

PREPARATORY COMMITTEE OF THE INTERNATIONAL CONFERENCE
ON TRADE AND EMPLOYMENT

INTER-GOVERNMENTAL COMMODITY ARRANGEMENTS

COMMITTEE IV

SUMMARY RECORD

Fifth Meeting
Held on Monday, 28 October 1946
at 11 a.m.

Chairman: Mr. J.R.C. BELMORE

1. General Provisions which might be applied to all Inter-governmental Commodity Arrangements (continued from Fourth Meeting).

Review and renewal of agreements; settlement of disputes

Mr. BROADLEY (United Kingdom) suggested that Article 46 (9) of the Suggested Charter form the basis of the first part of the discussion. He asked whether it was contemplated to await the expiry of the full five years term before complaints about the working of an agreement were considered.

Mr. McCARTY (Australia) believed the specified term would be too short in the case of some products and too long in the case of others. He doubted if all the procedure set out in Article 45 should be gone through when an agreement was being revised. He maintained that in all cases, review should be undertaken in good time prior to expiry or renewal of the agreement because, firstly, renewal might take some time, and, secondly, sudden termination would be disruptive to the industry concerned. It might take several stages to reach complete agreement. The initial agreement might not achieve all its objects. The conditions regarding failure of an agreement were dangerous

because opponents might attack an agreement in its entirety when in fact certain additions or amendments might make it successful. The remedy for partial failure of an agreement was improvement, not rejection.

Mr. GUERRA (Cuba) drew attention to the Cuban Delegation's amendment to the Draft Charter (E/EC/T/C.IV/W.4). He emphasized flexibility as the essential element in commodity agreements.

The CHAIRMAN suggested that the Drafting Committee should consider the Cuban amendment.

Mr. GUERRA (Cuba) agreed but asked that Point 1 of his amendment (reasonable and just prices) should be discussed in full committee.

Professor de VRIES (Netherlands) pointed out that Article 49 excluded from the provisions of Chapter VI inter-governmental agreements not regulating production, trade or prices, e.g. research arrangements. He thought that all forms of agreement should come under the rules of Chapter VI.

Mr. Clair WILCOX (United States) suggested that at this stage agreement should be sought on the following points:

- (a) that commodity agreements should be drawn up for fixed terms, irrespective whether the actual term should be the same for every agreement;
- (b) that the terms of agreements be subject to review in the light of their operation;
- (c) that agreements be renewable after expiry of the initial term;
- (d) that agreements should contain provisions for settling disputes.

He thought that there was little disagreement on these points and suggested that the Drafting Committee should consider them in detail.

The Committee then turned to discussion of the settlement of disputes.

Mr. BRADLEY (United Kingdom) believed that settlement of disputes raised the problem of enforcement. If a party to an agreement failed to fulfil its obligations, what action should be taken? This also involved the problem of enforcement against countries outside the ITC.

Mr. GUERRA (Cuba) thought that disputes should be referred to the ITC for a decision.

Professor de VRIES (Netherlands) stated that disputes could be of two kinds:

- (a) Disputes regarding interpretation.
- (b) Disputes regarding participants' interests.

He thought that these should be treated separately. Article 76, which applied to interpretation of the Charter, might be extended to cover interpretation of commodity agreements. As regards disputes on matters of interest, these might in the last resort be put before an Arbitration Committee or perhaps before an Economic Chamber of the International Court.

The CHAIRMAN suggested that the Drafting Committee should produce a formula whereby disputes might be settled in the first instance by the particular Council concerned. If this failed, the matter might be referred to the Commodity Commission, and then, if necessary, to the final determining body for other ITC matters.

Mr. Clair WILCOX (United States) suggested that a recommendation might be made to Committee V to extend Article 76

to cover commodity agreements.

Mr. BRCADLEY (United Kingdom) asked whether agreements might not provide for action against countries, whether members of the ITC or not, which failed in their obligations. Should the commodity organization be empowered to permit or require members to introduce discriminations or prohibitions.

Mr. MCCARTHY (Australia) supported Mr. BRCADLEY, but believed that, in practice, any difficulties could be settled within the terms of individual agreements. Some disputes might, however, have to be referred to the governments involved. If settlement was not reached at that level, final judgment should be pronounced by the Conference of the ITC.

Mr. WORMSER (France) thought it would be easier to evolve a procedure for settling disputes between parties to the commodity agreements than to decide on action with regard to countries outside the agreements. Contact with Committee II might be fruitful in due course, as it was confronted with similar problems.

Mr. Clair WILCOX (United States) believed that commodity agreements should be voluntarily entered into and that withdrawal should always be possible. He deprecated coercion and sanctions. If a large consuming country agreed to pay a certain minimum price under an agreement, and found by experience that the price was too high, it should not be compelled by any sort of sanction to continue paying that price indefinitely. It would also be unjust to discriminate against the expansion of a new low-cost producing area.

Mr. MELANDER (Norway) thought that the problem had two aspects:

(a) Legal questions regarding interpretation. These

should be settled in accordance with Article 76.

(b) Questions of a political character based on national interests. In such cases, to invoke sanctions against countries not upholding agreements, would raise serious political problems:

Mr. GUERRA (Cuba) deprecated coercive measures. He did not regard enforcement as a matter of holding a country within an agreement, but only of ensuring fulfilment of particular obligations by countries adhering to an agreement.

Sir Gerard CLAUSON, introduced by Mr. BROADLEY (United Kingdom), stated that a special situation arose when parties involved did not subscribe to the commodity agreement. Non-participants might then gain at the expense of participants.

Mr. HAKIM (Lebanon) said that, since agreements were voluntary, the right to withdraw was quite natural. If one party failed in its obligations it was natural for the agreement to provide for certain sanctions. Sanctions were provided in most inter-governmental agreements.

Mr. WILCOX (United States) said that if a party failed to live up to its obligations, it would in effect withdraw. Suspension or expulsion would then become largely academic.

Mr. BROADLEY (United Kingdom) recommended that the Drafting Committee should have in mind the relevant parts of the Draft Wheat Agreement regarding obligations of consuming countries in policing and regulation. Expulsion from an agreement might be a reward rather than a punishment. He agreed that a commodity agreement could ultimately only be successful if all parties remembered it was in their own long-term interest to adhere to it. But policing by consumers might see an agreement through temporary difficulties and thus help to secure

countries from withdrawing its long-term success.

Mr. McCARTHY (Australia) emphasized that the importer must assume equal responsibility with the exporter in implementing an agreement.

Mr. BROADLEY (United Kingdom) asked whether a party should be able to withdraw at any time without giving notice.

Mr. McCARTHY (Australia) replied that, in his view, this would constitute a breach of agreement unless special escape clauses were provided.

At 12.30 p.m. the CHAIRMAN adjourned the meeting.

COMMITTEE IV

Fifth Meeting (continued)
Held on Monday, 26 October 1946
at 2.45 p.m.

2. Types of Goods to which the Commodity Arrangements might apply:

Mr. Clair WILCOX (United States) said there were three methods of defining the areas to which commodity arrangements would apply:

(a) to list the commodities or industries which should be included. This would be dangerous as it might prove either too restrictive or too comprehensive.

(b) To adopt a definition of primary commodities. This definition would not apply in all cases, as the stage at which commodities entered international trade markets differed from industry to industry and from commodity to commodity. The definition must therefore be drawn in general terms and its interpretation left to an administrative agency in particular cases.

(c) Areas may be defined by reference to the economic characteristics of the industry involved. This is the method that was used in Article 45, paragraph 2 (b).

He explained that sub-paragraph 2 (b) (i) described the situation ruling in agricultural countries where burdensome excess caused widespread distress. A substantial reduction in price would not increase demand or reduce supply, as both demand and supply were inelastic.

Sub-paragraph 2 (b) (ii) referred mainly to mining products where demand was relatively inelastic and production relatively elastic. Minerals could not be excluded from international commodity action; but it was undesirable to include all minerals. One must consider the case of a country heavily dependent on its production of minerals. Here a recession in price would probably

mean that production would be reduced, with resultant unemployment. In an economy that was heavily diversified there were alternative opportunities of employment, but in countries heavily dependent on a few products, these alternative opportunities did not exist. It was with the latter countries that sub-paragraph 2 (b) was mainly concerned.

The United States Delegation's view was that agreements would not normally apply to highly fabricated goods. But it was possible that in some cases the existence of a synthetic substitute would make a commodity agreement inoperable unless the synthetic product was included in the agreement. Article 45, Section 3, would cover such cases.

Mr. DEUTSCHE (Canada) said that the area of agreements should be confined to primary products. Substitute products should not be included in the definition but treated as an exception.

Mr. McCARTHY (Australia) thought that there should be room in the definition of primary products to include those processed in a minor degree such as butter, milk, pig lead and lead ore. The Charter should also deal with the situation where a burdensome surplus was not yet in existence but was likely to develop, and present action was needed to prevent it. Too much emphasis was laid on burdensome surpluses; more should be put on the need to stimulate consumption.

Mr. BROADLEY (United Kingdom) agreed with definition on the lines of Article 45 (2 (b)). He thought, however, that the need for an agreement should not be linked up with a reference to small producers. Even if small scale production were gradually superseded by plantation methods, agreements would still be needed.

Mr. HAKIM (Lebanon) said that the problems of surpluses and unemployment were only one aspect of commodity agreements. The

other was the problem of shortages.

Mr. Clair WILCOX (United States), in reply to Mr. BROADLEY, pointed out that where production was controlled by a small number of large-scale producers, the problem of inelasticity of supply did not arise, because supply could be curtailed to adjust itself to demand.

Mr. QURESHI (India) said that one should not wait for burdensome surpluses to arise, but act much earlier and aim at stabilization of commodity prices. The last slump had shown that demand for industrial products depended in large measure on the prices ruling for agricultural products. He suggested that in the first sentence of Article 45, (2), the word "prices" be deleted.

Mr. McCARTHY (Australia) saw no great difficulty in defining products eligible for commodity agreements. He agreed that the scope of a commodity agreement could be defined by reference to the difficulties which arise relative to primary products. Some re-arrangement of Articles 41 - 45 might be necessary.

Mr. BROADLEY (United Kingdom) questioned whether widespread unemployment was a sufficiently precise criterion even in the field of mining for the application of a commodity agreement.

Mr. McCARTHY (Australia) agreed that the criterion of unemployment was not altogether satisfactory: yet when the prices of minerals fell to a certain figure, mines had closed down and unemployment had arisen. However, unemployment was certainly not a satisfactory criterion in regard to agricultural products.

Mr. Clair WILCOX (United States) agreed that Chapter VI would gain a great deal from logical re-arrangement.

3. Methods which might be used in Commodity Agreements

Buffer stocks

Mr. BROADLEY (United Kingdom) said that the United Kingdom

Delegation hoped to circulate a paper on buffer stocks which they had prepared for the Washington Conference. There might be various types of buffer stock:

(a) An international organization which would purchase supplies at a predetermined price and would sell at another predetermined price. This organization would be present in a passive capacity to buy at the lower figure and to sell when prices rose to the higher figure.

(b) An international organization with a more active role, to intervene in the market within a predetermined range of prices.

In both cases, the organization would leave room for the play of commercial trading within the price ranges laid down. Buffer stocks presented two problems:

(i) The question of finance, i.e. what ratio would importers and consumers and exporters and producers contribute.

(ii) The problems of storage, location of stocks and the agents required in different parts of the world.

(c) The method contemplated for the Wheat Agreement by which exporting countries operate what might be described as their own buffer stocks.

Different commodities required different types of buffer stocks. Perishable goods did not lend themselves to buffer stock technique, and would require other measures. There should be an exchange of views on the appropriateness of buffer stocks, as part of commodity arrangements. If the Committee thought fit, a small group might give further consideration to the subject.

Mr. WORMSER (France) said that the lessons of the past

showed that buffer stocks were necessary, but were not a complete remedy.

Mr. Clair WILCOX (United States) said that the United States would be happy to explore a possible broadening of Article 45 to include long-run price stabilization.

Buffer stocks had been considered as one of several devices to be employed though these were not enumerated in the Draft Charter. He doubted whether it was desirable to name all these devices which might be used under a commodity agreement. The purpose of buffer stocks was to reduce fluctuations over a period; they were not intended to keep prices high where the normal laws of supply and demand were in operation, but to reduce fluctuation within narrow limits. The international organization would come out even, financially, if its maximum and minimum prices were always properly related to the long-run equilibrium prices. He had certain misgivings, however, about the operations of the authority which would have the difficult task of predicting the proper economic level of the average price. There would be political pressure to set the average price on the high side.

Some countries might decline to participate if prices were not stabilized at a high level; but high prices would mean increased production and larger stocks for the organization to buy, and even governments might unload surpluses on the organization. This in turn would mean heavier carrying charges; consumers, in view of the high prices, would buy substitute products and the organization, in order to avoid accumulating substantial stocks, would require a strict control of production in many countries. It would be difficult to impose this control; and, if it proved unsuccessful, the organization would be left with large stocks, in which it had a heavy investment, overhanging

the market. The organization would eventually be obliged to sell for whatever price it could obtain; and, instead of effecting stabilization, it would defeat its purpose by causing even more severe fluctuation in prices than before. He had given the case against buffer stocks.

It would be unwise to enter into an ambitious programme of buffer stocks for several commodities at the same time.

Mr. McCARTHEY (Australia) agreed that there was no need to deal with buffer stocks or other machinery in the Charter. Buffer stocks must be coupled with control of production, particularly as production was likely to be stimulated by the security of return. They were not in themselves a scheme; they greatly depended on other regulations allied with them in an international agreement.

Mr. DEUTSCHE (Canada) said he was apprehensive about buffer stocks, if these were considered as a general solution to commodity problems. None the less, there should be a place for them in the Charter, as a means of reaching their objective of long-range stabilization of commodity prices.

Professor de VRIES (Netherlands) said that buffer stocks were useful to fill the gap between good and bad harvests. Also they were of value in counteracting the business cycle. He could not, therefore, understand why Article 45 (2) (b) (ii) included the phrase "unrelated to general business conditions".

Mr. GUEPRA (Cuba) said that for sugar, stabilization of prices, within certain ranges, would stimulate production; he failed to see how accumulated stocks could be unloaded at higher prices. Buffer stocks could not affect certain commodity prices, unless production and export control were imposed.

The financial side of starting a vast organization with a view

to making buffer stocks function efficiently should be considered. It was unwise to attempt to include an Article in the Charter referring to methods. The need of flexibility in commodity arrangements was imperative.

Mr. BALA (Czechoslovakia) said he was in favour of buffer stocks particularly when these applied to agricultural products. Buffer stocks would be extremely useful in times of emergency.

Sir Gerard CLAUSON (United Kingdom) stated that any device purporting to meet shortages and surpluses, and thus stabilize prices, had obvious attractions; but one should avoid the suggestion that production and consumption automatically balanced over a period. He agreed that producers would not readily agree to low prices. It was possible that, for a given commodity, production and consumption might balance over a period. The only case of that nature he could remember was that of cocoa. As a general principle, he believed buffer stocks to be dangerous unless conceived as an adjunct to some scheme of controlling supply. If a regulating scheme existed, buffer stocks could prove very useful, as had been proved in the case of tin.

The CHAIRMAN asked that the Drafting Committee be guided as to whether they should mention buffer stocks and other methods.

Mr. McCARTEY (Australia) said that buffer stocks were not in themselves schemes for international agreements, but only a means of making such agreements effective. He believed they should not be included in the Draft, but only considered in connection with individual commodity agreements.

Mr. Clair WILCOX (United States) said that buffer stocks were one of several possible devices, and could be used in various combinations. The business of the present Committee, however, was to evolve general principles of organization and procedure.

Sir Gerard CLAUSON (United Kingdom) stated that nothing should go into the Charter which excluded buffer stocks.

The CHAIRMAN felt that members now recognized buffer stocks as one among several possible methods of dealing with primary commodities, and believed the subject should be left out of the Draft.

Mr. McCARTHEY (Australia) agreed with Mr. WILCOX's last statement and explained that his own reference applied to buffer stocks only because there had been misunderstanding regarding them.

The CHAIRMAN took it that members agreed that there were no instructions for the Drafting Committee under item 4. He therefore proposed that no further discussion of that item was needed.

4. Conditions Precedent to the Institution of Negotiations for Commodity Agreements

Adequate information - need for special commodity studies

Mr. DEUTSCHE (Canada) suggested that the establishment of Study Groups should not be obligatory in all cases.

Professor de VRIES (Netherlands) thought that the formation of a Study Group should not rest on a decision of the ITC. It should be enough for a group of members or a specialized agency like the FAC merely to ask for a group to be formed. He also thought that the ITC should be empowered to call a conference without a preliminary Study Group.

5. Obligations of Members regarding existing Inter-governmental Commodity Arrangements

Mr. McCARTHEY (Australia) hoped that commodity agreement negotiations might be initiated prior to final approval of the Charter, possibly when tariff negotiations were being discussed or even earlier.

Mr. Clair WILCOX (United States) assured the meeting that the clause in question would not be binding on any member until

ratified Agreements entered into should, however, be consistent with the principles of the ITO.

Mr. McCARTHY (Australia) said that it might be desirable, in given circumstances, for the Preparatory Committee to initiate negotiations in the meanwhile. There might be cases in which it would be useful if some agency were to take the initiative in arranging discussions.

Mr. GUERRA (Cuba) stated that the Cuban amendment aimed, firstly, at fixing a term within which the Organization should act on the proposal of a country that a given study should be made, and secondly, at fixing a term for the Study Group to submit its report.

He believed that, if a country depended on the export of a particular product, it should be free to promote an agreement, even if this were not recommended by the Organization.

6. Drafting Sub-Committee

The Committee agreed that the Drafting Sub-Committee should comprise the following:

The Chairman and Vice-Chairman of Committee IV, in an ex-officio capacity, and the Delegates from:

Australia, Canada, Cuba, France, Netherlands, United States and United Kingdom.

7. Next Meeting

The next meeting was fixed for Thursday, 31 October, at 10.30 a.m.

8. The meeting rose at 6.25 p.m.
