

# GENERAL AGREEMENT ON TARIFFS AND TRADE

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CONTRACTING PARTIES  
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## THE IMPACT OF COMMODITY PROBLEMS UPON INTERNATIONAL TRADE

### Note by the Director-General

1. At the twenty-third session the CONTRACTING PARTIES decided to keep on their agenda the item entitled "Impact of Commodity Problems upon International Trade". The discussion at the twenty-third session was based on a document prepared by the secretariat for that purpose (L/2608).
2. In paragraph 5 of document L/2608, I suggested that in future sessions a note on the impact of commodity problems upon international trade, covering all the relevant aspects, might be submitted to the CONTRACTING PARTIES for full and detailed discussions. During the ensuing discussion, the CONTRACTING PARTIES approved that suggestion (SR.23/5).
3. This year it has appeared possible to make fairly considerable changes in the presentation of this document and to make it more up to date, more selective and more consistent with the definition of this item in the agenda.
4. Clearly, the wording of the agenda item would imply the compilation of an enormous volume of documentation. Such a massive collection of data would be inconvenient for the reader and would only serve to revise and summarize reports of other organizations, better equipped than this secretariat in the collection of data.
5. Consequently, by way of basic documentation I would suggest that delegations should refer to the reports published by other organizations, and in particular the FAO Commodity Review 1967 and UNCTAD Commodity Survey (document TD/B/C.1/23/Rev.1), and to the GATT report International Trade 1966, all of which have been distributed to governments.
6. With the objective of identifying the scope of the specific contribution that GATT can make to consideration of this problem, I have therefore decided, on a trial basis, on a new presentation for this report. The commodities are classified in three groups: temperate agricultural products; tropical products; other products (minerals, fibres, etc.). I need hardly say that the sole purpose of this classification is to facilitate examination of the problems.

7. Within each group, the problem or problems that appear to be of predominant importance have been singled out - for example, in the first group of products it would seem indisputable that problems of domestic price supports or guarantees are in the forefront. Where the second group is concerned, special emphasis has been laid on production and trade policies. In the third group, special attention should be given to price fluctuations in international markets.

8. Further, no attempt has been made to be comprehensive as regards product coverage and only those major commodities with respect to which developments since the last review seemed to require particular attention from contracting parties have been included. There is no reason why in the future, if the CONTRACTING PARTIES approve the new structure of this report, the review should not also include any products and problems that the CONTRACTING PARTIES consider deserving of consideration.

9. Lastly, with respect to each of the products considered, a certain number of particularly significant facts have been brought into focus and in each case, in accordance with the wording of the agenda, the examination has been from the aspect of the impact of these facts on the volume of trade, trading system, and prices.

10. Naturally this report is of a somewhat experimental nature but on the one hand, as agreed at the last session, it will be for the CONTRACTING PARTIES to improve and supplement the presentation and on the other hand it seems to me that the report as it stands affords a clearer definition of the specific responsibilities of GATT in the field of commodities.

## I

### Recent Developments in Problems Connected with Certain Temperate Agricultural Products, and Their Impact upon International Trade

#### A. Evolution in production and production policies

##### (a) Grains

In the European Economic Community the common market for grains, comprising common indicative prices, threshold prices and intervention prices, entered into force on 1 July 1967. The indicative price for wheat has been set at \$106.25/ton (\$2.89/bushel) for EEC standard wheat. The indicative prices for barley, maize and rye are respectively \$91.25, \$90.63 and \$93.75 per ton; the indicative prices agreed for the 1968/69 crop year are respectively \$94.44, \$94.94 and \$97.50 per ton. There was a small reduction in acreage in 1967, mainly for wheat. High yields, however, resulted in an increase in total production from 58.5 million tons (all grains) in 1966 to an estimated 66.6 million tons in 1967.

The guaranteed price for wheat in the United Kingdom for the 1967/68 crop year has been raised from \$70.04 to \$71.42 per metric ton and the standard quantity has been increased from 3.71 to 3.81<sup>1</sup> million tons. The guaranteed price for barley has been reduced from \$69.81 to \$68.21 per ton and the standard quantity has been raised from 7.47 to 7.98<sup>2</sup> million tons. Total grain production for 1966/67 is estimated to remain practically at the level of 14.8 million metric tons recorded in 1965/66, the 10 per cent increase in the barley crop being offset by decreases for wheat and other grains.

The loan rate for wheat in the United States remains, for the 1967 crop, at the level of \$1.25 per bushel. The increase in the acreage allotment was approximately 32 per cent in 1967, bringing the total to 68.2 million acres. Production of wheat (35 million tons) and coarse grains (143 million tons) was substantially the same in 1966/67 as in the preceding year. For the 1968 harvest the United States Government has decided on a 13 per cent reduction in the wheat acreage allotment.

(b) Dairy products

In the EEC, the common market for dairy products will enter into force on 1 April 1968 with an indicative price of \$10.30/100 kgs. for milk delivered at the factory. The intervention price for butter has been set at \$1.76/kg. The common threshold price for butter in 1968 has been fixed at \$1.91/kg. The total cost of intervention operations in the market for dairy products was \$132 million in 1966. Butter stocks were estimated at 253,000 tons on 1 September as compared with 203,000 tons a year earlier.

The guaranteed price for liquid milk in the United Kingdom was raised in 1967 from \$10.57 to \$10.90 per 100 kgs. At the same time the standard quantity was raised from 10,141 to 10,196 million tons (provisional).

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<sup>1</sup>Subsequently adjusted to 3.58 million tons.

<sup>2</sup>Subsequently adjusted to 7.59 million tons.

In the United States, butter production diminished by nearly 100,000 tons in 1966, but on 1 April 1966 the support price for milk, which had remained at the level of 75 per cent of parity during the year 1965, was raised to 78 then to 89.5 per cent. Since 1 April 1967 it has been set at 87 per cent of parity. The support price for butter from 30 June 1966 to 31 March 1967 was fixed at 66.5 cents/lb. Butter stocks had by 1 August 1967 risen to 102,000 tons as against the rather low figure of 42,000 tons a year earlier. The support price for Cheddar was also increased. On 1 July 1966 the support price for skimmed milk powder was raised by 30 per cent (19.60 cents/lb.).

(c) Beef and veal

The common market for beef and veal in the EEC will be completed on 1 April 1968. The steady increase in demand, from 3.55 million tons in 1960 to more than 4.60 million tons in 1967 together with the surplus situation in the dairy industry prompted the EEC authorities to encourage beef production. Estimates for 1967 (which exclude Italy) show that production in the EEC is up 185,000 tons and consumption 125,000 tons as compared with the previous year. The upper limit of the guide prices for beef, which in November 1964 was \$58.75/100 kgs. has progressively been increased to \$66 for the year 1967/68. The common guide price at 1 April 1968 will be \$68.00/100 kgs.

In the United Kingdom the number of beef cattle increased in the period 1965/66. There are signs, however, that the rate of expansion may be slowing down. In order to provide sufficient incentive to maintain the rate of expansion, the guaranteed price in 1967/68 has been increased from \$507 to \$521 per ton. Increases were also made in the various production subsidies. The price of meat (and milk) in Switzerland was increased by about 5 per cent on 1 May 1967.

Consumption of beef and veal in the United States will, it is estimated, be 100,000 tons up on 1966 but production has been virtually static.

B. Evolution of trade

(a) The volume of trade

In 1965/66 the volume of overall trade in grains had reached a record level of 105 million tons, including 62.5 million tons of wheat. Trade in 1966/67 is likely to be slightly lower in volume (the estimate is 56 million tons for wheat) and perhaps equal in value. In 1967/68 the structure of trade in wheat should be virtually the same as in 1966/67. On the other hand, there might be a decline in West European imports of coarse grains, and an increase in imports by developing countries and by Japan.

Butter exchanges between the principal trading countries remained at substantially the same level (585,000 tons) in 1966, as in 1965, increased deliveries by Oceania and the EEC serving to offset a decline in deliveries by other countries. On the other hand, there was a substantial reduction in exports of skimmed milk powder, and those by the United States fell by one half in 1966. Trade in cheese showed a 10 per cent increase in 1966 over the preceding year.

Total exports of beef and veal increased in 1966 thereby recovering from declines in the two preceding years. Imports into the EEC from third countries increased until 1965, but decreased in 1966 by 13 per cent to 530,000 tons, because growing production within the EEC was sufficient to meet the growth in demand. Indications are that imports will show a further decline in 1967. Whilst it is expected that Italian extra-Community imports will be maintained at 1966 levels, those in West Germany will decline appreciably; in the first quarter of 1967 West German imports of live cattle from third countries amounted to 47,000 head as compared with 128,000 in the corresponding period of 1966. In the United Kingdom imports decreased by 10 per cent in 1965/66 from 350,000 to 315,000 tons but are expected not to fall further in 1966/67; the increase in consumption in 1966/67 will be met by an increase in the United Kingdom domestic production. In the United States imports of beef and veal mainly for manufacturing purposes, increased appreciably from 265,000 to 345,000 tons in 1966. A further increase at a much lower rate appeared in the first six months of 1967 (160,000 tons as compared with 152,000 in the first six months of 1966). Imports are still below the contingency quotas in the United States and are expected to remain so for the time being.

(b) The trading system

A new grains arrangement, including a food aid convention, was concluded at Rome on 18 August 1967, and is scheduled to come into force on 1 July 1968.

The United Kingdom import quota for butter has been raised by approximately 8 per cent for 1967/68, to 478,000 tons. Additional restrictions on imports of certain dairy products into the United States were announced by a presidential proclamation dated 30 June 1967. Despite the fact that consumption was 4 per cent higher in 1966, the EEC increased its exports.

The increase in the EEC guide prices for beef and veal, referred to above, has the double effect of shifting the trigger points for the entry into operation of the import levy system and of increasing the amount of the levy. At least for beef and live animals, levies have been in operation in all member States (in full or at the 50 per cent level) during the greater part of the year 1966, in particular during the second half, and continuing in 1967. However the EEC and Denmark have entered into a bilateral agreement to enable Denmark to maintain deliveries, especially to West Germany. Denmark has also concluded a bilateral agreement with Sweden on beef under Article 23 of the Stockholm Convention in terms of which Sweden will lower duties for all GATT countries within quota limits.<sup>1</sup>

(c) Prices

Export prices for wheat were generally much higher in 1966/67 than in the preceding year, mainly because of the reduction in stocks. A further reduction in United States end-of-year stocks is expected this year, bringing them down to approximately 11.2 million tons of wheat. Grain sorghum and maize prices were also very high, particularly during the first six months of the crop year. Barley prices remained stable.

Butter prices declined in the United Kingdom market in 1966, in particular prices of New Zealand butter (average for 1966: 302 shillings/cwt. as against 333 shillings in 1965). Reduced prices for cold-stored butter were quoted in the EEC. Prices for milk powder and butter were very high in the United States during the first part of 1966.

The continuation of present trends in production and consumption of beef and veal would probably result in some easing in prices. A pointer in this direction is the fact that prices on the United Kingdom market are at present low and prospects are not conducive to optimism.

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<sup>1</sup>The text of this Agreement is appended to L/2864.

II

Recent Developments in Problems Connected with Certain  
Tropical Products, and Their Impact on International Trade

A. Developments in production and trade policies

(a) Production

Cocoa

World production of cocoa in 1966/67 is estimated to have risen by about 100,000 tons, or 7 per cent, to a total of 1.33 million tons. This level is still, however, some 13 per cent below the 1.52 million tons produced in the record year 1964/65. Although Ghana, the major producer, registered a decline, the bulk of the increase in 1966/67 is accounted for by Africa.

Cocoa grindings, which had risen by 13 per cent in 1965 and by 3 per cent in 1966, rose by less than 2 per cent in 1967, to an estimated world volume of 1.41 million tons. A noteworthy feature is the accelerated growth in grindings in producing countries, from  $3\frac{1}{2}$  per cent in 1966, to  $6\frac{1}{2}$  per cent in 1967; at present these countries account for about one sixth of the world total.

In spite of the slowing down in the growth of consumption (as reflected by grindings) and the rise in production, the overall supply position is still one of excess of consumption over production, although with a reduced margin. The situation indicates that stocks have continued to be drawn down.

Producer prices for cocoa were raised for the 1966/67 crop year in Ghana from £74.13.4d. to £84.0.0d. per long ton (adjusted in mid-1967 to £84.18.6d. in connexion with the devaluation of the cedi), in Nigeria from £65.0.0d. to £90.0.0d. per long ton, in Ivory Coast from CFAF 55 to CFAF 70 per kg., and in Cameroon from CFAF 50 to CFAF 65 per kg.

Coffee

Adverse climatic conditions in most of the major producing countries resulted in a 25 per cent decline in the level of coffee production in 1966/67 as compared with the previous twelve-months' period. The Brazilian crop was cut by more than 50 per cent as the result of frost and insect damage and the tree eradication campaign. At 59.6 million bags (60 kgs.) world output of coffee in 1966/67 fell short of estimated consumption by some 6 million bags.

It is, however, unlikely that the combination of circumstances pertaining in 1966/67 will reproduce itself and it is expected that the underlying imbalance between production and consumption will continue in the foreseeable future.

Consumption of coffee in importing countries has been rising at the rate of approximately 3.5 per cent per annum and at double that rate in producing countries. In industrialized countries there is a wide range in per caput consumption levels with 12 kgs. consumption per annum in Sweden as compared with 1.2 kgs. in the United Kingdom. In a number of countries, including the United States and Canada, per caput consumption is levelling off or even declining. In 1966, producers in the International Coffee Organization have, through their contribution to the World Coffee Promotion Committee, instituted promotion campaigns in the principal consuming countries, but it is likely that the rate of world coffee consumption growth will, in the future, decline to about 2.5 per cent per annum.

The success achieved by the mechanism established under the International Coffee Agreement in bringing about relative stability in prices has served to disguise the extent of over-production. The chronic imbalance between supply and demand is reflected dramatically in changes in stocks of green coffee held in producing countries. Whilst the sharp fall in production in 1966/67 led to a reduction in total stocks of 6.2 million bags this was solely attributable to a decline of 8.2 million bags in Brazilian stocks; in the rest of the world stocks rose by some 2 million bags. Despite this recent decline, world stocks now stand at 75 million bags and are equal to about 18 months total exports; in Brazil, stocks represent three years' exports. The existence of such large stocks clearly constitutes a threat to market stability and even to the effectiveness of the International Coffee Agreement.

A number of countries have enacted legislation prohibiting or limiting new plantings. However, because it has not yet generally been found possible to find alternative remunerative export crops for peasant producers, and because a number of trees planted will only be reaching maturity by the end of this decade, it is estimated that coffee production will continue to grow at a rate faster than consumption for a number of years and that stocks will on average increase by 5 per cent per annum until 1970, when they would equal twenty months' exports.

#### Sugar

After a decline in 1965/66, world production of centrifugal sugar rose in 1966/67 by about 3 per cent, to a total of just under 65 million tons raw equivalent. This level thus lies about half way between that of 1964/65, the

record year, and that of 1965/66. The relative increase was more pronounced for beet sugar, production of which accounts for over two fifths of the total and which rose by nearly  $4\frac{1}{2}$  per cent, while production of cane sugar registered a rise of just over  $1\frac{1}{2}$  per cent.

Production in the developing countries failed to reach the high level of the previous year. Although a sharp recovery occurred in Cuba, and marked increases took place in Mexico and the Dominican Republic, these were offset partly by lower production in several other countries in Latin America (where Argentina and Brazil restricted production because of high stocks and low prices), but mainly by a decline in Asia, where India, Taiwan and Indonesia registered substantial falls. While production in the developing countries as a whole was thus 2 per cent lower than in the previous year, it rose by nearly 8 per cent in the developed countries and by nearly 6 per cent in the centrally-planned countries. The expansion was particularly strong in South Africa, Australia and Eastern Europe.

The sharp expansion in world sugar consumption, by nearly 8 per cent in 1965, was followed by a more modest growth of 3 per cent in 1966, a rate which has probably been maintained since. A recent feature has been the use of sugar for non-food purposes, either as cattle feed or as an industrial raw material. However, consumption was strongly outpaced by production in 1965, and, although the margin has since very much narrowed, consumption has continued to run below production.

As a result, world stocks of sugar rose sharply from 10.8 million tons to 17.7 million tons between the beginning and end of the 1964/65 season, and to 18.5 million tons in the following season, equal to about three and a half months' consumption. Stocks have probably been added to in the current season.

For the coming 1967/68 season, only unofficial traders' estimates are available. These would point to a slight increase in beet sugar production, mainly in Europe, where preliminary beet planting estimates indicate an increase of about 5 per cent in Western Europe, and about  $1\frac{1}{2}$  per cent in Eastern Europe and the USSR. The areas sown to beet in the United States in 1967 may be about 3 per cent above the previous year. In the cane sector, the prolonged drought in the Caribbean areas is expected to result in a substantial reduction in output. From these forecasts it would seem that world production in 1967/68 will be somewhat below that of 1966/67. If consumption continues to grow at least moderately, it might thus exceed current output. However, even if such a reversal in the current supply-demand position does occur, its effect on the market will be limited by the existing stocks. It must also be borne in mind that part of the growth in recent consumption was due to diversion for non-food purposes; this takes place only when the price of sugar is below a certain low level.

### Oilseeds and vegetable oils

World production of oilseeds and vegetable oils, which had expanded continuously since 1958, showed some slackening in its rate of expansion during 1966, due mainly to a fall in output in developing countries as a whole. Heavier groundnut crops in many African countries and larger production of copra in the Philippines could not offset the losses in output suffered by India and some Latin American countries. However, production was higher in the United States, Canada and Europe. In the United States, the world's largest producer of fats and oils, output of fats and oils was 0.25 million tons higher in 1966 than in 1965, with heavier supplies of soyabean oil offsetting the loss in production of cottonseed oil and animal fats. Canadian output of rapeseed also rose by 13 per cent in 1966/67. The East European countries showed a further increase in output, although the rate of growth slowed down in the USSR owing to a smaller sunflowerseed crop. Recovery in the production of olive oil in Italy and Spain was reflected in a higher level of production for Western Europe as a whole.

There were hardly any significant changes in production policies during 1966, except that the EEC adopted a common policy relating to olive oil and oilseeds produced within the Community. The regulation entered into effect for olive oil in November 1966 and for oilseeds and other oils on 1 July 1967. The regulation provides for olive oil a system of target prices maintained by intervention and import levies; in addition subsidies are paid on the production of olive oil from olives produced within the Community. For other oilseeds and oils produced in the Community the system provides for target and intervention prices, in addition subsidies are paid on oilseeds produced and processed in the Community equal to the difference between the target price and the world market price for the seed concerned.

In the United States, the average price of soyabeans received by farmers has trended upward from \$1.96/bushel in 1959 (support was \$1.35) to \$2.77 in 1966 (support level in 1966 was \$2.50), an increase of 40 per cent. The support in 1967 remained at \$2.50/bushel.

In Argentina the support price for the 1965/66 crop of groundnuts was ~~MAN~~ 1,900/100 kgs. A price support was introduced for the first time for soyabeans. Support prices for linseed and sunflowerseed remained unchanged.

### (b) Developments in trade policies

A significant development in trade policies followed from the Kennedy Round negotiations, under which tariffs were eliminated or reduced, in a number of cases with immediate effect.

Virtually all the duties on cocoa beans and cocoa products (i.e. paste, butter and powder) that still existed in the main developed importing countries, were either eliminated or reduced. At present, duties on cocoa beans are applied only by the EEC, Austria, New Zealand and Portugal. Australia and Finland apply duties on roasted beans. Only Denmark and the United Kingdom admit the cocoa products mentioned free of duty.

Japan, Canada and Norway eliminated duties on raw coffee (the United States had already bound this duty at zero). Reductions of 50 per cent or more were effected by the United Kingdom, Finland and Sweden. The EEC bound its duty on raw coffee at the applied level of 9.6 per cent. Switzerland reduced the duty on unroasted coffee by some 10 per cent.

The United States applied no duty on roasted coffee before the Kennedy Round. A reduction of 50 per cent or more has been accorded by the United Kingdom, Canada, Norway and Sweden. Reductions of less than 50 per cent were granted by the EEC, Finland and Switzerland.

The United States and Sweden eliminated the duty on coffee extracts and essences and Norway and Finland have agreed to a 50 per cent tariff reduction on this item. Reductions of less than 50 per cent were agreed by the United Kingdom, Japan, Austria and Switzerland. Whilst Denmark introduced no tariff concessions on coffee or coffee extracts, the Danish Government has decided that 50 per cent of the customs receipts derived from these products should be placed in a fund for the encouragement of investment in developing countries.

In respect of sugar, the only tariff concession was made by Norway, in the form of a 50 per cent cut in the legal rate; the present applied rate is however nil. It was considered that the complex problems of the sugar sector could best be dealt with in a multilateral arrangement. A proposal aimed at such an arrangement was tabled in the negotiations by the EEC, but discussions on sugar were not pursued.

A number of countries impose quantitative restrictions on sugar. These include Austria (except on crude), Belgium-Luxemburg, Denmark, Federal Republic of Germany, Italy, Japan, Sweden and the United States.

The common agricultural policy on sugar in the EEC will come into effect on 1 July 1968. Imports of sugar have become subject to variable levies, which have replaced duties, on 1 July 1967.

In respect of oilseeds, concessions were made by Canada, Denmark and Norway, which eliminated tariff duties on the principal oilseeds, by Finland which bound its zero duty for oilseeds imported for industrial use and by Japan which eliminated the duty on groundnuts for oil extraction. As regards vegetable oils, a number of concessions were made, mainly in industrial oils. Only in a few cases were concessions made on the major vegetable oils.

Under the EEC common policy, imports of oilseeds from all sources are duty free into the Community, with duties on oils from third countries. Vegetable oils from the Associated States, on the other hand, enter the Community duty free. In addition to this preference on oil, deficiency payments will be made to the Associated States, subject to a maximum total amount, when the prices of the principal vegetable oils and oilseed exports fall below agreed reference prices. If world prices fall below the reference prices, the Community would cover by financial aid 80 per cent of the difference between the reference price and the market price, up to a maximum, over the period July 1967 to 30 April 1969. Quantities imported into the Community under special bilateral arrangements would be excluded.<sup>1</sup>

B. Impact on trade

(a) Volume of trade

Cocoa

After having risen by 18 per cent in 1965, the volume of world imports declined slightly in 1966, to a level of 1.2 million tons, both developed and centrally-planned countries sharing in the decline.

On the export side, reduced shipments from Ghana and Nigeria largely accounted for the decline, by about 200,000 tons, in the world total for 1966 of 1.1 million tons of cocoa beans, while those from Latin America rose, thanks to higher exports from Brazil. Available figures for the early part of 1967 indicate a 4 to 5 per cent decline in world exports of beans.

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<sup>1</sup> Agreement between France and Senegal for 1966-67 season is that France will buy 197,000 tons (refined oil basis) of groundnuts and oil of which some 135,000 tons as oil at the price of F 97 per quintal (corresponding to some £200 per ton).

Exports of cocoa butter from Latin America, which in 1952-56 averaged less than 8,000 tons annually, reached nearly 19,000 tons in 1965 and 22,000 tons in 1966. Cocoa butter exports from Africa showed an even faster growth, starting from a lower base, of 3,000 to 4,000 tons in 1952-56, reaching 17,000 tons in 1964 and over 31,000 tons in 1965; their 1966 level is however probably substantially lower. African exports of cocoa paste have shown a similar development, reaching nearly 30,000 tons in 1965 compared to 4,000 to 5,000 tons some ten years earlier.

World export earnings from cocoa and cocoa products amounted to about \$552 million in 1964, \$537 million in 1965, and are estimated at \$500 million for 1966.

### Coffee

The volume of trade in coffee is effectively determined by the export quota system embodied in the International Coffee Agreement. In the coffee year ending September 1966 exporting members of the International Coffee Organization shipped 49.1 million bags and it is estimated that in the coffee year just ended their shipments will amount to some 49.5 million bags. For the forthcoming coffee year, provision is made for export quotas of 47.6 million bags and it is thought that total exports by producers will amount to 51.2 million bags.

A feature of international trade in coffee in recent years has been the growth in the export of soluble (instant) coffee from coffee-growing countries. This trend is demonstrated particularly in the statistics of the United States which show that imports grew from \$5.3 million in 1964 to an annual rate of \$25 million in the first five months of 1967.

### Sugar

World exports of sugar in 1966 probably reached, or almost reached, the record level of the preceding year. World imports remained virtually unchanged at 18.64 million tons, an increase in the developed and developing countries being offset by lower purchases of the centrally-planned countries, especially the USSR.

### Oilseeds and vegetable oils

International trade in oilseeds and vegetable oils maintained its upward trend during 1966. After the setback of 1965, world exports of oils and fats in 1966 amounted to 10.4 million tons, which was about 3 per cent more than in the previous year. Much of the increase in world exports is attributed to soft oils (groundnut, cottonseed, sunflowerseed, rapeseed, sesame seed oils and olive oil). Exports of groundnuts and groundnut oil showed a marked increase in 1966

from Nigeria, Senegal, Gambia, Niger, Argentina and Mainland China. World exports of rapeseed and rapeseed oil expanded by almost 30 per cent, or 70,000 tons (oil equivalent), mainly on account of a further increase in Canadian exports. World exports of sunflowerseed and its oil are estimated to have increased by about 35 per cent or 140,000 tons (oil equivalent), a large expansion having taken place in exports from the USSR and Argentina. Exports of soyabeans continued to increase during 1966, but those of soyabean oil were smaller than in the previous year, chiefly because of a sharp fall in United States shipments due to higher domestic demand and reduced sales under Public Law 480.

Exports of lauric acid oils (coconut and palm-kernel oil) also expanded during 1966. Exports of copra and coconut oil increased by 6 and 28 per cent respectively, largely because of increased shipments from the Philippines, the world's main supplier. World exports of palm kernels and palm-kernel oil, as well as those of palm oil, increased by 2 and 9 per cent respectively; in the case of palm-kernel oil there was a pronounced rise in deliveries from Nigeria and in the case of palm oil in those from Malaysia and Singapore.

(b) Prices

Prices of cocoa, having shown a strong recovery in 1966 from the previous year's low levels, continued firm in 1967. New York prices for spot Ghana moved from an annual average of 17.3 cents/lb. for 1965 to 24.4 cents for 1966 and 28.3 cents for the first eight months of 1967.

The International Coffee Agreement has been successful in insulating the world market from the effects of the imbalance between production and consumption and has brought a degree of stability to international prices of coffee, the value of which in world markets was previously subject to large and sudden variations. The mechanism of price regulation through quota adjustments has been rendered more sensitive by the introduction of the selectivity system which takes account of the fact that the supply and demand situations for different types of coffee may vary. Although prices for Colombian and Other Milds fell quite sharply in 1967, necessitating quota cuts, demand for Robusta was maintained and quotas, in fact, were increased. The indicator prices, upon which quota changes are based, have been lowered for the 1967/68 coffee year for all Arabica types reflecting the weakening of the market for these types and the fact that export quotas in 1967/68 have been set at 2.4 million bags higher than in 1966/67 (47.6 million bags as compared with 45.2 million bags).

The supply-demand situation and the mounting stocks of sugar had a strong repercussion on prices in the "free" market, which accounts for about one half of world trade. The price calculated by the International Sugar Council, which averaged 5.72 cents/lb. in 1964, dropped by over one half to 2.03 cents for 1965 and fell further to an average 1.76 cents for 1966. In January 1967 prices reached their lowest point since World War II, but subsequently began to strengthen in response to purchases stated to be destined for cattle-feed and industrial uses, as well as in response to new estimates of the supply situation pointing to an improved market balance. In June 1967 the International Sugar Council price averaged 2.43 cents/lb.

Trade under special arrangements moved at prices considerably above those of the "free" market. In the United States, the price of sugar imported under the quota system of the Sugar Act averaged 6.99 cents/lb. (c.i.f., duty paid, New York) in 1966, and rose somewhat further during 1967. The volume of these imports was about 3.9 million tons. The negotiated price quota under the Commonwealth Sugar Agreement amounted to some 1.8 million tons; the negotiated price was set at £47.10.0d. per long ton, f.o.b., equivalent to 5.94 cents/lb.

International prices of fats and oils as measured by the FAO index (1952-54 = 100) fell to an average of 96 in 1966, i.e. a decline of 8 points from the preceding year's average. The overall decline in prices, characterizing most major oils, reflected an increase in world supplies. In Western Europe the ample supplies of butter and the higher production of animal fats had the effect of reducing the increase in demand for vegetable oils in 1966. Moreover, the recovery in output of olive oil in Italy and Spain during 1965/66 also tended to reduce import demand for other vegetable oils.

#### (c) International co-operation

A series of meetings aimed at the conclusion of an international cocoa agreement has been held under the auspices of UNCTAD in the course of recent years. On 4 October 1967, a Memorandum of Agreement was adopted, relating to matters for inclusion in the agreement to be concluded at a resumed United Nations Cocoa Conference. The Conference is expected to be held towards the end of 1967.

The present International Coffee Agreement is due to expire in September 1968 and negotiation has already begun on the extension and amendment of the Agreement. At its meeting in August/September 1967, the International Coffee Council adopted a Resolution containing a proposal for the revision of basic export quotas under the Agreement and a further meeting

of the Council has been scheduled for November 1967 to undertake further work necessary for the extension and amendment of the Agreement. The major problem facing the International Coffee Organization is over-production and if the benefits which have accrued to the producing countries as a result of the Agreement are not to be wiped out in the future, the main task of the members of the organization must be the introduction of a workable system of production control. A major rôle in this process will fall upon the Coffee Diversification and Development Fund, draft articles for which have already been proposed.

By a decision of the International Sugar Council, the International Sugar Agreement, 1958, whose economic operative clauses lapsed at the beginning of 1961, was extended by protocol until the end of 1968, unless a new Agreement should enter into force before that date. The UNCTAD Consultative Committee on Sugar has held several meetings since the adjournment of the United Nations Sugar Conference in October 1965. In March 1967 the International Sugar Council recommended that the consultations which the Secretary-General of UNCTAD is conducting with the assistance of the Executive Director of the International Sugar Council should have as target the resumption of the Conference and that such a resumption of the Conference should take place if the Secretary-General and the Executive Director are satisfied that conditions are such that the Conference has a reasonable chance of success. Further consultations under the auspices of UNCTAD began on 23 October in the Expert Group on Sugar.

In order to identify some of the problems, especially confronting the developing countries, and to discuss the present market situation, the FAO Study Group on Oilseeds, Oils and Fats, met in Rome in September 1967. While reviewing the current situation, the Group noted that:

- (a) Production of oilseeds and vegetable oils in the developing countries had increased much more slowly than in developed countries, the USSR and Eastern Europe;
- (b) Per capita consumption in developing countries had remained very low;
- (c) Their share of world trade had fallen;
- (d) The prices of particular oils and oilseeds of special interest to developing countries had shown more substantial fluctuations than those of fats and oils as a whole and their purchasing power in terms of manufactures had declined.

A Technical Working Party was set up to consider various possible approaches to reorganize world trade in these products, especially the feasibility of concluding an international agreement for the main oils and oilseeds of particular interest to developing countries.

The International Olive Oil Agreement, which was due to expire on 30 September 1967, has been extended in its present form for two years until 30 September 1969.

### III

#### Recent Developments in Problems Connected with Certain Raw Materials and Non-Ferrous Metals

The slowdown in aggregate economic growth of the industrial areas, noticeable since the second half of 1966, had an adverse effect on demand for raw materials. In the Organisation for Economic Co-operation and Development area, activity in industry - the main user of these commodities - stagnated since the third quarter of 1966. Industrial output in Western Europe, in fact, remained flat throughout 1966 and in the first half of 1967. In the United States, the expansion in industrial production also slowed down in the second half of 1966 and reversed to a decline in the first half of 1967. Only in Japan did output continue to progress vigorously both in 1966 and the first two quarters of 1967.

In correspondence with economic trends in the industrial countries, demand for primary commodities other than foodstuffs began to slacken in the course of 1966 and - on the whole - weakened further in the first half of 1967. By individual commodities, this was the case in particular for copper, zinc and rubber. Production, on the other hand, generally continued to rise in the first half of 1967 (with the notable exception of cotton and hard fibres), and was again supplemented - though on a decreasing scale - by United States stockpile releases.

The resulting tendency towards an excess of supplies over demand - in the case of textile fibres and natural rubber aggravated by continued strong competition from man-made products - exercised considerable pressure on prices. The United Nations export price indexes for all major groups of non-food raw materials fell substantially from the third quarter of 1966 onwards; for non-ferrous metals, the decline amounted to 8 per cent each in the second half of 1966 and the first half of 1967, and for agricultural raw materials to 3.5 and 2.5 per cent, respectively. For non-ferrous metals, metal ores, hides and jute, these price declines follow considerable price increases achieved during the boom period 1964-66. In the case of rubber, hemp, sisal and wool, they are a continuation of a longer-term downward trend, reflecting largely the competition from synthetic materials and, as regards rubber and sisal, also partly stockpile disposals.

The following pages contain a brief account of recent developments with regard to selected raw materials, i.e. certain fibres, rubber and non-ferrous ores and metals.

Export Price Indexes, Primary Non-Food Commodities

(1958 = 100)

	1964	1965	1966	1966		1967
				January- June	July- December	January- June
Agricultural non-food <sup>2</sup>	106	103	105	107	103	101
of which:						
Textile fibres	116	105	106	107	104	101
Others	101	102	104	107	103	101
Metal ores	104	110	110	114	107	103
Non-ferrous metals	135	155	178	185	171	158

<sup>2</sup>Excluding fats, oils and oilseeds.

Source: United Nations, Monthly Bulletin of Statistics, September 1967.

Fibres

The instability of markets, the slow growth of consumption and the further strong competition from synthetics continue to be the major problems facing producers of natural fibres.

In the case of apparel fibres, for example, over the last ten years the average annual increase in consumption of both wool and cotton was 2 per cent against 9 per cent for man-made fibres. For cotton, this aspect and other major problems affecting international trade have been examined by the Working Party on Economic Problems of Chad established by the GATT Committee on Trade and Development. The imbalance between supply and demand for hard fibres has led to a serious fall in prices for sisal and abaca which are currently at a very low level. For jute, by contrast, prices during the 1966/67 season were considered to be at a level high enough to discourage its usage in the longer run, but have declined in recent months. As regards both hard fibres and jute and allied fibres, international co-operation in the respective FAO commodity groups has been intensified recently with the view to stabilizing markets for these commodities.

### Cotton

World production of cotton fell by one-tenth in 1966/67 to 10.3 million tons and is expected to be even lower in 1967/68. In the United States, production was reduced by one third in 1966/67 and a further drop of 15 per cent is forecast for 1967/68; this reduction in output was the result of heavy participation in the official programme<sup>1</sup> for diversion of land to other crops, accentuated by lower yields owing to bad weather. Production in the rest of the world, after a slight decline in 1966/67 (which was concentrated in the developing countries), is expected to increase in 1967/68 but not sufficiently to offset the decline in the United States.

World consumption of raw cotton in 1966/67 is estimated to have risen to 11.3 million tons, by about 2½ per cent, i.e. somewhat faster than during the preceding year, with consumption continuing to increase more rapidly in the developing countries and Eastern Europe than in the industrial countries. As production fell below consumption in 1966/67, stocks have been significantly reduced (by about 1 million tons to 5.6 million tons on 1 August 1967) resulting in an improved balance between supply and demand for the 1967/68 season. Average prices for all important varieties of cotton were lower in 1965/66 than in the previous year. In 1966/67, prices have strengthened on the whole, although price movements varied as between various types.

### Jute, kenaf and allied fibres

The volume of world trade in jute, kenaf and allied fibres reached a new record level in 1966; on the export side, supplies from Thailand continued to expand rapidly (they doubled in 1965 and increased by one half in 1966), and on the import side, India, which imported twice as much as in 1965 accounted for most of the increase. Prices of jute and allied fibres have been maintained at a high level during the 1966/67 season despite relatively abundant supplies. This was achieved largely through Pakistan's pricing policy, by the application of an export control price. Towards the end of the season, however, in June 1967, the export control price was reduced. The reduction is no doubt connected with the growing share in exports of the lower-priced kenaf as well as the threat from synthetics which, although not yet widely used as a substitute for jute and allied fibres, could gain ground if the prices of these fibres remained high. Prices quoted for Pakistan export firsts, c. and f. Dundee, declined moderately from March 1967, but, as a result of cuts in the Pakistani export price, fell more abruptly in June and July, and were by September 17 per cent below prices quoted early this year. Attempts are being made to stabilize the market: at a recent meeting of the Food and Agriculture Organization Consultative Committee on Jute, Kenaf and Allied Fibres, representatives of the main importing and exporting countries agreed on an indicative export price for the 1967/68 season.

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<sup>1</sup>For an analysis of cotton prices in the United States and a description of the present programme, see COM.TD/W/57.

### Rubber

In spite of the slowing down of demand in Western Europe, the situation in 1966 was characterized by a relatively high level of consumption. The share of natural rubber in world consumption declined further, and natural rubber prices deteriorated considerably, continuing the downward trend noticeable since 1960.

Rubber demand in Western Europe remained slack in 1967, and declined considerably in the United States in response to the slowdown in economic growth. In addition, United States demand was adversely affected by a three-months' strike in the tyre industry (which ended only in August) and should also suffer from the present strike in the automobile industry. During the first half of 1967, total world consumption of natural rubber fell nearly 3 per cent below the level attained during the corresponding period of 1966. Output, on the other hand, increased by 2.5 per cent in the first half of 1967 and is likely to grow faster than in 1966, mainly due to a sharp expansion in Malaysian production which is expected to pass the 1 million long ton mark this year. By comparison, both production and consumption of synthetic rubber fell by 2 per cent during the first half of 1967.

Natural rubber prices deteriorated further in 1967. The average 1966 London spot price for No. 1 RSS grade stood at 20d./lb. (compared with 32d. in 1960). In May 1967, the price had fallen to slightly over 17d., then recovered in June and July under the impact of the Middle East crisis which encouraged stockbuilding. In the following months, however, these stocks weighed the market down and prices fell to 15d. early in September. Synthetic rubber prices apparently tend to follow the downward development of natural rubber prices; in August for instance, United Kingdom synthetic rubber manufacturers reduced their prices by an average of 10 per cent.

United States stockpile disposals, which had contributed to the growth of supplies, were reduced in 1967, following an appeal by governments of producing countries. Deliveries under the disposal programme, which had been stepped up to 43,000 tons per quarter in March 1966, were cut to 30,000 tons per quarter from 1 January 1967 onwards, and to 17,500 tons per quarter from 1 July onwards.

However, with world demand remaining relatively low and in view of the continued competition from synthetic rubber, it is unlikely that natural rubber prices will recover in the near future. Beginning October, the Government of Malaysia organized a conference of six leading Asian and African natural rubber producing countries. Agreement was reached to establish a permanent organization which, by joint action, will attempt to maintain natural rubber prices at a reasonable and profitable level. The conference also appealed to all natural and synthetic rubber producing countries to conclude an international rubber agreement. The International Rubber Study Group, which met on 16 October 1967, was also expected to discuss the possibilities for stabilizing the rubber price.

Non-ferrous ores and metals

Continuing the trend noticeable since the second half of 1966, world demand for non-ferrous ores and metals slackened further in the first half of 1967. As economic growth in Western Europe remained relatively low and weakened in the United States, consumption of refined copper and zinc metal declined below the level attained in the first half of 1966, and showed only small rises in the case of primary tin metal and lead. By contrast, production of all four metals, and in particular of tin, continued to rise.

Non-ferrous metal prices had moved sharply upwards in 1964, 1965 and the first half of 1966 as the growth in demand was considerably in excess of the rise in supplies. With the supply/demand situation gradually reverting, prices followed a downward trend from the third quarter of 1966 onwards which continued in 1967. According to the United Nations index, average non-ferrous metal prices fell by 8 per cent each in the second half of 1966 and the first half of 1967 (change over the preceding half year). During more recent months, prices have shown a somewhat firmer tendency, mainly in response to the prolonged strike in the United States non-ferrous metal industry which has practically eliminated the production surpluses expected for 1967.

Non-Ferrous Metal Prices 1963-1967

(Average cash prices on London Metal Exchange)

\$ per 100 pounds

	Annual averages				Quarterly averages			
	1963	1964	1965	1966	1966		1967	
					III	IV	I	II
Copper wire bars	29.26	43.84	58.72	69.22	58.77	57.27	53.81	46.00
Lead (99%)	8.00	12.69	14.39	11.69	11.79	10.29	10.14	10.32
Tin (min. 90.7%)	113.7	154.4	176.6	162.0	156.0	155.5	150.1	152.3
Zinc (98%)	9.72	14.88	14.12	12.75	12.85	12.02	12.72	12.42

Source: International Monetary Fund, International Financial Statistics, September 1967.