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FUTURES MARKETS

Note submitted by the International Chamber of Commerce

The International Chamber of Commerce has submitted the following note on obstacles to the operation of futures markets. This is distributed herewith for consideration by the CONTRACTING PARTIES.

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1. The International Chamber of Commerce has emphasized on various occasions that one of the most effective means of reducing primary commodity price fluctuations lies in a greater use of the facilities offered by trading in futures.

2. With this end in mind, the ICC published in 1956 a report inviting governments to abolish the regulations affecting such futures markets, viz.:

- exchange regulations which restrict futures transactions, prevent arbitrage, impede imports for protection against "corners" and exchange cover;
- price regulations which often constitute an insuperable obstacle to the operation of a futures market;
- import regulations which impede in particular the operation of futures markets dealing in imported commodities;
- government interventions on the markets which through bulk-buying or bulk-selling operations interfere with the free operation of the law of supply and demand.

3. The evolution of the situation in this field during the past four years, as highlighted by a recent inquiry, the results of which were examined by the Commission on Primary Products and Raw Materials of the ICC on 12 May 1960, unfortunately leads to the conclusion that the afore-mentioned brochure remains as topical as ever.

4. It is true, a certain number of countries have taken a liberal attitude as is evidenced by:

- the abolition or relaxation by the Australian, Belgian, French and German Governments of all or part of the exchange regulations which previously prevented their nationals from operating on futures markets of other countries and/or were an obstacle to the participation of foreigners in the activities of futures markets in existence on the national plane;

- the elimination by the British and Dutch Governments of all the regulations affecting the operation of their own futures markets.

5. But, on the other hand,

- Canada maintains all the regulations listed in 1956 by the ICC;

- the United States has both maintained the obstacles mentioned in Brochure 187[1] and introduced recently new restrictive regulations;

- several countries, in particular countries in the Middle East, have maintained or tightened the regulations limiting the possibility for their nationals to remit margins and losses;

- Austria still requires prior authorization for all futures transactions. A Central Bank circular (17 February 1959) authorizes brokers to execute the orders from exporters/importers concerning commodity futures transactions in freely convertible currencies for a maximum period of six months. But rates must remain between average floor and ceiling prices which are fixed by the National Bank, increased or reduced by a certain amount that is calculated in the light of market conditions;

- Japan and Italy continue through exchange regulations, price and import regulations, to restrict the operation of their domestic futures markets or to prevent their nationals from operating on foreign futures markets.

6. The harmful effect which such regulations have both nationally and internationally, is illustrated by the following examples:

Silver: The New York futures market is to all intents and purposes unable to operate. No new regulations have come into force since 1956, but the existence of a 50 per cent tax on all profits made in silver paralyses futures trading.

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[1] Copies of ICC Brochure 187 were distributed to delegations at the thirteenth session with document W.13/16.

Wheat: Trading in Liverpool wheat futures is in abeyance owing to the control of almost all wheat exports by governments and the continuation of the policy of selling Australian and Canadian wheat on a "to be fixed" basis.

Peanuts: Government interference with their price structure prevents the creation of a futures market in the United States, which is considered desirable by business circles.

Coffee: Finland and Sweden prohibit trading on the London coffee Terminal Market.

Futures dealings are permitted in France but as no foreign currency is made available, all transactions have to be financed in blocked francs which means that in effect dealings are non-existent.

In Italy dealings in futures are banned and are permitted in Norway for hedge operations only.

Cotton: American futures markets have almost disappeared as a result of the United States Government's assumption of the cotton marketing process. Moreover, under the regulations of the Commodity Exchange Authority, someone who holds a long position may not stand for delivery if this results in an increase in price on the futures market. If the certificated stock is less than the long position, a long acts at his peril in liquidating his position on the Exchange. Furthermore, there is evidence that merchants are refraining from using exchanges for hedging purpose because of the fear of prosecution for manipulation if they stand for delivery or sell their futures position at a price which is not in line with that regarded as reasonable by the United States Department of Agriculture.

United States cotton policy continues to have a very serious detrimental effect on the functioning of the Liverpool and Bremen futures markets. Trading in Egyptian cotton futures in Liverpool and Bremen is at present out of the question owing to the Egyptian Government's far-reaching controls over both domestic and export cotton prices.

Japanese dealers buy futures of cotton yarn and sell cotton textiles on another futures market for hedging purposes. However, these transactions are likely to upset prices because the rate of production of fabrics is affected by the 1957 law governing the organization of associations of small enterprises.

Copper: Since the United States Government's introduction, on 1 July 1958, of an import tax of $1.7 per lb., the London and New York markets have tended to operate in different directions. Prior to this, traders were able to arbitrage without difficulty between these markets.

Shellac: The London Shellac Terminal Market has been virtually unable to function since the Indian Lac Exporters' Association (with the sanction of the Indian Government) introduced the minimum and maximum export selling price scheme. (July 1959.)

Grain: Futures markets have been re-opened at Rosario and Buenos Aires in the Argentine, but they cannot command international support until the peso has achieved a reasonable degree of stability and profits can be remitted.

Oleaginous seeds & oils: Trading on the Milan futures market continues to be seriously reduced owing to the impossibility of hedging on certain foreign markets and to the currency restrictions maintained both by the Italian Government and by certain other countries.

Wool: The Antwerp futures market is hampered by the French currency regulations which prevent French traders from operating on the Belgian market.

Onions: In the United States, trading in onion futures was prohibited by a Federal Law passed in 1959.

Lead & zinc: On 1 October 1958 the United States Government introduced a system of import quotas (80 per cent of the 1953-1957 average) restricting the import of these metals into the United States. As a result the New York futures market in these metals is largely unavailable to foreign traders.

7. In the light of the foregoing observations, the international business community draws attention to the particular importance which it attaches to this problem being considered by the CONTRACTING PARTIES to the GATT with a view to their formulating, on the basis both of ICC Brochure No.187 and of the present note, recommendations aimed at abolishing the obstacles which today make it impossible for futures markets to fulfil completely their traditional function as the regulator of primary commodity prices. The ICC is convinced that such action would make a valuable contribution to the stability of world markets in the common interest of producer countries and consumer countries.