

RESTRICTED

# GENERAL AGREEMENT ON TARIFFS AND TRADE

L/2608  
28 March 1966

Limited Distribution

## CONTRACTING PARTIES

Twenty-Third Session

### THE IMPACT OF COMMODITY PROBLEMS UPON INTERNATIONAL TRADE

#### Note by the Secretariat

1. At previous sessions of the CONTRACTING PARTIES the discussion of the item "The impact of commodity problems upon international trade" was based on a report by the Chairman of the Interim Co-ordinating Committee for International Commodity Arrangements, but this Committee has now been replaced by the Advisory Committee to the Trade and Development Board of UNCTAD, and there is therefore no report from the Chairman of the ICCICA.
2. At its session of 14 March 1966, the Council agreed that the item should nevertheless be retained on the session agenda of the CONTRACTING PARTIES. It was also agreed that the secretariat should prepare a report to form a basis for discussion of this item, with a view to helping assess the scope of additional work open to the GATT in this important sector of world trade.
3. Given the short time available between the decision of the Council and the discussion of the item by the CONTRACTING PARTIES, the secretariat's note is necessarily brief and by no means exhaustive. It deals with only a limited number of commodities; it attempts to cover activities in this field of other international bodies and to mention some of the salient features in recent market developments of certain commodities.
4. The Director-General is aware that the present note provides only a partial and incomplete basis for a full discussion by the CONTRACTING PARTIES of the item in question. Due to the shortage of time, several important aspects of the item had to be left out of consideration. Important here is the impact of price fluctuations of commodities on the economies of the exporting countries, especially in respect of their balances of trade and of payments, their import capacities, and their rates of growth. An examination of this kind, useful and desirable as it is, would have required considerably more time than was available in this particular instance.
5. The Director-General suggests that in future sessions, a note on the impact of commodity problems upon international trade, covering all the relevant aspects, be submitted to the CONTRACTING PARTIES for full and detailed discussions.

COCOA1. Main problems

The imbalance between supply and demand of cocoa in recent years is the basic factor underlying the problems faced by this commodity. Increases in production were particularly marked in the 1963/64 (5 per cent on the previous year) and 1964/65 seasons (another 25 per cent). The growth in consumption has not kept pace. In this connexion, the existence in a number of countries of barriers affecting consumption should be noted.

Supply is inelastic, cocoa being a tree crop new plantings as well as improved yields have contributed to its expansion, while on the other hand weather conditions and diseases (and the efficacy with which they are combated) give rise to fluctuations in supply in the short term. The combination of these factors has led to declines in prices often accompanied by violent fluctuations. Thus, in mid-1965 cocoa prices reached their lowest point in nearly two decades and they nearly doubled between mid 1965 and February 1966.

Although, due to changes in the supply/demand situation, prices have improved in the course of recent months, the problem remains of the highest importance to the producers, all of which are developing countries for whom cocoa represents a major, and often a vital, source of export receipts.

2. Activities of other international bodies

Working Party 1 (Prices and Quotas) of the United Nations Cocoa Conference met four times in the period under review. Following an informal meeting of main purchasing and consuming countries at FAO Headquarters in April 1965, the Working Party met in June 1965 to consider developments since the adjournment of the Cocoa Conference, the market outlook and short and long-term problems of the cocoa trade, including the question of the desirability of resuming the Cocoa Conference. Due to the price situation, a special session was held in October 1965 at which the Working Party considered short-term remedial measures. While no agreement was reached with regard to such measures, the Working Party expressed the opinion that an international cocoa agreement should be concluded and put into force before the commencement of the 1966/67 crop. The Working Party was reconvened in January 1966. It was to address itself, in particular, to the question of basic provisions that might be included in the proposed international cocoa agreement, and was to make recommendations concerning the resumption of negotiations on such an agreement. In its report of that session the Working Party recommended that a further session of the Working Party should be convened during the latter part of March 1966 in Geneva, to consider:

- (a) the mechanism of the draft agreement to be submitted to the Conference;
- (b) the question of financing cocoa stock operations; and,

- (c) principles concerning the determination of the desirable level and range of prices.

The Working Party also recommended that the Secretary-General of UNCTAD should convene the resumed session of the United Nations Cocoa Conference in May 1966, it being understood that he would take his final decision in the light of the results reached and any recommendations by the Working Party at its March 1966 session.

The Trade and Development Board of UNCTAD, at its third session, expressed its disappointment at the Working Party's inability to agree on the provisions that should be incorporated in a draft agreement; it also requested the Secretary-General of the United Nations to convene the Cocoa Conference in May 1966, unless the report of the Working Party at its March 1966 session indicates that success of such a conference cannot reasonably be expected. The March 1966 session is being held at the time of writing.

Cocoa is also one of three primary products selected in July 1965 by the Ad Hoc Working Party on International Organization of Commodity Trade of UNCTAD, for study with a view to revealing a broad range of the problems facing the international organization of commodity trade.

### 3. World market situation

The Committee on Statistics, of the Cocoa Study Group, meeting at FAO Headquarters on 11 March 1966, estimated the 1965/66 cocoa crop at 1,260 thousand tons, and grindings at 1,410 thousand tons, indicating an excess of grindings over production of 150 thousand tons.

World production of cocoa beans rose from 1,163 thousand tons in 1962/63 to 1,219 thousand tons in 1963/64 and to 1,529 thousand tons in 1964/65. The estimate for production in the current 1965/66 season thus represents a fall by some 269 thousand tons, or nearly 18 per cent. World grindings, reflecting consumption, rose from 1,140 thousand tons in calendar year 1963 to 1,168 thousand tons in 1964 and 1,350 thousand tons in 1965, the latter representing an annual increase of nearly 15 per cent. The estimate for grindings in 1966 would indicate a further rise, by 6 per cent over 1965.

In mid-1965, cocoa prices reached their lowest point in nearly two decades. Prices quoted for Good Fermented Ghana, nearest forward shipment, c.i.f. European ports, were 181 shillings per 50 kg. in January 1965, and declined by one half, to 91 shillings in July, after which they started an upward trend. At the end of February 1966, the London price was at about 180 shillings. Data permitting a

valid assessment of the combined effect of price and export volume changes on the earnings of producer countries are not as yet available.

### COFFEE

#### 1. Main problems

Coffee has been plagued with highs and lows in prices because the long growing cycle of the tree makes rapid adaptation of the economic mechanism to nature very difficult. That is, a long time is required for production to increase, meet current demand at a given time and bring prices down to realistic levels, or contrariwise, for production to decrease, eliminate excess over demand and restore prices to remunerative levels. There has been a tendency toward longer periods of over-production than of under-production; consequently, the predominant feature of the world coffee market has been the existence of substantial stocks in producing countries.

Prices have been fairly stable in the past two years. The co-operation of producers under the International Coffee Agreement in exercising restraint in their export policies contribute to this stability. There remain, however, many problems of controlling production and increasing consumption. One way to increase consumption would be to remove barriers to trade, including not only tariffs and quantitative restrictions but, even more important in the eyes of exporting countries, internal taxes.

#### 2. Activities of other international bodies

Export quotas for the 1964/65 season (October-September) were fixed initially by the International Coffee Council in August 1964 at 47.5 million bags. Various adjustments to individual country quotas were made subsequently and in March 1965 the overall total was reduced to 45.6 million bags. At its sixth session in March 1965 the Council approved a scheme whereby quotas are adjusted automatically in accordance with movements in world market prices. Under this scheme and in the face of lower prices, quotas for the coffee year ending 30 September 1965 were reduced on 21 May 1965 by 4.5 per cent, or 2 million bags. At its seventh session in August 1965 the Council fixed initial export quotas for the 1965/66 season at 43.7 million bags. Some two thirds of the producing countries had asked for upward adjustments in their basic quotas, but decisions on this matter were postponed to a later date, as were those on the selective adjustment of quotas. The Executive Board at its meeting ending on 1 October 1965 appointed an advisory committee to consider whether a selective adjustment of quotas is compatible with the constitution of the International Coffee Agreement. At a further meeting held in early November 1965 the Executive Board examined the report by the working group set up by the Council at its seventh session to consider the claims for the revision of individual basic export quotas, future production goals and policy regarding stocks in the producing countries.

Because consuming countries can at present import coffee from non-member States without certificates of origin, coffee smuggling out of member-producing countries is reported to have grown in the last few years.

3. World market situation

Recent coffee prices are given below:

	1964				1965				Oct.	Nov.
	I	II	III	IV	I	II	III			
France: Ivory Coast										
Robusta, ex warehouse, Le Havre, F.fr./kg.	3.62	4.10	3.99	3.82	3.40	3.05	3.28	3.96	3.92	
United States: Spot, New York, Brazilian Santos No.4, US¢/lb.	47.0	47.6	45.8	46.2	45.4	45.2	44.8	43.5	43.4	
United States: Spot, New York, Colombian Manizales, US¢/lb.	46.9	48.7	50.0	49.5	48.6	47.5	48.3	48.8	50.0	

Source: FAO, Monthly Bulletin of Agricultural Economics and Statistics

OLIVE OIL

1. Main problems

Olive oil production has shown a slight long-term upward trend, but its outstanding feature has been a wide variation in yields from year to year. Thus, production fell from 1.8 million tons in 1963/64 to 0.9 million tons in 1964/65. This extreme variability of production is the predominant economic problem in the olive oil economy, and it has pronounced effects on consumption, international trade, prices, total value of the olive oil crop and export earnings from olive oil.

Variations in olive oil production from one year to the next are even more marked in individual country crops since years of scarce or glut production do not always coincide for all producing countries. The main effect of an increase in olive oil production is restricted to the producing countries themselves, where it precipitates a price fall and increased domestic consumption, which leads in turn to a decline in their import demand for other soft vegetable oils. However, consumption varies less extremely than production. Thus, there has always been a pronounced tendency for stocks to be carried over at the end of a year of heavy production. While short-term demand is not flexible enough to absorb changes in output due to crop fluctuations, important longer-term influences, such as population trends, indicate the possibility of a market for foreseeable long-term increases in production. However, the underlying demand situation in the post-war years has been obscured through trade controls in a number of countries which have affected both the import demand for olive oil and the consumption patterns in producing countries for all edible oils.

## 2. Activities of other international bodies

The International Olive Oil Council met twice during 1965 and dealt with a number of questions affecting the technical aspects of trade, with the possible effects of the EEC draft regulation on fats and oils, and with the plan to regularize the international olive oil market. At the twelfth session of the Council in May 1965, various EEC countries expressed concern at the plan to regularize the international olive oil market, even though it is a voluntary plan and had been adopted by the Council at its eleventh session in November 1964. It was therefore decided to reconvene the Committee of Governmental Experts to draw up a statement of motives and to examine points in its recommendations on long-term regularization of the international olive oil market. At its thirteenth session in November 1965 the Council established the co-ordinating body to direct the machinery to regularize the international olive oil market.

3. World market situation

Recent olive oil prices (£/1000 kg.) are given below:

												1964	1965													
												Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	
European ports:	234.0	235.0	235.0	232.5	-	248.2	242.0	237.5	233.5	233.8	234.5	233.5	235.8	235.5												
Spanish edible 1% drums, f.o.b.																										

Source: FAO, Monthly Bulletin of Agricultural Economics and Statistics.

SUGAR

1. Main problems

The principal problem in the field of sugar is one of a considerable surplus of production over commercial demand which leads to a severe depreciation of prices. Production in 1965 has been in the order of 65 million tons, while consumption amounted to only about 58 million tons. Prices fell by over 50 per cent between late 1964 and late 1965.

Only about a quarter (15 million tons) of this total consumption was traded on the so-called free market. The rest was traded on domestic markets or, internationally, under preferential or bilateral trade régimes. Last year the stock carried over has increased by some 7-8 million tons per year and totalled about 15 thousand tons in 1965. Prices frequently fall below the level of production costs of even the more efficient producers (frequently estimated at 2 cents per lb.). It seems that a certain discipline in production is necessary before it will be possible to achieve long-term stabilization of international prices.

2. Activities of other international bodies

At the nineteenth session of the International Sugar Council in April 1965 there was continued discussion of the report of the Council's preparatory committee, which was set up to undertake a study of the bases and framework of a new international sugar agreement, and of government comments on the report. The Council decided to ask the Secretary-General of the United Nations to summon a conference to draw up a new agreement. This Conference met during September and October 1965 and used as the basis for its work the draft for a new International Sugar Agreement (TD/SUGAR 6/4) submitted by the International Sugar Council. Finding itself unable to negotiate a new agreement at that time, the Conference adopted (1) a Protocol which extends the 1958 Agreement to the end of 1966 and (2) a Resolution which invites the Secretary-General of UNCTAD, with the assistance of the Executive-Director of the International Sugar Council, to arrange consultations, both on the technical and on the policy level, with participating governments, and to arrange to convene a second session of the Conference in the spring of 1966 or as soon thereafter as a successful outcome appears likely. The first session of the Consultative Committee of the Conference was held in March 1966 and the second session is scheduled during April 1966.

Early in 1966, nearly all sugar exporting countries agreed not to sell raw sugar at below £23. 5. 0. a ton (London Daily Price) and also agreed that sugar sales on a deferred pricing basis are to specify the final destination of the sugar as far as practicable. A Marketing Advisory Committee was set up to keep a close watch on how these measures operate, and the Exporters' Group is to meet again in April 1966.

3. World market situation

Recent sugar prices (US\$/lb.) are given below:

1964				1965			
I	II	III	IV	I	II	III	Oct. Nov.
Cuba: Raw, f.a.s., world sugar price calculated for implementation of International Sugar Agreement							
8.94	6.67	4.16	3.14	2.33	2.15	1.78	1.94 1.72

Source: FAO, Monthly Bulletin of Agricultural Economics and Statistics

TIN

1. Main problems

Current world production of tin has been falling short of consumption for a number of years and prices have been moving steadily upward since 1958. In 1964, the latest year for which complete annual data are available, production amounted to 145,000 tons and consumption to some 169,000 tons. The excess in consumption seems to have been covered by supplies from surplus stocks in the United States. These sales amounted to 31,000 tons in 1964, as compared with 10,600 tons in 1963 and 1,400 tons in 1962.

Figures for the first eleven months of 1965 compared with the same period of the previous year, indicate that, production having risen faster than consumption, the gap between the two figures has become reduced.

2. Activities of other international bodies

The United Nations Tin Conference, held from 22 March to 14 April 1965, approved the text of a Third International Tin Agreement with a duration of five years. This is to enter into force provisionally or definitively on a date between 1 July 1966 and 1 July 1967, depending on the state of ratifications and any extension of the Second Agreement. The latter is due to expire on 30 June 1966 but may be extended to a date not beyond 30 June 1967. Provision is made in the new Agreement, as in the previous ones, for two main operational mechanisms - the use of a buffer stock and the application of export control.

The International Tin Council, at its eighteenth meeting, held in June 1965, unanimously recommended to member governments that, at the termination of the Second Agreement, the new Third Agreement should be entered into. It also invited governments of countries which were not members of the Second Agreement to join the Third Agreement. At its nineteenth and twentieth meetings, held in September and December 1965, respectively, the Council dealt mainly with matters of a technical nature.

All the members of the Second International Tin Agreement, except India, have signed the Third Agreement, as have also Czechoslovakia, Israel and Rwanda, which were not members of the Second Agreement. The Agreement provides for subsequent accession by countries which have not signed.

3. World market situation

Average annual prices of tin on the London market have been showing an uninterrupted upward trend since 1958. Although some fluctuation took place in 1965, the cash price in London reached a monthly average of £1,404 per long ton, compared to £1,317 a year earlier, and rose to £1,425 in January 1966.

The level of tin prices might well have a longer-term influence on consumption, inasmuch as high prices tend to stimulate technological change aimed at economizing in the use of the metal or at substitution of other metals for tin.

WHEAT

1. Main problems

The main characteristic of the international wheat situation over the past fifteen years has been one of great excess of supply over commercial demand. National wheat policies in producing countries and technological developments have contributed to increases in supply well beyond the quantities which could be disposed of commercially. Substantial stocks were thus overhanging the international market and exerted a depressive influence on world prices. Responsible selling policies of exporting countries contributed to the maintenance of the price range under the International Wheat Agreement. The persistence of this underlying situation has been somewhat obscured since 1963/64. Important purchases by mainland China and Eastern European countries together with the continuation of important sales on non-commercial terms to developing countries, in particular to India, were the main causes of the more balanced situation which has developed in the last two to three years.

2. Activities of other international bodies

At its forty-first session, the International Wheat Council adopted the text of the Protocol extending the existing Agreement for a year, up to 31 July 1966. At the forty-fourth session of the Council, the Council recommended to member governments that the 1962 International Wheat Agreement be further extended until 31 July 1967, by a Protocol similar to that extending the Agreement until 1966. At the same session, the Council carried out the seventh of the series of annual reviews of the world wheat situation, covering the years 1964/65 and the outlook for 1965/66. It was estimated that world wheat production (excluding mainland China) in 1964/65 reached 249 million tons; this was 5 million tons over 1963/64 and exceeded the past five-year average by 29 million tons. World trade at about 50 million tons was higher than in any previous year except 1963/64 and was 5 million above the recent five-year average. The review further states that the most striking feature of world wheat trade in 1964/65 was that the USSR imported only a fraction of the large amount she imported in 1963/64. Commercial exports diminished by some 11 million tons to about the average level prevailing prior to 1962/63. In terms of consumption per head, food use of wheat in 1964/65 continued its downward trend in developed countries and its upward trend in developing countries.

3. World market situation

Improved supplies and a contraction of commercial import demand resulted in a general decline in wheat prices. Although the recession in f.o.b. prices was offset to some degree by an upward movement in freight rates, import prices very broadly tended to decline also. The 1965/66 world crop is now provisionally estimated at 257 million tons (excluding mainland China), 12 million tons below 1964/65 but still 16 million tons above the 1959/60 - 1963/64 average.

In its conclusions, the Council states that it took due note of the important developments in world trade in the past few years and the part these had played in the substantial decline in stocks. It recognized that stocks at the end of the current crop year might well be only some 6 or 7 million tons above what were regarded as normal levels and that so far as the crop year 1965/66 was concerned a state approaching equilibrium in the world supply position had probably been reached. The Council also concluded, however, that it was still impossible to say with any confidence that the underlying forces in the world wheat situation had fundamentally changed in the past few years. The pressure of supplies had been greatly reduced and at the present time a position of approximate equilibrium had been reached. This equilibrium was, however, precarious and the potential forces making for a renewed imbalance, if released, were still very powerful.

#### CITRUS FRUIT

The first session of the Steering Committee of the FAO Group on Citrus Fruit was held in May 1965 (CCP65/12). The Committee on Commodity Problems agreed with the conclusion of the report of the Steering Committee that, while fresh citrus fruit and products were not at present affected by serious marketing difficulties, the outlook was uncertain and there was a danger that exportable supplies from trees already planted might increase more rapidly than import demand. It was also agreed that the work of the Group had led to a clearer understanding of the problems confronting the world citrus economy and that the Group provided a forum in which representatives from exporting and importing countries could meet to discuss usefully problems of production, prices, marketing and trade. Therefore, the CCP agreed that the mandate of the Group should be extended indefinitely, subject to regular review by the CCP.

#### JUTE, KENAF AND ALLIED FIBRES

The second session of the FAO Study Group on Jute, Kenaf and Allied Fibres was held in May 1965 (CCP65/10). Following the recommendations of its Working Party on Stabilization, which met in February 1965, the Group decided that it was premature to envisage a formal international agreement for jute, and that it was preferable to make a start with regular informal international consultations in a Consultative Committee under the guidance of the Group. The Group is continuing its efforts to improve marketing and grading practices and statistics and its work on long-term trends in jute manufacturing and end-uses.

The Consultative Committee held its first meeting in September 1965 and recommended importers to match their purchases with the amounts available for export in Pakistan and Thailand each month and suggested a suitable price range. At its second session in January 1966 it reviewed the progress of the matching of purchases and available supplies and suggested that countries which had completed

their recommended purchases in the first half of 1965/66 should, as far as possible, refrain from making further purchases in the second half. It also reviewed the prospects for the 1966/67 season and recommended major producing countries to be prepared to meet increased requirements.

#### OILSEEDS, OILS AND FATS

The sixth session of the FAO Group on Coconut and Coconut Products was held from 28 May to 5 June 1965 (CCP/Coconut 65/14). The session recommended that the Group should be re-named "Group on Oilseeds, Oils and Fats" and should:

- (i) cover in principle all oilseeds, oils and fats;
- (ii) pay particular attention to the problems of coconut, groundnut and oil palm products;
- (iii) consider at its next session whether sub-groups of the main group are required, or whether suitable alternative arrangements can be made.

It also recommended a programme of work under the headings: subjects for regular review; studies to be given high priority; longer-term studies.

Among the topics discussed at the session was the feasibility of international commodity arrangements for fats and oils; there was widespread support for more studies on such arrangements for fats and oils.

Meanwhile, FAO has prepared, as the framework of the examination by UNCTAD of the concept of international organizations of commodity trade, a case study for selected fats and oils, which will be discussed by the UNCTAD Permanent Sub-Committee on Commodities at its first meeting in June 1966.

#### RICE

The ninth session of the CCP Consultative Sub-Committee on the Economic Aspects of Rice was held in April 1965 (CCP65/8). The Sub-Committee made a detailed survey of the current world market outlook and discussed a wide range of rice problems. The activities to be carried out in the International Rice Year 1966 were reviewed, as were the operation and effects of the EEC rice regulation. In considering its future programme of work, the Sub-Committee decided to examine the extent to which greater intra-regional trade, particularly among developing countries, would promote a balanced expansion in world rice exports without overburdening the balance of payments of the importing countries involved or restricting the access of third countries.

TEA

An Ad Hoc Meeting on Tea, convened by the Director-General of FAO was held from 10 to 17 May 1965 (CCP65/11). The meeting reviewed the current situation, the short and long-term outlook for production and consumption of tea, and the trade and price situation. It also considered the need for future studies and statistics. While most delegations felt that the present outlook in the world tea economy did not justify the establishment of a permanent international machinery in the form of a Tea Study Group, all delegations agreed that the tea situation and outlook should be kept under review. The meeting unanimously recommended that the CCP request the Director-General to convene another meeting of Member Governments interested in the production and consumption of tea in about eighteen months to review latest developments in world production, production plans and programmes, trends in world consumption, trade and prices, promotion activities and other aspects of the tea industry and trade.

The CCP, at its thirty-eighth session, endorsed the conclusions of the Ad Hoc Meeting.

A meeting of experts on tea statistics was held from 16 to 18 March 1966 as a result of a recommendation by the Ad Hoc Meeting. It advised the FAO Secretariat on technical statistical problems, and made specific recommendations on further data needed and on channels of information.

COTTON

The twenty-fourth plenary meeting of the International Cotton Advisory Committee (ICAC) was held in May 1965. Nine cotton producing countries, which export more than two thirds of the cotton imported into Western Europe and Japan, tentatively agreed to set up an ad hoc scheme for sales promotion and technological research in those importing areas. The ICAC recommended a cotton policy directed to the establishment of fair and profitable prices to the farmers while maintaining and improving the competitive position of cotton. It was also recommended that co-operative efforts should be undertaken to establish equilibrium between production and consumption. At the first meeting of the UNCTAD Committee on Commodities it was noted that the ICAC intended to revise earlier studies on an international agreement. On this basis a prospectus would be drawn up by the ICAC as to how a study of an international cotton agreement could be undertaken.