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TRENDS AND DEVELOPMENTS IN INTERNATIONAL 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

1. In my report last year (L/713), I dealt in general with fluctuations in the prices of primary products, and the implications for international trade in such movements. I also referred in brief to changes in prices of particular products over recent years, and to action by governments in the international field to take account of such changes.

In this report I propose to deal in more specific terms with this subject of price movements and to review briefly inter-governmental action which was taken during the year and which is in prospect.

PRICE MOVEMENTS

Character and extent of price movements

2. Whilst index numbers representing averages of prices of different commodities contain certain arbitrary elements, they do clearly bring out the movements which take place. In the figures that follow I have used the United Nations index numbers published in their Monthly Bulletin of Statistics and two others, namely Moody's and Reuter's, which are contained in Chart 1 of ICCICA's last report - the 1958 Review of International Commodity Problems - United Nations document E/3118.

3. These index numbers show that the average level of prices rose very sharply in 1950 and early 1951 during the Korean War, and then declined - though not to the same degree as they rose - the lowest point being reached in 1953. Since that year, movements of the average level have been considerably less but there was a significant rise in 1956 which was followed by a substantial decline, and this has continued up to the present time. The United Nations index number (with a base of 100 in 1953) reached an average of 119 in 1951 but fell to 106 in the first quarter of 1957 and to 96 in the second quarter of 1958. Reuter's index number in March 1958, was 20 per cent less than in November 1956.

4. As stated, these figures of the past two years are averages for all commodities. During the periods referred to, the only commodity in international trade that has risen in price is cocoa; a few (notably wheat, due to the International Agreement and the firm holding of large surplus stocks in the United States and Canada) have changed very little, while others, such as wool, maize, lead and zinc, and sugar,

have fallen heavily. Present prices of wool (September 1958) are 31 per cent lower than two years ago, and during the same period prices of lead and zinc fell by 39 per cent and 32 per cent respectively, and maize by 29 per cent. During the period November 1956 to April 1957, sugar prices (f.a.s. Cuba) rose from 3.50 cents to 6.50 cents per pound. They subsequently dropped and at mid-September 1958, the price was 3.45 cents. The price of butter in the outstanding international market - the United Kingdom - fell in the last two years by 35 per cent.

5. Examination of detailed figures of prices over the past six to eight years shows that under some circumstances there is a general movement up or down in prices of primary products as a whole. At the same time, prices of some commodities move to a much greater degree than others. In fact, it does happen at times that some move up whilst others move down. This was the case during the years 1952 to 1955.

6. I do not think it is necessary in this report to attempt to analyse in detail the causes of movements in commodity prices. Generally the recent falls may be ascribed to falls in demand due to the recession in the United States and a slackening in economic activity in Europe, together with the stimulus given to production by the higher prices of earlier years, and the preservation - in some cases the increase - of uneconomic production due to the protective policies of some countries - usually those which are large domestic consumers. But these causes vary from commodity to commodity and because of the varying part different commodities play in the exports of different countries, so is the international trade of individual countries affected.

Effect of fluctuating prices upon international trade

7. The general reduction which has recently taken place in the prices of primary products is resulting in a fall in export incomes particularly of those countries which rely for their export trade to a major degree upon primary products. Whilst such falls improve the terms of trade of the big importing countries of primary products for a time, their own exports fall off as soon as the countries exporting primary products, because of reduced incomes, are forced to reduce their purchases.

8. It can be stated generally that the producers of surpluses of primary products - the exporters - are to a major extent the under-developed or partially developed countries, that they are small exporters and large importers of manufactured goods, and that the large well developed industrial countries are predominantly importers of primary products and exporters of manufactured goods. In the light of this, variations in prices of primary products usually result in the under-developed countries first receiving the impact, with repercussions extending to fully developed countries. When prices of primary products fall, the export of manufactured goods follows in the same direction.

9. In general, prices of secondary goods do not fluctuate to any extent, even though at times the cost of raw materials to many manufacturers fluctuates in the short-term. Changes in the prices of secondary goods are much more gradual and long-term. The losses they suffer in export trade because of reductions in the purchasing power of their customers are thus due to declines in volume rather than in price. The degree to which importing countries experiencing falls in external earnings apply quantitative restrictions shows that this is so.

10. This decline in the trade of exporters of manufactured goods as well as those of primary products is followed by reduced output in manufactures with reduced domestic purchasing power of manufacturing countries. This leads in time to a reduction in the volume of imports of primary products, which means that primary producers not only suffer from price declines, but to a drop in the quantities of shipments.

Effect of recent falls in prices of primary products

11. In applying these present circumstances to the whole of the world trade, it cannot be said that, up to the present, exports of manufactured goods have fallen away to any great extent. Reductions in imports which follow reductions in export income are frequently delayed by the use in whole or in part of reserves of external funds which are at the command of the primary producing countries. Imports, particularly of capital goods, continue for some time because of long-term planning, and intervals between the date of commitment and final payment are often lengthy. (Whilst this is so, it is to be noted that long-term development plans frequently have to be deferred or modified because of depleted foreign currency,)

12. Such detailed data as is available for 1958 shows that there has been a falling away in imports in 1958 both in volume and price, though up till then the volume of imports of primary products had been well maintained. Figures for the first quarter of 1958 for the Federal Republic of Germany and the United States compared with those of the corresponding period in 1957 show this.

13. Examination of the movements of prices of individual products over the past year and their implications for certain countries shows that falls have taken place in the import of manufactured goods by primary producing countries and that further reductions may be looked for. In some countries foreign exchange reserves have declined and are continuing to decline and many governments are finding it necessary to intervene and restrict imports so that their international solvency may be preserved. With the further weakening in prices in the first half of 1958, governments may be expected to limit imports further. All the evidence so far is that primary products will be less in value in 1958 than in 1957. Primarily because of the fall in world wool prices, the Australian Government found it necessary in 1957 to impose substantial quantitative restrictions on imports and, in the absence of any increase in wool prices this season, these have been continued.

The Union of South Africa also suffered on account of low wool prices. Shippers of metals were another important group which experienced falls in export earnings, and reductions in their imports followed. Though copper prices have improved in recent months, the falls that have taken place have caused Rhodesia to reduce its imports so that those of the first half of 1958 are 20 per cent lower than for the corresponding period of 1957. Other countries that have experienced serious reductions in export proceeds so far in 1958 compared with 1957 are the Belgian Congo, Chile, Bolivia and Indonesia, whilst New Zealand, a very important supplier of primary products, has had to face serious balance-of-payments difficulties, in the main because of the fall in prices of wool and dairy produce. In Malaya, India and Ceylon also, lower prices of their main export products have brought about significant declines in export income.

14. When prices fall governments of all primary producing countries do not always find it necessary to intervene either because their reserves of foreign exchange are great enough to bear the strain, or because only one or a few of their commodities are affected. But in these cases imports do recede in due course because of the reduction in the buying power of the community. As we have noted, however, many governments have found it necessary to intervene. Representatives to the GATT know this because of the number and extent of the approaches made under the balance-of-payments provisions of the Agreement. The fact that so many of these approaches are made by primary producing countries due to their losses in export, temporary though they may be, is in itself evidence of the effect on world trade of fluctuations in prices of primary products.

15. Though the scope of this report is necessarily limited, I hope there is sufficient in it to support the conclusions:

- (1) that the movements in prices of important primary products entering into international trade both generally and in recent years are so marked as to have a material effect on world trade;
- (2) that these fluctuations have major implications not only for the countries which export primary products but also for the export trade of those countries who are in the main importers of primary products and exporters of manufactured goods;
- (3) that stability in the prices of primary products in world markets, if it could be brought about, would make an important contribution to the maintenance of sound international trade, and in doing so it would serve the interests of secondary industry just as much as those of primary industry.

INTER-GOVERNMENTAL ACTION IN RESPECT OF INDIVIDUAL PRIMARY PRODUCTS
WHICH HAS BEEN TAKEN IN RECENT MONTHS

16. To supplement the last report of ICCICA¹, which was issued in April, it may be useful to recall some of the more important developments in recent months.

Cocoa

17. The third session of the Food and Agricultural Organization Cocoa Study Group was held in Hamburg from 16 to 23 May 1958². The Group discussed the Report of the Working Party on Stabilization³ and proposals for an international commodity agreement, especially proposals for a buffer stock. They also considered problems relating to the size and financing of a buffer stock. The representatives of all the producing countries and a few of the consuming countries felt that inter-governmental action was needed whereas the representatives of the major consuming countries were of the view that, while there were problems in the world cocoa economy, they arose to a large extent from inadequate production in post-war years in relation to expanded demand for cocoa products and that international marketing controls were neither practicable nor in the long-term interest of producing and consuming countries. The Group finally decided that no useful purpose would be served at this time by further discussion of the problem of stabilization involving international control. It was, however, understood that any government participating in the Study Group could raise the subject at any time it considered it advisable to do so.

Coffee

18. An international Coffee Study Group has been established in Washington. The members of the group include Australia, Belgium, Ethiopia, France, the Netherlands, the United Kingdom and the United States in addition to the principal Latin American producing countries. Consideration is being given to means by which increased consumption can be brought about. Preliminary investigations are also being made into the possibilities of bringing about an international commodity agreement.

Cotton

19. The International Cotton Advisory Committee (ICAC) held its seventeenth meeting in London from 2 to 7 June 1958. At the meeting the world cotton situation was reviewed. Particular references were made to the undesirable effects of dual pricing systems, export subsidies and special currency

¹ United Nations document E/3118.

² Report of the Third Session, CCP 58/13 of 23 May 1958.

³ CCP/Cocoa/58/2.

arrangements and hopes were expressed that in due course governmental policies would be such as to permit the normal operations of future markets. The Group noted that the responsible and careful manner in which the United States Government had disposed of their surplus stocks had contributed to the restoration of a certain measure of confidence in world markets and prevented the extensive disruption which had been widely feared.

Olive oil

20. The second session of the United Nations Olive Oil Conference held from 31 March to 3 April of this year drew up a protocol amending the International Agreement on Olive Oil, 1956. The protocol has taken effect and, in accordance with its terms, the Agreement was open for signature until 1 August of this year, and is open for accession, by governments invited to the conference. After entry into force the Agreement would be open for accession by governments of other Members of the United Nations and of the Food and Agricultural Organization on terms and conditions agreed with the Olive Oil Council. A number of governments have signed or acceded to the Agreement or given an indication of their intention to adhere to it. Compliance with the various formalities in the Agreement by these governments would be sufficient to bring it into force.

Non-ferrous metals: copper, lead and zinc

21. Exploratory meetings on copper and on lead and zinc have been convened by the Secretary-General following recommendations by the Interim Co-ordinating Committee for International Commodity Arrangements and "soundings" of the governments principally interested. The Exploratory Meeting on copper took place in London from 8 to 10 September and that on lead and zinc in London from 10 to 13 September, 1958. The agenda of these two meetings included a review of developments in international trade, consideration of the desirability of further inter-governmental consultation or action or any other future arrangements.

22. After reviewing the copper position the meeting decided that because of recent improvements in prices, and absence of excessive stocks of any consequence, no action was called for at the present time. It was noted, however, that the procedures were such that a further meeting could be called without delay if it were so desired.

23. As a result of the discussions on lead and zinc, it was agreed that the facts of the situation should be brought to the notice of governments and that they should be asked to consider the question of the bringing into force of export reductions as soon as practicable for a period of a year or less and whether such restrictions should be accompanied or followed at an early date by equivalent restrictions in production - in importing producing countries as well as in exporting countries. The views of governments will be dealt with at a meeting of a committee, appointed for the purpose, probably late in October. The same committee will also report on the question of setting up a study group.

Rubber

24. The International Rubber Study Group met from 9 to 16 June 1958. The Group considered further the proposals by France, Indonesia and Ceylon for an international rubber agreement and referred them back to governments and the Management Committee for further study. While the Group agreed that greater stability in price was desirable, there were differing views regarding the desirability or practicability of achieving this by means of an international stabilization scheme. At this meeting the Group also took note of a statement of the delegate of the United States that materials in the United States stockpile would not be disposed of, if disposal would disrupt the market.

Sugar

25. On 21 February 1958, Indonesia, one of the three important sugar exporting countries previously outside the Agreement, deposited its instrument of accession. The International Sugar Council held its fifteenth session 22 and 23 April 1958. The Council took note of a revised estimate of free market requirements for 1958 amounting to 5,610,000 metric tons compared with its previous estimate of 5,515,000 tons but maintained export quotas at the previously existing level of basic tonnages.

26. On the request of the Council the Secretary-General has convened a United Nations Sugar Conference for the purpose of affording all interested governments an opportunity to discuss the problems of the world sugar industry and trade and, if possible, to conclude a further agreement to come into force when the present agreement expires on 31 December 1958. The Conference opened in Geneva on 22 September 1958.

Tin

27. For tin the last six months has been a period of considerable interest. On 22 April 1958, it was announced that cash contributions to a special fund to supplement contributions to the buffer stock under Article VIII of the Agreement had been received. At its eleventh meeting, held from 29 April to 1 May 1958 the International Tin Council decided that the aggregate permissible export amount for the third quarter of 1958 should be 23,000 tons, the same as in the second quarter. Some small changes were made in the percentages governing the distribution of the aggregate permissible export amount by countries.¹ The authority enabling the Buffer Stock Manager to operate within the middle of the range was extended to 30 September 1958. It was also disclosed at this session that 15,300 tons had been held in the buffer stock at the end of 1957.

¹ The changes in percentages were namely Belgian Congo and Rualda Urundi from 8.95 to 8.92, Bolivia from 20.43 to 19.92, Malaya 37.50 - no change, Nigeria 5.34 to 5.90, Indonesia 20.43 to 19.41, Thailand 7.35 to 8.35.

28. The Council held its twelfth meeting from 17 to 20 June. The Council was informed by the Government of the United Kingdom that no sales had been made from the United Kingdom Government stockpile of tin since the Agreement had entered into force and that the United Kingdom Government had no intention of selling or trying to sell any of its stocks for the time being. The Council examined the question of exports from the Soviet Union and agreed formally to invite the Soviet Union to become a producer participant in the Agreement. The Council also expressed the desire that its Chairman should approach the Governments of the United States, the Federal Republic of Germany, and Japan and other countries, when he considered it appropriate, asking them to reconsider their position and participate in the Agreement.

29. The Council held its thirteenth meeting from 22 to 24 July, 1958. It fixed the total permissible export amount for the fourth quarter of 1958 at 20,000 tons. Permissible exports in the fourth quarter of 1958 are therefore only 52 per cent of the average quarterly production of tin-in-concentrates in 1957 in the participating producing countries compared with 60 per cent in the third quarter of 1958. It was disclosed at this meeting that on 31 March 1958 the Buffer Stock held 22,440 long tons of tin. Permission for the Buffer Stock Manager to operate within the middle of the price range was continued to the end of 1958. At the time of writing the Buffer Stock Manager has just ceased (18 September) to buy, and prices fell away from the floor price of £730 fixed by the Council. A meeting of the Tin Council was held on 25 September; export controls were continued but no steps were taken to introduce Buffer Stock support. A further meeting is planned for November 1958.

Wheat

30. The International Wheat Council held its twenty-fourth session on 26 June to 27 June 1958. The Council decided to request the Secretary-General of the United Nations to convene a conference to negotiate a new agreement to enter into force on the expiration of the present agreement on 31 July 1959. On the advice of ICCTICA a United Nations Conference has been convened by the Secretary-General and will open in Geneva on 28 October 1958. It is anticipated that a first session will be held from 28 October to about 7 November at which there will be a discussion of the basic principles to be incorporated in any new agreement and of its form. A small Preparatory Committee would be established at this session and meet from 10 November to about 21 November; it would prepare a document to be presented to a second session tentatively expected to be convened about the end of January 1959.

