the main regulatory mechanism affecting the volume of imports. In such instances, whether producers in the protected market receive a unit return of, say, 40 per cent rather than 50 per cent above the world market price is only a secondary factor affecting the degree of access for external suppliers.

49. This discussion is not to be taken as implying that the reduction of the level of protection accorded to primary industries in developed countries would in all cases be of questionable value. The effect on consumption (hence the increased scope for imports) could be appreciable in respect of some commodities, although it might be relatively small as regards many others.²⁷ More significantly, in most instances, a large reduction

²² The general question of ensuring that developing countries receive a due share of the benefits of trade liberalization is discussed in paragraphs 69-73.

²³ For example, a group of experts appointed by the Organisation for Economic Co-operation and Development (OECD) has stated that "average labour productivity outside of agriculture is higher than within agriculture for most OECD countries, sometimes substantially so ... While it is impossible to measure adequately comparative advantage and hence the cost of trade restrictions, there can be no doubt that a progressive transfer of productive resources out of heavily protected sectors would bring a significant contribution to real national income, a contribution that would grow as progress continued". OECD, *Agriculture and Economic Growth*, 1965, pp. 42-46.

²⁴ Compare with a statement by Anthony M. Solomon, Assistant Secretary for Economic Affairs, United States Department of State: "... We should also be mindful of the benefits to U. S. export trade which accrue from large and more stable export earnings by developing countries. There is much truth to the developing countries' claim that self-interest alone should motivate us. What they earn from exports to the developed world by and large goes straight back to the advanced countries like our own to finance imports of capital goods, equipment, and other essentials for economic development. Over the long term, economic development is also the basis for expanded commercial trade. For example, the U. S. Department of Agriculture has observed that for every 10 per cent increase in incomes in developing countries we can expect a 16 per cent increase in commercial demand for U. S. agricultural products..." Address on "United States Trade Policy after the Kennedy Round: Helping the Developing Countries Help Themselves", made before the 53rd National Foreign Trade Convention at New York, 2 Nov. 1966, *The Department of State Bulletin*, vol. LV, No. 1430, November 21, 1966, pp. 785-786.

²⁵ However, trade liberalization would not remove the need for special measures to achieve the highest possible degree of price stabilization.

²⁶ Proposals were made in the course of discussions in the Kennedy Round of Trade Negotiations in GATT for the adoption of a method in which "the binding of the margin of support, coupled with a world reference price" would form the essential element of international agricultural agreements on such commodities as cereals, sugar, vegetable fats, meat and dairy products. These particular proposals were made by a group of importing countries.

²⁷ In the case of primary commodities for which demand would be responsive to a price decline, e.g. meat and fruits, and in those subject to competition from synthetic substitutes as well as to some trade barriers (e.g. wool and, until recently, cotton in the United States, as well as wool and cotton goods in many countries), a stimulus to consumption greater than otherwise would be provided by the reduction in prices which would flow from a reduction in the level of support.

in the degree of protection which involved an appreciable fall in the returns to domestic producers would tend to reduce domestic supplies and so contribute to a significant expansion of trade.

50. However, because of commodity inter-relationships, any substantial reduction in or the removal of protection on one commodity or commodity group should preferably form part of a wider programme of adjustment in the primary sectors in industrial countries. In the agricultural sector, concurrent reductions in, say, support prices, would be required in commodities which compete with each other either for the productive resources on the farm (e.g. sugar and cereals) or in the consumer market (e.g. various oils and fats). Moreover, any reduction in support would need to be notified to the industries concerned as a permanent one.

51. The description of the complications just mentioned should not be taken to imply that action to reduce the degree of protection on just a few major commodities would not be worthwhile. Nevertheless, it may be feasible and preferable to adopt a more direct approach to the objective of improving access to markets for primary commodities subject to non-tariff barriers.²⁸

Alternative or supplementary approach to improving access for protected commodities : focus on trade results

52. The essential objective of developing countries, on the one hand, is to sustain and increase their exports of primary commodities to the developed areas which are now their biggest markets. The primary domestic consideration of developed countries, on the other hand, is their concern not to prejudice their aim of maintaining certain minimum incomes or commodity prices for their primary producers (despite the generally recognized misallocation of resources which this involves on economic grounds). A wholesale reduction of the level of support in developed importing countries, which would imply a large reduction in returns to domestic producers, has thus generally been regarded by importing countries as politically impractical. If, however, developed importing countries were able to undertake concrete market-sharing commitments to provide improved access for imports, supplying countries would have achieved their essential objective and developed importing countries would be free to achieve the agreed apportionment of markets by whatever means were considered most appropriate. If so desired by the importing country concerned, the techniques chosen need not involve a reduction in the over-all or unit level of returns to domestic producers; they could consist of any combination of inducements or disincentives which were judged both efficacious and politically most feasible.

53. Developed importing countries might therefore consider taking on direct and concrete obligations regarding access to their markets such as the reservation

for developing countries of assured shares of total current consumption or specified shares of the prospective growth of consumption, in relation to each major protected commodity. The specific shares would probably vary from country to country and from commodity to commodity. It would be regarded as a matter for individual importing countries to ensure the fulfilment of such undertakings in the manner considered most fitting to their national circumstances. Any assurances regarding access to markets which were quantified in this manner should preferably refer to net (rather than gross) imports, in view of the tendency of some net importing countries to become at least occasional exporters.

54. The quantification of such assurances would, incidentally, provide an opportunity both for countries which do not practise State trading in primary commodities and for those which do to give equally measurable commitments to developing countries collectively. The problem posed by crop fluctuations and consequently fluctuating import requirements could perhaps be overcome very largely by measuring performance according to the average relationship of imports to consumption over more than one crop year.

55. A question requiring consideration would be whether, and if so to what extent, importing developed countries which might accept commitments of this kind should offer compensation to developing countries in the event of non-fulfilment of those undertakings for reasons other than circumstances beyond their control.

56. The support systems of a number of developed market-economy countries would appear to lend themselves to the employment of appropriate controls, disincentives or incentives which might contribute to achieving an agreed apportionment of markets. In particular, the EEC, the United States and the United Kingdom have evolved increasingly sophisticated and flexible techniques of supporting and influencing domestic primary production—involving variations in guaranteed or intervention prices for commodities, variations in the rates of subsidy payments, and even controls over the areas under crop. These techniques, with appropriate modifications, could be used to control more closely the course of domestic production of primary commodities, and hence the scope for imports of like or substitute commodities. Moreover, specific arrangements for the sharing of market growth with external suppliers of raw sugar are being successfully operated in the United States and were in operation in the United Kingdom over the period 1953-1964, and measures designed to contribute to the achievement of pre-determined market shares have been introduced in the United Kingdom in recent years in respect of certain other commodities.

57. It might be noted that the introduction of market sharing arrangements for suitable protected commodities would require in the protectionist developed countries concerned the making of adjustments to existing market interventions, essentially in order to limit the trade-restricting effects of such interventions. Importing developed market economies which do not intervene in particular commodity markets in favour of their domestic producers would not be required to intervene in those

²⁸ In the case of such protected commodities as might be subject exclusively to tariff restraints and of which production is not otherwise sheltered or stimulated in developed countries, the reduction of tariffs or the granting of tariff-free quotas may constitute a sufficiently adequate course of action to improve access.

particular cases, since by definition the commodities would not be regarded as protected ones in their particular markets.

58. Because of the nature of the economic systems of the socialist countries of Eastern Europe, those countries among them which undertook access commitments comparable to those of developed market economies would doubtless find it technically simpler to implement such commitments.

Trade significance of liberalization measures

59. A backward-looking illustration of the possible trade significance of explicit market-sharing arrangements may be provided by reference to sugar. If in respect of raw sugar the degree of import dependence of each of the deficit countries of Western Europe and North America had been maintained at the same level in the year 1966 as in the period 1955-1957, the import requirements of those countries in 1966 would have been greater than they actually were by 1.7 million tons. This quantity would have been worth \$173 million if valued at the average unit value of world exports in 1965. If, in addition, developing countries had participated in this market growth in proportion, at the least, to their share of world exports in 1955-1957, their annual export gain from sugar would have totalled about \$130 million by 1966.

60. At any given time, industrial countries which are net importers but protect domestic production of particular primary commodities could increase the market opportunities for developing countries (and other supplying countries) by taking measures which would increase imports relatively to domestic consumption in any of a variety of ways. Measures might be taken with the explicit purpose of reducing the volume of domestic production of the commodities concerned, "freezing" the volume of production, or keeping the rate of growth of domestic production lower than that of consumption; or imports might be encouraged relatively to domestic production simply through a lowering of trade barriers. A relatively small increase in the degree of import dependence, through whichever method such a result was achieved, could augment the scope for imports very appreciably in the case of many protected commodities. (See, for example, the illustration in paragraph 43 above.)

61. The most marked trade results would flow from measures which resulted in immediate and permanent increases in the degrees of import dependence of protectionist countries in respect of major commodities. This would normally require a reduction in the volume of protected production. The effects on trade of such actions would vary from commodity to commodity and according to the degree of liberalization involved.

62. Short of action to induce immediate reductions in the volume of high-cost production of protected commodities and hence in the degrees of self-sufficiency, action designed to accord exporting countries the opportunity of meeting the whole, or an appreciable portion, of the future growth of consumption would offer considerable scope in many instances. For example, in the

decade 1965-1975, the estimated aggregate value of the prospective increase in demand among the net importers concerned in the EEC, United Kingdom, Japan and United States for a limited number of protected agricultural commodities totals about \$5.8 billion.²⁹

63. However, if domestic producers of the commodities concerned were enabled, through continued protection, to supply the same proportions of the projected growth of consumption as their share in existing consumption in 1965, the increase in import requirements would total \$1,180 million—about one-fifth of the increment in consumption. On the basis of their recent trade shares, developing countries would supply about \$390 million. The implications for the trade of developing countries of arrangements for the sharing of market growth would thus depend on the prospective total growth of consumption, the degree of participation of external suppliers in meeting the increase in demand, and the share of the developing countries in the increase in import requirements. In cases in which a substantial growth of demand was in prospect (e.g. in meat, citrus fruits, coarse grains, and sugar in certain developed regions), the equitable sharing of market growth would bring greater trade gains for the countries supplying the commodity in question, as well as being politically easier for the importing countries.

64. The quantitative illustration just given does, however, underline the need for increasing the shares of consumption of protected commodities to be met from imports, and for according developing countries a due share of any increases in import requirements, in order to achieve the greatest possible improvement in the export opportunities for developing countries.

Methods of support

65. The potential scope for action on the part of developed countries broadens if one considers possible changes in methods of support of domestic primary production. In so far as the dominant aim of policies of support for domestic primary industries in industrial countries is to maintain certain minimum incomes for producers, there appears to exist considerable scope for a modification of support methods with a view to limiting the import-restricting effects of such policies.

66. Existing methods of support in industrial countries involve the direct fixing of internal price levels, deficiency payments to bring unit returns to all producers to chosen levels, or other unselective measures designed to cover the unit costs of less productive units. The almost universal result of such methods is that an undue stimulus is provided to domestic production and consequently the market opportunities for external suppliers are to that extent constricted. Under present arrangements,

²⁹ As projected by FAO on the high income growth assumption, in *Agricultural Commodities — Projections for 1975 and 1985*, vol. 1.

The estimate is composed as follows: rice \$100 million; coarse grains £1,220 million; sugar \$390 million; beef and veal \$3,440 million; citrus fruits £190 million; fats and oils (excluding butter) \$450 million (at average unit values of world exports of the commodities concerned in 1965).

moreover, it is typically the larger, more efficient and more favourably situated producers—those least in need of assistance—who obtain the predominant share of the assistance by virtue of the fact that they account for the great bulk of production. The total cost of support is correspondingly inflated. The adoption by developed countries of more selective systems of support designed specifically to help viable low-income producers would serve to improve the opportunities for efficient external suppliers. At the same time, it would reduce the internal economic burden of support policies, while being fully consistent with the basic social objective of protecting standards of living.³⁰

67. Such a change in methods of support might well reduce enormously the difficulties for importing developed countries which, as noted earlier in this report, stand in the way of a broad programme of lowering trade barriers. Measures which would expose to external competition previously insulated primary industries (be it in agriculture or in mining) would not affect seriously all producers in the industries concerned. The economic adjustments associated with trade liberalization could therefore be facilitated at the least transitional cost by arrangements for selective “adjustment assistance” to producers concerned along the general lines proposed in the United States Trade Expansion Act of 1962 (although the relevant provisions of this Act were conceived primarily for industrial enterprises).

68. Moreover, a system of selective direct income support from appropriate levels of production (perhaps accompanied by offsetting disincentives for excess production) may well facilitate the acceptance and fulfilment of commitments regarding access to markets as discussed in paragraphs 52 to 54.

Share of benefits of trade liberalization for developing countries

69. A question related to a programme of trade liberalization designed primarily to increase the export earnings of developing countries is whether a due share of the intended benefits would flow to those countries. Clearly, this question is not relevant to liberalization actions relating to commodities produced wholly or almost wholly in developing countries (e.g. tropical beverage crops, spices, bananas and tropical oil-seeds and oils). In respect of the majority of the primary commodities entering international trade, which happen to be exported by both developed and developing countries,

a reasonable general presumption is that the developing countries could normally be expected to gain from a sizeable expansion of international trade. In the many instances in which developing countries account for an appreciable, even if not a dominant, proportion of international trade, they can surely be expected to meet part of any increases in the requirements of world import markets. This should be so, for example, in respect of such commodities as certain meats, coarse grains, cotton and tobacco, among others, as well as in respect of sugar and other items of which developing countries enjoy a larger share of world trade. This having been said, however, it is nonetheless likely that developed countries would be the principal beneficiaries of a liberalization of trade as regards at least some commodities.

70. This deduction flows from two considerations. In the first place, developing countries are minority suppliers to the industrial countries in many important primary commodities or commodity groups (14 out of the 28 listed in table 5). The over-all share of developing countries in world exports of primary commodities is about two-fifths, including fuels, and one-third, excluding fuels.³¹ In the second place, the share of developing countries in the trade in many primary commodities, hence in total world primary commodity trade, has been declining. Out of the 25 commodities imported by industrial countries and listed in table 5 (excluding the beverage crops), the shares of developing countries as suppliers declined in 16 and increased in 9 items in the past decade. Conversely, the share represented by trade among industrial countries rose in the case of 15 out of the 25 commodities (notably fats and oils, meat and grains), thus compounding the foreign trade problems for developing countries posed by the increasing self-sufficiency of individual industrial countries in major primary commodities. Moreover, the share of developed primary exporting countries rose over the same period in the trade in 16 commodities, although the over-all share of those countries in all the commodities listed (excluding petroleum) increased only fractionally; and the share of the centrally planned economies increased in the case of 22 commodities.

71. A variety of possible circumstances would lend themselves to the adoption of measures to accord developing countries a due share of the benefits of action to improve access. Should developed importing countries accept for application the principle of market sharing in bulk primary commodities wherever feasible, specified shares of total consumption or of consumption growth would be designated for developing countries only, or separately for developing countries and developed countries as groups, or for external suppliers collectively. If the last-mentioned approach were adopted (or if import barriers were lowered without accompanying specific market-sharing arrangements), periodical reviews might be undertaken on a market-by-market basis with a view to taking such steps as might be warranted in

³⁰ Compare with observations made in a report by a group of experts appointed by the OECD: “Aside from the ineffectiveness of these programmes [of price support] in accomplishing the goal of income protection for many persons engaged in agriculture, other possible undesirable consequences must be kept in mind. Maintenance of agricultural prices at high levels involves dangers related to high costs of living, undesirable stimulus to high production, continued protection for national agriculture, and the consequent restrictive effects on trade and consumption of agricultural products ... maintaining high support prices or payment rates to protect incomes for all individuals in agriculture should be reconsidered and ... a distinction should be made between the social aspect of income support for individuals and policies designed to influence the industry in total”. OECD, *Agriculture and Economic Growth*, 1965, p. 83.

³¹ These proportions differ from those shown in table 5, as the latter relate to the proportions derived from various groups of countries of the total imports of certain industrial countries of the particular commodities listed in that table.

order to secure appropriate benefits for developing countries. If the commodity concerned was one of which world exports were, or might be, regulated under world-wide arrangements, developing countries could be accorded a due share of the increased market opportunities through preferential treatment in the allocation of export quotas and/or in such matters as any re-distribution of short-falls in exports below export entitlements.

72. In circumstances in which an import market in a developed country was and remained a managed market through the operation of import quotas allocated on a country-by-country basis, importing countries might be expected to endeavour to safeguard at least the existing share of developing areas in total external supplies. Another possible approach might be to liberalize trade restrictions firstly, or most markedly, in commodities of special interest to developing countries. For example, in any actions involving reductions of tariffs or the granting of tariff-free quotas, the benefits of the action might be accorded to developing countries ahead of developed countries, so that, at least, developing countries would be sheltered from full international competition for some time.

73. Finally, intensified promotional measures, including action to increase the efficiency and flexibility of primary production for export in developing countries, or to improve the quality or presentation of products, could be helpful by improving or sustaining the competitiveness of developing countries in world markets. Primary producers in developing countries take longer, generally speaking, than those in developed countries to respond to changes in commodity markets, and a combination of measures—such as technical advice, capital aid and price incentives—may be required in order to increase their flexibility.

The question of revenue charges

74. Most of the foregoing discussion in this chapter relates to protected commodities (i.e., those produced and subject to trade restraints in at least some developed importing countries) rather than commodities which are not protected but are subject to revenue charges (e.g. coffee, cocoa, tea, bananas and spices). These commodities are not produced at all or not on a substantial scale in industrial countries, with the exception of tea in Japan. Duties are also levied in developed countries essentially for revenue-raising purposes on tobacco, petroleum, sugar and wine, and, although such duties are partly borne by domestic production, they are often borne largely by imports.

75. Some proposals made in the past have advocated either the removal of revenue charges in developed countries, as regards at least some commodities imported from developing countries, or the transfer of all the proceeds collected to the exporting countries concerned. However, the developed countries concerned have claimed that the incidence of such charges often falls in large part on their consumers and that the revenue which would be lost as a result of the removal of the charges would normally be greater than the consequential trade gain for supplying countries.

76. Since such charges are regressive in their incidence, economic arguments might be advanced why the charges concerned should be abolished and replaced by direct taxation (with the possible exception of the taxes on tobacco, petroleum and wines—the taxing of which may rest partly on social considerations, and the removal of which taxes would have a marked impact on the budgetary situations). In so far as the possible budgetary impact of the removal of certain charges might give rise to concern, it might be noted that, if all duties on tropical beverage crops were removed, the loss in revenue for any one country would represent, at maximum, 0.6 per cent of the total current revenues of the central and local governments (1.7 per cent of the current revenues of the central government).

77. Nevertheless, in the circumstances it might be more realistic to contemplate, as an alternative to the removal of revenue charges, that developed importing countries might consider accepting the principle of refunding to developing countries part only of the ascertained revenue proceeds.

78. The amounts to be refunded might, for example, be determined on the basis of the estimated damage to trade—i.e., the estimated value by which the supplying countries' export earnings are lower as a result of the application of such charges. The technical and operational aspects of such an approach could be explored and settled, after an agreement in principle to the approach, as between importing countries and the various supplying countries.

79. Alternatively, in order to avoid the difficulties of estimating such trade damage, it might be decided to establish the refunds at a particular ratio of the revenue collections—say, 10 per cent, initially at least. This approach might perhaps be confined at first to the tropical beverage crops—coffee, cocoa and tea.³² On this basis, the refunds would probably amount to about \$40-\$50 million a year from the EEC countries—if tariffs as well as internal charges were comprehended—and an appreciably greater amount from all developed countries. Coffee would account for a predominant proportion of refunds set on such a basis.

80. A further alternative basis for refunds would be that future increases in revenue from the relevant charges would be refunded in full to the developing countries concerned, in proportion to their shares in the present supplies or the increases in supply in the import markets concerned.

Relationship of measures on access to broader commodity arrangements

81. Any assurances as to access to markets or as to the reduction of trade barriers in respect of commodities covered by, or proposed to be made subject to, international commodity agreements might appropriately be

³² The Advisory Committee to the Board and to the Committee on Commodities made these suggestions in the report on its second session (see *Official Records of the Trade and Development Board, Fifth Session, Annexes*, agenda item 5, document TD/B/127).

incorporated in those agreements. While an attempt to include provisions regarding the terms of access to the markets of protectionist developed countries may make the conclusion or re-negotiation of such agreements more difficult than would otherwise be the case, the objective of increased access may well be regarded as sufficiently important to warrant such attempts. Moreover, international commodity agreements would seem to provide a very suitable formal multilateral instrument for the incorporation of undertakings as to access and of possible, partially compensating, undertaking by developing and other exporting countries. Indeed, in some respects it may be politically less difficult for developed countries to make "concessions" on access in the context of such agreements—which normally include assurances on the part of developing exporting countries, for example, as to supplies and maximum prices, which are of real value to developed importing countries—than to take liberalization measures independently of such agreements.

82. Nevertheless, as only a limited number of commodities is covered or is likely to be covered by international commodity agreements, a broad programme for the liberalization of trade in commodities of interest to developing countries would require the taking of extensive liberalization measures independently of broader international commodity arrangements as well as in the context of such arrangements.

Incidence on major developed countries of measures to improve access

83. Trade liberalization measures or commitments regarding access to markets might—as might other particular lines of action in the fields of commodity trade—have an uneven economic incidence amongst developed countries. The short-term effects of trade liberalization might be uneven, for example, on the volume of imports and hence on the balance of payments, the budgetary situation, or the hitherto protected primary sector.

84. It might be regarded as unfortunate if, once the broad justification for action to improve access to markets was accepted, this consideration inhibited practical action. It should be borne in mind that, while some developed countries might make their major contribution through the provision of improved access to their markets, other countries, with liberal import and domestic production policies, might make their main contribution in other ways. The latter countries would, because of their existing heavier dependence on imports, bear the main burden of any increases in the prices of internationally traded primary commodities which might flow out of international commodity agreements or out of the increase in demand for imports in liberalizing countries. Nor need any concept of equivalent "sacrifice" by major industrial countries be limited to actions in the field of primary commodity trade—financial transfers would no doubt be considered as being fully equivalent in this sense.

85. Realistically regarded, the removal or reduction of artificial barriers to imports of primary commodities into industrial countries would not represent a "sacri-

fice" but a rational economic action in their own long-term economic interests (see discussion in paras. 40 and 41, 45 and 46). Irrespective of this consideration, however, the matter may be put into broad perspective by relating expenditure by the major industrial countries on imports of primary commodities to their total gross domestic product (GDP). The United States, for example—whose import dependence is the lowest of any major developed market economy—devotes a sum equivalent to 1.5 per cent of its GDP to imports of all primary commodities (including those which cannot be produced at home) from all sources. It devotes about 0.9 per cent of its GDP to primary commodity imports from developing countries. Therefore, any programme of liberalization or equivalent action which resulted in the United States spending 20 per cent more on such imports (by importing larger quantities, or paying higher prices, or both) would mean that sums equivalent to roughly 0.3 per cent more of its GDP, if related to imports from all sources, and 0.2 per cent more, if related to imports from developing countries only, would be spent on such imports (see table 6).

86. The comparable percentages showing the impact of increased expenditure on imports of primary commodities would be higher for the other major developed market economies,³³ nevertheless—on similar assumptions—they would amount, for the major industrial countries combined, to less than 1 per cent of GDP if related to all imports of primary commodities and about 0.4 per cent if related to imports from developing countries only.

Equivalent measures by socialist countries

87. In socialist countries, *de facto* protection can be given through the central control of foreign trade. State trading in itself can be consistent with either a quantitatively liberal or a quantitatively restrictive import policy, although even relatively rapid increases in imports of particular primary commodities need not necessarily indicate an optimum "liberalization" in relation to market potentials. Since the prices of imported commodities are fixed at levels designed to equate demand to the supplies made available, a relative shortage would merely manifest itself in high relative domestic prices charged to consumers.³⁴

88. An appropriate general objective in socialist countries might be to make adequate, preferably explicit, provision for increased imports of primary commodities from developing countries in the context of their deve-

³³ The fact that imports are valued f.o.b. in the United States and c.i.f. in other countries—although it tends to understate slightly the degree of import dependence of the United States—does not significantly affect the results of the comparison made here.

³⁴ Thus, any undue differentials between the international prices and the domestic prices in socialist countries for imported tropical products might be regarded as having an essentially equivalent effect, from the standpoint of supplying developing countries, to customs tariffs and internal revenue charges levied in some developed market economy countries on certain tropical products, although the factors giving rise to such price differentials may be quite different in socialist countries than in developed market economy countries.

lopment plans.³⁵ These plans usually make explicit provision for increases in domestic production of at least some natural or synthetic commodities which compete with imports from developing countries. Countries with centrally planned economies are clearly well placed to make such provision, possibly after consultation with interested developing countries collectively, when formulating the relevant parts of their economic plans.

89. Socialist countries, as well as developed market economies, might also be expected to provide assurances as to access to markets (for example, to increase or sustain the ratio of imports to consumption) in the context of any world-wide agreements on commodities produced in both developed countries and developing areas. As the consumption of certain commodities is expected to rise greatly in centrally planned economies, provisions for the sharing of market growth with external suppliers would seem particularly important.

Trade liberalization among developing countries

90. As the developed areas generally provide the predominant markets for primary commodities exported by developing countries, the possibilities of trade liberalization measures by those areas are clearly of paramount interest. However, possibilities exist for developing countries themselves, through the removal or reduction of barriers against imports of primary commodities from other developing countries, to contribute to a more efficient allocation of resources and to augment the scope for an expansion of trade. Policies of achieving individual self-sufficiency in food and other primary commodities in some developing countries (as in industrial countries), without due regard to considerations of comparative economic advantage, tend to impose an unnecessary economic burden on the developing countries as a group and to hamper their development. The liberalization of barriers against imports from other developing countries could be especially helpful in respect of those commodities for which developing countries provide or could provide appreciable or rapidly growing markets for other developing countries (e.g. rice, cotton, sugar). This is an aspect of the broader subject of expanding trade among developing countries which is discussed in a separate report (TD/15 and Supp.1-4).³⁶

Chapter VI

Inter-governmental consultation machinery

91. Experience shows that broad-ranging recommendations for the dismantling or reduction, wherever possible, of barriers affecting trade in primary commodities, even if widely acceptable in principle, may not be sufficient in themselves to bring any noticeable progress towards trade liberalization. For concrete progress to be achieved, it would appear essential that the international community follow up any such recommendations in detail, on a commodity-by-commodity and/or country-by-country basis. However, the according of high priority by potential liberalizing countries (as well as exporting countries) to the objective of improving conditions of access, and a wide measure of prior agreement on the broad general approaches to be adopted to the problem are clearly among the pre-conditions for the successful operation of such detailed consultation arrangements.

92. The existing facilities for inter-governmental consultations on international commodity problems are extensive. They comprise the relevant bodies within UNCTAD (notably the Committee on Commodities), GATT (notably the Committee on Trade and Development), FAO (which maintains eight commodity study groups), and the autonomous commodity councils or study or advisory groups in respect of coffee, olive oil, sugar, wheat, cotton, rubber, wool and lead and zinc.

93. However, in a context in which high priority was accorded by the international community to the achievement of optimum progress in the matter of liberalization and expansion of commodity trade, the existing consultation arrangements might be regarded as subject to some limitations. Some bodies—for example, the GATT Committee on Trade and Development—are also concerned with issues not related to trade in primary commodities, and thus have less time available to explore solutions for commodity problems. Some other bodies—for example, the UNCTAD Committee on Commodities and Permanent Sub-Committee on Commodities, the FAO Committee on Commodity Problems, and the Working Group on International Commodity Problems established by the GATT Committee on Trade and Development—are designed for discussions on a very wide range of commodity questions, including that of trade barriers. It might be noted that a sessional sub-committee was set up by the UNCTAD Committee on Commodities at its second session to deal, during the session, with the question of trade liberalization, but in the time available it was only able to examine the question in a general way rather than commodity by commodity.

94. Although the existing machinery for inter-governmental discussions on individual commodities or commodity groups appears to be extensive, especially in regard to agricultural commodities, the great bulk of the work undertaken in these bodies to date has been concerned with the over-all international economic situation in the commodities concerned or with more immediate problems—such as quota adjustments—connected with the operation of the commodity agreements concerned (in

³⁵ Measures by the developing countries to expand their imports from the socialist countries would no doubt facilitate such arrangements; see "Review of trade relations among countries having different economic and social systems: report by the secretariat of UNCTAD" (*Official Records of the Trade and Development Board, Fifth Session, Annexes*, agenda item 9, document TD/B/128/Add.1, para. 237 and TD/B/128/Add.2, para. 144).

³⁶ The particular question of commercial policy measures which might be taken by the developing countries to expand trade among themselves is discussed in *Trade Expansion and Economic Co-operation among Developing Countries: report of the Committee of Experts* (United Nations publication, Sales No.: 67.II.D.2), pp. 5-9.

the case of international commodity councils). Little of the work of existing commodity bodies has been concerned with the liberalization of trade. An important exception to the relative lack of attention given to the question of trade barriers is provided by the UNCTAD Sugar Consultative Committee, in whose discussions the question of access has been regarded as integral to a new international sugar agreement. In relation to discussions of an international cocoa agreement, a special working party considered in a preliminary way the question of the removal of barriers to trade in cocoa.

95. Furthermore, provision seems to be lacking for systematic, detailed and continuing international discussion of the primary production and trading policies of individual countries with special reference to the position in respect of trade barriers.

96. The essential purpose of post-conference consultations would be to formulate, in a detailed and practical way, the actions to be taken in respect of particular commodities or particular aspects of the question of access in pursuance of principles or approaches which might be agreed at the Conference.

97. Such a programme of consultations would need to take into account the varying circumstances of different commodities and markets and would, therefore, normally need to be carried out on a commodity-by-commodity and/or country-by-country basis. Broadly speaking, it might be envisaged that working parties (comprising the major producing and consuming countries) would be set up on selected individual commodities, either by the Conference or at a subsequent meeting of the Committee on Commodities. The working parties would explore in depth the possibilities of practical measures to improve access and would aim at achieving at least detailed declarations of intention on the part of developed countries maintaining significant trade impediments against the commodities concerned. The working parties might report either directly to the Committee on

Commodities or to a specialized standing sub-committee on the expansion of commodity trade which might be established for the purpose. As necessary, the membership of the working groups on individual commodities could be broadened in the light of the progress made. In some instances it might be found desirable to broaden the scope of the consultations beyond the question of trade barriers, but the focus might remain on this particular problem as far as possible.

98. Some commodities might be considered jointly with the specialized autonomous commodity bodies concerned, subject to their agreement to co-operate. If current consultations on particular commodities appeared at the time to provide adequate coverage of the question of access (as, for example, might be considered to be the present position in respect of sugar in the light of the continuing sugar consultations), additional consultation arrangements in respect of the commodities concerned would not be required. The commodities to be examined, and a tentative order in which they should be taken could be decided, if so desired, by the Conference itself, by the Committee on Commodities, or by a specialized subsidiary body of the Committee which might be established for the purpose of overseeing the programme of consultations. However, the order should presumably not be pre-determined in an inflexible way, but be subject to decision according to changing circumstances and experience gained in the course of prior consultations.

99. Although any consultation machinery which might be established within UNCTAD on the problem of access should concentrate on commodity-by-commodity consultations on selected commodities, the arrangements might, in addition, be designed to provide continuing opportunity for discussion of the effects on international trade in primary commodities of the policies and actions of individual countries, including major importing developed market-economy countries, socialist countries of Eastern Europe, and developing countries.

ANNEX

STATISTICAL AND OTHER TABLES

TABLE 1

Primary commodities: non-tariff barriers to imports into major industrial countries, 1967

Commodities	United States		United Kingdom		Japan		European Economic Community	
	A	B	A	B	A	B	A	B
<i>Food, beverages and tobacco</i>								
Wheat	Q	Se	—	Sd	Q [M]	S	CMA	S
Rice	—	Se	—	—	M	S	CMA	S
Barley	—	Se	—	Sd	M	S	CMA	S
Maize	—	Se	—	—	—	—	CMA	S
Sugar	Q	Sd	Q	S	—	S	CMA	S
Beef and veal	Q ^a	—	—	Sd	Q	—	CMA	S
Pigmeat	—	—	q	Sd	Q [M]	S	CMA	O
Mutton and lamb	Q ^a	—	—	Sd	—	—	Q ^b	—
Poultry	—	—	—	—	—	—	CMA	O
Eggs	—	—	—	Sd	—	O	CMA	O
Butter/milk	Q	Se	Q	Sd	M	Sd	CMA	S
Fish	—	—	—	S	q	—	q ^b	—
Citrus fruit	—	—	q	—	q	—	CMA	O
Bananas	—	—	Q	—	—	—	Q ^b	—
Spices	—	—	—	—	—	—	—	—
Coffee	—	—	—	—	q	—	—	—
Cocoa	—	—	—	—	—	—	—	—
Tea	—	—	—	—	q	—	—	—
Wine	—	—	—	—	Q	—	Q ^b	O ^b
Tobacco	—	Se	—	—	M	S	M ^b	S ^b
<i>Oil-seeds, fats and oils</i>								
Soya beans and oils	—	S	—	—	q	Sd	q ^b	—
Groundnuts and oil	Q	Se	—	—	Q	—	—	—
Cottonseed-oil	—	S	—	—	Q	—	—	—
Rapeseed and oil	—	—	—	—	Q	Sd	CMA	S
Linseed and oil	—	—	—	—	—	—	—	—
Sunflower seed and oil	—	—	—	—	q	—	CMA	S
Olive oil	—	—	—	—	—	—	CMA	Sd
Palm kernels and oil	—	—	—	—	—	—	—	—
Palm oil	—	—	—	—	—	—	—	—
Coconut oil	—	—	—	—	—	—	—	—
Copra	—	—	—	—	—	—	—	—
Castor oil and seed	—	—	—	—	—	—	—	—
Marine oils	—	—	—	—	—	—	—	—
Animal oils, fats	—	—	—	—	q	—	—	—
Oilseed cake	—	—	—	—	q	—	—	—
Fish meal	—	—	—	—	Q	—	—	—
<i>Agricultural raw materials . .</i>								
Cotton	Q	Se	—	—	—	—	—	—
Wool	—	Sd	—	S	—	—	—	—
Jute and bagging	—	—	q	—	—	—	q ^b	—
Hard fibres	—	—	—	—	—	—	—	—
Natural rubber	—	—	—	—	—	—	—	—
Hides and skins	—	—	—	—	—	—	—	—
Fur skins	—	—	—	—	—	—	—	—
Timber	—	—	—	—	—	—	—	—
<i>Ores and concentrates</i>								
Iron	—	—	—	—	—	—	—	—
Copper	—	—	—	—	—	—	—	—
Tin	—	—	—	—	—	—	—	—

TABLE 1. (continued)
Primary commodities: non-tariff barriers to imports into major industrial countries, 1967

Commodities	United States		United Kingdom		Japan		European Economic Community	
	A	B	A	B	A	B	A	B
Lead	—	—	—	—	—	—	—	—
Zinc	—	—	—	—	—	—	—	—
Bauxite	—	—	—	—	—	—	—	—
Manganese	—	—	—	—	—	—	—	—
Tungsten ore	—	—	—	—	Q	—	—	—
Phosphates	—	—	—	—	—	—	—	—
<i>Metals</i>								
Iron and steel (semi-processed)	—	—	—	—	—	—	—	—
Copper, unwrought	—	—	—	—	—	—	—	—
Tin	—	—	—	—	—	—	—	—
Lead	—	—	—	—	—	—	—	—
Zinc	—	—	—	—	—	—	—	—
Aluminium	—	—	—	—	—	—	—	—
Petroleum, crude.	Q	—	—	—	—	—	Q ^b	—

Sources: OECD, *Agricultural Policies in 1966*; GATT, documents prepared in connexion with the work of the Committee on Trade and Development.

NOTE. — Column A shows the general nature of the restraint at the frontier, a small letter indicating that the measure is applicable to only part of the item in question:

M, m indicates state trading or trading by an authorized monopoly

Q, q indicates quota restrictions

CMA indicates commodity falling under Common Market arrangements.

Column B indicates the general nature of explicit official intervention on domestic

markets, not including direct or indirect subsidies of inputs of the primary sector or fiscal privileges accorded to that sector:

Q indicates organization of the domestic market without official price fixation

S indicates price supported or production subsidy paid

Sd indicates price guaranteed by deficiency payment

Se indicates support accompanied by provision for export subsidy.

^a Contingent quotas on beef and veal and mutton, authorized by legislation, not applied to date.

^b Certain member States only.

TABLE 2

Tariffs on selected commodities in major industrial countries, 1967

Note: The tabulation is designed to depict the broad picture as regards tariffs levied on primary commodities, including those of actual or potential interest to developing countries and those which have undergone some degree of processing. (The secretariat has not had the opportunity of referring the table to governments and some of the information might therefore not be completely up-to-date. However, the data should nevertheless be representative of the broad position; the results of the Kennedy Round have been taken into account as far as possible.)

The commodities selected are specified in terms of the Brussels Tariff Nomenclature (BTN) classification at the four-digit level. In order to avoid showing wide tariff ranges for various items entering under a given BTN heading, a single commodity, defined as narrowly as possible, was retained with the intention of showing specific representative rates for international trade in various commodities.

The duties shown, other than those marked with an asterisk, are those actually applied. The *ad valorem* equivalents of specific duties, shown in brackets, were derived from the official sources listed above. For the United Kingdom, the Commonwealth preferential tariff is shown beside the most-favoured-nation (m.f.n.) tariff. In the case of the EEC, the preferences granted to Associated States are equal to the height of the common external tariff. This, however, is not the case for agricultural products covered by the EEC common organization of markets.

Symbols used:

Parentheses () denote *ad valorem* equivalents of specific duties.

VL denotes EEC variable levies imposed on agricultural commodities subject to common market regulations. (See table 2.A for the estimated tariff equivalents of certain variable levies in a recent period.)

* denotes a rate agreed upon in the Kennedy Round, which will become fully effective not later than 1 January 1972.

^a indicates that relevant information is given in the country notes which follow table 2.

BTN	Commodities	United States	United Kingdom		Japan	EEC
			m.f.n.	Pref.		
FOOD, BEVERAGES AND TOBACCO						
Cereals						
10.01	Wheat, unmilled, for human consumption	(12.6)	0	0	20	VL
10.05	Maize, for feeding purposes, other than seed	(14)	0	0	0	VL
10.06	Rice, paddy	(24.3) ^a	0	0	15	VL
10.06	Rice, glazed or polished, excl. broken	(21.9) ^a	(4.9)*	0	15	VL
Sugar						
17.01	Sugar, raw, of a polarization of 96°	(10.1)	(5.6) ^a	0	(76)	VL
17.01	Sugar, refined, of a polarization exceeding 99° . . .	(12.3)	(10.7) ^a	(1) ^a	(52)	VL
Meat and dairy products						
02.01	Beef and veal, fresh, chilled or frozen	(8.8)	20	0	25	20 and VL
16.02	Canned beef (corned beef) .	15	15*	0	25	26 and VL
02.01	Pigmeat, fresh, chilled or frozen	(3.3)	10	0	10	VL
02.06	Bacon, ham and other . . .	(10)	10	0	25	VL
02.01	Mutton, fresh, chilled or frozen	(10.5)	0	0	10	20
02.01	Lamb, fresh, chilled or frozen	(13.7)	0	0	10	20
02.02	Chicken, fresh, chilled, etc., eviscerated	(6.9)	10	0	20	VL
02.02	Turkeys, fresh, chilled, etc., eviscerated	(12.5)	10	0	20	VL
04.05	Eggs in the shell, fresh. . .	(9.5)	(4.5)	0	20	VL
04.03	Butter	(16.6) ^a	0	0	45	VL

TABLE 2 (continued)
Tariffs on selected commodities in major industrial countries, 1967

<div> <div></div> United Kingdom </div>						
BTN	Commodities	United States	m.f.n.	Pref.	Japan	EEC
Fish						
03.01	Tuna, fresh, chilled or frozen	0	0	0	5*	22* ^a
03.03	Frozen shrimps	0	10	0	5	12*
16.04	Canned sardines, skinned or boned, in oil	24	10	0	15*	25
16.04	Canned tuna, in oil	6*	8	0	15*	25
16.04	Canned salmon	7.5*	2.5*	0	15*	13*
16.04	Canned anchovies	6*	10	0	15*	25
16.04	Caviar in airtight containers.	15*	30	0	100*	30
16.05	Canned shrimps	0	7.5	0	15*	20
Fruits and edible nuts						
08.02	Oranges, 1 Dec. to 31 March	(25.9)	5*	0	40	20
08.02	Lemons, fresh	(4.3)	10	0	10	8
08.02	Grapefruit, fresh.	(59.9) ^a	(7)	0	20	6*
08.01	Bananas, fresh.	0	(13.7)	0	70	20 ^a
08.01	Pineapples, fresh.	(18)	10	0	20	9
08.01	Coconuts in the shell	0*	0	0	10*	4
08.01	Brazil nuts	0*	0	0	10*	0*
08.01	Cashew nuts	0*	10	0	5*	2.5
08.03	Figs, dried	(36.4)	0	0	15	10
08.04	Currants	(6.5)	(1.9)	0	5	6*
08.04	Sultanas	(6.3)	(4)*	0	5	6*
20.07	Orange juice, not concentrated.	(45.8)	0 ^a	0	30 ^a	19* ^a
20.07	Orange juice, concentrated .	(49.9)	0 ^a	0	30 ^a	42 ^a
20.07	Grapefruit juice, not concentrated.	(45.8)	0 ^a	0	27 ^a	15* ^a
20.07	Grapefruit juice, concentrated	(49.9)	0 ^a	0	27 ^a	42 ^a
20.07	Pineapple juice, not concentrated.	(10.9)	5*	0	27 ^a	19* ^a
Spices						
09.04	Pepper of piper, not ground .	0	0*	0	0	17
09.04	Pepper of piper, ground. . .	(10)*	10	0	5*	12
09.04	Pimento, not ground. . . .	0	10	0	0	0
09.04	Pimento, ground.	(3.4)*	10	0	5*	12
09.05	Vanilla	0*	10	0	0	11.5
09.06	Cinnamon, not ground. . . .	0	5*	0	0	10*
09.06	Cinnamon, ground.	(4.2)*	5*	0	0	13*
09.08	Mace, not ground	0 ^a	10	0	0	0*
09.08	Mace, ground	0 ^a	10	0	5*	12.5*
09.08	Cardamons, not ground . . .	0	10	0	0	0
09.08	Cardamons, ground	0	10	0	5*	0
Tropical beverages						
09.01	Coffee, raw	0	(1.5)*	0	0	9.6
09.01	Coffee, roasted	0	(1)*	..	35	15*
18.01	Cocoa beans	0	0*	0	0	5.4
18.03	Cocoa paste.	0*	0*	0	10*	15*
18.04	Cocoa butter	3*	0*	0	5*	12*
18.05	Cocoa powder, unsweetened.	3.6*	0*	0	30	16*
09.02	Tea in bulk.	0	0	0	20*	0
09.02	Tea in small containers . .	0	0	0	20*	5
Oil-seeds and oils						
12.01	Groundnuts for oil extraction	(32.8)	10	0	0*	0
15.07	Groundnut oil, edible, raw .	(29.5)	15	0	(20)	10
15.07	Groundnut oil, edible, refined	(29.5)	15	0	(20)	15
12.01	Copra	15.9	10	0	0	0

TABLE 2 (continued)
Tariffs on selected commodities in major industrial countries, 1967

BTN	Commodities	United Kingdom				EEC
		United States	m.f.n.	Pref.	Japan	
15.07	Coconut (copra) oil, edible, raw	23.4 ^a	15	0	10	10
15.07	Coconut (copra) oil edible, refined	23.4 ^a	15	0	10	15
12.01	Palm nuts and kernels . . .	0	10	0	0	0
15.07	Palm kernel oil, edible, raw	0	10	0	8*	10
15.07	Palm kernel oil, edible, refined	0	10	0	8*	15
15.07	Palm oil, edible, raw	0	10	0	8*	9
15.07	Palm oil, edible, refined . .	0	10	0	8*	14
15.07	Palm oil, for technical uses, raw	0	10	0	8*	4
15.07	Palm oil, for technical uses, refined	0	10	0	8*	8
12.01	Soya beans, except certified seed	14	0*	0	6.5*	0
15.07	Soya bean oil, edible, raw .	22.5*	15	0	(24)	10
15.07	Soya bean oil, edible, refined	22.5*	15	0	(24)	15
12.01	Linseed	(11.1)	10	0	0	0
15.07	Linseed oil, raw	(6.6)	15	0	10	5
15.07	Linseed oil, refined	(6.6)	15	0	10	8
12.01	Cotton seed	(9.5)	0	0	0	0
15.07	Cotton seed oil, edible, raw	(11.1)	10	0	(22.5)	10
15.07	Cotton seed oil, edible, refined	(11.1)	10	0	(22.5)	15
12.01	Castor oil seed	0*	7.5	0	0	0
15.07	Castor oil, raw	7.5*	12.5	0	10	5
15.07	Castor oil, refined	7.5*	12.5	0	10	8
15.07	Olive oil, virgin	(13)	10	0	0	17
15.07	Olive oil, refined	(14.4)	10	0	0	20
<i>Meal and oilcakes</i>						
12.02	Flour and meal of oil-seeds .	17.5	10	0	15	8
23.04	Soy bean cake	(10.1)	10*	0	5	0
23.04	Other vegetable oil cakes . .	(3.6)	10	0	0	0
23.01	Fish meal	0	10 ^a	0	0	2*
<i>Tobacco</i>						
24.01	Tobacco leaf	18.6 ^a	(1,100)	(1,400)	355	23*
AGRICULTURAL RAW MATERIALS						
<i>Fibres</i>						
55.01	Cotton, raw, not bleached or dyed . . . . .	..	0	0	0	0
	of a staple length under 1 1/8 inch	0	0	0	0	0
	1-1/8 to 1-11/16 inch. . .	(8.1)	0	0	0	0
	over 1-11/16 inch	(4.1)	0	0	0	0
55.04	Cotton, carded or combed .	(21.7)	10	0	0	2.4
55.05	Cotton yarn, not put up for retail sale, wholly of cotton	8.4 ^a	7.5	0	5.5* ^a	6* ^a
55.05	of which sewing thread .	9.2*	7.5	0	5.5*	4*
55.09	Cotton fabrics, woven, wholly of cotton	7.6* ^a	17.5	0	7	14*
53.01	Wool, greasy, other than merino, not over 40 strands	0	0	0	0	0
53.01	Wool, in the grease or washed, not sorted, finer than 44 strands	(25.6)	0	0	0	0
53.01	Wool, finer than 44 strands, scoured	(30.4)	0	0	0	0

TABLE 2 (continued)
Tariffs on selected commodities in major industrial countries, 1967

BTN	Commodities	United States	United Kingdom		Japan	EEC
			m.f.n.	Pref.		
53.05	Wool, carded or combed . .	(20.8)	10	0	0	3
53.05	Wool tops	(29.2)	10	0	5	3
53.07	Wool, worsted yarn, wholly of wool.	(20.9)*	7.5	0	5*	5
57.03	Jute, raw	0	0	0	0	0
57.06	Jute yarn, not polished or glazed	7.5*	10	0	10*	8*
57.10	Jute, fabrics, woven	0*	20	0	20*	19*
62.03	Jute, sacks and bags, new, not bleached, coloured, etc. .	(2.9)*	20 ^a	0	20*	19*
62.03	Jute, sacks and bags, new, bleached and coloured . .	(5.4)*	20 ^a	0	20*	19*
57.04	Sisal and henequen, raw . .	0	0	0	0	0
57.04	Sisal and henequen, processed	4*	5*	0	0	0
57.02	Manila hemp (abaca), raw .	0	0	0	0	0
57.02	Manila hemp, processed, but not spun	4*	5*	0	0	0
59.04	Binder and baler twine of hard leaf fibres, not stranded .	0 ^a	10	0	10*	13
<i>Rubber</i>						
40.01	Natural rubber	0	0	0	0	0
40.05	Plates, sheets and strips of ungalvanized rubber . . .	12.5	10	0	15	8
40.11	Rubber tyres for passenger cars	4*	12*	0	12.5*	7.5*
<i>Hides, skins and leather</i>						
41.01	Bovine hides and skins (excluding buffalo), not split	0*	0	0	0	0
41.02	Bovine cattle leather	9* ^a	12*	0	20	8*
43.01	Fur skins, undressed, of lamb or kids	0	0*	0	0	0
43.02	Fur skins, dressed, plates, linings, strips, etc.	8.5*	20*	0	15*	4.5*
<i>Wood and products</i>						
44.03	Tropical hardwoods, in the rough	0	0	0	0	0
44.04	roughly squared or sawn.	0	0	0	0	0
44.14	Veneer sheets, Philippine mahogany.	10	5*	0	15	7*
44.14	Veneer sheets, of teak, ebony rosewood and sandal wood	5*	5*	0	0	7*
44.14	Veneer sheets, of other hard- wood.	5*	5*	0	15	7*
44.15	Plywood (mahogany). . . .	20 ^a	5*	0	20	13*
MINERALS AND METALS						
26.01	Iron ores and concentrates and roasted iron pyrites .	0	0	0	0	0
73.01	Spiegeleisen	(0.8)	0	0	10	4*
73.01	Pig iron	0*	0	0	5*	4*
73.02	Ferro-manganese, containing less than 3 per cent of carbon	(4)*	0	0	12*	4*
26.01	Copper ores and concentrates	0	0	0	0	0
74.01	Copper matte, blister copper	(2.8)*	0	0	0	0
74.03	Copper bars, sheets and strips in coils, unalloyed. . . .	(3.7)* ^a	8*	0	15*	8*

TABLE 2 (concluded)
Tariffs on selected commodities in major industrial countries, 1967

BTN	Commodities	United States	United Kingdom		Japan	EEC
			m.f.n.	Pref.		
74.03	Wrought rods of copper, unalloyed	(4.3)* ^a	8*	0	15*	8*
74.03	Wire of copper, not coated or plated, unalloyed	(7.9)* ^a	8*	0	15*	8*
26.01	Nickel ores and concentrates	0	0	0	0	0
75.01	Unwrought nickel, unalloyed	0*	0	0	(21)*	0
26.01	Bauxite ores and concentrates	0	0	0	0	0
76.01	Aluminium, unwrought, unalloyed	(3.1)* ^a	0	0	9*	9 ^a
26.01	Lead ores and concentrates	0	0	0	0	0
78.01	Lead, unwrought, unalloyed	(9.8) ^a	0*	0	(7.5)*	(4.5)
26.01	Zinc, ores and concentrates	0	0	0	0	0
79.01	Zinc, unwrought, unalloyed	(5.9)	(1.2)	0	2.5*	4.2
26.01	Tin ores and concentrates	0	0	0	0	0
80.01	Tin, unwrought, unalloyed	0	0	0	5	0
26.01	Manganese ores and concentrates	(4.3)* ^a	0	0	12.5 ^a	0
26.01	Chrome ores and concentrates	0	0	0	0	0
26.01	Tungsten ores and concentrates	(39.2)*	0	0	0	0
81.01	Tungsten, unwrought, lumps grains and powders . . .	(22.7)*	12.5*	0	5*	6
81.04	Antimony, unwrought, unalloyed	(2.5)*	25	0	10	8
25.10	Phosphates	0	0	0	0	0
PETROLEUM AND PETROLEUM PRODUCTS						
27.09	Petroleum, crude, testing under 25 °API.	(2.6)	0 ^a	0	13	0
27.09	Petroleum, crude, testing over 25 °API	(4.5)	0 ^a	0	13	0
27.10	Motor spirit.	(14.6)	0 ^a	0	(14)	7*
27.10	Kerosene	(3.8)	0 ^a	0	(10)	5*
27.10	Gas oils	(2.6)	0 ^a	0	(20)	5*
27.10	Lubricating oils	(7.0)	0 ^a	0	(10)	6*

Sources: United States of America: *Tariff Schedules of the United States, Annotated* (1965) and Supplements 2-5, 1966 (United States Tariff Commission, Washington, D.C., 1965 and 1966); *Concordance between the Tariff Nomenclature used by the United States (TSUS) and the Nomenclature used by the European Economic Community* arranged in the order of Brussels Tariff Nomenclature (United States Tariff Commission, Washington, D.C., March 1965); *United States Imports of Merchandise for Consumption, TSUS commodity by country of origin, Calendar Year 1964* (United States Tariff Commission, Washington, D.C., March 1966); *U.S. Imports for Consumption and General Imports 1965* (U.S. Department of Commerce, Washington, D.C., May 1966).

United Kingdom: *H.M. Customs and Excise Tariff of the United Kingdom of Great Britain and Northern Ireland* (H.M. Stationery Office, London, 1960), as amended September 1966.

Japan: *Customs Tariff Schedules of Japan*, Ministry of Finance, 15 April, 1966.

EEC: *Tarif douanier des Communautés européennes*, July 1963, mise à jour au 15 septembre 1966.

GATT: Various documents prepared for the Committee on Trade and Development.

COUNTRY NOTES

United States

Rice: Imports of paddy, brown rice and polished rice are nil or negligible. Imports of broken rice are subject to a levy of (6.3) per cent.

Butter: U.S. tariff position 116.20. Rate applies to imports of butter within tariff quota. Tariffs outside of quota vary seasonably and range from 22 to 31 per cent.

Grapefruit: U.S. tariff position 14710, applies to grapefruit entering 1 August to 30 September.

Mace: Except Bombay or wild, on which rates were reduced from 100 to 50 per cent.

Coconut oil: Crude coconut oil imports from the Philippines covering total requirements enter duty-free. There is no trade in refined coconut oil, on which the preferential rate for the Philippines is also zero.

Tobacco: Average incidence calculated by relating customs collection on raw tobacco to value of imports in 1964. 63 U.S. tariff positions range from 0 to 381 per cent.

Cotton yarn: Average incidence of customs revenues in relation to imports in 1964 U.S. tariff positions 30060, 30100 to 30160, 30200 and 30220. Post-Kennedy range varies from 3.4 to 14.5 per cent.

Cotton fabrics: U.S. tariff position 32010.

Binder and baler twine: Not of standard construction.

Bovine leather: U.S. tariff position 12130.

Plywood: U.S. tariff position 24018.

Copper bars: U.S. tariff position 61231.

Copper rods: U.S. tariff position 61260.

Copper wire: U.S. tariff position 61272.

Aluminium: U.S. tariff position 61802.

Lead: U.S. tariff position 62403.

Manganese: Imports are nil or negligible.

United Kingdom

Sugar: Rates vary according to the degree of polarization from 2s. 2/3 pence per cwt. to 6s. 10.8 pence per cwt., i.e., from (1.5) per cent to (10.7) per cent.

Citrus fruit juices: Citrus fruit juices containing more than 20 per cent by weight of added sweetening matter are subject to a tariff of 3 per cent.

Fish meal: Herring meal is duty-free.

Jute fabrics: Not containing silk or man-made fibres.

Petroleum and products: Excluding fiscal duties of 3s. 3d. per gallon, fiscal charges on refined products ex-refinery are the same as those payable on the importation of refined products.

Japan

Fruit juices: Tariffs shown relate to fruit juices containing added sugar. Those without added sugar are subject to duties of 22.5 and 25 per cent.

Cotton yarn: Duties range from 3.5 per cent* to 5.5 per cent*.

Manganese ores: Imports are duty-free within quota.

European Economic Community

Tuna: Exemption within quota of 30,000 tons.

Bananas: Duty free quota covers nearly entire German consumption.

Fruit juices: Additional duties are levied on the sugar content of fruit juices above specified levels.

Cotton yarn: Duties range from 4 to 8 per cent*.

Aluminium: Duty of 5 per cent applies to imports within quota of 130,000 tons.

TABLE 2.A

Ad valorem tariff equivalent of variable levies in the EEC, July-September 1967 *
(In percentages)

	July	August	September	Average July-Sept.
Soft wheat	74.3	76.4	80.6	77.1
Durum wheat	49.1	39.7	39.2	42.7
Rye	55.6	60.9	63.7	60.1
Barley	35.1	47.4	52.5	45.0
Oats	35.0	42.5	43.7	40.4
Maize	47.3	52.4	54.1	51.3
Sorghum	49.2	49.2	51.3	49.9
Rice				
Benelux and Germany, Federal				
Republic of	8.0 ^a	7.7	..	..
France	27.7	27.3	..	..
Italy	17.2	16.6	..	..
Olive Oil	18.0	16.8	..	..
Pigmeat	40.1	40.1	40.1	40.1
Eggs	31.2	31.2	31.2	31.2
Poultry, eviscerated	21.2	21.2	21.2	21.2
Butter				
Belgium	344.8	360.6	360.6	355.3
Germany, Federal Republic of . . .	285.7	299.5	299.5	294.9
France	298.6	312.7	312.7	308.0
Italy	265.4	281.9	281.9	276.4
Netherlands	272.5	285.7	285.7	281.3

Source: Calculated from EEC, *Marchés agricoles, Prix*, various issues.

* As a rule figures shown relate to monthly averages of daily levies. As regards pigmeat, poultry and eggs, variable levies are fixed on a quarterly basis.

^a 9.3 per cent for Belgium and Luxembourg.

TABLE 3
Revenue proceeds from internal fiscal charges * and tariffs ** on specified commodities
in major industrial countries, 1965
(\$U.S.^a million)

	Coffee	Cocoa	Tea	Bananas	Tobacco	Petroleum
<i>United States</i>						
Internal charges ^a	—	—	—	—	2 149	2 940
Tariffs	—	—	—	—	21 ^b	61 ^b
<i>United Kingdom</i>						
Internal charges	—	—	—	—	} 2 842 ^c	2 201 ^c
Tariffs	0.4	—	—	0.4		
<i>Japan</i>						
Internal charges	—	4 ^d	—	—	.. ^e	708
Tariffs	—	—	2	42	— ^e	157 ^b
<i>Belgium</i>						
Internal charges	—	—	—	—	103	215
<i>Federal Republic of Germany</i>						
Internal charges	240	—	9	—	1 150	1 825
<i>France</i>						
Internal charges	54 ^f	—	— ^g	—	681	1 686
<i>Italy</i>						
Internal charges	94	9	—	37	861	1 194
<i>Netherlands</i>						
Internal charges	—	—	—	—	187	214
<i>EEC</i>						
Internal charges	388	9	9	37	2 982	5 034
Tariffs	50	5	—	7	45	25

Sources: United States: *The Budget of the United States Government for the Fiscal Year Ending June 30, 1967* (U.S. Government Printing Office, Washington, D.C., 1966); *United States Imports of Merchandise for Consumption, TSUS Commodity by Country of Origin, Calendar Year 1964*, Washington, D.C., March 1966.

United Kingdom: *National Income and Expenditure 1966* (H.M. Stationery Office) and *Overseas Trade Accounts of the United Kingdom* (H.M. Stationery Office).

Japan: *An Outline of Japanese Taxes, 1966* (Tax Bureau, Ministry of Finance); *Trade of Japan* (Ministry of Finance); *Customs Tariff Schedules of Japan*.

Belgium: *Recueil des budgets pour l'exercice 1965* (*Moniteur belge*).

Federal Republic of Germany: *Bundeshaushaltsplan für das Rechnungsjahr 1966* (Federal Ministry of Finance).

France: *Statistiques et études financières*, No. 211-212, July-August 1966 (Ministry of Economy and Finance).

Italy: *Relazione generale sulla situazione economica del paese 1965* (Ministries of Finance and Treasury, Rome, 1966).

Netherlands: *Statistiek der Rijksfinanciën 1962*, with additional information for 1963-1966 (Central Statistical Office, The Hague).

EEC: *Commerce extérieur 1965* (Statistical Office of the European Communities).

* Excluding general turnover or sales taxes.

** Tariff proceeds were estimated by applying *ad valorem* tariff rates ruling at the time of writing this report (1967) to the value of imports in 1965. In the case of the EEC, the common external tariff rates in process of introduction were used.

^a Receipts of the Federal Government only.

^b 1964.

^c Customs and excise duties.

^d Coffee, cocoa and tea.

^e The bulk of tobacco is imported duty free by the Japan Monopoly Corporation. The level of monopoly profits is not known.

^f Including indirect taxes on tea.

^g Included in figure for coffee.

^h Except for bananas, figures relate to the fiscal year 1963/64.

TABLE 4
Selected primary commodities: ratio of net imports to consumption * in major industrial countries
(In percentages)

Commodities	United States		United Kingdom		Japan		European Economic Community	
	1954-1956	1964-1966	1954-1956	1964-1966	1954-1956	1964-1966	1954-1956	1964-1966
<i>Food, beverage crops and tobacco</i>								
Wheat ^a	-56	-125	63	57	61	76	16	-4
Rice	-140	-163	100	100	10	5	10	29
Barley	-11	-15	24	negligible	36	31	25	negligible
Maize	-4	-15	100	100	79	94	32	54
Sugar, raw	47	40	60	67	90	77	-2	5
Beef and veal ^b	-2	3	34	21	2	3	3	14
Mutton and lamb ^b	-1	12	65	55	negligible	96	3	12
Butter ^c	-15	-20	91	96	negligible	negligible	-1	-1
Oilseeds, fats and oils ^c	-21	-37	84	89	..	15	60	62
Citrus fruit	-7	-6	100	100	0	0	53	57
Bananas	100	100	100	100	100	100	100	100
Coffee	100	100	100	100	100	100	100	100
Cocoa	100	100	100	100	100	100	100	100
Tea	100	100	100	100	-23	-1	100	100
<i>Agricultural raw materials</i>								
Cotton, raw	-50	-47	100	100	100	99	100	98
Wool ^d	52	50	87	80	97	100	89	90
Rubber, total	37	10	100	56	101	62	102	50
of which:								
natural	100	90	100	107	100	110	102	108
synthetic	-10	-19	101	7	108	23	103	-1
Bovine hides and skins . . . . .	..	-52	57	41	..	88	37	33
Wood ^e	3	2	70	72	3	22	13	16
<i>Minerals and metals</i>								
Iron-ore ^f	17	30	45	54	76	94	20	41
Copper ore	10	3	—	—	19	59	92	91
blister	19	20	92	100	—	—	76	81
refined	-1	-8	52	67	3	26	47	49
Bauxite	75	88	100	100	100	100	36	42
Aluminium	11	9	87	87	-13	5	13	27
Lead ore	36	26	100	99	..	39	..	71
metal	39	20	73	52	15	29	16	26
Zinc ore	49	39	97	100	15	44	56	66
metal	17	13	62	67	-2	-5	-16	8
Tin concentrates	100	100	97	94	11	57	99	95
metal	98	66	-3	14	86	88	-50	38
Crude petroleum	10	15	100	100	99	99	93	94
Petroleum products	3	12	4	13	22	9	-29	-7

Sources: United Nations, *Commodity Trade Statistics; Yearbook of International Trade Statistics*, UNCTAD Commodity Survey 1966.

OECD, *Food consumption in the OECD countries; Foreign Trade Statistics Bulletins*, Series B and C; *The Hides, Skins and Footwear Industry in the OECD countries; Basic Statistics of Energy*.

FAO, *Food Balance Sheets; Production Yearbook; Trade Yearbook; World Forest Products Statistics; Yearbook of Forest Products Statistics; Timber Bulletin for Europe*.

Statistical Office of the European Communities, *Statistiques agricoles*.

Commonwealth Economic Committee, *Wool Intelligence; World Trade in Wool and Wool Textile 1952-1963; Raw Hides and Skins; Iron and Steel and Alloying Metals*.

International Sugar Council, *Statistical Bulletin and Yearbook 1960*.

International Lead and Zinc Study Group, *Lead and Zinc Statistics*.

British Bureau of Non-Ferrous Metal Statistics, *World Non-Ferrous Metal Statistics*.

Metallgesellschaft Aktiengesellschaft, *Metal Statistics* (Frankfurt-on-Main).

International Tin Council, *Statistical Bulletin*.

Petroleum Press Service, London.

International Rubber Study Group, *Rubber Statistical Bulletin*.

Monthly Statistics of Japan (Bureau of Statistics, Office of the Prime Minister).

* Actual consumption, taking into account changes in stocks, in the case of food, beverages and rubber. As regards other commodities, import ratios have been calculated by reference to apparent consumption (production plus net imports).

^a Including wheat equivalent of wheat flour.

^b Based on indigenous production plus carcass weight equivalent of imported live animals.

^c Oil equivalent.

^d Greasy basis.

^e Production = removals; trade = wood round and squared and partly worked.

^f Gross weight.

.. Denotes not available.

TABLE 5
Imports of selected primary commodities into industrial countries * by area of origin, 1955 and 1965

Commodity	SITC code number	Area of origin as percentage of total									
		Total (\$U.S. million)		Intra-trade*		Primary exporting countries				Centrally planned economies	
						Group I a		Group II b			
		1955	1965	1955	1965	1955	1965	1955	1965	1955	1965
<i>Food, beverage crops and tobacco</i>											
Wheat and flour.	041 + 046	1,077	1,028	34.9	40.0	42.6	47.1	19.7	12.9	2.8	—
Rice	042	266	224	27.8	38.8	3.5	4.0	61.2	44.6	7.4	12.5
Barley	043	287	344	35.5	63.7	41.2	18.9	21.7	9.0	1.4	8.1
Maize	044	330	1,233	52.3	59.4	15.3	12.7	27.1	23.0	5.2	5.0
Sugar.	061	1,017	1,177	4.8	8.2	8.7	13.7	85.8	74.5	0.7	3.6
Live animals	011	268	726	43.3	44.4	42.9	31.4	9.3	9.1	4.5	15.2
Meat, fresh, chilled or frozen.	011	639	1,808	24.4	35.9	52.9	38.1	21.1	21.5	1.6	4.6
Butter	023	369	502	43.6	43.4	52.8	50.6	2.2	1.2	1.4	4.8
Other fats, oilseeds and oils .	091 + 22 + 4	1,672	2,421	34.2	43.2	6.0	8.1	55.6	42.5	4.2	6.2
Fresh fruit and edible nuts. .	051	1,025	2,107	25.6	26.1	28.2	25.0	46.0	47.5	0.3	1.4
Coffee	071	2,106	2,058	0.7	2.4	—	0.4	99.3	97.2	—	—
Cocoa	072	586	458	11.0	15.1	0.3	2.0	88.5	82.5	—	0.4
Tea and maté.	074	450	408	2.7	3.4	—	1.0	96.8	94.6	0.5	1.0
Tobacco, unmanufactured . .	121	608	827	44.9	40.5	24.2	23.5	30.1	33.0	0.8	3.0
Sub-total		10,700	15,320	22.5	31.3	17.9	19.5	57.9	45.4	1.7	3.8
<i>Agricultural raw materials</i>											
Cotton	263	1,547	1,264	30.8	26.3	3.4	6.3	62.8	63.4	2.9	4.0
Wool.	262	1,895	1,910	16.1	18.3	66.0	64.9	17.2	14.6	0.7	2.3
Crude rubber (including synthetic and reclaimed) . .	231	1,179	897	4.9	23.9	2.2	5.2	92.9	70.9	—	—
Hides and skins	211	351	548	29.9	34.5	30.2	35.0	39.6	26.1	0.3	4.4
Wood	242 + 243	1,685	2,787	31.9	26.9	41.2	29.7	17.5	26.1	9.4	17.3
Sub-total		6,657	7,406	22.3	24.8	32.0	32.2	42.5	34.9	3.2	8.1
<i>Minerals and metals</i>											
Iron-ore and concentrates . .	281	770	1,889	36.2	20.6	20.8	22.9	42.9	55.7	0.1	0.8
Non-ferrous ores	283	971	1,528	7.7	7.7	24.6	31.9	66.4	57.1	1.2	3.3
Copper	682	1,544	2,545	32.3	39.1	11.5	11.4	56.2	48.2	—	1.4
Aluminium	684	312	876	33.7	59.0	64.7	34.4	0.6	2.9	1.0	3.8
Lead	685	227	266	17.2	22.9	37.9	45.1	44.9	27.1	—	4.9
Zinc	686	139	243	44.6	31.3	39.6	37.0	13.7	15.2	2.2	16.5
Tin.	687	224	404	39.3	23.5	—	1.0	60.7	70.0	—	5.4
Sub-total		4,187	7,751	27.4	29.0	22.0	22.3	50.2	46.0	0.4	2.7
Crude petroleum	331	2,863	7,332	0.8	0.6	1.5	3.8	97.5	93.2	0.2	2.0
Petroleum products	332	1,523	3,247	45.4	43.9	0.5	1.7	50.2	48.2	3.8	6.2
TOTAL of commodities listed . .		25,930	41,056	22.2	25.2	19.3	18.1	56.6	52.4	1.9	4.3
TOTAL excluding petroleum . . .		21,544	30,477	23.4	29.1	23.1	23.3	51.6	43.0	2.0	4.6

Sources: United Nations, *Commodity Trade Statistics*; OECD, *Foreign Trade Statistics Bulletins, Series C*.

* United States, Japan, EEC and EFTA excluding Portugal.

^a Canada, Australia, New Zealand, South Africa, Finland, Ireland, Iceland, Spain, Greece, Turkey and Portugal.

^b All other primary exporting countries, elsewhere referred to as developing countries.

NOTE: Percentages do not always add up exactly to 100 per cent due to rounding and to the fact that unspecified amounts could not be allocated.

TABLE 6
Imports of primary commodities * into major industrial countries
as percent of gross domestic product in 1965

Specified industrial countries	Gross domestic product ^a	Imports ^b of primary commodities from		Total imports of primary commodities as proportion of GDP
		All sources	Developing countries	
		\$U.S. billion		Percentage
United States	688.0	10.65	5.95	1.5
United Kingdom	97.7	10.66	3.83	10.9
Japan	84.2	6.56	3.35	7.8
EEC	298.4	24.94	10.22	8.4
Belgium-Luxembourg	17.3	2.82	0.91	16.3
France	93.4	5.52	2.94	5.9
Federal Republic of Germany	112.5	9.03	3.17	8.0
Italy	56.4	4.70	2.05	8.3
Netherlands	18.8	2.87	1.15	15.3
Sub-total	1 168.3	52.82	23.34	4.5
Norway	7.1	0.66	0.16	9.3
Sweden	19.3	1.50	0.46	7.8
Denmark	10.0	1.01	0.29	10.1
Austria	9.2	0.72	0.13	7.8
Switzerland	13.7	1.21	0.22	8.8
Sub-total	59.3	5.10	1.26	8.6
GRAND TOTAL	1 127.6	57.91	24.60	5.1

Sources: OECD, *National Accounts Statistics, 1956-1965*, and *Foreign Trade Statistics Bulletins*.

* SITC sections 0 to 4 plus Division 68.

^a At market prices; converted into United States dollars at official exchange rates.

^b Valued c.i.f. with the exception of the United States, for which imports are given on an f.o.b. basis.

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TRADE BARRIERS AND LIBERALIZATION POSSIBILITIES IN SELECTED COMMODITIES

Report by the UNCTAD secretariat

[Original text: English]

[28 December 1967]

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Introduction

1. This series of studies of trade barriers and liberalization possibilities in selected primary commodities complements the secretariat's general analysis of the question of improving access to markets for commodities of export interest to developing countries (TD/11 and TD/11 Supp.1).

2. An attempt was made in this report to cover an appreciable and reasonably representative number of major commodities subject to trade restraints. However, the range of commodities on which it was found possible to prepare studies in the time available is by no means exhaustive in relation to the commodities which are of interest to developing countries and which encounter trade impediments.

3. Grateful acknowledgement is made of the co-operation of the Food and Agriculture Organization of the United Nations (FAO) in contributing six of the studies included in this document—those on bananas, beef and veal, citrus fruits and citrus juices, cocoa, coffee and sugar.

Chapter I

Agricultural commodities

BANANAS

Introduction

4. Apart from irrigated crops in certain Mediterranean countries and islands in the Atlantic Ocean, banana production is confined to the tropics and is confined almost exclusively to the developing countries. Since 1965 world trade in bananas has amounted to over 5 million tons a year with an export value of over \$400 million. Bananas are the leading commodity in the world fruit trade, in terms of weight; in terms of value, only citrus fruit exports are ahead of banana exports.

5. While nearly all tropical countries produce bananas and plantains for their own consumption, commercial production for export purposes has been established only in a limited number of countries. The principal countries are Ecuador, those in the Caribbean area (Central America, Colombia and the Antilles) and Brazil; exports from these countries account for over 80 per cent of world exports. Banana production plays a primary role in the economics of many of these countries; for some of them (Ecuador, Panama, Honduras and some of the Antilles) bananas are the main export item. Apart from that area, only a few African countries (Ivory Coast, Cameroon, Somalia, and formerly Guinea) and China (Taiwan) are major exporters. The Canary Islands also are a major exporter, but their production is considered as part of Spain's national product, in the same way as the national product of France or Portugal includes that of their overseas departments or provinces.

6. World imports are confined almost exclusively to industrialized countries having high levels of income:

(a) The United States and Canada: the 2 million tons they need are supplied by producer countries in their hemisphere;

(b) Western European countries belonging to the European Economic Community (EEC) or the European Free Trade Association (EFTA) which are supplied by African producer countries in addition to those in the Western Hemisphere: the imports of these countries are now considerably in excess of 2 million tons;

(c) Japan, for which China (Taiwan) has become the principal supplier.

The USSR and the Eastern European countries still import only very small quantities of bananas.

Trade barriers

1. Tariffs

7. Existing customs barriers are an essential part of the system of protectionist measures with which the former colonial powers tried to surround the production of their overseas possessions. For example:

(a) There is a specific duty of 7s. 6d per cwt (about 2 US cents per kg), corresponding to an *ad valorem* duty of 15 per cent, on bananas entering the United Kingdom from countries outside the Commonwealth.

(b) A 20 per cent *ad valorem* duty is levied in France on bananas from countries other than those in the franc zone or States associated with the EEC;

(c) Duties amounting to 36 per cent and 15 per cent respectively were levied by Italy and the Benelux countries until 1962.

8. With the establishment of a customs union between the six signatory countries of the Treaty of Rome establishing the European Economic Community, the duty levied on bananas in the member States of the EEC has tended to approach the level specified in the common external tariff, namely 20 per cent. The duty imposed in Italy has already been reduced to this level, whilst it has stood at 18 per cent in the Benelux countries and 12 per cent in the Federal Republic of Germany since 1 January 1966. However, in accordance with the provisions of the Protocol annexed, at the time of the signature of the Treaty, to the Convention relating to the Association with the Community of the Overseas Countries and Territories,¹ the Federal Republic of Germany has so far enjoyed a duty-free tariff quota, which has virtually covered its import needs. Apart from a basic tariff-free quota, the Protocol provides for the granting of supplementary quotas in the event of the associated overseas countries and territories being unable to supply the whole of the quantities demanded by the Federal Republic of Germany, subject to the consent of the other member States of the EEC. To date the other partners have always complied with the requests of the Federal Republic of Germany.

¹ United Nations, *Treaty Series*, vol. 294 (1958), p. 157.

9. The duty-free benefits accorded by member States of the EEC to the countries and territories with which they had special economic relations are also being extended to the whole of the European Common Market. Thus Italy already grants these duty-free benefits to all the EEC Associated Territories and States. Since 1 July 1967, the duty levied in France on bananas from Associated States outside the franc zone has been only 5 per cent, and the duty levied in the Benelux countries on bananas not originating in the Congo (Kinshasa) or Surinam, only 4.5 per cent.

10. In some cases, however, customs duties have replaced quota restrictions. In Japan, for instance, abolition of the quota system in 1963 was accompanied by a rise in customs duty, on that occasion from 30 per cent to 70 per cent. By contrast, in Norway, Sweden and Denmark, established duties have been abolished successively—in Norway (1 January 1967), Sweden (1 July 1966) and Denmark (1 January 1967). In those three countries, as in the United States, the world's largest importer, banana imports are now entirely duty-free. The import duty was also suspended in Austria, in 1960.

2. Taxes

11. Taxes of various kinds are imposed on bananas in many countries, either at the time of import or at a subsequent stage, notably at the wholesale level. This is usually because of the application to bananas of a general system of taxes imposed on all produce and goods. The object of such a tax is generally to meet budgetary needs but in some cases the purpose of the tax is also to protect local fruit production. Such is the twofold object of the consumer tax of 90 lire per kg (corresponding to a levy of almost 100 per cent *ad valorem*) introduced in Italy following the abolition of the state monopoly (*Azienda Monopolio Banane*) on 1 January 1965.²

3. Quantitative restrictions

12. Quota restrictions are still in force in several countries which seek to give market preference to their own banana production or that of countries with which they maintain special economic relationships.

(a) In the *United Kingdom* imports of bananas from countries in the dollar area are restricted to an annual quota of 4,000 tons.

(b) In *France*, two-thirds of the market is reserved for national production from the departments in the West Indies and one-third for that of African States in the franc zone (Ivory Coast, Cameroon, Madagascar). Bananas from other sources can be imported only under licence.

(c) In *Italy*, quantitative restrictions have remained in force despite dissolution of the state monopoly, and an import quota is fixed every year. For 1967 the quota was 315,000 tons.

13. In the countries with centrally-planned economies foreign trade is conducted by state monopolies. Guinea has become the main supplier of these countries. However, despite the favourable conditions granted to that country, its exports have steadily declined.

Action since the first session of the United Nations Conference on Trade and Development, 1964

14. Since 1964 the principal measures which have helped to remove obstacles to the freedom of the international banana trade have been:

- (a) Abolition of quantitative restrictions in Japan;³
- (b) Abolition of the state monopoly in Italy;
- (c) Removal of customs duty in Norway, Sweden and Denmark.

15. These measures greatly helped to increase imports by the countries concerned. Thus, between 1963 and 1966:

- (a) Japan's imports rose from 265,000 tons to 440,000 tons;
- (b) Italy's imports exactly doubled, increasing from 161,000 tons to 322,000 tons;
- (c) The imports of the three Scandinavian countries increased from under 100,000 tons to over 130,000 tons.

16. In the Benelux countries, on the other hand, the customs duty, which was still only 15 per cent in 1961, was increased to 18 per cent on 1 January 1966 and will reach 20 per cent by the end of the Treaty of Rome transition period, which has been brought forward to 1 July 1968. The volume of imports (140,000 tons in 1963, 195,000 tons in 1966) has not been affected, however, and there was in fact a considerable increase in 1966. Although the application of the Treaty of Rome may possibly result in the removal of quantitative restrictions in France and Italy, its application would also lead to a rise in customs duties in the Benelux countries, and more important in the Federal Republic of Germany, whose imports have so far been exempt from duty.

Liberalization possibilities and their implications

17. In Italy and Japan, *per capita* consumption is still much lower than in other industrialized countries, although incomes have increased greatly in recent years. However, as has already been mentioned, the liberalization measures adopted by these two countries were accompanied by an increase in the external tariff on bananas in Japan (from 30 per cent to 70 per cent *ad valorem*) and the introduction of a consumer tax in Italy. Finland is another country which maintains a high level of import duty, over 90 per cent *ad valorem*. The removal, or at least some lowering, of these barriers would undoubtedly result in an appreciable increase in banana consumption in these countries.

18. The abolition of quantitative restrictions in the French market (due to take effect at the end of the tran-

² This tax was first fixed at 70 lire, but from 1 January 1966 it was reduced to 60 lire for bananas from Somalia within a 100,000 ton quota and raised to 90 lire for bananas from other sources.

³ Japanese import liberalization measures actually began in April 1963.

sition period, i.e. on 1 July 1968) or in the United Kingdom market could probably lead to an increase in banana imports by those countries, but would have an adverse effect on the economics of the traditional exporters to those markets. Similarly, exporters among the EEC Associated States would benefit from any change in the duty-free provisions in the protocol concerning the Federal Republic of Germany, but such a change would undoubtedly reduce the exports of Latin-American countries and could have a negative effect on the total imports into the Federal Republic of Germany.

19. In the longer term, an increase in banana imports by the Soviet Union and Eastern Europe might be expected from a change in the concepts underlying the external trade of the centrally-planned economy countries. The *per capita* income in Eastern Europe is sufficiently high to justify consumption of several kilograms per capita and not a mere 100-150 grammes as at present.

BEEF AND VEAL

Introduction

20. World exports of beef (including veal) have been growing in a sustained way since the beginning of the current decade, their total f.o.b. value in 1965 being \$ 2.1-\$ 2.2 billion,⁴ nearly 70 per cent above 1960. This increase was to a large extent the result of generally strong import demand and high world market prices for beef, but the physical volume has grown also. With regard to trade in carcass beef (fresh, chilled or frozen), the value of total exports from the developing countries increased between 1960 and 1965 by nearly 100 per cent, whereas the volume was only 35 per cent larger, the respective figures for total beef exports from the developed countries being 85 per cent and 50 per cent. It has to be noted that during 1966, and particularly in 1967, beef prices in world markets have declined, following the expansion of beef production in Europe.

21. Although the major portion of beef trade is among developed countries, the role of some developing countries is significant. Exports of beef and beef products from Argentina and Uruguay, considered jointly, represented 10 per cent of world trade in beef in 1964, and 17 per cent in the following year. If beef exports from the remaining exporting countries are added (mainly Mexico and the minor exporters in Latin America, and some countries in East and West Africa), the total share of developing countries in world beef exports was around 30 per cent in 1964 and 28 per cent a year later.

22. The f.o.b. value of 1965 exports of cattle, beef and beef products from developing countries is estimated to have been around \$610 million, with carcass beef (fresh, chilled or frozen) accounting for around 57 per cent of the total, and canned beef for approximately 25 per cent. Developed countries have been by far the most important buyers of exportable supplies from

developing countries. In 1965, for instance, developed countries imported more than four-fifths of all the carcass beef, canned beef and beef extracts which the developing countries had available for export.

23. Europe has been the main outlet for beef and beef products from South America, while the United States has been absorbing the bulk of beef originating in Mexico and some minor exporters in Central America. The United States is also a relatively important market for canned beef from South America, whereas imports of carcass beef from that area are banned on sanitary grounds. East Africa exports to developed countries mainly canned beef, as, because of the presence of animal diseases in Africa, imports of carcass beef, are prohibited in virtually all major import markets. By contrast, there are no exports to developed areas from the exporting countries in the Sahelian zone (Chad, Mauritania, Mali, Niger, Upper Volta).

24. For some countries in South America, beef exports are a major source of foreign exchange earnings: in Uruguay and Argentina the share of beef, beef products and cattle in total 1965 exports was about one-fifth, and in Paraguay nearly 30 per cent. In most of the remaining developing countries the share of exports of beef in all forms is around 5 per cent. An exception are the countries in the Sahelian zone where exports of cattle for slaughter and to a small extent also those of beef account for between 15 per cent (Chad) to almost 50 per cent (Upper Volta) of total exports. However, exports from those countries are directed entirely to the coastal countries in the West African sub-region.

25. It has to be noted that most of the minor beef exporters in the group of developing countries are greatly interested in raising production and exports of beef to higher levels, and many of those countries have considerable potentialities in this respect. As far as exports are concerned, those efforts are particularly strong in countries whose foreign exchange earnings have so far depended to a large extent on one or two export products such as coffee.

Trade barriers

26. In view of the fact that in all major importing countries beef is an important agricultural product and since government policies tend to stimulate and protect domestic production in order to achieve farm income objectives as well as in some cases a certain degree of self-sufficiency, exporters of beef encounter a wide range of trade barriers. Recently, trade restrictions were relaxed in many importing countries in Western Europe owing to a decline in beef production and the resulting rise in beef prices. This reflected a temporary situation rather than a change in the basic aims of the meat policies of the importing countries. In addition to measures for the protection of domestic production, some importing countries extend preferential treatment to imports from certain sources.

27. Given the weight of the United Kingdom, the EEC and the United States in world beef imports, this note deals mainly with trade barriers in this group of

⁴ Comprises cattle, carcass; canned and prepared beef; beef extracts and juices; edible offals.

countries. However, references will be made when appropriate to other industrialized countries which are at present only relatively small importers of beef.

1. Tariffs

28. The United Kingdom does not charge any import duty on meat from Commonwealth countries. Imports of beef from other countries are subject to the following duties:

Beef and veal, chilled, frozen, salted smoked or dried:

(a) Boned or boneless: 20 per cent *ad valorem*;

(b) Bone-in-chilled: 3/4 pence per lb, equal to \$U.S. 19.3 per metric ton;

(c) Other: 2/3 pence per lb, equal to \$U.S. 17.1 per metric ton.

In relation to the value of the imported categories of beef, these specific import duties are small. Their incidence varied between 3 per cent and 5 per cent in 1964. Corned beef from sources outside the Commonwealth is subject to a duty of 20 per cent *ad valorem*.

29. In the United States, import duties on carcass beef are higher: 3 cents per lb, equal to \$66.1 per metric ton which has been around 10 per cent of the import value in recent years.

30. As for the EEC, the Treaty of Rome has established a common import duty on carcass beef of 20 per cent *ad valorem*, but this is only one of the measures to be applied at the border, as the EEC market regulations for cattle and beef provide for additional protection in the case of cattle prices in the EEC markets declining below certain levels. In such cases levies, two to four times as high as the import duty, are imposed and the total import charges (duty plus levies) can in certain situations become an insurmountable barrier. In 1965 and at the beginning of 1966 when cattle prices in the EEC were high, it was not necessary to impose levies, but later on prices in the EEC declined and the resulting imposition of levies had an adverse effect on exporters.

2. Non-tariff measures

(1) Quantitative restrictions

31. Under legislation enacted in 1964 a ceiling is set in the United States for the total imports of fresh, chilled or frozen beef, veal and mutton. This ceiling is adjusted annually to take account of changes in domestic production. If the estimated imports for a given year are above the ceiling individual country quotas are to be established. As this ceiling is relatively high and imports of meat covered by the legislation have not so far reached the ceiling, no quotas have been imposed.

32. On the other hand, a global quota restricts imports of beef into Japan and licensing controls are maintained in a number of smaller importing countries, including Spain, Greece and Switzerland. The quantities of imports of beef and veal into the eastern European countries and the USSR are limited by administrative decisions within the framework of a system of state trading.

(2) Supports to domestic production

33. Domestic beef production is supported in most importing countries in a variety of ways with the result that returns to producers in these countries are generally higher than those obtaining in the major exporting countries. The incidence of such general support measures is impossible to establish for individual commodities and, in the case of beef, the total extent of government support in some importing countries can be appreciated only when the effect of policies designed to aid dairy production also is taken into account. In this section only the major support measures directly affecting beef production will be noted.

34. The policy of the United Kingdom Government is to stimulate domestic production primarily through a system of guaranteed prices and deficiency payments. Under the Fatstock Guarantee Scheme, the guaranteed prices for cattle have been increasing steadily (the increase between 1955/56 and 1967/68 being 37 per cent) and the National Economic Development Plan of 1965 places great emphasis on the expansion of beef production which is to be increased to the full extent of technical possibilities.

35. The measures at the border, particularly the levies, established in the market regulations of the EEC are intended to enable the Community to maintain returns to beef producers at around the level of its internal "guide prices" which are set annually. The guide prices have been raised continuously since the introduction of the common regulations in 1964. In fact, the common guide price which is to become effective as of 1 April 1968 will be about 20 per cent higher than the guide price set for the 1964/65 marketing year in France, the Community's largest beef producer.

36. There is no price support system for beef in the United States.

37. Among the minor importers, Switzerland maintains a system of guide prices for cattle by means of import controls. There are guaranteed prices for cattle in Spain at which government agencies would purchase all cattle offered for sale by members of a co-operative scheme between the producers and the Government. Japan does not operate a price support system but domestic producers are strongly protected by the existing restrictions on imports.

3. Bilateral arrangements

38. There is a series of bilateral arrangements between the United Kingdom on the one hand, and Ireland, New Zealand and Australia, on the other hand, affecting trade in live cattle and beef.

39. Under the Free-Trade Area Agreement and an Agreement on Store Animals and Carcass Meat between the United Kingdom and the Republic of Ireland which became effective in July 1966, Irish store cattle became eligible for fatstock guarantee payments after two months' residence requirement in force previously. Provisions also were made in the Agreement for similar payments on imports of beef up to 25,000 tons annually. In turn, the Government of the Republic of Ireland under-

took to ensure that at least 638,000 head of store cattle will be exported annually to the United Kingdom.

40. Continuing duty free entry of meat from Australia and New Zealand is guaranteed in trade agreements signed with these countries in 1957 and 1959 respectively. A Meat Agreement between Australia and the United Kingdom, signed in 1952 and due to expire in September 1967, assured unrestricted access to the United Kingdom market for Australian meat and also for deficiency payments to the Government of Australia when prices fell below an agreed schedule of minimum prices for the various categories of meat.

41. In the beginning of 1964, the United States and its major suppliers (Australia, New Zealand, Ireland and Mexico) entered into agreements according to which the suppliers were to limit the quantities of beef and veal exported to the United States. A feature of the agreements was the provision of a growth factor enabling the exporters to increase their shipments in proportion to the increase in the size of the United States market and of their shares held in that market in 1964.

4. Internal taxes

42. As far as can be ascertained, imported beef in the major importing countries does not carry special taxes or fiscal charges beyond those normally applied to domestically produced beef.

5. Sanitary regulations

43. A great problem to exporting countries, especially for those in South America and Africa, arises from the sanitary regulations in force in the importing countries.

44. Because carcass beef could be a carrier of the foot-and-mouth disease virus, imports of this product from South America are prohibited in the United States. At the same time, however, the United Kingdom and all other European countries admit carcass beef from South America. Carcass beef from Africa (with the exception of beef from Botswana, Rhodesia and South Africa) is banned in virtually all developed countries, and also in a number of import markets in the group of developing countries.

45. It would be in the interests of all countries concerned to explore in depth the problems involved, and particularly to assist the developing countries in finding solutions by which the requirements of the importing countries with regard to health protection could be met. One such measure would be the establishment of disease-free areas and quarantine stations for cattle. An interesting case in this respect is Botswana, which, because a part of the country was cleared from disease, has been able to expand greatly exports of carcass beef to the United Kingdom market.

The Kennedy Round

46. In the course of the negotiations under the Kennedy Round in the General Agreement on Tariffs and Trade (GATT), Argentina and Uruguay tried to obtain a reduction of the existing obstacles to their exports.

47. On the whole, the results of the negotiations on beef were relatively small. The concessions made by the EEC delegation to Argentina, reducing the import duty on carcass beef from 20 per cent to 16 per cent, the decision not to apply the levy system during a certain period of the year, and to make the levy system more flexible during the remainder of the year, were not approved by the Council of Ministers of the EEC. It is to be expected, however, that negotiations between Argentina and the EEC will continue and that certain concessions will be finally agreed upon.

48. For the South American countries, the reduction of the United States import duty on canned beef from 15 per cent to 7.5 per cent is of some importance. The United Kingdom has also agreed to reduce the import duty on canned beef from 20 per cent to 15 per cent. These two markets absorb a substantial proportion of total world exports of this product.

CITRUS FRUITS AND CITRUS JUICES

Introduction

49. Exports of fresh citrus fruit have reached a level of 4.5 million tons with a value of around \$550 million; 80 per cent of the volume consists of oranges and tangerines, 13-14 per cent of lemons and limes and the rest of grapefruit. One of the main characteristics of international trade in citrus fruit is the distinct flow of trade from the producing countries in the sub-tropical areas to the importing countries in the temperate zones. The overwhelming part of fresh citrus fruit exports is concentrated in the Mediterranean area. Half of the output of this region is exported, accounting for three-quarters of total world shipments. Outside the Mediterranean area there are only three important international suppliers of citrus, the United States, South Africa and Brazil. The over-all share of developing countries (in Economic Class II) in total exports of fresh citrus fruit is slightly less than 40 per cent, mainly coming from the Near East and North Africa. On the importing side, Western Europe is by far the largest outlet for all fresh citrus exports, receiving 78 per cent of total world shipments. The remainder is distributed as follows: other developed countries (including Canada) 8 per cent, and centrally planned and developing countries 7 per cent each. Trade between developed countries accounts for more than 50 per cent of the total.

50. This picture would not be complete, however, if the trade in processed citrus products, notably juices, were not taken into consideration. This sector has witnessed a rapid increase in recent years. The fresh fruit equivalent of citrus juice and canned citrus shipments rose from half a million tons in the mid-1950s to almost one-and-a-half million tons by the mid-1960s. The largest supplier is the United States, but the number of developing countries supplying the international markets and their export volume is increasing. Imports of processed citrus products are mainly concentrated in Canada and Western Europe.

51. In many of the developing citrus-producing countries, notably in the Mediterranean area, the industry

TABLE 1

Selected rates of import duties on citrus juices (as at December 1967)

Country and fruit	Unit	General rate	GATT or most-favoured nation rate	Preferential rate
<i>European Economic Community</i> (as from 1 July 1968)				
Single strength without sugar				
Orange juice	per cent	21.0	20.0	free
Grapefruit juice	<i>ad valorem</i>	21.0	19.0 ^a	free
Other citrus juice		21.0	19.0	free
Concentrated		42.0		free
} EEC and associates				
<i>United States</i> (except for imports from socialist countries)				
Single strength				
Lime juice	cents per	20.0		
Lemon juice	gallon ^b	20.0		
Other juices		20.0		
Concentrated				
Lime juice		20.0		
Lemon juice		35.0		
Other juices		35.0		
<i>Switzerland</i>				
Unsweetened				
Lemon juice crude and other clarified for industrial purposes	Sw. fr. per	35.0	0.30	
Other neither frozen nor concentrated	100 kg gross	35.0	28.-	
Other, frozen or concentrated . .		35.0	33.-	
Sweetened				
in glass bottles of 2 dcl. or less .		100.-	30.-	
other		100.-	70.-	
<i>Finland</i>				
all citrus juices	per cent <i>ad valorem</i>	40.0 ^a		
<i>United Kingdom</i> ^c				
Grapefruit and orange juice containing no or not more than 20 per cent by weight of added sweetening matter	per cent <i>ad valorem</i>	free		free
Other		3.-		free
Other containing no or not more than 20 per cent by weight of added sweetening matter . . .		15.-		free
Other		18.-		free
} Commonwealth and South Africa				

^a Temporary reduction to 17.1 per cent until 30 June 1968.^b Gallon of natural unconcentrated juice or gallon of reconstituted juices.^c All citrus juices with added sugar subject to a sugar surcharge as follows: with sugar not more than 20 per cent by weight 1.2 per cent *ad valorem*, more than 20 per cent by weight 14.4 per cent *ad valorem*.^d Subject to certain conditions, for industrial use 5 per cent *ad valorem* only.

is geared towards the export sector and, accordingly, citrus plays an important role as earner of foreign exchange. Thus, in Cyprus, Morocco and Israel the contribution of the citrus sector to total export earnings is as much as one-sixth to one-fifth, in Lebanon it is 10 per cent and in Jamaica and Tunisia, it is around 5 per cent.

Customs barriers

52. Customs tariffs are a traditional policy measure which has been increasingly applied to citrus imports since the 1920s. However, the protectionist element in these tariffs has been small and they have been mainly of a fiscal nature. That is one of the reasons why, until the gradual introduction of the EEC common external tariff, there was a tendency towards a reduction of the duties on fresh citrus fruit in the post-war period. At present there are no, or almost no, duties on imports of fresh citrus fruit into Canada, Ireland, Norway and Malta. Oranges and grapefruit can enter free of duty into Sweden while in Austria lemons can enter free and the tariffs on oranges, mandarins, clementines and grapefruit have been suspended for a number of years.

53. The trend towards a reduction in tariffs, however, changed with the gradual introduction of the common external tariff on oranges, tangerines and lemons in the EEC member countries in 1962, a process which was completed on 1 January 1967. The prime purpose of the common tariff is to provide along with other non-tariff measures a strong element of protection to producers in the Community. The common rates adopted therefore for winter oranges and tangerines are higher than the arithmetic mean of the rates previously applied in the four customs territories which make up the Community. As a consequence, the application of these rates entails a considerable increase in duties on imports into the Federal Republic of Germany (from 10 per cent to 20 per cent *ad valorem*) and the Benelux countries (from 13 per cent to 20 per cent *ad valorem*). This increase more than counteracts the reduction in the French duty (from 35 per cent to 20 per cent *ad valorem*) as the former countries import a much higher proportion of their requirements than does France from third countries with which they have no special arrangements. For lemons and grapefruit, the common duty of 8 per cent and 12 per cent *ad valorem* respectively is equal to the arithmetic mean. Nevertheless, these common rates entail increases in duties on both types of citrus in the Federal Republic of Germany, for lemons from zero to the full rate and for grapefruit from 5 per cent to 6 per cent when the Kennedy Round concessions are implemented. Some selected rates of import duties are presented in table 1.

54. In addition to import duties, taxes of various kinds are levied in many countries either at the time of import or later. The practice of charging special fees and taxes on citrus imports was introduced in the mid-1930s for various purposes such as raising revenue, supporting the level of domestic agricultural prices, procuring funds to subsidize domestic agriculture, etc. Nowadays, their main purpose is to raise revenue because very frequently they form part of a general tax system as general sales taxes, turnover taxes or turnover equalization taxes. The

rates vary and range from relatively small amounts, e.g. 2.5 per cent of the duty paid value in the Federal Republic of Germany, 3 per cent in Luxembourg, to the very substantial rate of 14 per cent in Belgium. Considering the total charges on fresh imported citrus fruit (notably oranges), importing countries in North America and Western Europe may be classified into the following broad categories:

(a) Zero to low charges (up to approximately 10 per cent of the c.i.f. value): Canada, Ireland, Austria, Denmark, United Kingdom, Yugoslavia, Malta, United States, Switzerland;

(b) Medium to high charges (up to approximately 25 per cent of the c.i.f. value): Norway, Sweden, France, Federal Republic of Germany, Luxembourg, Netherlands;

(c) High charges (more than 25 per cent of the c.i.f. value): Belgium, Finland, Hungary.

55. Preferential arrangements concern mainly the United Kingdom, Canada and the EEC. Fresh fruit and fruit products grown in and consigned from other Commonwealth countries and South Africa to the United Kingdom and Canada are exempt from duties in both countries. The common external tariff of the EEC has already been explained. Exemptions from the application of the external rates are at present as follows:

(a) Produce from the eighteen associated States of Africa and Madagascar and from Greece enjoy the same preferences as the six countries grant each other;

(b) Produce from Surinam and the Dutch Antilles has free entry into the Benelux countries; produce from Libya and Somalia has free entry into Italy;

(c) There are duty-free quotas for imports into France from Morocco (fresh citrus fruit and citrus juice) and Tunisia (fresh citrus fruit only);

(d) Algerian produce has free entry into France and, until 1 January 1965, benefited from the progressive reductions in the internal rates made by the other EEC member countries; but only the Federal Republic of Germany extended the sixth reduction (on 1 January 1966) to Algerian produce.

56. The tariffs on citrus products and also the taxes (e.g. 11 per cent compared with zero in France, and 6 per cent in the Federal Republic of Germany compared with 2.5 per cent) are sometimes considerably higher than on the fresh fruit (see table 1, containing some selected import rates for citrus products). Furthermore, the tariffs are also differentiated according to the kind of fruit, the type of juice, the degree of concentration, the amount of sugar added or the size of the container. In general it can be said that the higher the degree of processing the higher is also the tariff. The preferences granted are largely the same as have been mentioned for fresh citrus fruit.

Non-tariff barriers

57. Non-tariff barriers, notably quantitative controls on citrus imports which were rather universally used after the war, had mostly disappeared by the beginning of the 1960s, particularly after France had liberalized

imports of winter oranges effective 1 November 1963. The most important remaining quantitative restrictions are:

(a) In the *United Kingdom* imports of fresh and canned grapefruit and oranges and grapefruit juice (excluding frozen orange concentrate) from the United States and other dollar area countries are restricted by quotas;

(b) In *France* licences are required for the import of citrus products other than unconcentrated lemon and grapefruit juice;

(c) In *Finland* and *Yugoslavia* imports are limited by global quotas;

(d) In the *Socialist countries of Eastern Europe* the import of citrus fruit is usually very strictly controlled by administrative decisions mostly within the framework of bilateral trade agreements and is very often effected through state agencies.

EEC reference prices

58. By contrast, the introduction of the reference price system in the EEC, which came into force in 1962/63 for oranges, mandarines, clementines and lemons, marks a reversal of this trend towards more liberalized trade in citrus fruit. Reference prices which are set once a year and which represent the lowest producer prices in the Community serve in effect as a floor price to the market. If the landed price at border of the Community of imports from third countries is below the reference price, such imports may be subject to a countervailing charge equal to the difference between the reference price and the landed price of the product concerned, excluding customs duties.

59. The system was made more rigid in 1965 and from the 1965/66 season onwards the reference prices have been set at considerably higher levels. It must also be mentioned in this context that the system has been implemented in order to protect about 5 per cent of the market supplies because this is the share of shipments from member countries and associates in the total imports of the Community of winter oranges and tangerines. In the case of lemons, the share is around 60 per cent.

Action since the first session of the United Nations Conference on Trade and Development, 1964

60. The principal measures which have been taken since the first session of the Conference on Trade and Development to remove obstacles to international trade in citrus fruit and citrus products have been:

(a) In *France* the abolition of the quantitative controls on imports of winter oranges (1 October to 14 June) as from the beginning of the 1963/64 trade season; the lowering of import duties to the rates of the common external tariff and a relaxation of import restrictions for orange juice and grapefruit segments following the EEC trade agreement with Israel in mid-1964.

(b) In the EEC as a whole following the trade agreement with Israel as from 1 July 1964, a temporary reduction (until 30 June 1968) of the common external tariff on fresh grapefruit from 12 per cent to 7.2 per cent *ad*

valorem and on un concentrated grapefruit juice from 19 per cent to 17.1 per cent. The lower rates were to be applied by member countries which had higher rates as soon as the agreement came into force.

(c) In the *United Kingdom* in accordance with requests from the Governments of Jamaica and Trinidad and Tobago a removal as from 14 March 1964 of the restrictions imposed on the import of frozen concentrated orange juice from the dollar area. This decision followed the agreement reached between citrus processors of Jamaica, Trinidad and Tobago and Florida to form a consortium to market frozen orange concentrate in the United Kingdom co-operatively, at prices fixed periodically by joint consultation. However, more important than the attempts to remove some of the still existing obstacles to trade has been the strengthening of the tariff- and non-tariff barriers to imports from third countries in the EEC. Undoubtedly, these measures have made the importation of oranges, tangerines and lemons (notably oranges and tangerines) into the Common Market area more difficult and they have caused prices to remain at high levels which is one of the declared policy objectives (in favour of the Italian citrus production) of the EEC. It is not surprising therefore that imports of oranges and tangerines into the Common Market have remained stagnant in recent years.⁵

61. The Kennedy Round negotiations have not resulted in any fundamental changes of this situation. There will only be some minor tariff reductions on single items in the United Kingdom, Sweden, the United States and the EEC.

Liberalization possibilities and their implications

62. There is certainly room for further reduction of barriers—both of a tariff and non-tariff nature—to trade in citrus fruit and citrus products in a number of countries. In all likelihood this would lead to increased consumption and thus benefit exporting countries. Finland and Yugoslavia, which both still maintain quantitative controls, have together with Ireland, the lowest *per capita* consumption in Western Europe. Certainly, it must be borne in mind that in these countries income levels are also lower than in other European countries and that the restrictions are maintained for balance-of-payments reasons. On the other hand, from recent import trends in these countries, it must be concluded that there is some latent demand which might become effective if the controls and, in the case of Finland, the very high import duties were fully, or partly removed.

63. Another area with undoubtedly a large potential demand is Eastern Europe and the USSR. Present *per capita* intake in this area is lagging far behind even that in some developing countries. However, there are indications that these countries may adopt a more liberal

⁵ See also: FAO, "The Impact of the European Economic Community on International Trade in Citrus Fruit", CCP/Citrus/63/9, Rome, 1963; "Policy Developments in European Economic Community in the *Current Citrus Situation and Outlook*", CCP/Citrus/ST/65/2, 1965; "Developments in European Economic Community Policies and their Implications", CCP/CI/SC/666/2, 1966.

import policy in the future. Imports in recent years have shown substantial increases; orange imports rose from 140,000 tons in 1961-1963 to almost 300,000 tons in 1965-1966 and lemons from 125,000 tons in the former period to 170,000-180,000 tons in the latter. The additional outlets which these countries offered in 1965/66 and in 1966/67 did indeed compensate exporting countries for the stagnation in intake in the EEC and thereby added considerably to the stabilization of markets. As has been repeatedly stated, an expansion of these markets would constitute a major new factor in the world citrus situation.

64. Finally, the EEC is an area where relaxation of present barriers is a crucial question for the citrus export industry at large. At present the Community is involved in negotiations on association arrangements with a number of Mediterranean countries. In the orange sector the proposals provide for a scale of gradual tariff preferences combined with a system of minimum market prices the indicated levels of which are still higher than the present reference prices. Since the level of the minimum entry price, however, is the more restrictive element in the Common Market regulations than the import tariff, the proposed measures have in fact very little meaning except of course for some remaining third countries, e.g. Cyprus, Lebanon, United Arab Republic, United States, whose position would be even more difficult. A true relaxation of restrictions on oranges and tangerines in the EEC would under all circumstances have to include a lowering of the reference prices in order to remove the detrimental effects of high prices on the expansion of consumption. This applies particularly in a situation where for some time to come it cannot be expected that the Italian export supplies of fruit of a type and quality demand by consumer in the rest of the Community will substantially increase.

COCOA

Introduction

65. Cocoa is produced exclusively by developing countries and enters world trade mainly in the form of beans. However, with the establishment of new processing facilities in some West African producing countries, the export of cocoa in semi-processed forms—as cocoa paste and its basic components, cocoa butter and cocoa cake or powder—has expanded rapidly in recent years. In 1964-1966 about 7 per cent of the world crop was, on average, processed for export in these forms by the producing countries and their exports of cocoa butter accounted for over 40 per cent of the world trade in this product. Sweetened and unsweetened cocoa powder and chocolate and chocolate products are manufactured and exported almost entirely by developed countries. A further 7 per cent of the world crop was retained and manufactured for domestic consumption in producing countries, mainly in Latin America, the remaining 86 per cent being exported as beans.

66. The main trade flows occur between West Africa, on the one hand, and Western Europe and North America, on the other, and between Latin America and North America. About 80 per cent of world trade in cocoa beans

originates in Africa, principally Ghana, Nigeria, Ivory Coast and Cameroon, and most of the remainder in Central and South America, notably Brazil. Western Europe accounts for about half of the total import trade in beans, with the EEC alone—which has a large export trade in cocoa products—accounting for one-third. The United States accounts for more than one-quarter. The imports of Eastern Europe and the USSR have increased substantially and now comprise about 13 per cent of the world total. The two largest producers, Ghana and Nigeria, export to all major destinations and Ghana is the leading supplier in a number of markets including the EEC as a whole, other Western European countries, the United States and the socialist countries. Brazil exports largely to the United States while Cameroon and the Ivory Coast export predominantly to the EEC.

67. Export earnings from cocoa, which in total averaged \$526 million annually in 1964-1966, are of very great importance in the total earnings of individual producing countries or regions. In particular, 70 per cent of the export earnings of Ghana, the largest producer, derive from cocoa beans and processed cocoa products. In Cameroon and the Ivory Coast, where coffee and cocoa are the leading exports, cocoa accounts respectively for about one-quarter and one-fifth of the total value of exports. In Nigeria, on the other hand, where petroleum is now the leading export and earnings from it have risen sharply, the share of cocoa in the total has declined below one-fifth. Cocoa is also a leading export of some of the smaller producing countries, including Togo, Ecuador and the Dominican Republic, where it has accounted for respectively 22 per cent, 13 per cent and 8 per cent of total value of exports in recent years. On the other hand, although cocoa is the third largest export of Brazil after coffee and cotton, it produces only about 3 per cent of total export earnings.

Trade barriers

68. Like other tropical products, cocoa is subject to trade barriers in industrialized countries. In recommendation A.II.1 the United Nations Conference on Trade and Development, at its first session, recommended that developed countries should substantially reduce and, where possible, eliminate customs charges on imports of tropical products by the end of the United Nations Development Decade, and progressively reduce and, as soon as possible, eliminate internal charges and revenue duties on primary products wholly or mainly produced in developing countries; equivalent measures to increase access for such products in the markets of socialist countries were also called for.⁶

69. Since that time action by market economy countries to reduce barriers to trade in cocoa has been concentrated on import duties and has taken place mainly within the framework of the Kennedy Round negotiations in GATT, but there has been little progress in reducing the relatively large taxes which are levied in several devel-

⁶ See *Proceedings of the United Nations Conference on Trade and Development*, vol. I, *Final Act and Report* (United Nations publication, Sales No.: 64.II.B.11), p. 29.

oped countries. In socialist countries liberalization of import policies with respect to the products of developing countries has been reflected in a rapid expansion of cocoa imports.

Recent developments

1. Tariffs

70. The Kennedy Round negotiations, which concluded on 30 June 1967 with the signature of detailed arrangements by participating countries, included tariff reductions on cocoa beans and on cocoa paste, butter and unsweetened powder in most of the main importing countries. Although the agreed concessions are to be fully implemented by 1 January 1972, some have already come into force. Thus, Denmark eliminated its duties on cocoa paste and unsweetened cocoa powder on 1 January 1967 and Sweden eliminated its duty on cocoa beans and reduced those on cocoa butter, paste and powder on 1 July 1966. Japan eliminated its duty on cocoa beans on 1 October 1966, in advance of other concessions on cocoa paste and butter. Switzerland will remove its duty on beans and reduce those on cocoa paste, powder and butter on 1 January 1968. Australia had already removed its duty on cocoa beans in March 1964 and Yugoslavia did so in July 1965 and at the same time made substantial reductions in its duties on cocoa products.

71. On the other hand the application by members of the EEC of the common external tariff for cocoa beans, albeit at the temporary reduced rate of 5.4 per cent which came into effect following the Convention of Association between the European Economic Community and the African and Malagasy States associated with that Community, signed at Yaoundé on 23 July 1963 resulted in an increase in the rates of duty applied to trade with third countries in the case of all members except the Federal Republic of Germany. As the result of the Kennedy Round the common external tariff for cocoa beans has been confirmed at 5.4 per cent while reductions have been conceded for cocoa paste, butter and powder.⁷ Import duties on trade in cocoa products and chocolate between EFTA countries have been substantially reduced or eliminated in recent years.

The current situation

72. With the full implementation of the concessions negotiated under the Kennedy Round imports of cocoa beans into developed countries should become substantially free of duty. They are already duty-free in the United States (since 1930), Australia, Ireland, Japan, Denmark, Norway, Sweden, South Africa and Yugoslavia and the large existing duty in Finland and the small duties in the United Kingdom, Canada and Switzerland are to be eliminated. In New Zealand the rate will be reduced to about 1 per cent. The small Commonwealth preferences on trade in beans are thus also virtually eliminated.

73. The main exceptions relate to the non-preferential trade of the EEC, Spain and Portugal. Under the Yaoundé

Convention the associated African States and Madagascar (of which the Ivory Coast and Cameroon are the largest cocoa producers) were accorded duty-free entry into all member States of the EEC and, subject to tariff quotas, Nigeria has been accorded similar treatment under an Agreement of Association signed in July 1966.⁸ While the preferential margin of 5.4 per cent is relatively small, there are indications that it is helping to channel imports by the EEC from the associated countries.⁹ The effect of the preference in the longer run will depend mainly on the extent to which it stimulates production in the associated countries. The preferential margins applying to imports into Spain and Portugal from their respective overseas territories are much larger. In Spain the basic general rate of duty on unroasted cocoa beans has remained at 25 per cent, with duty-free entry for imports from overseas territories, while in Portugal the minimum tariff, also unchanged, is equivalent to 18 per cent with a preferential rate of about 6 per cent for overseas provinces.

74. On the whole import duties have tended to favour trade in cocoa beans rather than processed cocoa, rates of duty for cocoa paste including defatted paste (cocoa cake), cocoa butter and unsweetened cocoa powder, and especially for chocolate products, being higher than those for beans. Under the Kennedy Round most developed countries have made substantial concessions in the rates applied to cocoa products which have eliminated or reduced some elements of discrimination. In particular, the United Kingdom and Denmark have removed all import duties on cocoa paste, butter and unsweetened powder as well as those on beans. Duties on cocoa butter will be zero or quite small also in other countries which are eliminating duties on beans. The EEC has reduced its external tariff on butter from 20 per cent to 12 per cent as compared with the rate of 5.4 per cent for beans. Duties on cocoa paste and unsweetened powder have also been significantly reduced in a number of countries, especially in Finland where extremely high rates prevailed.

2. Non-tariff measures

75. There are now very few non-tariff restrictions on imports of cocoa or intermediate cocoa products into developed countries with market economies; where they existed they have generally been withdrawn during recent years, at least in respect of trade with GATT countries. In some cases, however, finished products under the description "chocolate and other food preparations containing cocoa" are still subject to quota or licensing restrictions. The main development in non-tariff measures since the first session of the United Nations Conference on Trade and Development has been the further liberalization of imports of cocoa into the socialist countries,

⁸ The tariff free quota is equivalent to average exports from Nigeria to the EEC in 1962-1964 plus a small annual increment.

⁹ The EEC accounted for about 77 per cent of the associated countries' exports in 1964-1966 against 71 per cent in 1960-1962. There has been a marked increase in the imports of Italy, Belgium and, especially, the Federal Republic of Germany from these countries whose share in the total imports of the EEC increased from 33 per cent to 42 per cent between 1960-1962 and 1964-1966.

⁷ Under a safeguard clause the EEC reserves the right to re-introduce the base rate of duty for these products if market disruption results from abnormal competitive prices.

where imports are effected through state-trading agencies in accordance with national plans for the conduct of foreign trade, partly under bilateral trade and payments agreements. Thus imports of cocoa beans into the USSR and Eastern Europe averaged 134,000 tons in 1964-1966, 50 per cent more than in the previous three years. The USSR and Poland have indicated that they anticipate very substantial increases in their imports of cocoa during the next decade or so.

3. Internal taxes

76. In a number of developed countries internal revenue taxes on cocoa or cocoa-containing products are of much greater importance than tariff or non-tariff measures. Apart from duties, taxes or other measures which affect the price of other ingredients in the final product, notably sugar, there is a wide variety of internal taxes charged on cocoa and cocoa-containing products at different stages of manufacture or marketing, and their nature and importance differ considerably from country to country. In general they tend to raise the level of retail prices of chocolate or other cocoa products and may also have a discriminating influence on the relative prices of competing products such as plain and milk chocolate, chocolate confectionery and sugar confectionery or domestic and imported products.

77. In the United States, on the one hand, there are no federal taxes on cocoa or chocolate products and State or local, e.g. small sales, taxes have little relevance for cocoa. On the other hand, some countries levy large special taxes on specified cocoa or cocoa-containing products. These include a "general tax" levied in Denmark on cocoa paste, butter and powder and chocolate and chocolate confectionery, equivalent to $66\frac{2}{3}$ per cent of the sales price excluding tax, as well as a "weight tax" of 1.80 Kr. (US 26 cents) per kg levied on the wholesale price; a special chocolate tax of $66\frac{2}{3}$ per cent is levied on the wholesale price in Norway, in addition to a general 12 per cent sales tax on all imported and domestic goods; and, in Sweden, there is a luxury tax levied on the factory price of chocolate products, which was reduced from 65 per cent to 50 per cent on 1 July 1965, as well as a special tax on imported and domestic chocolate and chocolate confectionery, increased from 50 Kr. to 60 Kr. per 100 kg (U.S. 11.6 cents per kg) in July 1966, and a general turnover tax which was increased to 11.1 per cent in March 1967. In Italy the most important of several taxes is the consumption tax of lire 250 (U.S. 40 cents) per kg on cocoa beans, lire 312.5 per kg on cocoa butter, paste and powder and lire 125 per kg on chocolate and chocolate confectionery.¹⁰

78. Australia, Canada, New Zealand and the United Kingdom have sales or purchase taxes which are levied once, usually at the wholesale level, on chocolate confectionery and constitute the main or only tax on the manufactured product as such. Rates tend to range between 10

per cent and 20 per cent *ad valorem*, the same rate being charged, in some cases, also on sugar confectionery or other products. A number of European countries, on the other hand, levy turnover or other taxes which, although usually lower than the sales or purchases taxes mentioned above, are levied at more than one stage of manufacture or marketing and have a cumulative effect. Some of these, like the small turnover taxes in the Federal Republic of Germany and Ireland apply indiscriminately to all goods traded at specified marketing stages. However, in these and other countries additional turnover equalization taxes or import levies are charged on imported goods. In the Netherlands different rates of turnover tax are specified for cocoa beans and the various cocoa and chocolate products on importation and at subsequent marketing levels. The cumulative effect of the turnover tax at the various stages (exclusive of excise duty on the sugar content) was estimated for 1966 at about 14 per cent of the retail price of the end product.¹¹ In Belgium the transmission tax also distinguishes between domestic and imported products and amounts, for example, to 13 per cent on imported chocolate. France levies a general cumulative tax but, unlike the turnover taxes, it is charged only on the value added at each stage, usually at a rate of 20 per cent, but at 6 per cent on cocoa beans and some cocoa products. A small specific consumption tax is also levied at different rates on imported beans and cocoa and chocolate products. In Japan, where there are no sales or turnover taxes, the commodity tax on cocoa powder was reduced from 10 per cent to 5 per cent in October 1966.

COFFEE

Introduction

79. Coffee is produced almost entirely in developing countries. Two-thirds of the average out-turn in recent years has been exported, the balance being consumed, or added to stocks, in producing countries. Of the world's exports of coffee nearly three-quarters come from *arabica* producing countries including virtually all the Latin American producers and some in Africa and Asia; shipments of *arabicas* are divided almost equally between washed and unwashed coffees, Brazil accounting for the bulk of the latter. The remaining quarter of world trade is made up almost entirely of *robustas*, shipped mainly from Africa.

80. Coffee is one of the most valuable items in world trade. The value of coffee exports, which had fallen to less than \$1,800 million in 1961 and 1962, had risen by 1966 to more than \$2,300 million. The slow growth since 1962 in the volume of exports largely reflects the regulation of exports under the International Coffee Agreement. This was accompanied by a recovery in export prices. Coffee accounts for some 6 per cent of the total export earnings of developing countries as a whole; it accounted for 19 per cent of the export earnings of producing countries in Latin America in 1965, representing 40 per

¹⁰ An unofficial estimate of the incidence of these taxes and import duties in retail prices was put at approximately 18-20 per cent for a typical bar of cocoa and sugar chocolate, 9-10 per cent for one of milk chocolate and only 5-6 per cent for nut-milk bars or fine bonbons.

¹¹ Rates applied at the import level were increased by approximately one percentage point in 1967.

cent of the exports of Brazil, Guatemala and Costa Rica, over 50 per cent in the case of Haiti and El Salvador, and over 60 per cent in the case of Colombia. In the same year coffee accounted for some 18 per cent of the exports from African producing countries, the proportion reaching over 40 per cent in Uganda and the Ivory Coast, over 50 per cent in Ethiopia and Angola and over 70 per cent in Rwanda and Burundi.

81. Over 90 per cent of the world exports of coffee go to developed countries; amongst these the United States takes nearly half and Western Europe most of the remainder. The six countries of the EEC together account for some 27 per cent of the world's imports and the countries of EFTA for 13 per cent. Japan, the largest importer in Asia, accounts for less than 2 per cent of the world total. *Per capita* consumption is highest in Sweden, where it has reached nearly 12 kg, with Denmark second, accounting for over 10 kg per head. Consumption in Switzerland averages over 7 kg per head, closely followed by Belgium and the Netherlands, while the United States consumes between 6 and 7 kg per head.

Trade barriers

82. Article 47 of the International Coffee Agreement, 1962 (the parties to which account for 99 per cent of world exports and 96 per cent of world imports) recognized among the measures which might hinder the possible increase in the consumption of coffee: the existence of import arrangements including preferential and other tariffs, quotas, operations of government import monopolies and official purchasing agencies; "... export arrangements as regards direct or indirect subsidies" ... and "internal trade conditions and domestic legal and administrative provisions...". It was agreed that member countries should investigate ways and means whereby these obstacles could be progressively reduced and eventually, wherever possible, eliminated or their effects substantially diminished.

83. The GATT meeting of Ministers in May 1963 confirmed the intention of the Governments concerned to apply the International Coffee Agreement; the Ministers, other than those of the EEC and the States associated with the Community, agreed that tariffs, internal charges and other non-tariff barriers in respect of coffee should be removed by joint action and wherever possible by the end of 1965; they recognized that the Kennedy Round of trade negotiations would give an opportunity to eliminate all remaining barriers affecting trade in coffee (see paras. 85-92 below). The first session of the United Nations Conference on Trade and Development recommended that no new tariff or non-tariff barriers should be created by developed countries against imports of primary products of particular interest to developing countries, and that developed countries should substantially reduce and, where possible, eliminate customs charges on such products—in the case of tropical products by the end of the United Nations Development Decade; and further that developed countries should progressively reduce, and as soon as possible eliminate, internal charges and revenue duties on primary products wholly or mainly produced in developing countries. The

new part IV of the General Agreement on Tariffs and Trade, which was added in February 1966, included a general undertaking on the part of developed countries to give high priority to the reduction and elimination of trade barriers and fiscal charges on products of export interest to less-developed contracting parties.¹²

Recent developments

1. Tariffs

84. The GATT and UNCTAD meetings were followed by a series of reductions in tariffs on coffee. Norway removed its duties on raw coffee while Austria and Czechoslovakia suspended the duties in their countries, the latter country also suspending its duty on roasted coffee. Sweden reduced its duty on unroasted coffee from 45 to 20 öre per kg and eliminated the duty on extracts, essences and concentrates. Japan abolished the 10 per cent duty on coffee beans while Finland reduced its duties on coffee by 40 per cent. The United States, which had no duty on raw or roasted coffee, also suspended its duties on imports of soluble coffees. The Spanish duty on unroasted coffee, which had been reduced from 22.5 per cent to 12.5 per cent in July 1962, was further reduced to 1 per cent in June 1964.

Current situation

85. The Kennedy Round of trade negotiations, which concluded on 30 June 1967 with the signature of detailed agreements by participating countries, included tariff reductions or other concessions on raw coffee; roasted coffee and on coffee extracts, essences and concentrates in a number of major importing countries. While the concessions are to be fully implemented by 1 January 1972, the effective dates for the five phases will vary as between countries. Finland and Sweden have already implemented their agreed reductions on coffee—on 1 January 1967 and 1 July 1966 respectively—while Switzerland will do so in one step on 1 January 1968.

86. In the largest import market for coffee—the United States—there is no import duty on raw or roasted coffee or soluble coffee.

87. In the six countries of the EEC a duty of 9.6 per cent was to be applied on raw coffee imported from third countries under the Convention of Yaoundé with the associated countries.¹³ The rate, which represented a reduction of 25 per cent in the common external tariff of 16 per cent established under the Treaty of Rome, and a further suspension of 15 per cent, has now been confirmed as the result of the Kennedy Round.¹⁴ As to

¹² Both coffee and instant coffee have been notified as products of export interest to particular less-developed countries (GATT COM TD/B/W/2, 16 December 1965).

¹³ Under a separate protocol, however, the duty on imports into Benelux were to be raised by stages; on 1 January 1966 it was raised to 5 per cent.

¹⁴ Under a safeguard clause the EEC reserves the right to re-introduce the base rate of duty for roasted and for decaffeinated coffee if market disruption results from abnormal competitive practices.

the associated countries, the duty on imports of raw coffee into Greece is the equivalent of about 6 per cent *ad valorem* while in Turkey the GATT rate is 5 per cent.

88. In a number of European countries, including Austria,¹⁵ Iceland, Ireland, Norway and Yugoslavia, the duty on raw coffee is either currently suspended or nil, while in Spain the duty has been provisionally reduced to 1 per cent. In the United Kingdom the full rate of duty on raw coffee of 1 penny per lb was equivalent in 1966 to 3 per cent *ad valorem* and is to be halved as the result of the Kennedy Round. The duty on raw coffee in Denmark which, in 1966, was equivalent to 31 per cent *ad valorem* has not been reduced under the Kennedy Round but up to one-half of the customs receipts from this item, as well as from roasted and from soluble coffee, will form part of a fund to encourage investment in developing countries. In Finland the reduced rates confirmed in the Kennedy Round, though less than one-third of the base rates, still represent the equivalent of about 25 per cent *ad valorem*. The m.f.n. rate in Portugal, equivalent to about 18 per cent *ad valorem*, remains unchanged.

89. In other developed countries rates of duty on raw coffee are relatively small. The Japanese tariff has been bound at zero in the Kennedy Round; the Canadian duty, equivalent in 1966 to 5 per cent *ad valorem*, is to be eliminated and that in New Zealand, equivalent in 1966 to 3 per cent, is to be halved.

90. Among North African countries, the duty on raw coffee ranges from 12 per cent in Algeria to 15 per cent in the United Arab Republic and (in effect) in Morocco, and 22 per cent in Tunisia. In Sudan, however, the duty is the equivalent of about 50 per cent. In Asia, duties average around 80 per cent in Iran and Syria and are even higher in Israel, but in Iraq, Jordan and Saudi Arabia they are lower.

91. The Government of Poland has reported that there is no tariff on imports of coffee, which are effected by a state foreign-trade agency.¹⁶ The Governments of the USSR and Czechoslovakia have announced the suspension of duties on imports of coffee into those countries.

92. Duties on imports of roasted coffee and coffee extracts, essences or concentrates, with exceptions such as in the United States and Denmark, are appreciably higher than those on raw coffee; substantial reductions have been conceded in the Kennedy Round but in most cases the rate of duty will continue to exceed those on the raw product. The proportion of roasted beans entering world trade is, however, very small, while it is only comparatively recently that coffee growing countries such as Brazil have emerged as exporters of soluble coffee, a product which was developed in countries importing the raw beans. Countries such as Canada and Norway, which admit raw coffee free, impose a duty on roasted coffee; the base rate for roasted coffee in the EEC, the United Kingdom and Sweden is half as great again as that for

raw coffee, while in Switzerland and Portugal the difference is even greater. The duties on coffee extracts, essences and concentrates in the United Kingdom, Switzerland, Ireland and South Africa (though not in Sweden and Denmark) are substantially heavier than for roasted coffee. As between countries of EFTA, duties on coffee essences, extracts and concentrates, along with those on other industrial products, were finally eliminated at the end of 1966;¹⁷ imports of raw beans into these countries will however be subject to the duties agreed during the Kennedy Round.

Preferences

93. The preferences enjoyed by certain coffee-exporting countries in import markets in Europe have come under attack as failing to comply with article 47 of the International Coffee Agreement dealing with the removal of obstacles to consumption. The view has, however, been put forward in GATT by certain developing countries that they could not agree to any elimination or reduction of tariffs affecting tropical products, involving a loss of preferential benefit to themselves, without an agreement on adequate compensatory measures.

94. The preference which France used to give to coffee from its overseas territories has been superseded by the preference given to the associated countries by member countries of the EEC under the Yaoundé Convention. Duties on raw coffee from these countries were abolished in July 1964 and the tariff on imports from third countries noted above represents the amount of the preference in the six countries of the Community. This preference has not, however, resulted in an increase in the share of the Community's imports of raw coffee coming from the associated countries, which has fallen from 27.5 per cent in 1964 to 25.3 per cent in 1966. On the other hand, producers in the associated countries now market more than 40 per cent of their exports in non-preferential areas, particularly the United States.

95. In the Commonwealth preferential area, imports of raw coffee from Commonwealth countries are duty-free in the United Kingdom, Canada, Australia and New Zealand. South Africa also admits raw coffee from United Kingdom territories free of duty. The margin of preference given by these countries is therefore indicated by the full rates of duty noted above. The United Kingdom imports two-thirds of its coffee from preferential areas, while the proportion in Australia and New Zealand is almost as great; about one-fifth of the coffee imported into Canada comes from Commonwealth sources but South Africa takes little from preferential areas. The free entry of coffee into Australia from non-preferential areas is conditional on the importer taking 30 per cent of his coffee from Papua/New Guinea. Imports of coffee into Portugal are duty-free provided they come from its Overseas Provinces.

96. In the Latin American Free Trade area, imports of coffee into Argentina, Chile and Uruguay from other

¹⁵ The official rate is to be reduced to 20 per cent under the Kennedy Round Agreement.

¹⁶ International Coffee Organization, EB 149/64 Rev.2, 1 June 1965.

¹⁷ Switzerland has retained a duty of Sw. fr. 180 per 100 kg, which is stated to be revenue-earning in character, as compared with the full rate of Sw. fr. 270 conceded under the Kennedy Round.

member countries are admitted duty free. These account for some 2 per cent of total exports from Latin American countries as against 3 per cent despatched to countries in the Commonwealth preferential area and nearly 25 per cent to the EEC.

2. Non-tariff measures

(1) Quantitative restrictions

97. While formal licensing of imports of coffee remains in a number of countries, quantitative restriction of imports is not common. New Zealand regulates the import of coffee for balance-of-payment reasons; and imports into Denmark are subject to licence although this is said not to restrict imports; France suspended its quota system in July 1964 but Turkey has a quota system administered by the state monopoly. Imports of raw and roasted coffee into Yugoslavia are subject to quotas while imports into Spain are made by an association of importers which advises the Government on consumption requirements. The import of roasted coffee into Tunisia is prohibited while Argentina permits the import of roasted and soluble coffee only from Paraguay.

(2) State Trading

98. Imports of coffee into the USSR and Eastern European countries are made by State trading bodies.¹⁸ The volume to be imported is the result of administrative decisions, taking into account the amount of foreign currency available. The USSR Government has made an estimate of the amount to be imported in 1970 and 1980¹⁹ while the Government of Poland has estimated the amount to be imported in 1975.²⁰

3. Internal Taxes

99. Revenue taxes on coffee are imposed at a number of stages, ranging from charges made at the import stage to taxes levied as part of the general revenue system of the country. Taxes levied at the import stage include the transmission tax in Belgium, a general tax on imported commodities including coffee; the exchange rate fixed for coffee importers in Yugoslavia constitutes in effect an import tax of 45 per cent.

100. Another group of taxes imposed at the import stage is intended to place imported goods on the same footing as home produced goods which are subject to tax. In Austria and the Federal Republic of Germany there is a turnover equalization tax on coffee and coffee products, while in Italy decaffeinated coffee pays a turnover equalization tax. Importers of soluble coffee into Denmark have to pay a tax at the same rate as that paid

TABLE 2

Revenue derived from duties and taxes on coffee in certain countries in 1962 compared with the declared value of imports

Country	Customs receipts	Internal taxes (specific)	Total revenue	Declared value of imports
\$U.S. thousand				
Federal Republic of Germany		^a	250 000	213 060
France	7 460	58 070	65 531	143 910
Finland	17 500	15 800	33 300	30 160
Denmark			14 500	32 130
Sweden	7 280	5 665	12 943	66 150
Japan	5 699			10 130
Austria	3 128	778	3 906	11 260

^a The revenue from the *Kaffeesteuer* in 1962 was equivalent to \$191,500,000.

by domestic manufacturers on their product (the green coffee imported for domestic manufacture of solubles being duty free).

101. In some countries there is a specific tax on the consumption of coffee. The *Kaffeesteuer* in the Federal Republic of Germany, the *taxe unique* in France and the consumption tax in Italy, Greece and Tunisia are examples of this.

102. Finally there are the taxes which form part of the general tax structure of the country. Some are imposed at differing rates for individual commodities such as the *taxe intérieure* in France, the commodity tax in Japan, the turnover tax in Italy and Greece, the sales tax in Argentina and the internal tax in Chile; others are imposed at a flat rate for all commodities, such as the turnover taxes applied in the Federal Republic of Germany, Italy, Finland, Spain and Greece.

103. The total incidence of the taxes on coffee is difficult to calculate owing to the various stages at which they are levied. In table 2, the revenue in 1962 in certain countries, as reported to the International Coffee Organization, has been compared with the declared value of imports of coffee (raw, roasted and soluble); details for other important consuming countries are not available.

COTTON

Introduction

104. In the years 1964-1966 developing countries accounted on average for 55 per cent of the global volume of raw cotton exports, the developed market-economy countries for 33 per cent and the socialist countries for 12 per cent. The developing countries, however, account for nearly 60 per cent of the global value of raw cotton exports, which reflects their overwhelming predominance as exporters of the higher-valued longer staple cottons. While the great bulk of exports of medium-length staple cottons have markets primarily in non-cotton-producing developed countries—the United Kingdom, the EEC countries and Japan—and in socialist countries of Eastern Europe, the longer staple

¹⁸ The bodies responsible for importing coffee are: USSR PRODINTORG; Eastern Germany — Deutsche Genusmittel G.M.b.H.; Poland — AGROS; Czechoslovakia — KOOSPOL; Hungary — MONIMPEX; Roumania — AGROEXPORT; Bulgaria — HRANEPORT; Albania — ALBIMPORT.

¹⁹ See *Proceedings of the United Nations Conference on Trade and Development*, vol. I, *Final Act and Report* (United Nations publications, Sales No.: 64.II.B.11), p. 94.

²⁰ FAO: Comments by the Foreign Trade Research Center, Warsaw, Poland, on *Agricultural Commodities — Projections for 1975 and 1985*.

TABLE 3
 Tariffs on cotton in major developed market-economy countries
 (Percentages ad valorem, equivalents of specific rates being shown in brackets)

Product	BTN No.	Pre- of post-Kennedy Round negotiations	European Economic Community	United Kingdom	United States	Japan
Cotton, not carded or combed . . .	55.01	pre	free	free, 10	free, (4.1) (8.1)	free
		post	free	free, 5	free, (4.1) (8.1)	free
Cotton, carded or combed .	55.04	pre	2.4	10	(21.7)	free
		post	2.4	10	(21.7)	free
Yarn ^a	55.05	pre	8	7.5	(4.7-17.8) ^b	5.0, 7.5
		post	4, 6, 7	7.5	(3.4-12.7) ^b	3.5, 5.5
Woven fabric ^a .	55.09	pre	14-16, 19	17.5	(7.75-22.25) ^b	10-25
		post	13, 14, 15	17.5	(5.9-16.9) ^b	7-17.5

Sources: GATT, COM, TD/46 and Addenda 1-6.

^a Wholly of cotton yarn.

^b Not bleached or coloured.

cottons are shipped not only to these countries, but also to major cotton-producing countries both developed and socialist, namely the United States, the USSR and mainland China.

105. The annual foreign exchange earnings of developing countries from exports of cotton in the mid-1960s totalled no less than \$1.3 billion. A great number of developing countries export raw cotton; for many it is of considerable, and for some of even vital, importance to their economic development. In 1964, raw cotton accounted for a significant percentage of the total export earnings of fourteen developing countries,²¹ for over 20 per cent in the case of nine and for over 40 per cent in the case of four. Among the last group are the two dominant producers of longer staple cottons, the United Arab Republic and Sudan.

Trade barriers

1. Tariffs

106. Raw cotton or ginned cotton lint (not carded or combed) is subject to tariff in only one major developed market economy, the United States. The tariff is differentiated as to staple length. Short and medium staples (under 1¹/₈th inch) which constitute the bulk of all cotton, are admitted free of duty. Tariffs are levied at rates equivalent, on an *ad valorem* basis, to 8.1 per cent on longer staples (1¹/₈th-1¹¹/₁₆th inch) and 4.1 per cent on extra long staples (1¹¹/₁₆th inch and over). However, these duties have

only limited significance because of other measures affecting United States trade in cotton (see section 2 below).

107. Where cotton has been bleached or dyed, it is subject to a non-preferential duty of 10 per cent in the United Kingdom; and where it has been carded or combed, it becomes subject to import duties more generally—at rates equivalent to 5 per cent and 21.7 per cent (on an *ad valorem* basis) in the United States depending on the staple length, at a non-preferential rate of 10 per cent in the United Kingdom; and at 2.4 per cent under the common external tariff of the EEC. However, trade in such semi-processed cotton is of relatively small interest to developing countries.

108. Of greater interest to developing countries is trade in cotton manufactures. However, as the degree of processing increases, cotton imports become subject to increasingly severe tariff (and non-tariff) barriers (see table 3). For example, tariff rates on woven fabrics exceed 30 per cent *ad valorem* in the United States and 25 per cent in Japan. As has been pointed out elsewhere, the protective effect of tariffs on the processed product can be substantially higher than nominal rates would indicate in cases in which the raw commodity is admitted free of duty.²² To the extent that some developing countries already possess, or could develop, more efficient cotton-processing industries than exist in developed countries, impediments to the trade in cotton textiles limit their

²¹ Chad (78), United Arab Republic (60), Syria (50), Sudan (47), Nicaragua (44), Pakistan (25), Uganda (24), Salvador (24), Afghanistan (21), Central African Republic (19), Mexico (16), Guatemala (15), Peru (14), United Republic of Tanzania (14).

²² See "Tariff structures of selected developed countries and their effect on exports of processed goods from developing countries" (TD/B/C.2/9). For example, it has been estimated that the effective tariff rate corresponding to the nominal rate of 17.6 per cent on certain cotton fabrics in the EEC is as high as about 44 per cent.

export earnings from manufactured cotton goods, and also exert a generally depressive effect upon total world usage of raw cotton.

2. Non-tariff measures

109. Quantitative limitation on the import of raw cotton is effected in the case of the largest developed market economy, the United States, by the imposition of quotas. (In the case of the socialist countries of Eastern Europe imports of raw cotton, as of other commodities, are regulated through state trading organizations.) Quantitative limitations on trace are more widespread in the case of cotton manufactures.

110. The import quotas maintained by the United States total about 120,000 bales a year—an amount which has remained virtually unchanged since quotas were introduced in 1939. Of the total, about 29,000 bales (of 500 pounds gross) are for upland varieties of under 1 $\frac{1}{8}$ th inch staple and are allocated according to country quotas, while the remainder, for long-staple varieties, is with a global quota. In the aggregate, the rate of cotton imports into the United States has recently been equivalent to about 1.3 per cent of consumption.

111. It seems to be a reasonable presumption that the long-standing quantitative limitation of imports of raw cotton into the United States—the world's largest consumer—has tended to diminish the marketing opportunities for exporting developing countries, at least as regards some types of cotton in demand in the United States.

112. Viewed in a broader perspective, the quantitative restrictions maintained by the United States on imports of raw cotton are seen to be an integral instrument of its system of price and income support for domestic cotton growers. For a number of years, the price of cotton guaranteed to United States farmers has been at levels above prevailing world market prices. In itself, this support has tended to stimulate domestic production and so to augment quantities available for export, especially in a situation in which yields of cotton have been increasing rapidly. However, especially in recent years, the United States has taken action in two ways which has greatly moderated, if not eliminated, the adverse effects on the world cotton market that flow from its price support policy: first, through acreage control measures designed to check the growth in production; secondly, through the exercise of considerable restraint in its subsidization of cotton exports. Releases for export from the United States surplus stock have been so administered as to make the United States the residual (although the largest) supplier of the world market. However, as domestic manufacturers of cotton goods were paying until 1964 prices for raw cotton above world levels, the substitution of man-made fibres for cotton was encouraged.²³

113. If exportable surpluses of cotton in the United States had been smaller and/or if such cotton had been

offered for export at higher prices than were actually sought, exporting developing countries would have secured better prices and earned more foreign exchange, although these countries have, year by year, been able to dispose of most of their export availabilities of cotton.²⁴ What the conditions of production and trade, both in the United States and in the world market for raw cotton, would be in the absence of intervention by the United States Government, must necessarily remain problematical. Whether or not the absence of such intervention would have resulted in greater export earnings for exporting developing countries must, therefore, remain uncertain, though it could be argued that their export earnings might well have been higher than they actually were.

114. Most developed countries impose quantitative restrictions on imports of cotton goods. Many of the restrictive measures have been taken under the umbrella of the GATT Long-Term Arrangement regarding International Trade in Cotton Textiles, which entered into force in 1962 for a period of five years. The Arrangement has been prolonged for a period of three years, beginning 1 October 1967. The provisions of the Arrangement for an expansion of trade have in practice been offset to varying degrees by a series of import restraints imposed by developed countries with the object of avoiding "market disruption".²⁵

Action since the first session of the United Nations Conference on Trade and Development, 1964

115. While the Kennedy Round negotiations have resulted in no significant change in tariffs on imports of unmanufactured cotton into the major developed market economies, some adjustments have been made in rates of duties on imports of manufactured cotton which, however, continue to be subject to import restraints.

116. By far the most important national action concerning raw cotton since the first session has been the adoption by the United States of a new cotton programme for the years 1966 to 1969. This programme, included in the United States Food and Agriculture Act of 1965, was designed to restrain the United States production of cotton, facilitate its export and reduce the high level of stocks. The support price to farmers was reduced for the 1966/67 season, attractive direct payments are made to those farmers who undertake specified reductions in

²⁴ The substitution of man-made fibres for cotton in world markets might well have been greater if the price of cotton had been higher.

²⁵ Among these countries were the Benelux countries, Canada, Italy, the Federal Republic of Germany and the United States. The United Kingdom also concluded bilateral arrangements regulating imports of cotton textiles from major exporting countries. (See GATT, *A Study on Cotton Textiles*, July 1966, pages 81-84, and UNCTAD secretariat, "Study of the origins and operation of international arrangements relating to cotton textiles", TD/20/Supp.3, paras. 50-163). In a report by GATT, the point is made that "notwithstanding existing restraints, there has been an increase in imports of cotton textiles into the industrialized countries from the less developed countries during the period 1961-1964, although for various reasons the rate of growth was lower than it had been during the 1950s" (*International Trade, 1965*), p. 104.

²³ Moreover, imports of cotton manufactures were restrained by actions such as those taken under the GATT-Long-Term Arrangement regarding International Trade in Cotton Textiles (see para. 114), partly as a result of the abnormal competition from such imports based on the world market price for cotton.

cotton acreage. In 1967-1969 the support price to farmers for the standard grade of cotton is to be not more than 90 per cent of the estimated average world market price.

117. As the recent measures by the United States have reduced United States production of cotton very sharply and permitted a reduction in the level of accumulated stocks without pressure on world markets, they have made a positive contribution to an improvement in the world cotton situation. Earlier expectations in some quarters that efforts by the United States to reduce stocks through increased exports would result in a decline in world market prices have not materialized, and prices in late 1967 were in fact higher than a year earlier because of the over-all world supply and demand situation.

118. Under a five-year plan (1966-1970), the USSR is increasing the production of raw cotton, and exports to socialist countries in Eastern Europe—under special payments arrangements—as well as to other destinations, have risen. The probable effects of the current increase in the output of cotton in the USSR on the export opportunities of developing countries are as yet unclear.

Liberalization possibilities and their implications

119. Continuing care will need to be exercised in any disposals of accumulated stocks of cotton on world markets in such a way as to minimize the possibility of adverse effects on the export earnings of developing countries. This remark applies particularly to any concessional sales of cotton to markets of interest to developing countries.

120. The possibilities for direct measures for the liberalization of trade in cotton appear to lie in two fields. First, in view of the recent reduction in United States support prices for cotton to levels not higher than world market prices, the rationale for the continuance of quotas on imports of raw cotton into that country might well deserve re-examination. Their removal would advance the process, already begun, of establishing a free market for cotton in the United States. Secondly, a reduction of barriers to imports of cotton goods into developed countries from developing countries could stimulate the export earnings of developing areas both by diminishing the associated depressive effects on world consumption of raw cotton, and by enhancing the opportunities for the developing countries concerned to increase their earnings directly from the export of cotton goods.²⁶

RUBBER

Introduction

121. Virtually all natural rubber is produced in developing countries and nearly all of it is exported. Ninety per cent of supplies come from countries in south-east

Asia and the bulk of the remainder from countries in West Africa. Two-thirds of exports go to developed market-economies. Total imports of (crude) natural rubber into the United States, United Kingdom, EEC and Japan were valued at some \$640 million in 1964. It may be noted here that trade in rubber is much affected by technological change, including production of the synthetic product, in developed market economies; this can affect the form as well as the volume of natural rubber imports.

122. Natural rubber suitable for use only as raw material is by far the main class of rubber exported from the developing countries. It is exported in a number of forms—latex, sheets (smoked or crêpe), powder, etc., but by far the largest volume of trade is in the form of smoked sheets. Materials of rubber and rubber manufactures are not yet a very significant export from developing countries.

Trade barriers

123. As a raw material, natural rubber enters duty free into the main developed market economies except for duties of 10 per cent in the United Kingdom and 15 per cent in Japan on some special categories of latex and on natural and synthetic mixture latex. As a result of the Kennedy Round negotiations, these duties are scheduled to be halved or abolished in the United Kingdom and halved in Japan. In so far as the mixtures compete with wholly natural rubber latex entering duty free, the advantage of the latter will, of course be reduced. This, however, does not apply to the bulk of the trade.

124. It may be noted that import duties on more highly processed rubber goods, e.g. tyres and footwear, are widespread in the major developed market economies and that in general, the halving of these duties scheduled under the Kennedy Round negotiations will still leave them relatively high. The position in respect of tariffs on rubber manufactures—among other selected manufactures of export interest to the developing countries—is examined in another report by the UNCTAD secretariat (TD/B/C.2/25 and Corr.1).

SUGAR ²⁷

Introduction

125. In the period 1962-1965 total world exports of sugar (in terms of raw sugar content) averaged 18.5 million tons a year,²⁸ of which two-thirds originated in developing countries, especially in Latin America, and consisted mainly of raw sugar produced from cane. Exports from developed and centrally planned countries accounted respectively for 20 per cent and 14 per cent of the total; with the major exceptions of Australia and South Africa, sugar in these two groups of countries is produced from beet, and exports are frequently in the

²⁶ A reduction of barriers to imports of cotton goods into developed countries could, incidentally, contribute to an expansion of trade in raw cotton among developing countries. This point is discussed in the UNCTAD secretariat's report on "Examination of measures for the expansion of commodity trade among developing countries" (TD/B/C.1/27 and Corr.1 and 2).

²⁷ Study prepared in 1966.

²⁸ World net exports in the same period averaged 15.3 million metric tons. On a net basis, exports are more heavily concentrated on developing countries, and imports on developed countries, than trade expressed, as above, on a gross basis.

form of refined sugar, including that refined from imported raw sugar. In the same period nearly two-thirds of world imports of sugar were shipped to developed countries, the remainder being divided equally between developing and centrally planned countries. The largest inter-regional trade flows are those between Latin America, on the one hand, and North America, Western Europe and the USSR and Eastern Europe on the other, and between the Far East and North America, but there is extensive trade between other regions and within regions.

126. While more than half of the world trade in sugar takes place under preferential arrangements which offer assured markets at relatively favourable and stable prices, the balance is traded on the "free" or residual market where surplus conditions have been reflected in extremely low prices during the past two years. The total value of sugar exports from developing countries as a group is estimated at \$969 million annually in 1953-1955 and \$1,237 million in 1957-1961; in 1963 and 1964, when world market prices were high, the total increased to an annual average of \$1,750 million against \$1,192 million in 1962, but it declined sharply in 1965. Sugar constitutes the main export commodity of several developing countries, or one of the main export commodities in some cases. For example more than 90 per cent of the export earnings of Mauritius are derived from sugar, 80-85 per cent of those of Cuba, about 30 per cent of those of China (Taiwan) and Jamaica and more than 20 per cent of those of the Philippines.

Trade barriers

127. There is probably no other agricultural commodity with respect to which government intervention is as widespread and far-reaching as in the case of sugar. The problem of access to sugar markets is of interest both to producing countries—whether net importers or exporters—and to non-producing countries. Most countries have a common objective of protecting domestic sugar industries, including refining industries, but this is frequently complemented or modified by other objectives relating, for instance, to government revenues, or the stability and level of consumer prices. Price stability and the assurance of regular import supplies are often associated with preferential treatment, or assurance of market outlets, for imports from particular supplying countries or territories. All such objectives result in measures which, at least in some respect and to some extent, constitute impediments to market access.

128. This report attempts only to indicate and illustrate the main types of measure which restrict the free international movement of sugar and the extent to which these measures may be more or less stringently applied. The measures in question include various quantitative import restrictions, including prohibitions, import quotas, monopoly trading and import licensing; import duties, levies and other fiscal charges on imports; price supports or guarantees and subsidies for domestic cane or beet producers and sugar manufacturers; export subsidies and refunds of duty on re-exports; and internal fiscal taxes charged on both imports and domestic pro-

duction. All measures which increase the price to the consumer, since they tend to reduce the total market, limit the scope for imports, but especially, of course, those which discriminate directly or indirectly against imports and stimulate domestic production. Several complementary measures are usually applied simultaneously and in many countries form part of an integrated system controlling the supplies and prices of sugar at various levels.

129. While it would be difficult to assess the importance of the individual measures or types of measure, their aggregate effect in most countries is indirectly reflected in the level of domestic sugar prices and the tendency towards self-sufficiency. On the whole, high detail prices for sugar are associated with severe impediments to market access and, in producing countries, a high degree of protection for the domestic industries. However, their impact on domestic production is usually modified by internal taxes (or subsidies), production controls or limitations on price guarantees for domestic producers.

130. Retail prices for sugar, as expressed in United States dollar cents per lb on the basis of official exchange rates, vary greatly. In table 4 consumption of sugar in a large number of developed and developing countries in 1965 is classed according to their status as non-producers, producer-importers and producer-exporters and to their retail prices at the beginning of 1966. As a result of progressive self-sufficiency, producer-importers now account for nearly two-thirds of world consumption, and of this two-thirds approximately 57 per cent is accounted for by developed and 34 per cent by centrally planned countries. If the centrally planned and other countries not included in the price classification are left out of account, it will be seen that average retail prices tend to be higher in the net-importer countries than in non-producers or net exporters and higher in developed than in developing countries. Thus, while at least half the consumption in both non-producers and net exporters takes place at prices of less than 9 cents per lb, only 7 per cent of that in net-importing producer countries falls into this price group, whereas 34 per cent of their total consumption (28 per cent in developed and 6 per cent in developing countries) is at prices of over 12 cents per lb. Among the net exporters the highest price group consists of developed beet-sugar producers.

Non-producing countries

131. Developed countries in the non-producing group include Norway and New Zealand, both with retail prices of less than 9 cents per lb at the beginning of 1966, and Portugal which falls in the middle price group. Norway has introduced a relatively small import duty, but imports are arranged by a single organization and wholesale and retail prices are fixed at levels related to the world price. In New Zealand, imports are subject to licensing and to an import duty (or, alternatively, an excise duty) of 1 penny per lb. Portugal, on the other hand, isolates its domestic prices from world market prices by means of import quotas and preferential duties favouring its overseas provinces, as well as by internal taxes. There are a few non-producer developing countries which do not

TABLE 4
Consumption of centrifugal sugar in 1965 classed by country group and level of retail price*

		Producers		
	Non-producers	Net importers	Net exporters	Total
Thousand metric tons, raw equivalent <i>a</i>				
<i>Developed countries</i>				
Less than 9 cents	297 (63)	1 220 (6)	1 034 (24)	2 551 (10)
9-12 cents	175 (37)	13 341 (63)	715 (16)	14 231 (54)
Over 12 cents.	—	6 708 (31)	2 571 (60)	9 279 (36)
Total	472 (100)	21 269 (100)	4 320 (100)	26 061 (100)
<i>Developing countries</i>				
Less than 9 cents	650 (56)	380 (17)	6 469 (61)	7 499 (54)
9-12 cents	296 (25)	416 (19)	4 211 (39)	4 923 (35)
Over 12 cents.	221 (19)	1 382 (64)	— (—)	1 603 (11)
Total	1 167 (100)	2 178 (100)	10 680 (100)	14 025 (100)
Total of above as percentage of all developed and developing countries	(68)	(95)	(88)	(91)
Centrally planned countries. . . .	33	12 797	3 066	15 896
WORLD TOTAL	2 433	37 362	20 004	59 799

* Prices—cents per lb—as reported by the International Sugar Council for 1 January 1966 or, where not available, for 1 January 1965.

^a Figures in parentheses are percentages.

impose duties or taxes of any kind and do not normally restrict imports, but others apply import licensing and charge revenue duties or taxes.

Producer-importer countries

132. Among the producer-importer group of countries there are few where retail prices for sugar are not largely isolated from the world market price. Switzerland and Canada, both of which had retail prices of below 9 cents per lb at the beginning of 1966 and are heavily dependent on imports, are notable exceptions. Nevertheless, although in these two countries domestic sugar prices are freely formed, protection for the domestic industries is provided partly by specific import duties and partly by deficiency payments or other subsidies to domestic producers. The two largest sugar importing countries, the United States and the United Kingdom, which have relatively stable retail prices in the 9-12 cent range, limit the growth of their domestic industries and also offer assured markets at attractive prices to specified overseas suppliers. In the United States, domestic prices are freely formed but are determined by the regulation of supplies through quotas. Under the current Sugar Act, approximately 35 per cent of the total market is apportioned among foreign quota holders, imports from all other foreign sources being prohibited. Import duty and excise tax amount to 0.625 and 0.535 cents per

lb respectively. In the United Kingdom, domestic prices are freely formed, being stabilized at the retail level by means of a variable levy on all sugar for domestic consumption. The proceeds of this levy are used to maintain guaranteed prices for domestic beet producers and preferential prices for sugar suppliers who have negotiated price quotas under the Commonwealth Sugar Agreement. Imports of raw sugar from non-Commonwealth sources pay an import duty of 0.4 pence per lb.

133. In most other developed countries which are producers and net importers of sugar from the world market, retail prices tend to be higher. Protection for the domestic industry in a number of European countries is achieved partly by import restrictions and partly by import duties and/or variable charges levied at the import stage to bring the price of imported sugar up to the level of domestic prices. The role of the different measures varies in importance and the methods used differ considerably in detail. Sweden, for example, has a variable import levy but no import duties, and Finland a high import duty (approximately 6 cents per lb) and a relatively small equalization fee. In several countries, including these, imports are controlled and arranged by bodies with monopoly powers. Beet sugar prices are guaranteed or fixed, usually in conjunction with direct or indirect control of beet acreage or production, and sugar prices or margins are established at one or more levels. Special sugar taxes, often substantial ones, are charged in a

number of countries on both imported and domestic sugar, and turnover taxes, though often of a general nature, raise retail prices. Japan, which formerly limited imports through quotas, has dispensed with quantitative import restrictions on raw sugar, but import duties are high and there is a substantial consumption tax.

134. Although the USSR has become a major importer under its trade agreement with Cuba, the recent rapid expansion of its own production, in spite of low beet yields per hectare, has raised *per capita* consumption to Western European levels. Possibilities of increasing imports are therefore limited unless the expansion in home production is checked.

Exporting countries

135. In exporting countries, sugar is not normally imported for the domestic market, except particular types, and stringent quantitative restrictions and/or import duties are usually applied. However, some countries having large domestic or preferential markets in which their sugar is sold at relatively high prices are able as a consequence to subsidize exports to the world market, directly or indirectly, through variable subsidies or price equalization schemes. These countries include France, Belgium and Turkey, all beet producers, in which the domestic retail price of sugar is relatively high. The EEC which, as a whole, is a net exporter, will adopt a variable import levy, as from the 1968/69 crop season, as its main protective measure against low-priced imports of sugar. Production for the Common Market will be limited by annual production quotas based on requirements, but quantities up to 35 per cent in excess of the quota may be exported and will benefit from a variable export subsidy equivalent, at the maximum, to the corresponding import levy.

Liberalization possibilities and their implications

136. The reduction or elimination of revenue duties and taxes in developed countries would help to increase consumption and imports, but would not lessen the main problem arising from the protection of high-cost domestic industries. Recent FAO projections of sugar production and consumption in 1975 suggest that the export markets open to developing countries are likely to contract unless the trend towards self-sufficiency—and export surpluses—in developed and centrally planned countries with highly protected industries is arrested. For this purpose, fundamental changes in objectives and policies for sugar would be necessary.

137. Various multilateral approaches or objectives have been suggested. These include agreement to a “standstill” at present levels of protection or at present levels of self-sufficiency or production; the extension of the principle of reserving part of consumption growth for imports from developing countries; and the sharing of the burden of stabilizing world market prices by the adjustment of domestic marketing in importing countries simultaneously with the application of export quotas. It has been estimated, for instance, that if the degree of self-sufficiency in developed and centrally planned countries remained the same as in 1961-1963 the net market

open to developing countries could increase from about 8.5 million tons in 1961-1963 to 11 million tons in 1975. A standstill at present levels of protection would also tend to limit the growth of production in developed and centrally planned countries since, in spite of technological developments, costs of production in these countries continue to rise. There is, of course, great scope for unilateral action to liberalize conditions of access to the markets of countries with high levels of protection and domestic prices, where more economic alternatives for the use of resources than sugar production usually exist. If retail prices of more than 25 cents per kg (11.3 cents per lb) were reduced to that level, the result might be an immediate increase of consumption of around 2 million tons. If this were accompanied by some reduction also in the direct or indirect subsidy of domestic production, the increase in international trade could be very much greater.

TEA

Introduction

138. Tea is exported almost entirely from developing countries; the value of world tea exports has averaged about \$570 million in recent years (1964-1966). Exports, however, are highly concentrated in a relatively few developing countries, with India and Ceylon together accounting for over 80 per cent of the total and the balance shared mainly among East African countries. For these countries, export earnings from tea constitute a significant proportion of their total foreign exchange earnings; in 1965 this proportion was 62 per cent for Ceylon, 16 per cent for India, 12 per cent for Kenya and 30 per cent for Malawi.

139. On the import side, developed market economies accounted for 70 per cent, developing countries for 24 per cent and socialist countries of Eastern Europe for 6 per cent of average world imports of 578,000 tons a year in the 1964-1966 period. The United Kingdom is by far the largest single import market, accounting for 40 per cent (225,000 tons) of total world imports. The other important individual markets among developed market economy countries are the United States (60,000 tons) Australia (30,000 tons) Canada (20,000 tons); the countries of the EEC together import 23,000 tons and the rest of Eastern Europe (other than the United Kingdom and the EEC) about 21,000 tons. Among developing countries the major importing region is the Middle East with Iraq and the United Arab Republic providing the largest markets.

Trade barriers

140. Imports of tea into developed market economy countries are generally subject to fewer trade barriers, whether tariff or non-tariff barriers or internal duties, than imports of other beverages into these countries.²⁹

²⁹ The share of duties and taxes in retail prices in EEC and EFTA countries in 1961 was 2 per cent for tea, 9 per cent for cocoa and 20 per cent for coffee; “Tropical Fruit and Beverages: Duties and Taxes in Western Europe”, FAO *Monthly Bulletin of Agricultural Economics and Statistics*, December 1962.

This stems partly from the close economic ties, historically derived, within the British Commonwealth, the membership of which includes several major import markets for tea and all the major supplier countries. In other developed market economies, a consideration which has permitted a movement towards freer access—in order to assist developing countries—was that owing to the small volume of tea consumption, the revenue derived from the taxation on tea, even with high duties, was relatively small.

141. In 1964 there was a significant relaxation of barriers on imports of tea into developed countries, when several countries reduced, abolished or suspended duties. The effect of the Kennedy Round negotiations was to consolidate the concessions that has been granted previously. Imports of bulk tea into the United Kingdom, the United States, the EEC,³⁰ the four Scandinavian countries, Austria, Ireland, Australia, New Zealand and South Africa, which constitute over 90 per cent of total imports into developed market economies, are totally free from all import barriers; there are also no duties on imports in small containers (including packeted tea) into these countries except for the EEC (5 per cent) and Austria (10 per cent). Duties are substantial in Portugal and are designed to provide a preference for (duty-free) imports from that country's overseas territories. In Japan, in addition to a 35 per cent duty on black tea, there is quantitative limitation of imports (to 2,000 tons a year) to protect domestic production (of around 80,000 tons a year).

142. Only a few developed countries impose specific fiscal taxes—as distinct from general turnover taxes—on tea. Such internal charges are relatively high in the Federal Republic of Germany (71 per cent *ad valorem* equivalent) and France (25 per cent *ad valorem* equivalent)³¹ though in the Federal Republic of Germany the incidence of taxation on tea has been reduced significantly in recent years. The total revenue derived from internal duties in the latter country in 1965 amounted to \$9 million.

Liberalization possibilities and their implications

143. The effects of liberalization of barriers on tea imports into the highly protected Japanese market would no doubt be significant. The price elasticity of demand for tea is relatively high in Japan. Moreover, in the absence of stringent quantitative restrictions on imports and the high tariffs which protect higher-cost domestic production, a larger share of the market would be met by imports. Demand for tea is rising and there is thus greater scope than otherwise to improve access for external suppliers.

144. In Western Europe, possibilities for further liberalization include the removal of the existing import

duties on tea in small containers and the abolition of, or refunding of the proceeds derived from, internal taxes on tea in the few instances where those exist. The latter line of action would, however, be of more limited significance for tea than comparable measures for coffee or cocoa. The socialist countries of Eastern Europe offer substantially increased market prospects given positive action to encourage consumption.

TOBACCO

Introduction

145. The mild and light coloured (flue-cured and light-air-cured) leaf, the most important type of tobacco for cigarette manufacture, is mainly exported from North America but also from a number of developing countries, particularly Rhodesia and India. Oriental leaf, another cigarette tobacco, is exported principally from Turkey, Greece and Bulgaria. Cigar leaf comes mainly from Indonesia, the Philippines, Brazil and Cuba.

146. As may be seen from table 5 below, the share of developing countries in world exports of tobacco has increased, with particularly rapid progress having been made by Rhodesia (prior to sanctions) and India.

147. The markets for unmanufactured tobacco are overwhelmingly in developed countries. In 1963-1965, Western Europe alone accounted for 57 per cent of world imports; other developed countries accounted for 13 per cent; socialist countries of Eastern Europe and Asia for 19 per cent; and developing countries for 11 per cent. Bulgaria and India alone among the principal exporters were not heavily dependent on markets in developed countries. Among the main importers, the United Kingdom is a market for cigarette leaf, particularly flue-cured, from the United States, Rhodesia, Canada and India, whilst the imports of the United States are

TABLE 5

Exports of unmanufactured tobacco by origin,
Averages 1953-1955 and 1963-1965

	1953-1955		1963-1965	
	Thousand metric tons	Percentage of total	Thousand metric tons	Percentage of total
United States	228	35	224	24
Bulgaria	31 ^a	5	86	9
Greece and Turkey .	118	18	125	13
Rhodesia ^b	58	9	123	13
India	36	5	67	7
Brazil	28	4	53	6
Other developing countries	97	15	150	16
Other	57	9	112	12
TOTAL	653	100	941	100

Source: FAO, *Trade Yearbook*, 1966.

^a Average 1954 and 1955.

^b Including also Malawi and Zambia; in 1964 and 1965 the exports of Rhodesia alone accounted for 82 per cent of the total for the three countries.

³⁰ The common external tariff of the EEC was 18 per cent for bulk tea and 23 per cent for tea in small containers but in January 1964 the former was totally suspended and the latter reduced to 5 per cent. These reduced rates continue to prevail in practice though the nominal rates were consolidated in the Kennedy Round at 9 per cent for bulk tea and 11.5 per cent for tea in small containers.

³¹ GATT, COM. TD/7, 23 March 1965, p. 30.

mostly of oriental leaf. The principal suppliers of the EEC are the United States, Greece, Rhodesia, Brazil and Bulgaria.

148. The principal countries whose exports of tobacco are significant sources of foreign exchange earnings in relation to the total of their exports of merchandise are as follows, with the value of their exports of unmanufactured tobacco in 1963-1965 expressed as a percentage of the value of their exports of all merchandise also indicated: Greece, 38; Malawi, 37; Rhodesia, 33; Turkey, 20; Bulgaria, 10; Paraguay, 8; Dominican Republic, 7.

Trade barriers

1. Tariffs

149. The evaluation of tariff barriers on unmanufactured tobacco is complex. In practically all countries tobacco is subject to heavy fiscal duties and these levies may or may not be incorporated in the tariff.

150. In the United Kingdom, almost the entire import duty on unmanufactured tobacco consists of levies for fiscal purposes. The most-favoured-nation rate of duty is £ 4. 7s. 4½d per lb and the rate applicable to imports from the Commonwealth is 1s. 6½d per lb less. On the basis of unit values in 1964 and 1965, this preferential margin represented the equivalent of about 25 per cent *ad valorem*. The preferential margins applying to manufactured tobacco range from the equivalent of about 5 per cent to the equivalent of about 27 per cent *ad valorem*.

151. In the United States there are a number of different rates of duty applying to different categories of tobacco. The main imports are of oriental cigarette leaf, filler leaf and scrap. On the main category of oriental cigarette leaf, imported principally from Turkey and Greece, the duty is 12.75 cents per lb, equivalent to about 18.3 per cent *ad valorem*. In the case of filler leaf not stemmed, filler leaf stemmed and scrap—imported mainly from developing countries—the duties are 16.1, 23 and 16.1 cents a lb respectively or approximately 28, 20 and 30 per cent *ad valorem* respectively. (Certain quantities are, however, admitted duty-free from the Philippines.) Import duties on manufactured tobacco range from the equivalent of about 12 per cent *ad valorem* to the equivalent of about 54 per cent.

152. The common external tariff of the EEC is due to come into force on 1 July 1968, and the rate applicable to the bulk of unmanufactured tobacco imported was to have been 28 per cent *ad valorem* (with a minimum of 29 and a maximum of 38 units of account per 100 kg).³² However, imports from Greece are scheduled to be duty-free and preferential treatment will continue to be granted to Madagascar and associated African States. Tariff concessions are also granted to Turkey on the basis of annually fixed quantities of tobacco. The common external tariff on manufactured tobacco ranges from 40-180 per cent.

153. The import duty on unmanufactured tobacco in Japan is 355 per cent.

154. As a result of the Kennedy Round of negotiations in GATT, the import duty in the United States on the main category of oriental leaf is to be reduced from 12.75 to 11.5 cents a lb or, in approximate *ad valorem* equivalents, from 18.3 to 16.5 per cent, whilst the specific import duty on cigarettes is to be reduced, in approximate *ad valorem* equivalents, from 54 to 27 per cent. The EEC common external tariff applying to the bulk of unmanufactured tobacco imported is to be reduced from 28 per cent *ad valorem* (with a minimum of 29 and a maximum of 38 units of account per 100 kg) to 23 per cent (with a minimum of 28 and a maximum of 33 units of account per 100 kg), whilst duties on manufactured tobacco are also to be reduced (cigarettes from 180 to 90 per cent, cigars from 80 to 52 per cent, and smoking tobacco from 180 to 117 per cent). The duty on imports of unmanufactured tobacco into the United Kingdom from non-Commonwealth countries is to be reduced to the extent of about a quarter of the Commonwealth preference, if the United States eliminates the American selling price system of determining import duties on chemicals.

2. Non-tariff barriers

155. In the case of tobacco, the main barriers to trade are the duties imposed. However, a number of countries, for example, France, Italy and Japan maintain State monopolies. Since these monopolies determine the source and quantities of their imports, their influence is far-reaching. In addition to quantitative restrictions applied by countries with State monopolies, sanctions against Rhodesia have involved the prohibition of imports of tobacco from that country.

156. Another type of action which may be regarded as constituting a non-tariff barrier is represented by price supports. The United States has for many years maintained high price supports for tobacco and despite acreage restrictions these have tended to keep prices at high levels and to stimulate domestic production. Large stocks have also been built up. At the same time, the high prices of United States flue-cured and other cigarette leaf in the United States have stimulated production of these types of tobacco in Rhodesia, India and other developing countries.

3. Export subsidies

157. Over the last decade, the United States has been losing markets for unmanufactured tobacco owing to its high prices. For example, the average price of flue-cured tobacco realized in Rhodesia was half that in the United States in 1964 and two-thirds in 1965. United States exports have been partly maintained by concessional sales under Public Law 480 and exports under those programmes in 1966 were about a fifth of the total. In June 1966 the United States introduced a new export subsidy of 5 cents a lb applying to most types of tobacco, so raising the subsidy to 10 cents a lb for some tobaccos, which were already eligible for rebates of 5 cents a lb. United States exports increased in 1966, but this was

³² This rate will not in fact come into force since it will be affected by the results of the Kennedy Round of negotiations.

TABLE 6

Average retail prices of packets of 20 cigarettes in selected countries,
October 1966

	Equivalent in U.S. cents	Per cent of price in United Kingdom
United Kingdom	64	100
Denmark	91	142
Sweden ^a	75	117
Federal Republic of Germany	42	66
Netherlands	40	63
Canada	38	59
United States ^b	33	52
Italy.	29	45
Switzerland	28	44
France.	27	42
Belgium	22	34
Japan	11	17

Source: International Labour Office, *Bulletin of Labour Statistics*, Second Quarter 1967.

^a August 1966.

^b Juneau, Alaska.

mainly because of the absence of Rhodesian tobacco from world markets and the effects of the subsidy are difficult to gauge.

4. Internal taxes

158. Internal taxes are heavy in the case of tobacco.³³ They are levied at various stages from the production or import of unmanufactured tobacco to the sale of final products. In the United Kingdom, where the full internal tax is incorporated in the duty on imported unmanufactured tobacco, it amounted in 1964-1965 to the equivalent of about thirteen times the unit value of imports from non-Commonwealth sources and to an even higher *ad valorem* equivalent on imports from Commonwealth sources. In other countries it is much more difficult to estimate the rates of internal tax. However, some indication is given by the retail prices of cigarettes as shown in table 6 above.

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159. Between the first session of the Conference and the completion of the Kennedy Round negotiations, there was no improvement in access. An export subsidy was introduced by the United States and import duties in the United Kingdom were increased for fiscal reasons. However, as a result of the Kennedy Round negotiations there will, as indicated in paragraph 154, be some reductions in import duties in the United States and the EEC and contingently in the United Kingdom.

³³ It has been estimated that revenue proceeds from fiscal charges levied on tobacco imported into the United States, the United Kingdom, Japan and the EEC in 1965 amounted to about \$8 billion. See TD/11/Supp.1, table 3.

Liberalization possibilities and their implications

160. The possibilities of liberalization in the case of tobacco depend very largely on public policy relating to the consumption of tobacco in Western Europe and on budgetary needs. While it might be unrealistic to expect reductions in fiscal levies or the transfer of a substantial proportion of the proceeds to developing countries, some progress could no doubt be made in the reduction or elimination of protective duties on both unmanufactured and manufactured tobacco, as well as in the dismantling of non-tariff barriers. Developed importing countries might also consider undertaking to endeavour to preserve the share of their total markets enjoyed by developing exporters and if possible to increase it; and developed exporting countries might, in considering means of improving the competitive position of their exports, exercise maximum care so as not to cause damage to the trade of developing exporting countries.

WOOL

Introduction

161. Ninety per cent of the world market for wool in raw and semi-processed forms is in the industrially developed market economies. Although the requirements of importing developed countries are met for the most part by other developed countries, the developing countries have a valuable stake in world trade in the commodity. In the years 1963-1965 the total imports of the EEC, the United Kingdom, the United States and Japan from developing countries averaged no less than \$223 million in raw wool, and \$23 million in semi-processed wool in the form of wool tops.

162. Both unimproved wools used primarily in carpets and improved crossbred and merino wools having a wider range of uses are exported from the developing countries. Unimproved carpet wools have relatively large outlets in the USSR, and apart from severe competition from synthetics, have few problems of market access in developed market economies. Crossbred and merino wools constitute the great bulk of the world market. They are subject to trade barriers in several developed market economies, which not only discourage trade but stimulate substitution by synthetics.

163. Crossbred and merino wools are exported by developing countries in Latin America, of which Argentina and Uruguay are the most important. Such wools are shipped to some extent on the skin but for the most part are shorn wools in the greasy state, and to a small extent wools which have been scoured and carbonized. In addition, Argentina, Uruguay and Brazil export smaller but nevertheless sizable quantities of wool in semi-processed form, notably tops and process wastes including noils.

164. The export of raw and semi-processed wool makes a significant contribution to the foreign exchange earnings of these developing countries, accounting for up to 40 per cent of the total in the case of Uruguay and 9 per cent for Argentina.

165. The EEC, the United Kingdom, the United States and Japan, in that order, are the main markets for exports of raw wool from Argentina and Uruguay. In addition, the EEC is the main market for exports of woolled sheepskins and for exports of wool tops from Argentina and Uruguay; while the United States is a major market for exports of wool noils from these countries.

Trade barriers

1. Tariffs

166. Duties are levied on imports of raw wool in only one major wool consuming country—the United States. A number of major developed market economies maintain tariffs on semi-processed wool. The United States tariff on raw wool is applicable only to apparel wools, types which are produced in the United States. Wools for use in rugs and carpets (since 1958, of counts up to 44's to 46's) are admitted free of duty as a type of import complementary to domestic production. Imported dutiable wools have accounted for about one-half of United States consumption of apparel wools in recent years. The tariff is specific; it is differentiated as to the fineness of the wools and also as to the degree to which they have been processed, e.g. whether on the skin or clipped, whether sorted, scoured etc. (see table 7). In recent years, these import duties could be reckoned to add from 20 per cent to 30 per cent to the price at which the apparel wools in question would otherwise become available to processors in the United States.

167. The import duties maintained in developed market economies on semi-processed wool are applicable mainly to "tops", wool combed for use in worsted spinning. A specific duty of 27.75 cents per lb plus 6.25 per cent *ad valorem* levied on the import of tops into the United States is equivalent in total to perhaps 30 per cent *ad valorem*. The import of tops into the United Kingdom is subject to a non-preferential duty of 10 per cent. In the EEC imports of tops are subject to the common external tariff of 3 per cent. Imports of tops into Japan are duty free.

TABLE 7

United States tariff on raw wool*
Eventual rates scheduled under the Kennedy Round**
(Cents U.S. per lb.)

	Named wools and wools not finer than 40's	Other wools finer than 40's but not finer than 44's	Other wools finer than 44's
On the skin	5.5 (11)	7.5 (15)	12 (24)
Greasy or washed, not sorted.	6.5 (13)	8.5 (17)	^a (25.5)
Greasy or washed, sorted.	7 (14)	9 (18)	^a (26.25)
Scoured.	8 (16)	10 (20)	^a (27.75)
Carbonised	11.5 (23)	13.5 (27)	^a (33.0)

* For use other than in carpets.

** Actual rates current in 1967 in parentheses.

^a No reduction from present rate.

2. Non-tariff barriers

168. The production and marketing of wool is subsidized in both the United States and the United Kingdom. Under the United States National Wool Act of 1954, a predetermined incentive price is guaranteed to domestic wool producers for at least one year ahead. The incentive price is related to a parity index of prices of goods and services bought by producers. To the extent that the price actually obtained by producers falls short of the incentive price, deficiency payments are made. In the marketing years 1964-1966, deficiency payments ranging from 17-32 per cent of realized market prices for shorn wool were required to bring average producer returns up to the incentive level of 62-65 cents per lb, greasy. Funds for payments are derived from duties collected on imports of wool and wool manufactures, 70 per cent of which are set aside for this purpose.

169. A guaranteed price is also paid to wool producers in the United Kingdom by a centralized purchasing agency, the British Wool Marketing Board, which subsequently sells the domestic supply at auctions. The receipts from sales are often less than outgoings (purchase price plus marketing costs), the deficiency being met from Treasury funds.

170. Notwithstanding guaranteed prices to producers in the United States and in the United Kingdom, production of wool has declined in the former country and stagnated in the latter in recent years, although the level of wool production has doubtless been higher than it would have been in the absence of official support.

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171. As a result of the Kennedy Round of tariff negotiations, a 50 per cent reduction is to be effected in rates of duty on coarse wool (and also wool waste) imported into the United States, but, except for wool on the skin, no variation is to be made in the duties applicable to the finer wools, which are competitive with domestic production. This seems to have precluded reduction in the United States import duty on wool tops. The tariffs on imports of wool tops in the United Kingdom and the EEC were not affected by the Kennedy Round.

172. Price guarantees for wool production have continued in both the United States and the United Kingdom since 1964. Deficiency payments have had to be made continuously in the United States and losses were incurred on sales in 1964 and 1965 in the United Kingdom. In 1965 the United States Act governing the guarantee was amended and the guarantee prices were raised from 62 cents per lb to 65 cents in 1966, and to 66 cents in 1967. In the United Kingdom the guarantee prices were raised from an average of 53.25 pence per lb in 1960-1963 to 55.25 pence in 1964 and 1965, but were lowered again to the original level in 1966.

Liberalization possibilities and their implications

173. The complete removal of the United States tariff on the import of apparel wools would encourage trade and consumption of these products. The increase in

demand in the United States market might result in somewhat higher prices being obtained by external suppliers of these wools, including developing countries. Other things being equal, foreign exchange earnings of these countries would be enlarged. At the same time, higher prices might encourage suppliers to undertake a greater investment in wool production, marketing and promotion.

174. The halving of the United States import tariff on all but the finer qualities of apparel wool, which is scheduled under the Kennedy Round, partially opens up the above prospect. The failure, however, to schedule any reduction in the rate of import duty on finer qualities means the continuation of a substantial impediment to the selling in the United States market of the more valuable merino and finer crossbred wools in which developing countries have an important stake.

175. As wool tops are the most valuable of the developing countries' exports of non-manufactured wool products, the removal of import duties on wool tops in the United States, the United Kingdom and the EEC could contribute to their export earnings from this source.

176. As import duties on raw wool and/or wool tops raise the price of wool and wool products, they provide a stimulus to the production of substitutable man-made fibres and so diminish the total market for wool products.

177. The abandonment of subsidies for wool production and marketing in the United States and the United Kingdom would reduce the incentive to raise sheep in these two countries, although in the United Kingdom the trend of lamb and meat prices generally could be a powerful offsetting factor. If wool production were to decline, import demand for merino wool in the United States and for crossbred wool in the United Kingdom might increase, and while global supplies elsewhere remained unchanged, some increase in prices for these wools and in foreign exchange earnings might accrue to developing exporting countries.

Chapter II

Non-agricultural commodities

BAUXITE, ALUMINA AND ALUMINIUM

Introduction

178. Aluminium³⁴ ranks fourth among the base metals (after copper, iron and tin) in terms of its export earnings for developing countries. In 1965, imports of aluminium from developing countries into the OECD area were valued at \$307 million, of which bauxite accounted for \$226 million, alumina for \$58 million, unwrought aluminium metal for \$22 million and semi-fabricated aluminium products for \$1 million. The total was divided among the principal markets as follows (in millions of dollars); United States 164, Canada 50,

EEC 30, United Kingdom 5, Norway 27, other OECD countries in Europe 18, Japan 13. The imports of Canada and Norway, consisting predominantly of bauxite and alumina, are to a large extent destined for re-export as aluminium metal.

179. Aluminium production in developing countries is almost entirely in the hands of expatriate enterprises, the majority of which form part of integrated systems covering most or all of the four production stages from bauxite mining to semi-fabricating. A major part of international trade in aluminium takes place within these systems and trade flows are determined to an important extent by the decisions of corporations regarding the siting of mines and of plants for the successive processing stages. Tariffs and other trade barriers constitute one among many elements affecting such decisions.

180. Aluminium in its various forms plays a major role in the export trade of several developing countries. For instance, it accounts for about four-fifths of the export earnings of Surinam (bauxite, alumina and aluminium metal), nearly half those of Jamaica (bauxite and alumina), over two-fifths of those of Guyana (bauxite and alumina) and nearly one-fifth of those of Cameroon (aluminium metal).

Trade barriers

1. Tariffs

181. No import duty on bauxite is in force at present in any of the major industrial market economy areas.³⁵ The scheduled United States tariff of 50 cents per ton (about 1.5 per cent *ad valorem*)³⁶ has been in suspension for many years. In the case of alumina, there are import duties of 11 per cent, 10 per cent and 15 per cent, respectively, in the EEC, the United Kingdom and Japan; the scheduled United States duty of 0.25 cents per lb (about 8 per cent *ad valorem*) has been temporarily suspended. In both Canada and Norway, whose interests lie mainly in the export of aluminium metal produced from imported raw materials, imports of bauxite and alumina are free of duty.

182. Current rates of import duty on unwrought aluminium metal are as follows: United States 1.25 cents per lb (about 6 per cent *ad valorem*), EEC 9 per cent, United Kingdom nil, Japan 13 per cent. The EEC general tariff is modified by a tariff quota which in 1967 allotted the import at a reduced rate of 5 per cent of 100,000 tons into the Federal Republic of Germany, 35,000 tons into Belgium—Luxembourg and 13,000 tons into the Netherlands. Imports into the Community from associated producer states (Cameroon, Greece, Surinam) are free of duty.

183. Import duties on the principal semi-fabricated aluminium products amount to 15 per cent in the EEC, 12.5 per cent in the United Kingdom and 25 per cent in Japan. In the United States the following duties apply: angles, shapes and sections 19 per cent *ad valorem*;

³⁴ For brevity, the term "aluminium", when unqualified, is intended throughout this study to include bauxite, alumina, unwrought aluminium metal and semi-fabricated aluminium products.

³⁵ United States, EEC, United Kingdom, Japan.

³⁶ *Ad valorem* equivalents quoted in this study are based on 1964 trade data.

uncoated wire 12.5 per cent *ad valorem*; bars, plates, sheet and strip 2.5 cents per lb (about 8 per cent *ad valorem*).

2. Non-tariff measures

184. There are no quantitative restrictions on imports of aluminium from developing countries into the main importing areas.

185. In common with other mineral industries, the aluminium industry has received direct state assistance in some developed countries in times of emergency and has also benefited generally from less direct government measures. For example, in the United States, which is a major producer of bauxite as well as the largest producer of alumina and aluminium, the Government through direct financing or incentives, has encouraged expansion of the aluminium industry from the mine through semi-fabricating facilities.³⁷ The most extensive measures of this kind were taken in the United States during the Second World War and the Korean war; they included Government exploration programmes, direct financial aid for the expansion of bauxite mining, technical research assistance, guaranteed market contracts for aluminium metal and the encouragement of the construction of new aluminium reduction plants by the issuance of accelerated tax amortization certificates. Although measures of such a direct kind have been largely confined to emergency periods, they do point to the strategic importance attached to the aluminium industry in the major consuming areas.

186. The cost of electricity is a vital element in the competitiveness of an aluminium reduction plant and where the electricity supply is state-owned or state-controlled an opportunity exists for government assistance to be given in the form of cheap electric power. However, it is not easy to determine at what point special rates (to which the aluminium industry, as an exceptionally large consumer, would in any case be entitled) become a form of subsidy. In the United States, "Government policies relating to the development of power in agricultural areas have had a profound effect on the formation and location of the [aluminium] industry".³⁸ In France, special rates apply to electricity supplied by the state electricity enterprise to aluminium producers.

187. Government stockpile purchases and sales constitute a special form of non-tariff measure affecting the aluminium trade of developing countries. At present, sales from governmental stocks of aluminium in the United States are taking place in accordance with a programme, announced in 1965, which provides for the sale of 1.4 million short tons of surplus metal over a period of from seven to fourteen years.

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188. The Kennedy Round tariff reductions on aluminium may be summarized as follows. The scheduled

United States duty on bauxite (currently suspended) is to be reduced to zero. The scheduled United States duty on alumina (also temporarily suspended) is reduced from 0.25 cents to 0.12 cents per lb (about 4 per cent *ad valorem*); duties on alumina are also to be lowered in the EEC (from 11 per cent to 5.5 per cent), the United Kingdom (from 10 per cent to 8 per cent), and Japan (from 15 per cent to 7.5 per cent). In the case of unwrought aluminium metal, the United States duty is reduced from 1.25 cents to 1 cent per lb (about 5 per cent *ad valorem*) and the duty in Japan from 13 per cent³⁹ to 9 per cent. No change is made in the EEC general tariff of 9 per cent on aluminium metal, but a consolidated tariff quota of 130,000 tons per annum at a reduced rate of 5 per cent has been established. The following are among the reductions which have been made to the tariffs on semi-fabricated aluminium products in the United States: angles, shapes and sections, from 19 per cent to 9.5 per cent; uncoated wire, from 12.5 per cent to 6 per cent; bars, plates, sheet and strip, from 2.5 cents to 2 cents per lb (about 7 per cent *ad valorem*). Tariffs on the main semi-fabricated items are reduced from 15 per cent to 12 per cent in the EEC, from 12.5 per cent to 8 per cent in the United Kingdom and from 25 per cent to 18 per cent or 16 per cent in Japan.

Liberalization possibilities and their implications

189. Since bauxite is largely free of trade barriers, liberalization measures in favour of developing countries would need to be aimed principally at increasing their exports of alumina and aluminium metal. It need hardly be pointed out that such measures could be of benefit only to countries which possess the basic economic requirements for producing these materials. In the case of alumina, the main requirement is that the freight saving affected by placing the plant closer to the mine should outweigh the possibly higher cost of other inputs, notably fuel and caustic soda. In the case of aluminium metal, although freight differentials are also highly important, the availability and cost of electricity is the most vital determining factor. This is strikingly illustrated by the instances of Canada and Norway, which, although lacking economic bauxite resources, have become the world's leading exporters of aluminium metal on the basis of their cheap and abundant hydro-electric power.

190. It should be noted that an indiscriminate lowering of trade barriers could in some instances have results unfavourable to developing producers. For example, a general reduction of import tariffs on aluminium metal might, at least in the short term, be of greater benefit to existing major exporters, whose capital outlays may have already been largely written off, than to potential producers in developing countries; moreover such a measure would reduce the advantage now held by those developing producers which enjoy tariff preferences. A general lowering of tariffs on alumina would also reduce

³⁷ US Bureau of Mines, *Mineral Facts and Problems*, 1965 edition.

³⁸ *Ibid.*

³⁹ The scheduled rate is 10 per cent, but a temporary increase to 13 per cent has been in force since 1964.

the preferential margin enjoyed by some producers; however, it would at the same time improve the prospects for establishing or expanding alumina production in several other developing countries.

191. As pointed out above, trade barriers constitute only one among many factors relevant to investment decisions which determine the siting of alumina or aluminium metal plants; in many cases, technical, geographical or strategic considerations, or the various factors which determine an area's investment climate, may prove to be more important. Nevertheless, it is probable that liberalisation measures in favour of developing countries, if carefully applied, could contribute significantly to their export earnings from aluminium.

COPPER

Introduction

192. As a source of export earnings for the developing countries, copper ranks as the most important metal and as the second most important mineral (after petroleum). The great bulk of the developing countries' copper output is shipped to the major industrial centres of Western Europe, North America and Japan. In 1965, total imports of copper from developing countries into the OECD area were worth \$1,375 million, of which Western Europe accounted for 70 per cent, the United States for 19 per cent⁴⁰ and Japan for 11 per cent. The major part of this trade consists of unwrought metal (i.e. blister and refined copper). In 1965, imports of unwrought copper from the developing countries into the OECD area were valued at \$1,186 million, compared with \$142 million for copper ores and concentrates and \$47 million for copper semi-manufactures.

193. The two largest copper-exporting countries, Chile and Zambia, are both highly dependent on copper for their foreign exchange earnings. In recent years, copper has accounted, on average, for about nine-tenths of Zambia's export receipts and for about two-thirds of those of Chile. In the Democratic Republic of the Congo and Peru the proportions are, respectively, about one-third and one-fifth. Copper is also of considerable importance in the export trade of a number of smaller producing countries.

Trade barriers

1. Tariffs

194. At the present time (1967), no import duties are levied on copper ores, concentrates or unwrought metal in any of the main importing countries. Semi-fabricated copper products, on the other hand, are subject to substantial import duties in all the principal industrial countries. The EEC common external tariff provides for a duty of 10 per cent on most semi-fabricated items. The United Kingdom rates range from 10 per cent (e.g. on wire) to 20 per cent (e.g. on tubes and pipes); goods

entitled to Commonwealth preference enter the United Kingdom free of duty. In Japan, the majority of wrought copper products attract a duty of 20 per cent, with a range of from 10-25 per cent on other items. The United States tariff includes a large number of sub-items relating to copper products, most of which are subject both to a specific and to an *ad valorem* duty; for many of the principal items the former is 1.275 cents per lb and the latter 22.5 per cent, giving a total *ad valorem* equivalent of the order of 25 per cent or more.

2. Non-tariff measures

195. There are no quantitative restrictions on copper imports into the main importing areas.

196. The United States tax laws contain special provisions in relation to mining, designed to reduce the tax burden of mining companies during the initial stages of exploration and development and to take account of the wasting nature of mineral assets. Aid of a more direct nature has been given to copper mining in the United States during periods of emergency or shortage. The Defence Production Act of 1950 provided for Government assistance in the exploration of copper deposits, development and production loans, and guaranteed price contracts. A considerable amount of exploration for copper was carried out under the provisions of the Act, and over 100,000 tons of copper was acquired for the DPA stockpile under floor-price contracts. Direct aid to copper mining ended temporarily in 1962, when copper was removed from the list of materials eligible for exploration assistance. In 1966, Government assistance was revived in response to the copper shortage. Copper's eligibility for exploration assistance was restored and a scheme to promote new production by the payment of premium prices introduced. It has been reported that the United States Government hopes to add some 75,000-100,000 tons to the country's annual mine capacity by means of the scheme.

197. Japan's copper mining industry also benefits from special tax arrangements. In 1965, a new mining tax code was introduced under which mining companies are entitled to tax exemption as to 15 per cent of their ore sales. In principle, the tax-exempt portion of sales is intended to be spent on the opening up of new mines.

198. The copper import requirements of the United States have recently been reduced by releases from Government-held stocks. In 1965, over 400,000 short tons were released to meet the serious copper shortage and a further 350,000 tons were released in 1966. These releases can have had little effect on the volume of exports from other countries, since productive capacity throughout the world was already very fully extended. They had, however, some moderating effect on prices; in particular, they helped the United States Government to dissuade domestic producers from raising the price of domestically-mined copper, which has been well below average world prices since 1964.

199. The USSR's Five-Year Plan for 1966-1970 includes provision for raising copper production by 60-70 per cent. It is not known what effect this expansion will have on the USSR's international trade in copper.

⁴⁰ Excluding copper imported for refining and re-export.

Action since the first session of the United Nations Conference on Trade and Development, 1964

200. Apart from the results of the Kennedy Round of negotiations, which are discussed in the following paragraph, the most important measures taken since the Conference in relation to trade barriers affecting copper have been the suspension of the United States tariff on copper ores, concentrates and unwrought metal and the suspension of the Japanese tariff on unwrought copper. At the time of its suspension, the United States tariff, amounting to 1.7 cents per lb of copper content, had already lost most of its original protective impact as the result of the increase in copper prices and successive reductions in the tariff rate. At average import value for 1964, it was equivalent to *ad valorem* rates of 5.8 per cent on ores and 5.6 per cent on metal. The suspension is a temporary one, effective from 9 February 1966 to 30 June 1968, and was undertaken in response to the serious shortage of copper. The temporarily suspended Japanese tariff amounts to 10 per cent on blister copper and 27 yen per kg (about 12 per cent *ad valorem*) on refined copper. Up to October 1964, imports of copper metal into Japan were also subject to a quota system.

201. Widespread tariff reductions for copper were negotiated under the Kennedy Round. They show considerable variations among the main importing areas. In the United States, most duties on copper will be cut by over one-half; for example, the duty on copper ore and unwrought metal (currently suspended) is reduced from 1.7 cents to 0.8 cents per lb and the duty on many semi-fabricated items from 1.275 cents per lb plus 22.5 per cent *ad valorem* to 0.6 cents per lb plus 11 per cent *ad valorem*. Duties on the principal semi-fabricated copper products will be reduced from 10 per cent to 8 per cent in the EEC and from 20 per cent to 15 per cent in Japan. The Japanese duties on blister copper and refined copper (currently suspended) are lowered, respectively, from 10 per cent to 8.5 per cent and from 27 yen to 24 yen per kg (about 11 per cent *ad valorem*). In the United Kingdom most semi-fabricated items will attract a duty of 8 per cent or 10 per cent in place of the current rates ranging from 10-20 per cent.

Liberalization possibilities and their implications

202. Scope for further liberalization measures in respect of copper exports from developing countries to the main industrial areas is now confined almost entirely to copper in semi-fabricated or manufactured forms. The latter lie outside the scope of this paper and the present discussion is therefore confined to semi-fabricated products, such as wire, pipes, tubes, sheets, etc.

203. The probable effects of the reduction or removal of existing tariff barriers on copper semi-manufactures, or of the introduction of preferential rates in favour of imports from developing countries, could only be ascertained by detailed product-by-product studies. However, a number of general observations can be made at this stage.

204. On a superficial view, it might appear logical to expect that the trend which has resulted in the great

bulk of the copper output of the developing countries being smelted or refined within these countries should be followed in due course by a similar trend in respect of semi-fabricating. From a purely technical point of view, the problem of setting up efficient semi-fabricating enterprises in developing countries would appear to present no greater difficulties than the problem of establishing smelting or refining plants. In practice, however, there are some very important distinctions between the two problems. In the first place, one of the major advantages of carrying out the smelting or refining of metals within the countries of origin is the resulting saving in freight costs. In the case of semi-fabricating, on the other hand, this factor operates in the reverse direction, since freight charges for semi-manufactures are generally higher than those for crude metal. Another major difference is attributable to the nature of the products of the respective industries. Crude metals, broadly speaking, are standardized products which can be sold in any market. Semi-manufactures, by contrast, are frequently made to the detailed specifications of individual buyers. For this reason, semi-fabricating enterprises which are able to maintain close and frequent contact with the final manufacturers tend to have an inherent advantage over those which are more remote; the former also have advantages in respect of such matters as stockholding and speed of delivery.

205. The foregoing brief comments have stressed some of the obvious difficulties which developing countries inevitably face, over and above the problem of tariffs, in attempting to increase their export earnings from copper semi-manufactures. Nevertheless, any change in existing tariff structures in favour of developing countries might be expected to lead at least to a limited expansion of their exports of certain products to certain areas. As has already been stated, only detailed product-by-product studies could ascertain where the most hopeful possibilities might lie.

LEAD

A. Ores and concentrates

Introduction

206. In 1966 developing countries accounted for about 27 per cent of the mine output of lead in the world excluding the socialist countries. Of total production in the developing countries in 1966 more than two-thirds occurred in three countries, Mexico (30 per cent), Peru (25 per cent) and Morocco (13 per cent). As regards international trade in lead ores and concentrates, with the exception of Morocco where exports of lead ores and concentrates accounted for about 6 per cent of the country's total export earnings, exports of lead ores and concentrates accounted in 1965 for less than 4 per cent of the export earnings of any developing exporting country.

207. In most developing countries some part of the ores and concentrates produced are smelted to meet domestic requirements for metal and to provide employment. In some instances, however, mines in developing countries are owned or controlled by smelters in

TABLE 8
Imports of lead ores and concentrates into main markets, 1966
(Thousand metric tons metal content)

Source of imports	Importing country/area				Total	
	Europe				Volume	Per cent
	United States	EEC	United Kingdom	Japan		
Western Europe	1.9	67.7 ^a	—	—	69.6	14.4
Eastern Europe	—	9.8	—	—	9.8	2.0
Africa:						
South Africa	1.3	44.4	—	—	45.7	9.5
Morocco	—	44.4	—	—	44.4	9.2
Tunisia	—	6.1	—	—	6.1	1.3
Others	—	2.7	—	—	2.7	0.6
America:						
Canada	49.1	53.7	5.1	17.2	125.1	26.0
Bolivia	10.1	1.4	—	0.2	11.7	2.4
Honduras	10.1	—	—	—	10.1	2.1
Peru	37.7	18.7	—	4.9	61.3	12.7
Others	1.0	4.1	—	—	5.1	1.1
Asia:						
Burma	—	0.2	0.3	—	0.5	0.1
Others	0.1	4.3	—	7.1	11.5	2.4
Australia	20.5	19.2	8.1	16.3	64.1	13.3
Countries not elsewhere specified	0.2	4.9	8.8	—	13.9	2.9
TOTAL	132.0	281.6	23.3	45.7	481.6	100.0
Developed countries	72.8	194.8	13.2	33.5	314.3	
(Per cent)	(55.2)	(69.2)	(59.2)	(73.3)	(65.3)	
Developing countries	59.2	86.8	9.1	12.2	167.3	
(Per cent)	(44.8)	(30.8)	(40.8)	(26.7)	(34.7)	

^a Includes 1.1 thousand metric tons intra-trade.

developed countries and in these cases the ores and concentrates are shipped abroad for smelting. The pattern of trade in ores and concentrates is, accordingly, in part determined by the pattern of investment. Proximity to the market is another factor which influences the flow of concentrates. The increasing flow of concentrates from Australia to Japan reflects the proximity as well as the expansion of the Japanese market for lead concentrates.

208. In 1966 about two-thirds of the lead ores and concentrates imported into the principal markets came from developed countries. The United States imported predominantly from nearby Latin America and Canada; Japan took about half her imports from Australia and Asian countries, but also imported from Latin America where Japan has investments; EEC sources of imports were mainly Europe, North-West Africa, from which France traditionally imports concentrates, and Latin America which is a traditional supplier to the Federal Republic of Germany; the United Kingdom imported

mainly from Australia and Canada. The over-all picture of imports is shown in table 8.

Trade barriers

209. There are no tariffs on imports of lead ores and concentrates, nor on imports of ashes and residues into the EEC, Japan or the United Kingdom. The current tariff on imports of lead ores and concentrates into the United States is 0.75 cents per lb on the lead content, which, at current prices amounts to an *ad valorem* duty of about 5 per cent.

210. In certain developed countries provision is made for subsidy payments to lead mines when the domestic price of the metal falls below a certain level. For example, Public Law 87-347 in the United States, enacted on 3 October 1961, provides for subsidy payments to eligible small producers of lead and zinc ores and concentrates produced on or after 1 January 1962. This pro-

TABLE 9
Imports of refined lead into main markets, 1966
(Thousand metric tons)

Source of imports	Importing country/area					Total	
	United States	Europe					
		EEC ^a	United Kingdom	Others ^b	Japan	Volume	Per cent
Western Europe.	53.8	94.0	0.7	29.9	—	178.4	22.7
Eastern Europe	—	19.1	9.5	6.4	0.3	35.3	4.5
Africa :							
South Africa	10.9	13.6	15.3	7.0	4.0	50.8	6.5
Morocco	—	15.0		—	—	15.0	1.9
Tunisia	—	3.0		—	—	3.0	0.4
Zambia	1.0	5.8	2.8	1.0	—	10.6	1.3
America :							
Canada	31.2	9.7	42.5	3.6	2.8	89.8	11.5
United States	—	0.2	0.5	0.6	—	1.3	0.2
Mexico	68.7	29.0	0.4	4.1	1.4	103.6	13.2
Peru	46.9	7.0	—	9.6	4.6	68.1	8.7
Australia	41.2	21.8	135.2	1.6	6.5	206.3	26.3
Countries not elsewhere specified	6.9	10.9	0.7	0.3	3.1	21.9	2.8
TOTAL	260.6	229.1	207.6	64.1	22.7	784.1	100.0
Developed countries	137.1	158.4	203.7	49.1	13.6	561.9	
(Per cent)	(52.6)	(69.1)	(98.1)	(76.6)	(59.9)	(71.7)	
Developing countries	123.5	70.7	3.9	15.0	9.1	222.2	
(Per cent)	(47.4)	(30.9)	(1.9)	(23.4)	(40.1)	(28.3)	

Source: International Lead and Zinc Study Group, *Lead and Zinc Statistics*, April 1967.

^a Partly estimated.

^b Denmark, Finland, Ireland, Norway, Sweden, Switzerland.

gramme provides for payment of 75 per cent of the difference between 14.5 cents per lb of contained lead and the average monthly market price for common lead at New York for the month in which the sale occurred.

211. The removal of existing tariff barriers in the United States on imports of lead ores and concentrates would, on the assumption that the whole of the duty accrued to the exporter and that exports remained at the 1966 level, add less than \$1 million to the export earnings of the developing countries.

B. Metal

Introduction

212. The production of lead metal from ores and concentrates, which consists of smelting in blast furnaces or ore hearths employing carbon fuels, is a relatively simple process and is undertaken in most lead mining countries. Nevertheless, the developing countries as a whole accounted for less than 15 per cent of the production of refined

lead and lead bullion by world primary smelters in 1966, excluding the socialist countries.

213. Although lead smelting is carried on in a number of developing countries, it is mainly on a small scale. Of the 396 thousand tons of lead produced in developing countries in 1966, 267 thousand tons were produced in Mexico and Peru; in no other single country, with the exception of Argentina, where less than 40 thousand tons was produced in 1966, did production exceed 20 thousand tons and in no single instance did the value of developing countries' exports of lead exceed 4 per cent of their total export earnings.

214. About one-quarter of total imports of lead metal into the principal markets in 1966 came from developing countries, predominantly from Mexico and Peru; the remaining imports from developing countries came from Morocco and Tunisia (mainly into France) and Zambia (mainly into the United Kingdom). Exports from Mexico and Peru were directed mainly to the United States, but the EEC also imported a significant quantity of lead metal from these sources. (See table 9.)

Trade barriers

215. Tariffs on imports of unwrought lead exist in most developed countries. A significant proportion of imports into the EEC are subject to a 4.5 per cent duty; the United States levies an important duty of 1.0625 cents per lb of contained lead (about 7 per cent *ad valorem* at present market prices). The United Kingdom imports predominantly from Australia and Canada, which enjoy preferential treatment in the United Kingdom market. The non-preferential duty is 7/6d per long ton; there is a duty of 10 per cent on alloys of lead. Japanese duties are 5 per cent on both scrap and metal.

216. Perhaps the largest limitation to imports of lead metal into industrialized countries is the re-cycling of scrap. In most industrialized countries about half of total lead consumption is derived from scrap. In fact almost all lead used, except in chemicals (including tetra-ethyl) and pigments is non-dissipative and may be returned to the secondary smelters for reclamation and re-use.

PETROLEUM

Introduction

217. Petroleum is the most important single commodity in international trade. It has been estimated that crude oil and refined products account for more than one-half of international trade in terms of tonnage and for nearly one-tenth in terms of value.

218. The main flows of petroleum are from the developing exporting countries in the Middle East, the Caribbean area and North Africa to the developed countries in western Europe, Japan and the United States.

219. Petroleum is the main source of foreign exchange earnings of a number of developing countries. Libya, Saudi Arabia and Kuwait derive virtually all their export earnings from petroleum. In the case of both Venezuela and Iraq petroleum represents more than 90 per cent of total exports. The respective percentages for Iran, Algeria and Indonesia are 88, 61 and 38.

220. The share of refined products in total petroleum trade has been declining. In 1965, refined products represented about 8 per cent of the total net petroleum imports of Western Europe, compared with 13 per cent in 1960 and 31 per cent in 1950. The fall was more pronounced in the case of the EEC countries. In fact, this group of countries has recently become a net exporter of refined products. Exports of refined products from the developing exporting countries consist mainly of residuals and distillates—the proportion in 1965 being nearly three-quarters.

Trade barriers

1. Tariffs

221. Tariff restraints on imports of crude petroleum in the main developed countries are few, and where they exist, low. The United States and Japan are virtually the only developed countries which impose tariffs on crude oil. In the former country the tariff on crude oil is 3-5 per

cent.⁴¹ Under a trade agreement with Venezuela, the United States applies a preferential rate on crudes of which Venezuela is the main supplier (heavy crudes under 25 American Petroleum Institute (API) gravity, which are subject to only one-quarter of the statutory rate as against one-half for lighter crudes over 25 API gravity). As for Japan, the tariff on crude is about 13 per cent. The common external tariff of the EEC has been fixed at zero.

222. Import duties on refined products are more common and, in many cases, are relatively high. Their levels vary from product to product and from country to country. The United Kingdom and Japan apply relatively high tariffs on refined products, and the EEC and the United States relatively low ones. In the United Kingdom, tariffs range from 40 per cent on fuel oil to over 350 per cent on gasoline. In Japan tariffs are 9-14 per cent on fuel oils, and 20 per cent on both gasoline and gas-oils. In the EEC, by contrast, a moderate common external tariff on refined products (ranging between 5 per cent on fuel oils, and 7 per cent on light and medium oils) has recently become operative. However, petroleum products refined in the Netherlands Antilles are admitted free of duty by the EEC, subject to certain limitations as to volume. Tariffs are relatively low also in the United States (3-5 per cent on fuel oils and about 12 per cent on gasoline).

223. The purpose of tariffs on petroleum products is often to provide protection and an incentive to invest in the domestic refining industry. Since imports of crude oil are duty-free, the degree of protection is higher than the nominal rates on refined products would suggest, as the protective effect of the tariff is measured not by the nominal rate on the total value of the product, but by the effective rate of protection of the value added in the production process. Protection for domestic refiners would exist only when import duties are such that they result in a higher total burden of taxation on imported petroleum products than is borne by products locally refined from imported crude oil. In certain cases—for example, the United Kingdom—tariffs on refined products have no protective function, since foreign products face an import duty equivalent to internal taxes on locally refined products.

2. Internal taxation

224. The consumption of petroleum products is heavily taxed in almost all developed countries. The purpose of taxation is usually either to provide protection to domestic energy production (mainly coal industries) or to raise revenue. Interrelated though they are, these two functions influence the degree of taxation. Thus, except the United States, all the developed countries with coal industries impose relatively high taxes on heavy fuel oils. In terms of the percentage of the consumer price of such fuel, those taxes are lowest in France (about 10 per cent), and highest in the Federal Republic of Germany (about

⁴¹ Specific rates have been converted to *ad valorem* equivalents on the basis of import unit-values in 1965 for the United States, Japan and the United Kingdom.

30 per cent). Nevertheless, selective taxes on residuals are levied even in some developed countries without important coal industries.

225. Other petroleum products, which are not competitive with coal, such as motor gasoline and oil for transport in general, bear unusually high fiscal charges. In almost all developed countries, taxes on such products represent a very high percentage of the consumer price. In 1967, taxes on gasoline represented as much as 77 per cent of the retail price in France and Italy, 72 per cent in the United Kingdom, 71 per cent in the Federal Republic of Germany, and 70 per cent in Belgium. In the United States on the other hand, internal taxes on gasoline are relatively low—representing 32 per cent of the average consumer price in that country in 1966. These taxes are principally revenue-raising, since demand for such products is usually considered to be relatively less price elastic than for heavier fractions, especially in the short run.

226. Customs duties and excise taxes on petroleum and petroleum products provide a very significant source of revenue for the Governments of the main developed countries. In France, about 10 per cent of national budgetary revenues is derived from taxes on oil products. In the United Kingdom, the duties on oils are estimated to yield about \$2,600 million in the financial year 1966/67.

3. Quantitative controls

227. Imports of petroleum are generally free of quantitative restraints in the major industrial countries, except the United States, France and Japan, which apply official controls. For reasons partly related to national security, the United States has applied mandatory quota controls since 1959 with a view to stabilizing imports as a proportion of domestic production. Oil imports are generally limited to a certain level depending on the area and the products. In the area east of the Rocky Mountains total imports (excluding residual fuel oils) are limited to 12.2 per cent of the anticipated production of crude and natural gas liquids in the area during the allocation period. On the west coast, where local production runs short of demand overland imports are not licensed, while sea-borne imports are restricted to fill the estimated residual demand in excess of local production and overland imports from Canada and the rest of the United States. As regards refined products, other than residual fuel oils, they may not exceed the 1957 level for each district. Unlike import controls on crude oil and most of the refined products, those on residual fuel (much of which comes from Venezuela) apply only to imports into Atlantic Coast (District I). As from the beginning of April 1966, the United States Government virtually eliminated quantitative restrictions on imports of heavy fuel which, however, are still subject to licensing. Again for reasons at least partly related to national security, quantitative preferential treatment is accorded by the United States to overland petroleum imports from both Canada and Mexico. Supplies from these two countries are exempted from the import quota applicable to crude oil and petroleum products imported from other sources, although the level of Canadian exports to the United

States is discussed from time to time in joint United States-Canadian meetings.

228. Quantitative controls on the import of petroleum are found also in France and Japan. Imports of crude oil and finished products into France have been government-controlled since 1928. The marketing of petroleum products, especially gasoline, is subject to a quota system. Furthermore, refiners operating in France are obliged to take a certain percentage (at present 55 per cent) of their crude oil requirements from the franc zone, mainly from Algeria, at negotiated prices above the market level. In the Federal Republic of Germany, a voluntary self-restraint programme has been in operation since 1965 with the object of limiting the growth of consumption of petroleum products which compete with the indigenous coal industry. Under that system, maximum permissible growth rates of consumption are fixed each year. For 1967, the rates are 4 per cent for light fuel and diesel oils, and 3 per cent for heavy fuel oils. In 1966, both rates were 8 per cent. Imports of crude oil, fuel oil and diesel oil are subject to licensing. However, licences are automatically granted in so far as the voluntary restraints are observed. Japan applies a global quota system for the import of all petroleum products.

4. Other measures

229. Among other forms of government intervention, the best known is the protection afforded in the form of direct and indirect subsidies to indigenous energy sources (European coal and North American oil) which have found it difficult to compete with imported oil. In Europe, the form in which subsidies and other aids are given to the coal industry varies: wage subsidies, subsidies for coal transport and to secondary fuel industries using coal, low-interest loans, State-guaranteed loans and other financing facilities. Outside the coal sector, direct subsidies to oil industries are rare and are found only in the Federal Republic of Germany.

230. Fiscal measures are widely used to encourage indigenous exploration and production in the main developed countries. Typical are the depletion allowances of the United States to stimulate exploration for oil and natural gas. In France, too, there is a system of depletion allowances.

231. Some countries, e.g. the Federal Republic of Germany, France and recently Japan, have given direct financial support to exploration companies, or loans or other financial aids for exploration. Other forms of indirect protection may include measures to persuade power utilities to purchase large quantities of indigenous coal under long-term contracts, e.g. in Europe and Japan.

232. Governments in some instances might use their influence to induce oil companies to build up refining industries in consuming countries, so affecting the trade in refined products.

Action since the first session of the United Nations Conference on Trade and Development, 1964

233. In recommendation A.II.9 the first session recommended that "the developed countries should effectively reduce and/or eliminate barriers and discrimination

to the trade and consumption of [fuels], particularly internal taxation. . .".⁴²

234. In the case of crude petroleum, taxes and quantitative restrictions have remained broadly unchanged since the Conference. A number of new bilateral arrangements have been made between developed and developing countries and these may well influence future petroleum flows.

235. As to petroleum products, trade barriers tended in general to become higher. In addition to the voluntary self-restraint system which has been applied in the Federal Republic of Germany since 1965, internal taxes on a number of products, especially gasoline, have been increased in nearly all developed countries. In the United Kingdom, duties and taxes on petroleum products were raised by 10 per cent in April 1967. However, industrial users in that country have received since 1964 a rebate on duty paid on proof that the oils are used for eligible purposes. As to the United States, the recent relaxation affecting the import of residuals is not expected to bring appreciable changes in that country's import pattern, since controls on those products were more nominal in character than those on crude oil.

Liberalization possibilities and their implications

236. The buoyancy of demand for petroleum products in the developed market economies as well as the present pattern of world oil supplies tend to secure large market opportunities for petroleum, in a manner which is usually not attainable for most of the other primary commodities. Nevertheless, an economic case could be made out for the gradual removal of the trade barriers outlined in the previous sections.

237. The exporting developing countries would no doubt gain from a liberalization of petroleum trade. To the extent that this was practical, the removal of all restrictions on oil imports to the developed countries with a consequential lowering of the prices of energy to users should lead, in the longer run, to a further expansion of oil consumption in those countries, and hence to a more rapid increase in the volume of oil exports of the developing countries. The latter would also benefit from any associated strengthening in realized prices for both crude oil and refined products, since higher realized prices would help in sustaining or raising the levels of "posted" prices, on the basis of which the export earnings of these countries are calculated.

238. Finally, the elimination of tariff and non-tariff measures destined to encourage investment in the refining industry in the developed countries might help the exporting developing countries increase their refining capacity for export purposes. However, trade liberalization alone might not be sufficient to reverse the post-war trend of refining capacity being increasingly located near the markets in the developed countries. Economic and technical difficulties (such as the cost and technique of transporting

refined products) would act as impediments to an expansion of refining for export from developing countries.

239. Importing developed countries might be expected to derive economic benefit from any measures of liberalization which led to a decline in the cost of petroleum. However, the nature and extent of any liberalization measures which might be appropriate in those countries would depend on whether the essential purpose of the impediment in question was to protect indigenous energy producers or to raise revenue from oil imports.

240. In those cases where the barriers have a protective function, economic arguments could be advanced for the gradual removal of such barriers or, at least, the application of a more moderate protectionist policy. (Such arguments may not affect the case as seen by developed countries for protection on the grounds of national security.) Protective barriers represent a social cost which is supported by the consumers of energy or the economies as a whole. It has been estimated, for example, that the increase in the total cost of oil to consumers in the United States resulting from restrictions against imports of lower-priced oil amounts to about \$2-\$3.5 billion yearly.⁴³

241. A reduction in the cost of energy in industrial exporting countries would, incidentally, help to improve the competitiveness of their exports in world markets. According to a recent study made for the EEC, each 10 per cent rise in the cost of energy would result in an increase in the export prices of manufactures of between 1.6 and 2.4 per cent approximately.⁴⁴

242. A liberalization of petroleum trade could thus lead to a more rational allocation of resources on the international level, which would benefit both exporting developing and importing developed countries. An increase in the external purchasing power of the former, through a freer access to markets for their oil, might enable them to import more capital goods and manufactures from the developed countries.

243. In so far as the complete removal of trade barriers may not be feasible, for one reason or another, importing developed countries might reconsider their energy policies with a view to reducing the degree of impediment to oil imports from the developing countries, without drastically curtailing domestic energy production. This could be achieved by changing the form rather than the effective level of protection to domestic energy producers. For example, protection might take the form of direct and selective financial aid to uneconomic coal mines, so permitting the cost of energy to remain as low as possible. Direct subsidies would, incidentally, provide

⁴² See *Proceedings of the United Nations Conference on Trade and Development*, vol. I, *Final Act and Report* (United Nations publication, Sales No.: 64.II.B.11), p.33.

⁴³ An estimate of \$2 billion was made by John H. Lichtblau, "The Economics and Politics of U.S. Oil Imports", talk given at the London School of Economics, June 25, 1964. The figure of \$3.5 billion is an estimate of President Kennedy's Special Petroleum Study Committee of 1962. Both estimates are quoted in Harry G. Johnson, *Economic Policies Towards Less Developed Countries* (London, G. Allen and Unwin, 1967), p. 90. A more recent estimate by John H. Lichtblau stands at \$3.25-\$3.5 billion (report in the *Journal of Commerce*, April 4, 1967).

⁴⁴ See "L'influence économique du prix de l'énergie", EEC, Brussels, 1966, p. 56.

for a more equitable distribution of the social cost of protection, and would make the cost of support more apparent and tangible to taxpayers than is the case under a system of unselective forms of protection. On the other hand it is recognized that great administrative and political problems might stand in the way of the adoption of this course in the countries concerned.

244. In countries where quantitative restrictions constitute the major impediment to imports of oil, an appropriate course of action would be to allow for a higher rate of oil imports and to eliminate preferential arrangements for oil imports from certain sources. However, it should be borne in mind that protective measures are due at least partly to national considerations related to security of supplies. Any proposals for the wholesale removal of such protection as exists might thus be practical only in circumstances in which the developed importing countries were satisfied that supplies of petroleum (at reasonable prices) were absolutely assured to them.

245. As regards trade barriers having a purely revenue-raising function, such as duties and taxes on gasoline and motor fuel in general, a case for their removal could be based on the ground that they may affect adversely the export earnings of the developing countries. Although the demand for gasoline is not very responsive to price changes and the removal of barriers would not have as direct an effect on its consumption as in the case of fuel oil, lower prices would nevertheless indirectly stimulate usage, as the price of gasoline influences the design and number of transport vehicles (e.g. small-cylindrical versus big-cylindrical automobiles). However, the outright removal of these taxes and duties would have far-reaching adverse budgetary and financial implications in the consuming countries, especially in the short run. Short of a gradual reduction of internal taxes and duties, it might be envisaged that consuming countries would give consideration to not increasing present rates of taxation on petroleum.

TIN

Introduction

246. Developing countries account for approximately 95 per cent of world mine production of tin.⁴⁵ The major part of world trade in tin consists of the flow of concentrates and metal from developing to developed countries. The proportion of tin metal in this flow has increased with the expansion of smelting facilities in developing countries. In 1965, imports of tin ores and concentrates into the OECD area from developing countries were valued at \$146 million and imports of tin metal at \$301 million. There is also a substantial trade in tin among the developed countries themselves, consisting mainly of metal smelted from concentrates originating in developing countries, and a growing volume of imports of tin metal into socialist countries, both from developing and from developed countries.

247. Western Europe and the United States have usually been markets of approximately equal importance for tin exports from developing countries. However, the importance of the United States market has been lower in recent years because a substantial proportion of the country's requirements (roughly one-third in 1965) has been met by stockpile releases. In 1965, total imports of tin from developing countries into the United States were valued at \$170 million, while imports into Western Europe⁴⁶ totalled \$206 million and imports into Japan \$55 million.

248. Since tin is generally used either as a coating on other metals or as a constituent of alloys, world production and trade in semi-fabricated tin products (pipes, tubes, bars, plates, etc.) is on a very small scale. Total imports of such products into the OECD area in 1965 amounted to \$3.7 million. Exports of semi-fabricated tin products from developing countries are almost negligible.

249. Bolivia is the only country for which tin constitutes the principal earner of foreign exchange; in recent years tin has accounted for between two-thirds and three-quarters of Bolivia's total export earnings. In Malaysia the corresponding proportion is about one-fifth and in Thailand rather less than one-tenth. The two main African producers, Nigeria and the Democratic Republic of the Congo, derive about 5-7 per cent of their export earnings from tin, while in Indonesia, where production is currently at a low level, tin now accounts for no more than about 3 per cent of total export receipts.

Trade barriers

1. Tariffs

250. At the present time (1967) tin ores, concentrates and unwrought metal enter the principal import markets (Western Europe, United States and Japan) free of import tariffs; there is a scheduled tariff of 5 per cent on imports of unwrought tin metal into Japan, but this is temporarily suspended. Tin semi-manufactures, on the other hand, are subject to import duties ranging (for the main items) from 6-10 per cent in the EEC, from 10-20 per cent in the United Kingdom⁴⁷ and from 10-15 per cent in Japan; in the United States all the main items carry a duty of 12 per cent.

2. Non-tariff measures

251. There are no quantitative restrictions on imports of tin into the main importing areas.

252. The scale of tin mining in the principal industrial countries is so small that the question of government support is of little significance in the present context. The United States Government has given considerable assistance in the past to efforts to find workable tin deposits within the country, but these have been very largely unsuccessful and production remains negligible.

253. Since late 1962, releases of tin from the United States stockpile have filled the gap between world output

⁴⁵ Excluding the output of the socialist countries.

⁴⁶ OECD countries.

⁴⁷ The Commonwealth preference rate is nil.

and requirements. As production has increased, stockpile sales have been progressively reduced to a relatively low level (4,600 long tons in the first half of 1967, compared with 16,300 tons in 1966 and 21,700 tons in 1965). This reduction has not prevented a substantial fall in tin prices from their former high level. In the last quarter of 1966 and the first half of 1967 (the latest period for which figures are available) some relatively small purchases of tin were made by the buffer stock manager of the International Tin Council in order to support the market.

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254. As a result of the Kennedy Round negotiations, import duties on the majority of tin semi-manufactures will be reduced by one-half in the United States, the EEC and Japan; the reductions in the United Kingdom's duties are generally smaller (e.g. the 10 per cent rate on tin bars, shapes, wire, sheets, etc. is to be reduced to 8 per cent). Japan's currently suspended 5 per cent duty on unwrought tin metal has not been changed.

Liberalization possibilities and their implications

255. The price of tin, and hence the earnings of the developing countries from tin exports, might be significantly affected by any substantial change in the scale of United States stockpile sales. These sales are proceeding under a long-range programme formulated in 1964. The stated policy of the United States Government agency concerned in carrying out the programme is, in broad terms, to sell tin at prices reasonably consistent with prevailing market prices, to avoid disruption of the market, to reduce or suspend sales during periods of "significant relative price weakness" and to take into account the effect of disposals on the investment of capital in the exploration and development of new tin supplies and the need to foster the health and growth of the world tin industry. The United States Government has held frequent consultations regarding stockpile disposals, both with the International Tin Council and with the Governments of the principal tin mining countries. In discussions between the International Tin Council and the United States in October 1966, the United States agreed in principle to moderate its tin sales programme in certain circumstances, and co-ordination between the two parties for this purpose has been arranged.

256. Other trade liberalization possibilities for tin are confined, as in the case of copper, almost exclusively to semi-fabricated or manufactured products. However, for reasons previously explained, world trade in tin semi-manufactures is on a very small scale; the effects of any further liberalization measures on the export earnings of developing countries would therefore be extremely limited.

ZINC

A. Ores and concentrates

Introduction

257. The developing countries accounted in 1966 for about 24 per cent of mine production of zinc in the

world excluding the socialist countries, the major producers being the Democratic Republic of the Congo (116 thousand tons metal content), Mexico (240 thousand tons), Peru (258 thousand tons) and Zambia (64 thousand tons). Only two other developing countries produced more than 25 thousand tons in 1966.

258. In contrast to lead, zinc is traded to a greater extent as ore than as metal because of the difficulties of smelting it. In none of the developing countries, however, did exports of zinc ores and concentrates in 1965 account for as much as 5 per cent of total export earnings.

259. The pattern of trade is determined in part by investment patterns, a number of mines in developing countries being owned or controlled by refineries in developed countries, and also to some extent by proximity to the main markets. In the latter connexion the United States, the largest consumer of zinc, imports predominantly from nearby Canada and from other countries in which investments in mines have been made, such as Peru and Mexico. The United Kingdom imports ores and concentrates mainly from the Commonwealth, especially from Australia, which furnished 80 per cent of the United Kingdom's imports in 1966. The EEC's imports come from Canada, from other countries in Europe and from former Belgian and French colonial territories in which extensive investments in mining were made. Japanese investments in Peru are the reason for the large volume of its imports from this source, while the countries of Asia and Australia which are in closer geographical proximity to Japan provide further sources of imports of ores and concentrates. The pattern of trade in 1966 is shown in table 10.

Trade barriers

260. Imports into the EEC, Japan and the United Kingdom are duty free. The rate of duty on imports of zinc ores and concentrates into the United States is 67 cents per lb on the zinc content. If the entire amount of duty on imports of ores and concentrates into the United States in 1966 were to accrue to the developing exporters, it would amount in total to about \$2.25 million.

B. Slab zinc

Introduction

261. Zinc produced from newly-mined ores is termed primary zinc and falls into one of two categories according to the reduction process used: electrolytic zinc or distilled zinc. The first process involves electrolytic deposition from a zinc solution and the second the use of retort plants. Zinc is also produced by a blast-furnace process, an important advantage in this process being the ability to treat a mixed lead-zinc concentrate and recover both metals with no extra coke consumption and little extra labour. Zinc may also be produced from scrap or residues by a process of redistillation or re-smelting. These processes are relatively complicated for developing countries and for this reason only a small

TABLE 10
Imports of zinc ores and concentrates into main markets, 1966
(Thousand metric tons)

Source of imports	Importing country/area				Total	
	Europe				Volume	Per cent
	United States	EEC ^a	United Kingdom	Japan		
Western Europe	12.8	160.6	—	—	173.4	12.6
Eastern Europe	—	1.2	—	—	1.2	0.1
Africa:						
Congo, Democratic Republic of		43.6	—		43.6	3.2
Morocco	6.7	47.0			53.7	3.9
Tunisia		1.9			1.9	0.1
Others	0.1	14.8			14.9	1.1
South Africa	11.5	1.5			12.9	0.9
America:						
Canada	247.6	198.5	6.8	16.5	469.4	34.1
Bolivia	5.3	1.4		6.2	12.9	0.9
Honduras	9.8				9.8	0.7
Peru	71.0	29.9	0.1	152.5	254.5	18.4
Mexico	104.0			11.1	115.1	8.4
Others	0.3	0.7			1.0	0.1
Asia:						
Burma	—		3.5	2.5	6.0	0.4
Others	—	13.7	—	22.0	35.7	2.6
Australia	3.9	17.1	84.3	20.5	125.8	9.2
Countries not elsewhere specified	—	27.5	17.5	0.5	45.5	3.3
TOTAL	472.9	559.4	112.2	231.8	1 376.3	100.0
Developed countries	275.7	378.9	91.1	37.0	782.7	
(Per cent)	(58.3)	(67.7)	(56.9)	(16.0)	(56.9)	
Developing countries	197.2	180.5	21.1	194.8	593.6	
(Per cent)	(41.7)	(32.3)	(43.1)	(84.0)	(43.1)	

^a Partly estimated; includes 23.5 thousand tons intra-trade.

percentage—about 8 per cent—of world slab zinc production arises from these countries.

262. Imports into the main zinc-consuming areas in 1966 came predominantly from developed countries, less than one-fifth arising from developing countries. Of total imports of slab zinc into the main consuming areas, about 8.5 per cent originated from Mexico and Peru and was imported mainly into the United States; a further 5 per cent originated in Africa—mainly from the Democratic Republic of the Congo—and was imported mainly into Europe; 5 per cent, distributed fairly equally between the United States and Europe, came from unspecified developing countries and the remaining 1 per cent was imported entirely into Japan from Asian producers. The main flows of zinc into main consuming areas arose from Europe (40 per cent), Canada (30 per cent) and Australia (8 per cent), as table 11 shows.

Trade barriers

263. All main markets have tariffs on imports of zinc. The heaviest, that of the United Kingdom on imports of arsenic-free zinc by analysis, does not affect developing countries as imports are entirely from developed countries; moreover, the total import is negligible in value, amounting in 1964 to \$81,458.

264. At current prices, the duty on unwrought zinc of £1.10s. per ton in the United Kingdom is equivalent to less than 2 per cent *ad valorem*; the Japanese duty on unwrought unalloyed zinc, with zinc at about 100 yen per kg, is equivalent to about 12 per cent. Duties on waste and scrap tend to be lower than those on primary metal, but as waste and scrap come predominantly from developed countries the duties are of little consequence to export earnings of developing countries.

TABLE 11
Imports of slab zinc into main markets, 1966
(Thousand metric tons)

Source of imports	Importing country/area					Total	
	United States	EEC ^a	Europe			Volume	Per cent
			United Kingdom	Other ^b	Japan		
Western Europe	40.6	113.0	16.1	43.6	—	213.3	29.3
Eastern Europe	4.9	41.3	37.4	15.6	—	99.2	13.6
Africa:							
Congo, Democratic Republic of	11.6	12.8	4.7	2.3		31.4	4.3
Zambia	—	2.3	1.9	1.2		5.4	0.7
America:							
Canada	105.5	12.8	96.1	1.2	0.2	215.8	29.7
Mexico	20.6	—	0.5	0.6		21.7	3.0
Peru	27.9	7.4	2.2	0.7		38.2	5.3
United States	—	—	0.3	0.1		0.4	0.1
Asia:							
North Korea	—	1.2	0.1	0.8		2.1	0.3
Other	—	3.9	—	0.4	3.9	8.2	1.1
Australia	22.6	11.7	22.0	0.6		56.9	7.8
Countries not elsewhere specified	17.9	11.3	5.5	0.3		35.0	4.8
TOTAL	251.6	217.7	186.8	67.4	4.1	727.6	100.0
Developed countries	173.6	178.8	171.9	61.1	0.2	585.6	80.5
(Per cent)	(69.0)	(82.1)	(92.0)	(90.7)	(4.9)	(80.5)	
Developing countries	78.0	38.9	14.9	6.3	3.9	142.0	
(Per cent)	(31.0)	(17.9)	(8.0)	(9.3)	(95.1)	(19.5)	

^a Partly estimated; includes an estimated 90 thousand tons intra-trade.

^b Denmark, Finland, Sweden, Switzerland.

265. The amount of duty collected in main markets from imports of zinc in 1966 may be estimated at about \$3 million. [The fact that, with a rate of duty of about 2 per cent, the United Kingdom imports 92 per cent of its zinc from developed countries, whereas the United States, with a higher tariff, imports less than 70 per cent of its zinc from developed countries, indicates that the level of the tariff is not always the main deterrent to imports; proximity to the market and considerations of investment are very important. In view of the technical skill required in the establishment and operation of zinc refineries it is doubtful whether there will be any signi-

ficant increase in developing countries' production of slab zinc in the near future.

266. Although scrap and waste are less important in zinc than in lead as a source of material for smelting they are growing in importance. A further important factor is the existence of large non-commercial stocks surplus to strategic requirements. Demand in the United States in recent years has been such that it has exceeded domestic production plus imports and the excess demand has been met by releases from non-commercial stocks which in 1965 and 1966 totalled 237 thousand tons. These releases continued, though at a much reduced rate, in 1967.

RECENT DEVELOPMENTS AND LONG-TERM TRENDS IN COMMODITY TRADE

*Report by the UNCTAD secretariat**

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* This report is intended to provide general factual information about the subject-matter of item 10 (a) of the provisional agenda ("Review of recent developments and long-term trends in commod-

ity trade including activities of commodity groups and other commodity bodies in the light of recommendations and other provisions of the Final Act of the first Conference").

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Chapter I

The significance of commodity trends

Background developments

1. The significance of trends in commodity trade lies, on the one hand, in the high degree of dependence of developing countries on this trade as the main source of their export earnings and, on the other hand, in the connexion between exports and economic growth in these countries. The connexion between exports and

economic growth in developing countries is analysed in the *Review of International Trade and Development, 1967*¹ before the Conference. It exists because of the indirect growth-stimulating effects of activity in the export sector on the rest of the economy and because of the importance of export performance in determining the capacity to import capital goods for development. As a result of the levelling-off of the flow of aid and private capital from developed to developing countries, and the

¹ TD/5/Rev.1, part one (United Nations publication, Sales No.: E.68.II.D.4).

increasing incidence of interest, profit and amortization payments from the developing countries,² the relative importance of export performance in determining the total amount of foreign exchange available to developing countries has increased in recent years.

2. The raising of the long-term rate of growth of developing countries' exports, whose purchasing power increased by 4.2 per cent a year between 1953 and 1965, is therefore one of the requirements for accelerating the inadequate rate of growth in the real gross domestic product (GDP) of these countries. Between 1953 and 1965 the real GDP of developing countries (an aggregation which must be treated as a rough approximation only) rose at an average rate of about 4.4 per cent a year. Because of the rise in population, however, this represented a rate of growth of only 2.2 per cent a year in *per capita* GDP.

3. For any individual country the rate of increase in the volume of its exports required for the attainment of any given target rate of growth in their purchasing power depends on the terms of trade, i.e. the ratio of export prices to import prices, experienced by the country. Between 1953 and 1965 the ratio of average export unit values to average import unit values in the trade of developing countries declined as follows (United Nations indices, 1958 = 100):

1953	1954	1955	1956	1957	1958	1959
103	109	108	104	100	100	99
1960	1961	1962	1963	1964	1965	
99	97	95	97	97	97	

This adverse movement reflected the fact that average export unit values declined at a rate of almost 1 per cent a year over the period while import unit values were maintained so that although exports from developing countries rose in volume at an average annual rate of 5.1 per cent between 1953-1955 and 1963-1965, their import purchasing power increased by only 4.2 per cent a year. These changes in the terms of trade of developing countries are analysed further in part one of the *Review of International Trade and Development, 1967*.

4. In this respect, however, there were considerable differences in the experience of individual developing countries. Out of a sample of 24 such countries for which it was possible to calculate changes in terms of trade between 1953-1955 and 1963-1965 (or a closely approximate period), 18 countries suffered declines in their terms, ranging from -0.1 per cent a year to -5.1 per cent a year, while only five countries experienced improvements, ranging from +0.1 per cent a year to +2.0 per cent a year.

Dependence on commodity trade

5. The high degree of dependence of the developing countries on primary commodities³ is shown by the fact

² *Ibid.*, chap. IV.

³ To facilitate analysis, "primary commodities" in this report have been defined fairly broadly as SITC Sections 0-4 (food, beverages and tobacco, raw materials and fuels) plus Division 64 (non-ferrous metals). These groups also include the processed forms of some commodities.

that exports of these commodities still accounted for 88 per cent of the total exports of developing countries in 1963-1965, even though their rate of growth since 1953-1955 (3.9 per cent a year on average) had been much slower than that of exports of manufactures (8.6 per cent). Furthermore, the number of countries which have benefited substantially from the higher average rate of growth of manufactured goods is very small. The bulk of the total exports of manufactures from developing countries is accounted for by relatively few countries, and it is estimated that only in Hong Kong, Singapore, India, China (Taiwan), the Republic of Korea and Israel do exports of manufactured goods⁴ amount to as much as 10 per cent of total exports. Among primary commodities, exports of fuels (chiefly petroleum) have been rising at a much faster rate (7.1 per cent between 1953-1955 and 1963-1965) than the average, but although these exports represent a third of the total value of primary commodity exports of developing countries, they are almost entirely accounted for by fifteen countries, of which only nine have benefited from the relatively fast growth of import demand in Western Europe and Japan. In these circumstances, the comparatively low average rate of increase of 2.6 per cent a year in developing countries' exports of primary commodities other than fuels between 1953-1955 and 1963-1965 acquires much greater significance (see table 1).

6. It is nevertheless noteworthy that, even among the majority of developing countries which have not benefited substantially from fast growth of exports of fuels or manufactures, the diversity of export growth rates recorded by individual countries is very wide. In a sample of 57 such countries, for example, the frequency distribution of growth rates of the value of total exports over the period 1953-1955 to 1963-1965 was as follows:

Rate of export growth (per cent per year)	Number of countries	Total population (per cent of sample total)	Total exports in 1963-1965 (per cent of sample total)
10.0-14.0	5	1.5	2.8
6.0-9.9	13	14.4	19.1
3.0-5.9	21	33.0	44.0
0.0-2.9	11	22.2	15.2
Negative ^a	7	28.9	18.9
	57	100.0	100.0

^a Rates varying from -0.2 to -2.7 per cent a year.

Many factors underlie these divergences in export trends of individual developing countries. Since world import demand and prices for individual commodities have varied widely, differences in the commodity patterns of the exports of individual countries constitute one important factor. The influence of other factors is indicated, however, by the fact that among the countries recording negative export growth rates were three whose principal

⁴ SITC Sections 5 to 8 (excluding non-ferrous metals).

TABLE 1
Exports from developing countries by main commodity groups

	Average annual values in \$US billion f.o.b.			Average annual percentage rates of increase	
	1953-1955	1958-1960	1963-1965	1953-1955 to 1963-1965	1958-1960 to 1963-1965
Food, beverages and tobacco ^a	8.8	9.2	11.3	2.6	4.2
Raw materials ^b	6.4	7.0	8.3	2.6	3.4
of which:					
Textile fibres ^c	2.0	1.7	2.1	0.7	4.1
Other agricultural materials ^d	2.3	2.8	2.6	1.3	-1.4
Total agricultural materials	4.3	4.5	4.7	1.1	0.9
Non-metallic minerals ^e . .	0.3	0.3	0.4	5.0	5.9
Metal ores and scrap ^f . .	0.9	1.1	1.5	5.7	7.1
Non-ferrous metals ^g . . .	1.0	1.1	1.7	4.8	8.2
Total non-agricultural materials	2.2	2.5	3.6	5.2	7.5
Total food and raw materials .	15.2	16.2	19.6	2.6	3.9
Fuels ^h	5.3	7.5	10.5	7.1	7.0
Total primary commodities . .	20.4	23.7	30.0	3.9	4.9
Manufactures ⁱ	1.7	2.2	3.9	8.6	12.4
TOTAL EXPORTS ^j	22.3	26.0	34.1	4.3	5.6

Source: United Nations Statistical Office, New York.

^a SITC 0 + 1 + 22 + 4

^b SITC 2 less 22 + 68

^c SITC 26

^d SITC 2 less 22, 26, 27, 28

^e SITC 27

^f SITC 28

^g SITC 68

^h SITC 3

ⁱ SITC 5 — 8 less 68

^j SITC 0 — 9

export commodities, accounting for 50 per cent or more of total exports in each case, were commodities for which trends of demand and prices have been favourable, namely, petroleum, timber, copper, palm oil and diamonds, while among the countries which achieved export growth rates higher than 6 per cent were several heavily dependent on "problem" commodities such as coffee, tea, sugar, cotton and sisal. Thus, changes in the shares of individual countries in world exports of particular commodities, arising from varying degrees of success in expanding production or improving quality, or from the enjoyment of preferential trade advantages, have also played a part. Another important factor for certain developing countries may well have been relative success in diversifying export structures and in expanding exports of processed forms of primary commodities.

Chapter II

Recent and long-term trends compared

Prices

7. During the first half of the 1960s, commodity price trends were more favourable to developing countries than they were over the period 1953-1966 as a whole.

This is shown by the following calculations based on the United Nations export price indices:

	Average annual percentage rates of change in prices of exports from developing countries	
	1953-1966	1960-1966
Food and beverages	-1.7	+1.9
Agricultural raw materials ^a	-1.0	-0.8
Minerals (incl. fuels)	-0.3	+0.5
Non-ferrous metals	+4.1 ^b	+10.8

^a Including oilseeds, oils and fats and tobacco.

^b 1956-1966.

In the case of food prices, however, much of the improvement in the recent period was associated with cyclical changes and did not therefore represent a change in the direction of the long-term trend. This is illustrated in chart I. Following an eight-year decline since 1954, the prices of developing countries' exports of primary commodities, excluding non-ferrous metals, showed a partial recovery of 15 per cent between the third quarter of 1962 and the first quarter of 1964, but they subsequently declined again and in the second quarter of 1967 were some 8 per cent below the peak reached at the time of

the first session of the United Nations Conference on Trade and Development. Between the first quarter of 1963 and the second quarter of 1966, prices of non-ferrous metals exported by developing countries more than doubled. Since then, however, they have been falling and in the second quarter of 1967 were about 27 per cent lower than a year earlier.

8. Further analysis of these recent and long-term price trends in terms of individual commodity prices is provided in chart II. This shows that over the longer period, prices of some commodities, e.g. cocoa, coffee, manganese ore, cotton and groundnut oil, have suffered steeper than average declines, while other prices, e.g. those of beef, tin, jute, fish, sisal and copper, have shown strongly rising trends. For some commodities, e.g. coffee, jute, sisal, lead and rice, the recent price trend differs in direction from the longer-term trend. In most cases, this is mainly a cyclical effect but in the case of coffee the change of direction reflects the success of the International Coffee Agreement of 1962 in raising coffee prices from their low 1962 level.

9. For certain other commodities the long-term rise or fall was more pronounced in the recent period. For example, prices of oil palm products, crude fertilizers, tin, copper and zinc rose more steeply between 1960 and 1966, while prices of sugar, linseed oil and natural rubber fell more sharply. In 1966, in fact, the average free market price of sugar was the lowest since 1941, while average prices of linseed oil and natural rubber were the lowest since the war and since 1954 respectively.

Short-term price fluctuations

10. An additional aspect of the long-term price trends is illustrated in chart III. This shows that the average unit values of world exports of many primary commodities underwent considerable fluctuation during the period 1953-1964 and that in most cases these fluctuations were associated with equal or greater degrees of instability in the total values of exports of the commodities concerned. Unit value fluctuations were particularly marked in the cases of black pepper, cocoa, manganese ore, refined sugar, raw jute, natural rubber and sisal. It may be noted that in the cases of cocoa, manganese ore, sugar, natural rubber, lead metal and coconut oil, the problem of a declining price trend was superimposed on that of price instability. The problems posed by fluctuations of commodity prices and earnings are discussed in chapter IV.

Export earnings

11. During the first half of the 1960s, the value of food and raw-material exports from developing countries grew at an average rate of nearly 4 per cent a year, while the rate of growth of total exports from these countries approached 6 per cent a year, the minimum rate, it has been estimated,⁵ at which the purchasing power of

exports must grow if even the modest target rate of growth of 5 per cent per year in the real incomes of developing countries is to be reached by the end of the United Nations Development Decade in 1970. These rates compare with longer-term export growth rates over the period 1953-1955 to 1963-1965 of 2.6 per cent a year for food and raw materials and 4.3 per cent a year for total exports (table 1). However, the acceleration in the recent period owed much to temporary upsurges in prices of foodstuffs (notably sugar) in 1962 and 1963 and of non-ferrous ores and metals between early 1963 and mid-1966 (see chart I). The growth in the value of developing countries' food exports slowed down in 1964 and amounted to little more than 1 per cent in 1965, while the rise in exports of non-ferrous ores and metals, though still very marked, began to slow down in 1965 (see table 2). As a result of these changes the rates of growth of food and raw material exports and of total exports dropped sharply in 1965.

12. In 1966, in spite of declines in the values of exports of sugar, cocoa, tea, oilseeds, oils and fats, rice, cotton, wool, hard fibres and natural rubber and probable declines in the values of lead, zinc and tin exports, the rate of growth of total exports from developing countries (about 6.5 per cent) was slightly higher than in 1965, mainly because of increased exports of coffee and copper and the continued buoyancy in exports of fuels and manufactures. Since the middle of 1966, however, prices of non-ferrous metals have been falling and since the latter part of the year there has been a simultaneous slowdown in economic growth in five out of the seven most industrialized countries members of the Organisation for Economic Co-operation and Development. The influence of these factors can be seen in the following figures of recent quarterly movements in the value of total exports from developing countries (per cent changes on same quarter of previous year; 1967 data are provisional estimates):

1966				1967	
I	II	III	IV	I	II
+10.3	+6.8	+6.2	+3.5	(+2.3)	(+0.5)

Source: International Monetary Fund, *International Financial Statistics* October 1967.

These developments call for caution in interpreting the improvement in the average rate of growth of developing countries' exports in the first half of the 1960s and for continued attention to the longer-term trend and to the factors influencing it.

13. Table 1 shows that over the longer-term period 1953-1955 to 1963-1965 the trends in the value of developing countries' exports of food and raw materials were virtually identical. However, the analysis of raw materials exports reveals a marked disparity between the trend of export earnings from non-agricultural raw materials, which grew at the rate of 5.2 per cent a year, and that of earnings from agricultural materials, which grew at only 1.1 per cent a year. As far as individual commodities were concerned, there were downward trends in earnings

⁵ See *Proceedings of the United Nations Conference on Trade and Development*, vol. II, *Policy Statements*, "Towards a new trade policy for development" (United Nations publication, Sales No.: 64.II.B.12), pp. 5 and 6.

TABLE 2
Recent changes in exports from developing countries*

	Annual percentage rates of change					Actual values in \$US billion f.o.b.
	1960 to 1961	1961 to 1962	1962 to 1963	1963 to 1964	1964 to 1965	1965
Food, beverages and tobacco .	0.1	5.0	10.8	8.5	1.2	11.7
Raw materials	-3.8	-1.4	3.6	6.3	7.1	8.9
of which :						
Textile fibres	5.0	1.1	12.0	-3.3	2.4	2.1
Other agricultural materials	-12.5	-5.5	-3.0	-2.5	5.9	2.7
Total agricultural materials	-6.2	-2.9	3.3	-2.8	4.3	4.8
Non-metallic minerals	4.8	7.6	0.0	21.1	2.3	0.4
Metal ores and scrap	0.0	-4.1	8.5	23.6	8.9	1.7
Non-ferrous metals	0.0	3.7	1.4	17.6	14.4	1.9
Total non-agricultural materials	0.5	0.9	4.1	20.5	10.6	4.1
Total food and raw materials .	-1.7	2.1	7.6	7.6	3.7	20.6
Fuels	5.9	9.4	6.9	12.1	6.4	11.3
Total primary commodities . .	0.6	4.5	7.4	9.1	4.6	31.9
Manufactures	5.2	8.4	20.1	15.5	12.7	4.4
TOTAL EXPORTS	1.4	4.7	8.4	9.8	5.7	36.5

* Definitions and source as in table 1.

from coffee, cocoa, wheat, wool, hides and skins and lead, stagnation in the value of exports of cotton and jute and extremely low rates of growth in earnings from tea, natural rubber, oilseeds, oils and fats, bananas and rice. By contrast, exports of fresh meat, roundwood, iron-ore, bauxite, alumina and aluminium, rose strongly in value.

14. In the more recent period 1958-1960 to 1963-1965 the average rate of growth of food, beverage and tobacco exports was faster than in the longer period, mainly because of the cyclical movement in food prices already referred to. The rate of growth of raw material exports also showed some over-all improvement but the underlying asymmetry between the growth rates for agricultural and non-agricultural materials was more marked than in the longer period. Although exports of textile fibres accelerated, the aggregate value of exports of other agricultural materials actually declined, owing largely to a fall in the value of natural rubber exports. By contrast, exports of non-agricultural raw materials, chiefly non-ferrous ores and metals, rose more rapidly than in the longer period.

Direction of trade

15. While developing countries' exports of food and raw materials (excluding non-ferrous metals) to developed market-economy countries have grown only very slowly in the longer term, exports to socialist countries of Eastern Europe and Asia have continued to rise extremely fast (see table 3). However, the marked rise in these

TABLE 3
Exports of food and raw materials from developing countries by main areas of destination

	Average annual percentage rates of change in value		Actual values in 1963-1965 in \$US billion f.o.b.
	1953-1955 to 1963-1965	1958-1960 to 1963-1965	
<hr/>			
<i>Food, beverages and tobacco</i> ^a			
To: Developing countries .	2.5	4.9	1.9
Developed countries .	1.6	2.8	7.3
Socialist countries . .	19.7 ^b	32.0	0.9
	<hr/>	<hr/>	<hr/>
Total	3.0 ^b	4.6	10.0
<i>Industrial materials</i> ^c			
To: Developing countries .	0.2	0.6	1.0
Developed countries .	1.5	2.3	5.9
Socialist countries . .	10.9 ^b	4.5	0.9
	<hr/>	<hr/>	<hr/>
Total	1.3 ^b	2.3	7.8

Source: United Nations, *Statistical Yearbook*, 1966.

^a SITC section 0 and 1 (i.e. excluding oilseeds, oils and fats).

^b 1955 to 1963-1965.

^c SITC sections 2 and 4 (i.e. including oilseeds, oils and fats, but excluding non-ferrous metals).

exports has been from a small base and in 1963-1965 they represented no more than 10 per cent of the total to all destinations. Intra-trade among the developing countries has increased somewhat faster than exports to

developed countries in the case of food (excluding oilseeds, oils and fats), but in the case of industrial materials (including oilseeds, oils and fats but excluding non-ferrous metals) the growth of this trade has been negligible.

Chapter III

The internal problems of developing countries

16. The principal factors and problems which have underlain the unsatisfactory longer-term trend in the value of exports of food and raw materials from developing countries were identified in the *UNCTAD Commodity Survey, 1966*.⁶ These problems can be classified as either internal or external, according to their nature and origin for individual developing countries. The main internal factors and problems, which essentially pose tasks for national policy, are considered below.

Structural rigidity

17. Mobility of the factors of production in developing countries is important in enabling appropriate responses to be made to changes in world market conditions. Evidence of structural rigidity may be provided in a general way by persistently adverse movements in the terms of trade, but it may also manifest itself specifically in over-production or under-production of particular commodities and in excessive dependence on slow-growing export commodities. However, since over-production usually arises from the actions of more than one country, it is discussed later as an external problem. Under-production is considered separately below. Cases of excessive dependence on particular export commodities were found in the sample of countries whose export experience was analysed in chapter I (para. 6). Included in this sample were 13 countries which were dependent to the extent of 50 per cent or more of their total export earnings in 1963-1965, on exports of coffee, sugar, cocoa, tea or cotton, for all of which trends of world demand and prices have been unfavourable. In each of the 13 countries the total value of exports grew at less than 6 per cent a year on average between 1953-1955 and 1963-1965 and, in two cases, total exports actually declined.

18. Improvement of the mobility of factors of production in developing countries is essentially the task of national policy, possibly involving, for example, land reform, education and training programmes and changes in taxation. However, in cases where diversification requires heavy initial investments, external aid may have a vital part to play.

Under-production

19. Examples of under-production of primary commodities in developing countries are provided by the chro-

TABLE 4
Trade of developing countries with third countries in food, beverages and tobacco
(\$US billion f.o.b.)

	Gross imports	Gross exports	Net imports (+) or net exports (-)
Cereals			
1955-1957 (I)	0.50	0.48	+0.02
1963-1965 (II)	1.35	0.66	+0.68
Per cent increase per year.	13.2	4.2	56.0
Oilseeds, oils and fats			
I	(0.17)	0.88	-0.71
II	(0.31)	1.09	-0.78
Per cent increase per year.	(7.6)	2.7	1.2
Other food			
I	1.98	6.00	-4.02
II	2.53	7.50	-4.97
Per cent increase per year.	3.1	2.8	2.7
Total food, beverages and tobacco			
I	2.65	7.35	-4.70
II	4.18	9.25	-5.07
Per cent increase per year.	5.9	2.9	0.9

Source: United Nations Statistical Office and United Nations, *Monthly Bulletin of Statistics*.

nic food shortages in certain heavily-populated developing countries in recent years. In some countries, the food problem has manifested itself in a failure to maintain exports to traditional markets, which have been supplied instead by developed countries on commercial or concessional terms. In other countries, shortages of essential foodstuffs, chiefly cereals, have involved heavy imports from developed countries, with consequent strains on the foreign exchange position, though some of the deficit has been financed on concessional terms. The adverse effects of the food problem in developing countries have therefore been manifested much more in the trend of net food exports from these countries than in the trend of gross exports. The position is illustrated by the data in table 4. It should nevertheless be borne in mind that the greater part of the over-all cereals deficit of developing countries in 1963-1965 was accounted for by a relatively small number of countries—namely, India, Pakistan, Ceylon, Malaysia, Indonesia, the Philippines, the United Arab Republic, Brazil and Cuba—and that the food problem of developing countries is a fairly localized one.

20. Under-production of primary commodities in developing countries may exist not only where the share of these countries in world exports has fallen because of supply difficulties, as in the cases of wheat, coarse grains, rice and vegetable oils and oilseeds, but also in some cases where the price elasticity of demand for a commodity is greater than unity, i.e. where an increase in the supply would result in a less than proportionate fall in price, so that total sales proceeds would be increased. Primary commodities do not generally experience such

⁶ United Nations publication, Sales No.: 67.II.D.9.

demand conditions but there are exceptions. Examples are poultry, citrus fruit, processed fruit and probably certain luxury or semi-luxury foodstuffs. There may be opportunities for developing countries to increase their export earnings, therefore, in so far as they can profitably expand their production and exports of such items.

Natural endowment

21. Though reference has been made above to the need for developing countries to reduce excessive dependence on slow-growing export commodities, and to increase production and exports of commodities for which world demand prospects are favourable, it must be recognized that the possibilities for such action may be limited, to a greater or lesser extent, by a country's natural endowment of climate, soil and mineral wealth. To some extent, the disparity between the 2.6 per cent rate of annual growth of food and raw materials exports from developing countries between 1953-1955 and 1963-1965 and that of 5.9 per cent in the exports of developed countries, reflects the distribution of natural advantages between the two groups of countries. It happens that many of the commodities for which world demand is growing strongly are commodities in the production of which developed countries enjoy climatic or resource advantages, e.g. certain temperate zone foodstuffs (meat, fish, grains, cheese, wine), while most of the commodities produced solely in developing countries (notably coffee, tea, bananas, natural rubber, hard fibres) have experienced comparatively slow rates of growth of demand. This underlines the importance of agricultural and mineral resource surveys in developing countries. Mineral discoveries, for example, can transform the economic prospects of a developing country, as did the discoveries of oil in Nigeria and Libya and of iron-ore in Mauritania. Nevertheless, limitations of natural endowment may be an additional factor obliging many developing countries to seek expansion of their foreign exchange earnings mainly through diversification away from commodity production into processing, manufacturing and service industries such as tourism.

Chapter IV

External economic factors affecting the trend of commodity exports from developing countries

22. By their nature, the external factors underlying the unsatisfactory trend of food and raw material exports from developing countries cannot be modified by the action of any one developing country alone. In so far as it is possible and desirable to modify them, therefore, they pose tasks for international rather than national policy.

Economic growth in developed countries

23. Since the great bulk of developing countries' exports of primary commodities goes to developed market-economy countries, the trend of total import demand

in these countries, as well as the extent to which developing countries are able to meet that demand, is an important determinant of the rate of growth of developing countries' exports. The trend of import demand in the developed countries is influenced by many factors including, for example, protectionist policies and the development of synthetic substitutes for imported raw materials, two factors which are examined separately below. However, the overall rate of economic growth in developed countries is itself an important factor. The following figures show the relationship between the growth of real GDP in developed market-economy countries between 1953-1955 and 1963-1965 and the growth of imports of food and raw materials by these countries from all sources except the socialist countries, which contributed less than 10 per cent of the total imports in each case in 1965:

	Average annual percentage increase, 1953-1955 to 1963-1965	
	Food ^a	Raw materials ^b
Real GDP of developed countries. . .	4.1	
Volume of imports:		
From developed and developing countries	4.7	4.5
From developing countries	2.8	2.0

^a Excluding oilseeds, oils and fats.

^b Including oilseeds, oils and fats but excluding non-ferrous metals.

Thus it happened that the volume of imports of food and raw materials (excluding non-ferrous metals) rose broadly in step with national income in developed countries between 1953-1955 and 1963-1965, while the proportion of the imports supplied by developing countries declined. However, even if this relationship between income growth and import requirements in the developed countries were maintained in future, which is by no means certain, and even if the decline in the share of developing countries in the imports could be checked, there would still be little possibility of raising the rate of growth of the developed countries' import demand for food and raw materials to something over 6 per cent a year through policy action designed to accelerate their general economic growth. It is obviously important for developing countries, nevertheless, that the developed countries should pursue policies designed to maintain and increase as far as possible their rates of economic growth. Greater steadiness of growth would be particularly beneficial because of the sharply destabilizing effects on commodity prices and export earnings of developing countries of business cycles in the developed market economy countries.

The development of synthetic materials

24. A factor which has had serious adverse effects on world trade in agricultural raw materials, particularly on trade in textile fibres and natural rubber, has been the development of man-made substitutes for these materials in developed countries in the forms of synthetic fibres, synthetic rubber and plastics. Natural fibres have experienced competition from cellulosic fibres (rayon and

acetate), which affected chiefly cotton and silk and to a lesser extent wool, since before the Second World War. The great increase in competition from man-made fibres which has developed since the war, however, has come from the newer non-cellulosic fibres manufactured by the polymerization process from chemical substances derived from coal and oil. The development of these fibres, like that of synthetic rubber and plastics materials, has been closely associated with the marked expansion of the petro-chemical industry in developed countries since the war. The competition from these newer fibres has been based on favourable technical characteristics, as well as on price, and it has extended to hard fibres and jute as well as to wool and cotton and to the cellulosic fibres themselves. In terms of weight, cellulosic and non-cellulosic fibres together represented nearly two-fifths of all the apparel fibres consumed in the developed countries in 1963-1965 compared with about a quarter in 1953-1955. In terms of value at constant prices, however, (which allows to a large extent for the higher area per unit weight of synthetic fibre fabrics), the substitution has been even more striking, the proportion of man-made fibres rising from one-third in 1953-1955 to three-fifths by 1963-1965. Moreover, the rate of substitution is increasing, since the share of man-made fibres has risen faster in the more recent period since 1960 than in the second half of the 1950s.⁷

25. The share of synthetic rubber in total rubber consumption in developed countries rose from 38 per cent in 1953-1955 to 62 per cent in 1963-1965, but in this case the rate of substitution has slowed down in recent years. Most of the synthetic rubber at present being made is not a perfect substitute for natural rubber, and relative demand for the two products depends to some extent on the relative needs of different industries. For example, a greater proportion of natural rubber is usually required for heavy truck tyres than for passenger car tyres. In recent years, however, new stereosynthetic rubbers have been developed which can compete with natural rubber on price alone. Production of these is still small but they clearly pose a threat to natural rubber in its remaining "captive" area of the market.

26. Competition from plastics and other synthetic materials extends to almost the whole range of agricultural raw materials and to some metals as well. The principal items affected, however, are hides and skins (by synthetic leather), vegetable oils used in soap-making (by synthetic detergents), jute (by plastic bags and containers) and metals and timber (by plastics used in building and miscellaneous manufactured articles). Between 1953-1955 and 1963-1965 consumption of plastic materials increased in the developed countries at an average rate of 13 per cent a year, a much faster rate than that shown by consumption of the natural materials with which plastics compete. In the first half of the 1960s, however, the rate of increase slowed down to about 11 per cent a year.⁸

27. It is generally recognised that the processes of scientific and technical research and advance which have brought about these developments cannot be halted. Solutions must therefore be sought by increasing the competitiveness of natural products through improvements in quality and productivity, the development of new end uses and, where appropriate, by moving factors of production into alternative employments.

Income elasticities of demand

28. For most foodstuffs, the income elasticity of demand in developed countries is less than unity, so that consumption rises more slowly than income. In the case of foodstuffs produced in both developed and developing countries, the influence of this factor on the quantities exported by developing countries is often outweighed by the existence of temporary shortages in one or other of the two groups of countries, by competition between exporters in each group and by changes in the proportion of consumption met from domestic production (which may be protected) in developed countries. However, for coffee, cocoa and bananas, which are produced only in developing countries and which have not been in short supply, the low income elasticities of demand in developed countries, in conjunction with income growth itself, have been the chief determinants of the relatively slow rates of increase of export volumes. Exports of tea and sugar from developing countries have been seriously affected by the growth of protected production in developed countries, a problem discussed below, but the very low income elasticities of demand for these items in developed countries have also been important factors underlying the exceptionally slow rates of growth in the quantities exported by developing countries. Rates of growth in quantities, and values of exports of these foodstuffs from developing countries between 1953-1955 and 1963-1965 are shown below:

	Average annual percentage change	
	Volume	Value
Cocoa beans	4.7	-1.3 ^a
Coffee	3.8	-1.0
Bananas	3.4	+2.1
Tea	2.2	+0.8
Sugar (raw and refined)	1.8 ^b	+4.0

^a Including cocoa products.

^b Including refined in raw equivalent.

29. While income elasticities of demand for particular products may be raised by advertising and by other efforts to promote consumption, there is the danger, particularly obvious in the cases of coffee and tea, that successful promotion of one commodity may result in a decline in consumption of another commodity of interest to a different group of developing country exporters. For commodities exported by developing countries which are subject to fiscal charges in certain developed countries, the removal of such charges should be considered, since they raise the prices of these commodities to the consumer and thus tend to restrict the level of consumption.

⁷ See *UNCTAD Commodity Survey, 1966* (United Nations publication, Sales No.: 67.II.D.9), table IC-1.

⁸ *Ibid.*

Alternatively, developing country exporters might be compensated by the transfer of part of the tax revenue.

Protectionism in developed countries

30. A major example of the adverse effects of protectionism in developed countries on exports of primary commodities from developing countries is the case of beet sugar. In 1953-1955, the proportion of domestic sugar consumption in developed countries covered by beet sugar produced under protection was already 63 per cent. Although this proportion declined to 60 per cent on average in the period 1957-1961, it had risen to 73 per cent by 1963-1965.⁹ Had the degree of self-sufficiency of developed countries remained at the 1957-1961 level, the scope for additional imports from the developing countries would have amounted to an average of 3 million tons a year in the period 1963-1965, representing one-quarter of the actual sugar exports of the developing countries to all destinations in that period. Moreover, between 1953-1955 and 1963-1965 developed countries increased their exports of sugar (raw and refined) faster than did developing countries, as the following figures of export growth rates show (volume of refined sugar in raw equivalent):

	Volume (Per cent per annum)	Value
<i>Exports from:</i>		
Developed countries . . .	3.3	5.0
Developing countries . . .	1.8	4.0

Thus, developing country exporters have suffered a decline in their share of a trade which is itself growing comparatively slowly because of the combined effects of low income elasticities of demand for sugar and increasing tendencies to self-sufficiency in developed countries. In the circumstances there is a strong case for a limitation on increases in protected production in developed countries, to be negotiated as part of a new international sugar agreement. This limitation might be achieved directly by the voluntary imposition of production ceilings, or indirectly by undertakings on the part of developed countries to import minimum quantities of sugar from developing countries or to meet at least a significant proportion of future increments in consumption from imports from developing countries.

31. Since the developed countries in any case enjoy natural advantages in the production of cereals and livestock products, the widespread protection of these commodities in these countries has probably not been of major significance for developing countries. It may be noted, however, that the growth of production of animal fats as by-products of the livestock industry in developed countries, as well as the rapid growth of low-cost soya bean production in the United States, has had adverse effects on demand for the vegetable oilseeds and oils produced in developing countries.

32. In the United States, price support programmes or tariffs have to some extent aided domestic production

of lead and zinc (which have also been subject to import quotas), cotton, wool, tobacco and ground nuts. In the case of cotton, however, the problem of competition from man-made fibres has been much more serious. Although the United States Government possesses large stocks of cotton accumulated in connexion with price support programmes, it has been fulfilling the role of a residual supplier on the world market, and developing country exporters have been able to market their supplies by slightly under-cutting the United States price. Moreover, under the United States cotton programme for 1966-1969, support prices have been reduced and incentives have been provided for the reduction of the cotton acreage. Partly as a result of the new measures, the cotton acreage in 1966/67 season fell by 30 per cent while production (partly because of lower yields) declined by over a third. Further reductions in acreage, though not necessarily in production, are expected in the 1967/68 season. In recent years, developing countries have been able to increase the volume of their exports of raw cotton somewhat faster than have the developed countries, but the reverse occurred in 1966 and it is noteworthy that the reduction of the United States support price in 1966 is reported¹⁰ to have acted as a disincentive to plantings in developing countries. As far as tobacco is concerned, the relatively high price of United States flue-cured leaf, due to its high quality as well as to government price support, has enabled developing country producers of this type to expand their share of world exports. The quota restrictions which were imposed on United States imports of lead and zinc in 1958 were removed at the end of 1965, though the possibility of their reinstatement remains. In the European Economic Community, new systems of protection of tobacco, olive oil, rapeseed and fruits are evolving and their effects on developing countries' exports are at this stage still difficult to estimate.¹¹ In Japan, imports have been restricted and domestic tea production has been aided by protective import duties and quotas.

33. While protection of production of primary commodities in developed countries has been a major problem for developing country exporters in the case of only a certain number of commodities, protection of the processing and manufacturing of primary products, often with escalation of tariffs on successive stages of processing, affects to a greater or lesser degree virtually the whole range of processed primary commodities which are, or might be, exported by developing countries. Moreover, in the usual case where raw material is admitted into a developed country free of duty, the nominal rate of duty on the processed form of the material understates the effective rate of protection, since this is represented not by the ratio of the duty to the total cost of the product, but by its ratio to the value added in processing.

34. Tariff and non-tariff barriers to exports of processed forms of primary commodities and other

¹⁰ FAO, *FAO Commodity Review*, 1967.

¹¹ A preliminary study has been made in UNCTAD Research Memorandum No. 17, "The Impact of the European Economic Community on the Trade of Developing Countries".

⁹ *Ibid.*, table IC-2.

TABLE 5
World stocks as percentages of consumption

Calendar years or seasons ending in years shown	Sugar	Coffee	Cocoa	Cotton
(Two-year averages)				
1953-1954. . . . .	..	14	28	52
1955-1956. . . . .	..	33	37	58
1957-1958.	35	42	28	53
1959-1960.	43	93	30	44
1961-1962.	39	119	42	43
1963-1964.	37	119	43	53
1965-1966.	42	127	42	56

Sources:

Sugar: International Sugar Council, *Sugar Yearbook*, 1966 and earlier editions; (consumption in calendar year, stocks at end of year).

Coffee: United States Department of Agriculture, *Foreign Agriculture Circular*; FCOF 1-67, January 1967 (consumption in marketing season, stocks at end of season).

Cocoa: Gill and Duffus Ltd., London, *Cocoa Market Report*; October 1967 (consumption in calendar year, stocks at end of year).

Cotton: International Cotton Advisory Committee, *Cotton - World Statistics*, July 1967 and earlier issues (consumption in season August-July, stocks at end of season).

manufactured goods from developing countries are particularly serious in view of the urgent need for these countries to diversify their export industries and reduce their dependence on exports of primary commodities for which world demand is growing relatively slowly. This is the case for the elimination, or at least the reduction, of these barriers, either through general tariff reductions by the developed countries, or through a system of non-reciprocal general preferences accorded by these countries to developing countries.

Over-production

35. Mention was made in chapter II and illustrations are given in chart II of the downward trends in world export prices of certain commodities over the period 1953-1966. The causes of these declines are various. Increases in productivity and competition from substitutes and alternatives have been among the more important factors involved and in some cases cyclical movements have underlain the declining trends. In the cases of sugar, coffee, cocoa and cotton, however, over-production has played the main part. The evidence of over-production of these commodities lies in the periodic tendency of world stocks to increase faster than consumption. This tendency is illustrated by the figures in table 5. Over-production of these commodities has been due in part to the over-optimism of production decisions which, in the case of the tree crops, have to be taken several years before the resulting supply becomes available. The excessive production of coffee in the early 1960s, for example, resulted from the heavy plantings made after the coffee boom in the mid-1950s. Over-optimistic production decisions may also have been to some extent a consequence of price fluctuations, which have the effect of obscuring the underlying trends of supply and demand and therefore making them liable to be misjudged. In

such circumstances, there may well be a bias towards optimism. To a considerable degree, however, over-production has been due to the structural rigidity factor discussed above, which causes weak producers to strive constantly to increase their income through increases of output, whatever the market conditions and prospects. In addition, as already shown, the expansion of production in developed countries under protection has been an important factor in the cases of cotton and sugar.

36. To the extent that over-production is due to the supply lag and uncertainty factors it might be dealt with by an international commodity stabilization scheme whose chief objective would be the stabilization of prices through, for example, a buffer stock or export controls or both. However, in so far as the over-production reflects the operation of the structural rigidity factor, the essential task of international policy would be production control and diversification, i.e. the transfer of factors of production to other employments. Both objectives may be combined in a single scheme, as under the International Coffee Agreement of 1962. This has had considerable success in maintaining coffee prices above the low 1962 level through a system of export control, although the fundamental problem of long-term production control has not yet been solved. At the time of writing, intensive efforts to achieve similar agreements for cocoa and sugar are in progress. Cotton, like other commodities which experience competition from synthetic substitutes, faces special problems. In these cases, efforts to improve quality and productivity are just as important as attempts to control the volume of production.

Instability of commodity prices and earnings

37. One of the causes of fluctuations in commodity prices, particularly in prices of industrial raw materials, is the business cycle. The effects of industrial booms and recessions in developed countries on demand for raw materials are often transmitted through stock cycles. Such changes in demand often lead to price fluctuations because of the inflexibility which characterizes the supply of many primary commodities, particularly those of agricultural origin. An equally important, if not more common, cause of price fluctuations is the fluctuation of supply resulting from natural disasters (crop diseases, droughts, frosts, etc.), variations in crop quantity and quality due to climatic or other factors (as occur, for example, in coffee and olive oil harvests), labour difficulties (often important in mining) and similar factors.

38. Instability of commodity prices and associated fluctuations in earnings, examples of which were given earlier and illustrated in chart III, pose a number of problems for developing countries. As was pointed out in the preceding discussion of over-production, price instability may make it difficult for producers to take rational investment decisions and may therefore lead to losses of real income through misallocation of productive resources. It may also weaken the competitive position of natural products vis-à-vis synthetic or other substitutes supplied at more stable prices. International action needs to be considered to eliminate excessive price fluctuations on commodity markets.

39. Fluctuations in producers' incomes and foreign exchange earnings from the production and export of individual commodities may destabilize the economy through their influence on savings and consumer spending and through their disruptive effects on import budgets and development plans. However, fluctuations in earnings from different commodities are usually to a considerable extent self-cancelling so that in any country aggregate producers' incomes and foreign exchange earnings are usually less unstable than are, on average, the incomes and earnings from individual commodities. Nevertheless, the over-all instability may be considerable, particularly in countries highly dependent on only one or two unstable commodities. For such countries especially, commodity price stabilization schemes may provide the answer to this problem also. At the same time, it should be borne in mind that in the case of commodities subject to uncontrollable variations in supply because of natural disasters, cyclical variations in yields, etc., stabilization of price will not always stabilize earnings in individual countries. However, to the extent that the problem of fluctuations in foreign exchange earnings is not dealt with by individual commodity schemes, it could be met by arrangements for compensatory financing or insurance.¹²

Chapter V

Export prospects for developing countries

40. The results of the latest work on projections done in the UNCTAD secretariat imply a continuation of the disparity between the growth rates for agricultural and non-agricultural commodity exports from developing countries already noted in the period 1953-1955 to 1963-1965. On the assumptions made, this disparity is projected to result in a further decline in the share of agricultural exports in the total primary commodity exports of developing countries from 52 per cent in 1960 to about 36 per cent in 1975 at 1960 prices. Over the same period the share of fuel exports is projected to increase from 27 to 38 per cent and that of manufactures from 9 to 14 per cent, while the share of metals would remain substantially unchanged.

41. On alternative assumptions regarding the rate of growth of the real income of developed market-economy countries, exports of foodstuffs from developing countries are projected to grow in volume at rates ranging between 2.7 per cent and 3.4 per cent per annum, and exports of agricultural raw materials at rates of between

1.6 and 2.3 per cent per annum. Price has not been explicitly included as a factor in these projections, though work on this aspect is continuing, but downward trends over the period 1953-1966 have already been noted in the prices of foodstuffs and agricultural materials exported by developing countries (chapter II). Unless these trends are checked, the projections of export volumes could imply a worsening of the unsatisfactory trend in developing countries' export earnings recorded in the period 1953-1955 to 1963-1965. The chief factors underlying the volume projections for agricultural items are the same as those underlying the unsatisfactory trends in export earnings between 1953-1955 and 1963-1965 which have been discussed in the two preceding chapters, i.e., income elasticities of demand of substantially less than unity in developed countries for many foodstuffs and continuing competition for many agricultural raw materials from synthetic substitutes.

42. Exports of non-ferrous metals from developing countries, at constant 1960 prices, are projected to rise at rates ranging from 3.9 to 4.2 per cent a year between 1960 and 1975. These rates compare with an actual rise of 3.6 per cent a year in the volume (at 1960 prices) of developing countries' exports of these items between 1953-1955 and 1963-1965. The rates of increase in the volume of fuel exports between 1960 and 1975 are projected at 7.5 to 8.0 per cent and those in the volume of manufactured goods exports at 8.3 to 9.3 per cent.

43. Taken together, these projections imply that between 1960 and 1975 total exports from developing countries, at constant 1960 prices, may rise at a rate of some 5 to 5.5 per cent a year. Even if prices were maintained, the projections imply a rate of growth in the value of developing countries' exports lower than 6 per cent. This underlines the urgent need for policy action to increase food production and exports of certain developing countries, and to deal with the problems of protected production in developed countries, price instability and over-production of certain primary commodities. However, the earlier analysis of the factors underlying the trend of exports of primary foodstuffs and raw materials from developing countries indicates that, because of limiting factors on the demand side, the volume of many of these exports is likely to grow comparatively slowly in future. In these cases much emphasis needs to be given to diversification of production into manufacturing and processing of primary commodities before export, implementation of which would be facilitated by improvement of access to developed country markets. Diversification is particularly urgent in the cases of commodities subject to over-production and to competition from synthetic substitutes.¹³

¹² For further discussion of this problem see "The development of an international commodity policy" (TD/8).

¹³ See TD/8, section IV.

CHART I

Prices of primary commodities exported by developing countries, 1953-1967

(United Nations indices, 1958 = 100)

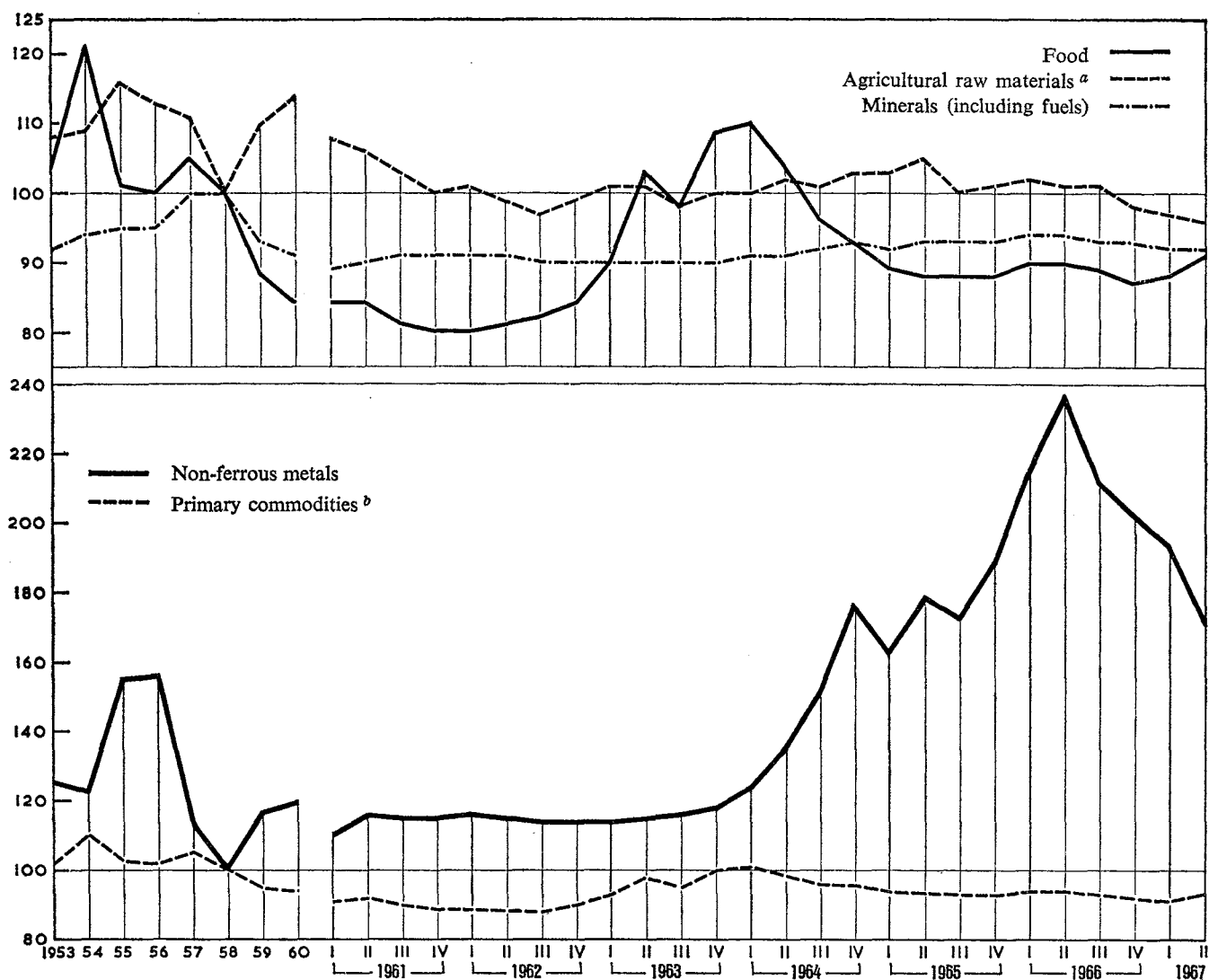
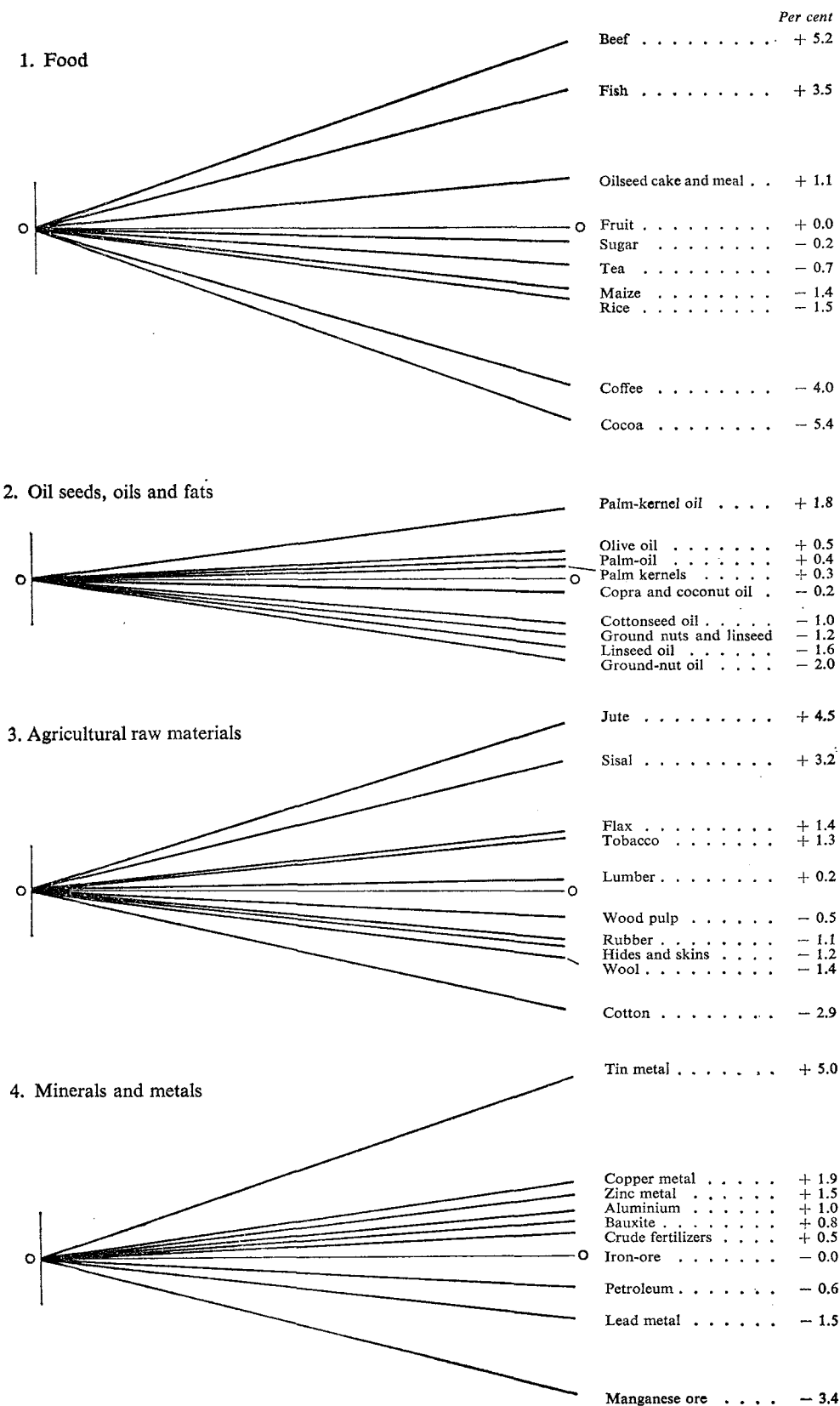
Source: United Nations, *Monthly Bulletins of Statistics*.^a Including vegetable oils and oilseeds and tobacco.^b Food, agricultural raw materials, minerals (including fuels).

CHART II

Trends in world export prices of selected primary commodities, 1953-1966

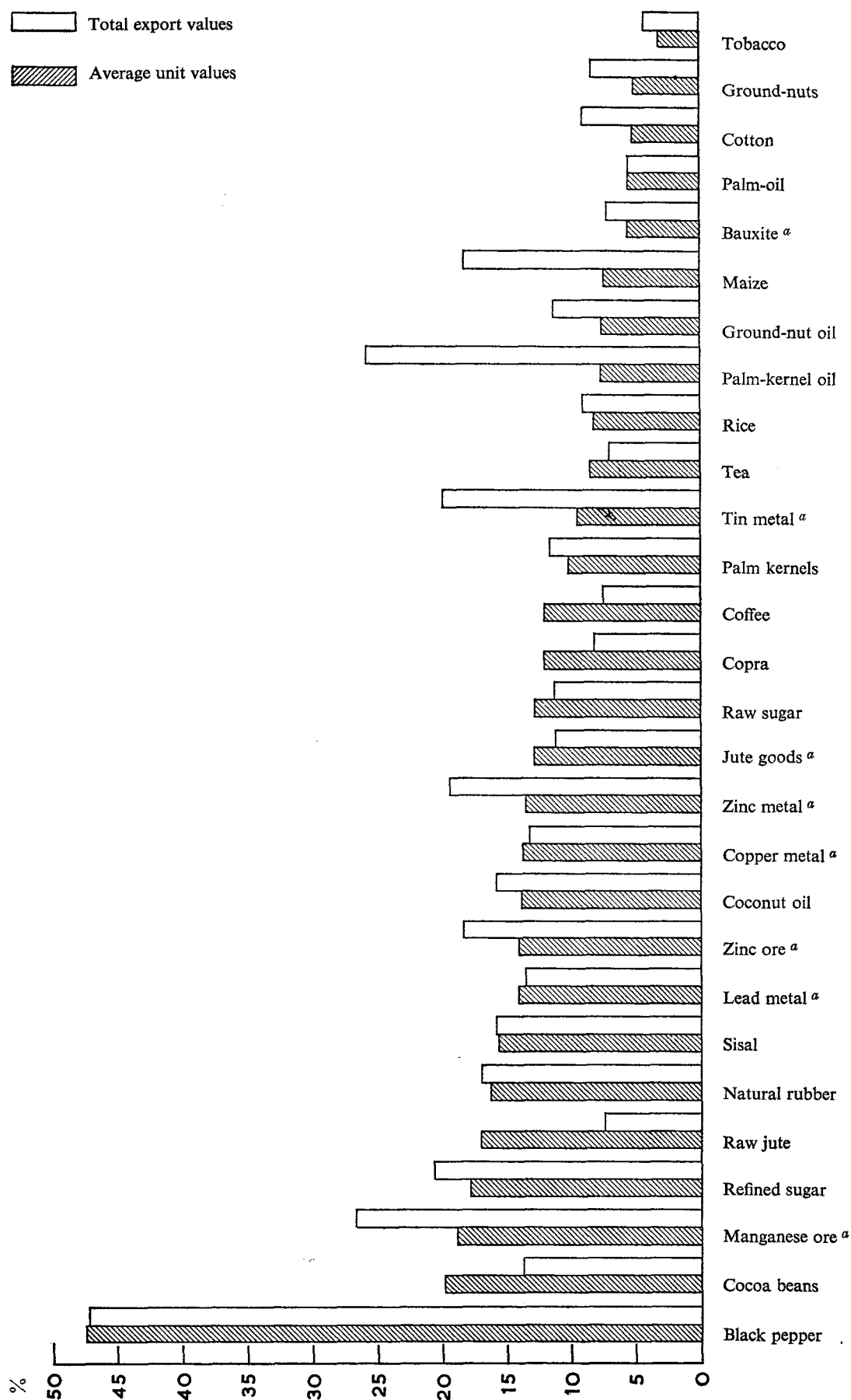
(Percentages are the average annual rates of change, 1953-1966, represented by trend lines)



Source: United Nations Statistical Office, New York.

CHART III

Fluctuations in average unit values and total values of world exports of selected commodities, 1953-1964
(expressed as average annual percentage deviations from trend)



Sources: United Nations, *Commodity Survey 1962*; FAO, *Trade Yearbooks* and special table; national trade statistics.

^a Primary exporting countries only.

PROCEEDINGS OF THE SECOND SESSION OF THE UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

Contents of the series

(5 volumes)

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The studies in this section discuss the principal elements of a general non-discriminatory and non-reciprocal scheme of preferences for the exports of manufactures and semi-manufactures from developing countries; one of them deals specifically with the question of objective criteria for invoking an escape clause in a general scheme of preferences.

- (b) *Programme for the liberalization and expansion of trade in manufactures and semi-manufactures of interest to developing countries*

These studies contain a survey of existing quantitative restrictions applied in selected developed market-economy countries to the trade in manufactures and semi-manufactures (including processed agricultural products) and make suggestions concerning a programme for trade liberalization.

- (c) *Measures for the promotion, expansion and diversification of exports of manufactures and semi-manufactures from developing countries*

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