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TRENDS AND DEVELOPMENTS IN COMMODITY TRADE

Report by the CONTRACTING PARTIES' nominee as Chairman of the Interim Co-ordinating Committee for International Commodity Arrangements (ICCICA) to the CONTRACTING PARTIES to the General Agreement on Tariffs and Trade

At its Eleventh Session it was decided by the CONTRACTING PARTIES of the General Agreement on Tariffs and Trade (GATT) that the Chairman of ICCICA should report to GATT at the latter's annual meeting. As Members will know, the Chairman of ICCICA is appointed by the Secretary-General of the United Nations upon the nomination of the CONTRACTING PARTIES to the GATT.

To those who have followed the proceedings arising out of the GATT since its inception, and also of the ITO conference out of which it came, it will be clear that the problems associated with the international trade in bulk commodities have been of constant concern to Member Governments.

The great objective of GATT is, as we all know, to facilitate international trade, and this involves the making of arrangements which remove impediments to the flow of goods between countries, and which deal with other influences tending to dislocate the international exchange of goods.

Fluctuations in Prices of Primary Products

In setting out its provisions, including procedures for bilateral negotiations and arrangements, the founders of GATT sought to cover all those impediments to international trade which are introduced by different countries from time to time. But in the case of primary products, it was found that there were special features which were not present in the case of manufactured goods. The most oustanding of these special features is the wide fluctuations which take place in the prices of primary products - fluctuations which frequently occur to a marked degree, and over short periods.

These pronounced movements in prices are partly due to changes in overall economic conditions such as world depression or prosperity, and partly to changes in supply and demand of individual products. Two important sets of conditions affecting supply and demand are seasonal conditions in the case of agricultural products, the irregularity of weather conditions being of course particularly important; and governmental measures of various types such as tariffs and subsidies taken for the protection of domestic industries; these are sometimes referred to as national policies.

Seasonal conditions can have a marked effect on the supply of primary products available for international trade. Examples constantly occur where adverse conditions seriously reduce the supply of goods in world markets. On the other hand, favourable conditions in the main world producing countries can very quickly bring about over-supply. These seasonal movements in themselves cause substantial falls and increases in prices through changes in the relationships of supply and demand. In turn, in some products high prices bring about a shrinkage in demand and low prices an increase in demand. In other cases again, for example wheat, movements of prices have little effect on demand, but have a marked effect on supply. The interplay of these movements has the effect of bringing about changes in prices which are out of all relation to changes in costs of production. At time producers suffer heavy loss and at other times their profits are much above normal. Low prices particularly when arrived at by steep and rapid movements can, and usually do, bring about serious hardship to producers. At the same time, low prices do not necessarily benefit consumers, particularly where processing is involved; the difficulties arising out of rapid changes in prices often outweigh the benefits that may normally be expected from low values in raw materials.

Supply and demand of primary products can also be affected by the policies of governments. Apart from the difficulties brought about by seasonal conditions in agricultural products to which I have alluded, best results from all forms of international trade would be obtained if "each country specialized in the commodity in the production of which it is relatively most efficient". But this principle, whilst generally recognized and in practice quite widely applied, is much interfered with when governments by the use of tariffs, subsidies in various forms and other protective devices, support their domestic industries to the disadvantage of goods produced under more favourable conditions in other countries. Moreover, export surpluses are frequently increased to the detriment of countries whose conditions of production are more suitable because of the stimulus of governmental measures. This is one of the major problems with which Member countries of GATT are faced. Basically, of course, protection by some form of governmental instrument involves the granting of an advantage to a relatively efficient producer over a relatively inefficient producer. By the terms "efficient" and "inefficient" I include all elements such as climate, geographical position, size of population, quality and accessibility of ores, which do not reflect the industry or capacity of peoples. It is not my function at this meeting to pass judgement on these questions arising out of national protection. Justification is claimed in some cases for sociological reasons, in others because of currency difficulties, in others again because of the need of sheltering infant industries. But the fact I wish to draw attention to is that such influences do exist; that they are powerful and that they do affect markets to the extent of helping to bring about marked price fluctuations.

We have seen that the great difference affecting the international trade manufactured goods and primary goods is that in the former values are closely based on costs, whilst in the latter, in the shorter movements at least, this is frequently not the case. But there are other differences, and that is the form the protection of domestic industry takes. In the protection of primary products, subsidies in a variety of forms are used to a much greater degree than are tariffs, whilst in manufactured goods the reverse is the case. The reduction

of tariffs by bilateral agreements is thus more effective in bringing about the removal of impediments to trade in manufactured goods, whilst the reduction of protection of primary products is more dependent upon the more general provisions in the GATT dealing with subsidies and countervailing duties.

The position of GATT and International Commodity Arrangements

Notwithstanding the amendments to governmental regulations affecting primary products which are brought about by tariff adjustments and other action provided for in GATT in relation to subsidies, the question frequently arises whether these are sufficient, and at the various sessions of GATT, consideration has been given to the setting up of rules and conditions under which multilateral commodity agreements could be entered into. It has not, however, been possible to arrive at detailed conclusions in this field.

The central problem is, as we have seen, the marked and rapidly moving fluctuations in prices, and it is here that the part international commodity agreements may play is important. Whether the fluctuations are caused by maladjustments due to climatic conditions or by the effects of governmental measures, or by general world economic conditions, it has been demonstrated that international arrangements in relation to individual products can prevent excessive price movements.

The removal of causes in major fluctuations can of course be considered in relation to conditions brought about by national policies, as distinct from the other influences, but my only point here is that whilst these conditions exist and difficulties arise because of them, international agreements could be used to ameliorate these particular difficulties. I give one example. A country may, perhaps only temporarily, subsidize production with the object of avoiding import only, but as a result of her action produces a surplus which competes with normal exporters of the commodity concerned. An international agreement might provide in such a case that she hold her surplus against a later shortage - a limited form of buffer stock. The main principle behind international agreements is that if it can be established that prices could be kept within limits acceptable to producers and consumers of a particular product, they should be undertaken.

Whilst the action which GATT may take in promoting international arrangements is subject to limitations, it has been given authority to review difficulties which commodities meet in international trade, and it is of course interested in action taken by the Economic and Social Council through ICCICA or any other authority, in the investigation of commodity problems and the establishment of, and amendments to, international commodity arrangements. At its Eleventh Session held last year the CONTRACTING PARTIES resolved:

"1. that they shall, at every session, review the trends and developments in international commodity trade upon the basis of the report which they have decided to request the Chairman of the Interim Co-ordinating Committee for International Commodity Arrangements to submit in his capacity as nominee of the CONTRACTING PARTIES and on the basis of other relevant documents;

2. that, apart from the consideration of such special difficulties arising out of the trade in primary commodities as may be brought to their attention with reference to their general functions under Article XXV, they shall, in the course of consultations undertaken under Article XII and, after the entry into force of the revised text of the General Agreement, under Article XVIII, Section B, take account of problems relating to international commodity trade among other difficulties which may be contributing to the disequilibrium of the balance of payments and compelling certain contracting parties to maintain import restrictions;

3. that it would be appropriate for them to enter into consultations on problems arising out of the trade in primary commodities pursuant to the provisions of paragraph 2 of Article XXII and of paragraph 5 of Article XVIII after the entry into force of the revised text to the General Agreement;

4. that when the CONTRACTING PARTIES, as a result of such consultations or of such review as provided for in paragraph 1 above, are of the opinion that an international joint action could usefully contribute to the solution of problems in the field of commodity trade, they could make arrangements, having regard to the competence of the United Nations and of the other intergovernmental organizations concerned, for an intergovernmental meeting, the composition of which should not be limited only to the countries which are contracting parties to the General Agreement but should be determined according to the nature and importance of the interests concerned both of producers and consumers; and ask the Executive Secretary to send this Resolution and the records of the CONTRACTING PARTIES' discussions relating to it, to the Secretary-General of the United Nations."

It will perhaps be apparent that the main theme of this statement is the problems of fluctuations of prices, and action that might be taken to deal with them. Such fluctuations have been a feature in the international trade of primary products for many years past. They are going on at present and unless action is taken they will continue. To place the facts beyond doubt, details are given in the case of several products which are separately referred to in paragraphs which follow.

It is of course because of the part played by ICCICA in relation to the negotiation of commodity agreements and the questions arising out of their operation that I am reporting to you, and a brief reference to the techniques employed might be helpful.

Whilst in practice the technique varies with the product, certain main principles or techniques have emerged from the agreements and negotiations for agreements which are noteworthy; these are quotas of export and import; fixed maximum and minimum prices, and buffer stocks. In some agreements one of these is a principal feature, and in others another. In others again, there could well be a combination of all three. Examples could be given in present agreements, but to avoid duplication I shall refer to them later in dealing with individual products.

In looking back over the period since the institution of GATT, and the details which follow, the fact has to be faced that fluctuations in prices in primary products still take place, notwithstanding the consideration which has been given to the problem almost constantly. What is the reason for this? I suggest it is not because international agreements have been found to be ineffective in principle, but for the following summarized reasons:

(a) That sometimes it has not been found possible to reach agreement amongst major exporting and importing countries on either the need for an agreement or on the form it should take.

Examples: rubber, cotton, cocoa.

(b) That whilst an agreement has been made, it is only sometimes partly effective because it does not include in its signatories important trading countries, either exporters or importers, or both.

Examples: wheat and sugar.

(c) That the techniques or machinery or principles, whatever word is used, provided in the agreements are not adequate to enable the objectives to be met.

Example: Sugar.

Balance of Payments

Apart from the hardship that substantial falls in prices bring to producers of particular products, and the effect on internal economies of the countries concerned, some products are so important to the external earnings of a particular country that balance-of-payments difficulties arise, and imports have to be curtailed. For example, reductions which have taken place recently in copper prices must seriously affect the import power of certain countries, because copper is their outstanding export. Many other examples could be given of governments being compelled to restrict imports because of sudden and substantial falls in world prices of one or more of their major export products. Moreover, when prices of raw materials

are too high, the allocation of foreign exchange to those materials which are usually essential reduces funds available for other imports to the disadvantage of countries supplying such other products. In some cases, of course, it is not possible to reduce items of import of lower priority sufficiently and this involves reduction below requirements for important raw materials.

Common Market

At its last meeting the ICCICA had some little discussion on the likely effect on commodity movements of the European Economic Community and the suggested Free Trade Area.

The objectives of the Community were noted and some attention given to the articles in the Rome Treaty dealing with agriculture.

No definite views were come to by the Committee, but it was clear that much work had to be done in working out in detail plans relating to the marketing of agricultural products. It seemed likely that in dealing with this aspect of the Community's objectives, important implications for the international trade in various commodities would emerge. If this is found to be the case, I am able to say that ICCICA - its members and its secretariat - would be at the disposal of the Community for any assistance or advice it may be able to give.

NOTES ON INDIVIDUAL COMMODITIES

At its meeting last April, the ICCICA reviewed the current position of various commodities in international trade and the influences affecting such trade, and its comments are contained in its report issued by the Economic and Social Council (E3000 of May 1957). I understand copies of this report have been made available to contracting parties. I have not sought to repeat the details contained in the report, but to comment on points, particularly bearing on the question of price fluctuations, and bring certain facts up to date. I have also included brief notes on copper, lead and zinc, which subjects were not included in the report.

COCOA

In the case of cocoa, the post-war period has witnessed a pronounced price cycle over a long period, as may be seen from chart 1 of the latest report of ICCICA. This long-term movement reflects the facts that world consumption grew more rapidly than world production from about 1950 to 1954 and that production grew faster than consumption in subsequent years. In addition to the long term movements in prices for cocoa there have been shorter term fluctuations of importance.

From 1950 to 1952 cocoa prices varied over a considerable range. However, the low level of stocks held by consumers of cocoa and the prospect of a poor crop early in 1953 brought about a steep rise in prices in the middle of 1954. (Cocoa prices at Accra rose from 30 US cents in February 1953, to 70 cents in July 1954).

The downturn of the movement commenced in July 1954. The sharpness of the drop may be seen from the fact that by August 1955, prices were less than half what they were a year earlier. This period of price decline reflects a rise in world production which was not matched by a rise in consumption; in fact the price rise was accompanied by a decline in imports and in per capita consumption in the United States, the largest world consumer.

As a result of the conditions arising from these pronounced changes in price, ICCICA last year requested the Secretary-General to convene a meeting of all exporting and importing governments. This meeting recommended that the Food and Agriculture Organization establish a special group to study the problem further, and this has already been done.

In addition to this long-period cycle, substantial seasonal fluctuations occur in cocoa prices owing to the fact that the main world crop is followed by smaller crops during other parts of the crop year. Prices tend to rise for several months after the harvesting of the main crop is completed early in the following year and to fall again as harvesting of the main crop approaches in the autumn.

The effect of seasonal and longer-term fluctuations in supply on producers incomes has in part been moderated by the regulation of domestic prices to producers by the West African marketing boards. Prices to be paid domestic producers for the entire crop are fixed by the boards each crop year, while the export price, of course, is governed by world supply and demand conditions for cocoa. However, while price fluctuations within the West Africa producing areas have been alleviated by these measures, there have been substantial fluctuations in the prices paid by consumers.

Instead of declining about June or July, as usually happens, cocoa prices moved up, because the 1956/57 crop in Ghana and Nigeria had already been largely sold while the Brazilian crop largely remained unmarketed. This has left Brazil as the main supplier until the new 1957/58 crop is ready for harvesting and shipment later in the year.

It would seem that developments in the cocoa markets over relatively recent times are such that an international agreement in cocoa of producing and consuming countries might be mutually beneficial. It might well be expected that this will come out of the work of the Study Group.

COFFEE

On several occasions since the Second World War there have been rapid increases in coffee prices. In the first years after the War, rising consumption was not matched by increased production and prices rose steeply in 1950 as remaining Brazilian stocks were liquidated. Prices again advanced sharply in 1954 when shortages were anticipated as a result of damage to the Brazilian crop. In both instances violent price movements took place within a relatively short span as world markets reacted at first to a threatened shortage of supply and then to a reduction of demand. United States prices (New York, Santos No.4), for example, rose from 58.5 cents a pound in November 1953 to 88.3 cents a pound nine months later. Within a year prices had declined to 53.5 cents a pound - a price which was, however, about double the level in 1947. Present prices are around 54 cents.

Though coffee prices in 1955 and 1956 were higher than in the early post-war years, they are now below the average of any year since 1951. It is significant that sharp upward movements in the price of coffee appear on balance to have retarded the growth of coffee consumption in some markets. Although over the post-war period as a whole consumption of coffee has arisen substantially in Western Europe, this has not been true in the United States, which remains the world's main consumer of coffee. For example, the sharp rise in price in 1954, to which I have already referred, was accompanied in the United States by a significant marked decline in per capita consumption. The fact that per capita consumption is now much lower than in the pre-war period would seem in itself to indicate the desirability of collaboration between importing and exporting countries in order to serve the interests of both.

Further, in recent years there has been an expansion of production not only in traditional producing areas in Latin America but also in Africa and Asia. Acreage has expanded and plantings made some years earlier have begun to yield higher levels of coffee production. At the same time, world consumption has failed to increase in a comparable fashion and world surpluses appear to be in the offing. Considerable stocks of coffee appear to have been built up in the hands of producers and consumers.

In the past decade there have been several occasions on which importers have been found with shortages and rapidly rising prices, as well as other periods when producers have accumulated surpluses and prices declined. These developments would seem to indicate that consultation and action by governments of producing and consuming countries may be desirable. In fact, draft proposals for an International Coffee Agreement are at the present time under consideration by certain interested governments.

A table of prices over the past ten years follows:

		Prices (US cents, Santos No. 4)
1947-1949 av.		28.3
1949		31.8
1950		50.9
1951		54.3
1952		54.1
1953		58.5
1954		78.3
1955		57.0
1956		58.3
Sept. 1957	about	54.00

COPPER

Industrial development after the last war brought about an increased demand for copper, and this in turn resulted in increased production. Production in existing mines advanced substantially and many new mines were opened.

Copper consumption has substantially increased over the past ten years, though the rate of increase has varied considerably generally in accordance with changes in the level of industrial production.

Prices rose to a level of 57 US cents per lb. early in 1956, but by the end of the year had fallen to 34 US cents per lb. The present price (15 October) is 24 cents. We thus have a striking case of fluctuation in prices. In March 1956 the price was more than three times that of ten years before. The short trend, however, is important. At the end of 1954 the price was about 30 cents. In fifteen months it rose to 57 cents, practically double, and in a further fifteen to eighteen months it had fallen to 24 cents, practically half.

Over the last ten years there have been many changes in the stocks held and the volume of consumption. At the present time, despite increased consumption, stocks in the hands of producers are substantially greater than normal. Normal stocks in the hands of producers are considered to be about 250,000 tons. At the end of 1956 stocks were about 350,000 tons and at present are estimated to be between 430,000 and 450,000 tons. These stocks and the heavy fall in prices have put many marginal producers out of production and mines are being closed down or exploration work undertaken throughout the world.

The position of copper in world markets is serious, and if no action is taken there appears to be no alternative to further curtailment of production until present excess stocks are used up. Prices would then rise and before production overtook consumption, would probably exceed reasonable figures. Meantime producing countries will suffer serious losses in external income and in some cases import restrictions could result. This is so because in at least two major producing countries copper constitutes the main export product. At its recent meeting, ICCICA decided that it should bring the position under the notice of copper producing and consuming countries, with the suggestion that representatives of governments meet and decide whether action is not called for. The Secretary-General of the United Nations has communicated with Member countries in accordance with this proposal.

Hereunder are figures showing price movements in recent years. (US cents per lb. in round figures)

	Yearly average
1946	14
1947	21
1948	22
1949	19
1950	21
1951	24
1952	24
1953	29
1954	29.5
1955	37.5
1956	42
	Average per month
January 1957	34
April	31
July	28
15 October	24

COTTON

The international market in cotton has been constantly under review by interested governments since the war and attempts twice have been made in the International Cotton Advisory Committee to arrive at an international agreement. Agreement has not been reached although the ICAC has continued to watch the condition closely.

Since World War II, fluctuations in prices of the medium staple group of cottons usually have been relatively moderate except at times like the Korean crisis. Long staple prices, however, have continued to be characterized by marked instability. The principal controlling influence on cotton prices has been exercised by the United States, which is by far the largest producer and user of cotton. The United States Government, by the holding

of stocks where necessary, maintenance of price support in the domestic market, and in the last two years maintaining a steady reserve price for export sales, has prevented at times a collapse in world prices and the bringing of seriously disturbed conditions to the international market. It has, in effect, operated some aspects of a buffer stock in that it financed the holding back of stocks when prices threatened to fall and let out stocks when prices firmed. Since 1953, cotton has been in surplus supply in the United States, and the withholding of such surpluses to avoid serious falls in prices has cost the United States large sums of money. The United States has also taken action to cut back cotton acreages whenever supplies were excessive, this action being offset to a considerable extent by rising per acre yields. The preservation of good prices by the United States, however, stimulated production in other countries. This accentuated the condition of world over-supply.

In 1956, the United States, in an effort to regain its export markets, lowered its price for export sale to several cents below the support price. This move was accompanied by a marked decline in prices of most other growths.

The notable feature of international cotton markets since the war is the part played by the United States. In the absence of international control, it has saved the market at times from major movements in prices; at other times changes in the world price level have been because of United States actions. The United States' responsibility is great, and at the last session of the CONTRACTING PARTIES of GATT a United States representative pointed out that whilst the United States was reducing cotton acreage others were increasing theirs. It was clear, of course, that high and steady prices had stimulated production of cotton and of competing fibres throughout the world. International action would, however, have taken conditions in all interested countries into consideration and worked out something sound and reasonable in its application to all. The conclusion is, I suggest, that it should not be left to one country to manage the markets of the world in a commodity like cotton, but that it should be the responsibility of all. If the United States decided to withdraw its funds and to liquidate its stocks suddenly, the results would be serious indeed.

LEAD AND ZINC

In the case of both lead and zinc, world production has increased year by year over the last decade. On the other hand, both commercial consumption and stockpiling have varied considerably and both commodities have been subject to extreme and frequent fluctuatuions of price.

The variations in the price of lead may be illustrated from changes in the London market. While lead was still in short supply after the Second World War, the price reached £123 a ton in the first quarter of 1949, but declined to £82 within three months. Fluctuations continued and after the outbreak of hostilities in Korea it reached a level of £180 in 1951, only to drop again during the next year to £86 a ton, or less than half. Under the impact of expanding industrial activity the price reached £123 in 1956, only to fall back this year to less than £90 a ton. The figures given are prices at the end of each month, and daily prices have varied even greater. Such sharp fluctuations cannot but be harmful to both producing and consuming countries.

But in zinc prices, fluctuations have been even sharper. The price in London rose by more than 100 per cent between July 1949 and July 1950; declines have been equally sharp, e.g. the price averaged £190 a ton in April, 1952, but one year later the monthly average was only £67 - about one third the earlier price. These fluctuations are still with us: in January of this year the average price was £105, but by June it was only £72. It is about this figure now (October).

Since the Second World War, lead and zinc markets have therefore passed through several periods of shortages and plenty. Hostilities in Korea had considerable effects on the market, but so have fluctuations in the level of industrial production with its consequent changes in consumption.

The recent fall in prices of lead and zinc has led governments to examine the possibility of taking action within their own jurisdiction to remedy the situation. It seems, however, that the problems facing the lead and zinc industries today are such that the problems need to be considered at the international level so that governments can share the responsibility of finding a remedy to a position that affects all. At its recent meeting, ICCICA decided to put this view before governments and asked the Secretary-General of the United Nations to look into the feasibility of interested governments arranging for a meeting of their representatives to be held on an exploratory basis.

NATURAL RUBBER

Natural rubber is another primary commodity in which marked price fluctuations have taken place during the past decade.[1]

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[1] In this connection reference may be made to the monthly memorandum Recent Commodity Developments, which ICCICA issues jointly with the Commission on International Commodity Trade, and to the annual reports of ICCICA. See, for example, articles in Recent Commodity Developments, Memoranda 22 and 23, and Rubber price chart in 1956 Review of International Commodity Problems, UN document E/2893, ECOSOC Official Records, Annex (XXII) 6.

In six of these ten years the average annual price of rubber differed from that of the previous year by more than 30 per cent. There were, of course, also considerable price variations within each of the years, e.g. in 1955 the average monthly price for a standard grade rose from 27 pence per pound in May to 42 pence in September - a rise of 55 per cent in four months; within a further seven months it had fallen again to the old level. The latter decline was largely responsible for the sharp fall in 1956 in the export proceeds of the largest exporter, Indonesia[1]. Such fluctuations seriously disturb the balance-of-payments situation of the producing countries and stimulate action to control import trade.

Through the post-war period the consumption of rubber (natural, synthetic and reclaimed together) has been steadily rising. Up to 1950 the increased consumption was met by an expansion of natural rubber production; since then, however, natural rubber output has remained almost constant and the sharply rising demand has been met by a pronounced increase in synthetic production.

Synthetic rubber, which in 1948 accounted for 24.0 per cent of total world consumption of rubber, supplied 37.4 per cent in 1956. Some of the basic aspect of the competition between natural and synthetic rubber have been considered by ICCICA and a note on this has been in circulation[2]. It is not possible to quickly vary the output of natural rubber to meet changes in demand conditions. One of the interesting aspects of our study was the close relationship seen between changes in the relative prices of natural and synthetic rubber and in the relative consumption of these products. It would appear that in the long run there may be severe price competition. Account must be taken of the replanting of rubber plantations which has been taking place in recent years. This and related measures, such as research on improved varieties, disease control and better preparation and packaging, will increase output in the long run and reduce costs of production of natural rubber.

The international position of rubber is kept under review by the Rubber Study Group and from time to time it has considered the advisability of introducing an International Agreement. It is clear of course that a continuation of the sharp fluctuation in the price of natural rubber is harmful to both exporting and importing countries, and the practicability of bringing about such an agreement may well be warranted.

SUGAR

The central features of the International Sugar Agreement are maximum and minimum prices, and quotas. Quotas are adjusted according to movements of free market prices between the maximum and minimum. The conditions surrounding the operation of the maximum price do not include the obligation on Member Governments to hold prices at the maximum or the minimum when either of these positions in the market is reached. In the case of the maximum, quotas are

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[1] See GATT International Trade 1956, page 170

[2] Recent Commodity Developments, Memorandum No.23

suspended when the price reaches the maximum, and when this stage is reached, the agreement is virtually suspended. In theory, of course, with prices at the maximum and good stocks of sugar available, and without any restriction on sale, the inducement to sell should be such that prices are held at the maximum.

Over the full period of the first agreement, that entered into in 1953, the operation of the agreement did have the effect of maintaining substantial stabilization of prices. Examination of the movements of prices of sugar before the agreement was entered into and of those during its operation establish this. A glance at the graph will show that during the three years 1950, 1951 and 1952, the price went as high as 7.5 cents monthly average (the peak price went to 8 cents), and as low as 3.75 cents, and that between these figures there were many fluctuations. In the three years 1953, 1954 and 1955, the highest price reached was 3.84 cents and the lowest 3.30 cents. It is also understood that effective action in relation to production was taken by countries in compliance with the terms of the agreement with the object of balancing of supplies and requirements.

In 1956, however, prices commenced to rise and it was then found that the procedures under the agreement were not sufficient to hold them at the ceiling, either because stocks held by exporters were not adequate to meet the demands at the maximum price or they were held back in the expectation of a further rise in the market. Between January 1957 and 30 September, the price went as high as 6.85 cents and as low as 4.17 cents.

Without going into the details of the mechanism of the agreement, the fact remains that it cannot under all conditions be relied upon to prevent substantial and rapid fluctuations in sugar prices, and this of course is a serious defect. In the agreement of 1953 it was provided that the price of sugar would be considered equitable both to producers and consumers if maintained between a minimum of 3.25 cents and a maximum of 4.35 per pound F.A.S. Cuba. This makes it clear of course that the price reached this year was a long way beyond that contemplated by the signatories to the agreement.

Another feature of the International Sugar Agreement is the fact that many exporters and importers remain outside it. It is very evident that this reduces its effectiveness.

The present International Sugar Agreement is due for review next year and no doubt its principles and procedures will be overhauled by its Member Governments. In the course of its examinations, some of the principles contained in other agreements might be well worthy of consideration with perhaps adaptations based upon aspects peculiar to the sugar trade. In this respect, the fixing of maximum and minimum prices outside of which trade shall not take place such as are contained in the wheat and tin agreements might be looked into, as also might the buffer stock technique as exemplified in the tin agreement.

Finally, it is to be hoped that governments not now contributories to the agreement will seriously consider becoming so. In such an industry where international trade is so vital, it is important that any arrangement entered into by governments should have the widest possible support.

TIN

The market position of tin, the introduction of the International Agreement, and the buffer stock machinery contained in the agreement were dealt with in the ICCICA report of May last.

It is interesting to note that since April last prices of tin have been stable, in marked contrast to the falls which have taken place over that period in other non-ferrous metals.

It is understood that the operations by the Buffer Stock Management took place over the period, and this, no doubt, played a major part in preventing pronounced price movements. If proposals for international meetings of copper, lead and zinc interests are acted upon, the technique of the buffer stock as followed under the Tin Agreement will no doubt be closely studied by representatives of governments.

Monthly average prices for tin in London since August last - pounds per ton - are as follows:

April	754
May	765
June	763
July	753
August	740
September	740

WHEAT

The fluctuations in the price of wheat before the war and after the war up to 1949 were heavy. In December 1947/January 1948 they fell from $ 3.28 United States currency per bushel for No. 1 Canadian wheat for export to $ 2.75 in two to three weeks. A year earlier the price was $ 2.26.

In 1949 the first International Agreement for wheat was made, its two main principles being the fixing of maximum and minimum prices, and the allocation of quotas, optional in character, for exporters and importers. The total quantity covered by this agreement in its last year was 581,000,000 bushels out of a total world trade of approximately 950,000,000 bushels - about 60 per cent. It was a four year arrangement. Despite a world scarcity of wheat over this period and the extraordinary demands arising out of the Korean war, the maximum price held, and practically all quotas were taken up every year. It is clear that over these four years the principle of a maximum price for wheat was well tested.

When the agreement expired, however, it was renewed in a form which brought about a heavy reduction in the quantity of wheat within the agreement, due mainly to the withdrawal of the biggest importer. This resulted in a reduction in the quantity covered by the agreement to 395,000,000 bushels or about 40 per cent of the total trade. This agreement was for three years and a third agreement was negotiated for another three years in 1956. The third or current agreement

covered a still lesser quantity (294,000,000 bushels). But not only this, sales outside the agreement were heavily preferred to agreement sales, with the result that in the cereal year just closed, the first year of the third agreement, only 214,000,000 bushels - less than 25 per cent of world trade - were sold under the agreement.

Since the first agreement, world stocks have heavily increased. They commenced to advance during the last year of that agreement and on 31 July 1953, world carry-overs beyond normal were estimated to be 750,000,000 bushels. On 31 July last they were estimated to be around 1,500,000,000 bushels. (These are not close estimates owing to different views as to that which constitutes a normal carry-over). It is expected there will be a fall in stocks during the current year. It is certain of course that if these excessive stocks had not been firmly held, prices would have collapsed. Canada and the United States decided to refrain from price competition, however, and Australia followed. Generally since the early beginning of the second agreement, Canada and the United States have held their prices for both agreement and non-agreement wheat above the minimum laid down in the agreement but well below the maximum. Over the same period Australia has generally sold all its wheat around the minimum. Stocks in the United States and Canada are still excessive and it must be assumed that if the marketing authorities of those countries ceased to agree to hold prices, the prices for sales outside the agreement would become heavily depressed and would so outweigh in volume those within the agreement that the agreement would fail. The International Wheat Agreement is therefore seriously defective because of lack of support and the fact that it covers so little of the world's trade. Its one merit at present is that the prices laid down are a good guide to traders, though as already noted they are only made effective by the marketing authorities of the two countries, which, under the law given them by their respective governments, have full control over all export.