

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

W.13/16

30 October 1958

Limited Distribution

CONTRACTING PARTIES
Thirteenth Session

Original: French

Working Party on Commodities

FUTURES MARKETS

Note submitted by the International Chamber of Commerce

The International Chamber of Commerce has submitted the following note on the influence of futures markets on the stabilization of prices of primary commodities for consideration by the CONTRACTING PARTIES when dealing with problems of international commodity trade:¹

"The International Chamber of Commerce has learned with interest that the CONTRACTING PARTIES to GATT at their Thirteenth Session will be examining the problems arising out of the instability of world prices for primary commodities.

"For many years the ICC itself has studied the methods likely to mitigate violent short-term fluctuations of prices of primary commodities and raw materials, in the interest of both producing and consuming countries.

"In the light of such studies the ICC has reached the conclusion that futures markets could contribute very usefully to the attainment of this objective. Not only do these markets enable traders to avoid the risks inherent in price fluctuations, thus facilitating the financing of their operations, but also greatly contribute to market organization and to a better understanding of economic trends. They promote price formation on a continuing basis and the stabilization of prices for raw materials. They have thus favourable effects on the economies of countries which produce or consume the raw materials dealt with on commodity exchanges.

"The ICC, however, wishes to emphasize that the functioning of futures markets is, in fact, considerably hampered by various governmental and other regulations.

"The most important of such regulations as described in Brochure No. 187, 'Obstacles to the Operation of Futures Markets', which the ICC submits for the attention of contracting parties, are as follows:

¹The note is principally based on ICC Brochure 187, Obstacles to the Operation of Futures Markets, one copy of which is being forwarded to each delegation.

"1. Exchange Regulations

- (a) They hinder or restrict futures transactions. In practice the nationals of a country where exchange regulations are in force can be prevented from operating on a foreign market; or, conversely, nationals of a country with no exchange control can be prevented from operating on a futures markets in a country where such regulations exist.
- (b) They can prevent arbitrage operations, whether such operations are effected by a futures market in a consumer country, on futures markets in producer countries, or by a futures market in a consumer country on similar markets in other consumer countries.
- (c) They can act as an obstacle to the opening of futures markets by preventing imports for protection against cornering.
- (d) They prevent or impede exchange cover. The protection afforded by futures markets is only effective if the arbitrage relates both to the commodity in question and to the currency in which the prices of that commodity are quoted.

"2. Price Regulations

Price regulations are a very serious obstacle to the efficiency of futures markets, for where such regulations exist the futures market necessarily shows considerable disparities as compared with quotations in other countries. The futures market in question will then tend to dissociate itself from foreign markets, and will thus involve the clientèle in an additional risk, all the more dangerous since it is impossible to foresee future price regulations.

"3. Import Regulations

These are a particular obstacle to the free operation of futures markets dealing in an imported commodity.

"4. Direct Government Interventions in the Market

The ICC is convinced that examination of the possibilities of eliminating these obstacles by the CONTRACTING PARTIES to the GATT would be in the interest of business and of the expansion of international trade on a multi-lateral basis."