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IMPACT OF COMMODITY PROBLEMS ON INTERNATIONAL TRADE

Draft Report of Working Party on Commodities

1. At the thirteenth session the CONTRACTING PARTIES agreed that the review of trends and developments in international commodity trade, which they undertake annually under the Resolution of 17 November 1958, should be directed specifically to a consideration of the impact of commodity problems upon international trade. The Working Party on Commodities was set up to do certain preparatory work in connexion with the annual review.
2. The Working Party held several meetings in the early part of the nineteenth session and herewith submits its report to the CONTRACTING PARTIES.
3. Among the documentation available to the Working Party was a note (L/1528) prepared by the secretariat. This note, in its introduction, drew the attention of the Working Party to the reports of the Chairman of the Interim Co-ordinating Committee for International Commodity Arrangements (ICCICA) to the seventeenth and eighteenth sessions of the CONTRACTING PARTIES (L/1528 and L/1483), to the GATT secretariat publication International Trade 1960, and to relevant documentation published by other international organizations. Included among this documentation was the United Nations Commodity Survey 1960, the report (E/3497) on its ninth session of the Commission on International Commodity Trade (CICT), the 1961 Review of International Commodity Problems (E/3503) of ICCICA and the report of the thirty-fourth session of the FAO Committee on Commodity Problems (CCP61/53).
4. Representatives of the International Monetary Fund participated in the meetings of the Working Party.

I. The impact of commodity problems on international trade in 1960 and beginning of 1961

5. The Working Party drew the attention of the CONTRACTING PARTIES to the following salient developments in international trade in commodities in 1960 and the beginning of 1961 and to the impact which these developments had on the export earnings, balance of trade and gold and foreign exchange reserves of primary producing countries.

(a) World production and stocks

6. World production (not including Eastern Europe, USSR and mainland China) of primary commodities as a whole rose by about 5 per cent in 1960 - in other words at much the same rate as in 1959. In the case of certain important commodities the production of which rose comparatively fast in 1960, such as wheat, butter, sugar, cocoa, cotton and copper, world stocks were increasing.

7. According to the most recent data made available by the FAO, world production of wheat in 1961/62 is expected to be substantially below the record level reached in 1960/61, both in North America and elsewhere. In view of higher import requirements in Western Europe and several other areas total world wheat stocks held by exporters will probably become reduced in 1961/62. It is also expected that a substantial reduction in coarse grains production in 1961/62 will reverse the trend towards increasing stocks which had been in evidence over the last several years. Butter stocks in Europe were at the end of 1960 about twice as large as at the end of 1959 and some additions occurred also in other areas. In August 1961 European stocks exceeded the high level of a year earlier. World production of sugar rose more than consumption in 1960/61 and stocks of a record quantity (more than one year's world trade) are estimated to have accumulated in mid-1961. Coffee production fell by about 1% per cent in 1960, but stocks are still very high and in excess of one year's world consumption. Moreover, for the first time, it was not possible to dispose of all the Robusta coffee produced by the African countries. The 1961/62 crop is estimated by the Food and Agriculture Organization at about 15 per cent higher than in 1960/61. A growing imbalance between production and consumption of cocoa has been in evidence over the last three years. However, the first tentative estimate made by the FAO indicates a fall by nearly one-tenth in cocoa production in 1961/62; since consumption is rising, a better balance may be achieved in this market. Stocks of raw cotton in the United States fell substantially in 1959/60; they showed no further decline by mid-1961, when stocks had grown larger in some other exporting as well as in importing countries. Copper stocks were added to, both by producers and consumers, in the course of 1960, and the movement continued in the beginning of 1961.

(b) World trade

8. Between 1959 and 1960 world trade grew in volume by approximately 11 per cent, or more rapidly than world industrial production which rose by about 7 per cent. However, while the volume of exports from the industrial countries¹ alone rose by about 13½ per cent in 1960, the corresponding increase in the non-industrial areas, about 90 per cent of whose exports consist of primary products and metals, was by an estimated 4½ per cent only. The two main factors behind this development were first, the faster increase in trade in manufactured goods (particularly between industrial countries) than that which took place in trade in primary products and secondly, the much larger increase in exchanges in primary products among the industrial countries than in their imports of these commodities from primary producing countries. There was a 3 per cent rise in average prices of manufactures in 1960, while prices of primary products remained unchanged. The effect was to raise the value of exports from industrial countries slightly above the percentage mentioned for the volume, whereas in exports from non-industrial countries volume and value moved parallel.

¹For the purposes of this document, the industrial countries are the countries of Western Europe (OECD, Finland, Yugoslavia), North America and Japan.

9. While the slowing down in economic activity and trade in the last months of 1960 did not affect, to any large extent, consumption of or import trade in foodstuffs, import requirements for some of the agricultural raw materials exported by non-industrial countries were reduced. North America imported less natural rubber, wool, jute and hard fibres in 1960 than in 1959. While Western Europe imported slightly more of some of the foodstuffs supplied mainly by the non-industrial countries (citrus fruit, coffee, cocoa, tea, tobacco), there was a decline in imports into the area of several raw materials (textile fibres, oils and oilseeds) of which the non-industrial countries are the largest suppliers. On the other hand, Western Europe had a large increase in imports of iron ore from non-industrial sources, and while the area also took slightly more natural rubber in 1960 than in the preceding year, it increased imports of synthetic rubber from North America even more.

(c) Price trends

10. International prices of most primary products in 1960 moved only slightly from the already low level to which they had fallen in 1959 (Table 1). Main exceptions were prices of cocoa, butter, coconut products and oriental tobacco which fell heavily and of jute and sisal which rose sharply. Extra long-staple cotton also fetched higher prices, but natural rubber weakened substantially after the middle of 1960. After an improvement in 1959 (due mainly to coconut products) the price level of fats, oils and oilseeds again fell in 1960. Prices of ores and non-ferrous metals were slightly better in 1960, but those of mineral fuels continued to recede.

11. In the first quarter of 1961 there was a further fall in average prices in comparison with the last quarter of 1960; the decline continued in the case of tropical beverages, but this was partly counterbalanced by a slight rise in the prices of agricultural materials and non-ferrous metals. In the second quarter of 1961, when tropical beverages (mainly cocoa and Robusta coffee) again weakened, other food export prices increased, and higher copper and tin prices helped raise the level in the metal group strongly. Together with a strengthening in the prices of minerals, these movements raised the average price level of primary products by about 1½ per cent in the second quarter compared with the first. The data underlying the price series shown in Table 1 are not yet available for the third quarter of 1961, but provisional FAO price series (relating to agricultural products only) indicate a slight fall in the price index for foodstuffs and a large decline for agricultural raw materials in that period, while the index for beverages and tobacco did not fall further below the level of the second quarter. Among food products, the prices of which weakened after mid-1961, a special mention should be made of sugar, while among agricultural raw materials fibres and rubber were those mainly affected.

(d) Share of the industrial countries in commodity trade

12. During the 1950's the share of the non-industrial countries in world commodity trade dropped noticeably. Although the volume of this trade rose by approximately 50 per cent between 1953 and 1960, total exports from the non-industrialized areas, consisting essentially of primary commodities, rose by less than 40 per cent over the same period. Table 2 shows in more detail trends between 1953 and 1960 in the value of exports from the

industrial countries and from the non-industrialized areas for the principal commodity groups (excluding fuels) and for non-ferrous metals. In 1953 exports of all these products by the industrialized regions accounted for 44 per cent of the value of world exports; after rising during the period 1954-1956, the share of the industrial countries levelled off in the region of 50 per cent from 1957 to 1959, and showed a further increase in 1960, reaching nearly 53 per cent. This increase from 1959 to 1960 may, to a large extent, be due to temporary causes. As is seen from Table 2, the large rise in the value of exports of textile fibres from industrial countries in 1960, which brought these exports back to the level reached in 1957, accounted for about half of the relative shift between 1959 and 1960.

13. The value of trade in primary products between industrial countries rose by 13 per cent from 1959 to 1960, while their imports of these products from non-industrial countries increased by only $1\frac{1}{2}$ per cent. The expansion among industrial countries reflects the sharp rise in trade within Western Europe and in imports into that area from North America.

14. The United States exported in 1960 10 per cent more foodstuffs by value than in 1959, and 30 per cent more raw materials, while imports in both groups were lower. The items most affecting suppliers in primary producing countries were coffee, meat, natural rubber, wool, jute, lead, tin and zinc. United States' exports to Western Europe of cotton, soybeans, copper and aluminium increased considerably. Imports by Western Europe¹ of foodstuffs from North America were about 5 per cent higher in value in 1960 than in 1959; trade in these products among the countries of the area rose by about 17 per cent, whereas there was a 2 per cent decline in their imports from non-industrial countries. In agricultural materials and ores intra-trade rose by 21 per cent, imports from North America by 66 per cent and from other sources by 13 per cent. Fuel imports from North America fell, but intra-European trade increased by 13 per cent and imports from other sources by 8 per cent. Finally, while imports of fats and oils from non-industrial countries were at an unchanged level, trade among West European countries rose in value by 48 per cent and imports from North America by 20 per cent.

(e) Diversification of exports

15. Although for the non-industrialized countries the development of industrial activity is often the principal way to diversify their economy, their domestic situation, and in particular the level of investment for the promotion of new activities, is usually largely dependent on the stability of export earnings in respect of primary products. Such stability can be ensured more easily in countries exporting a variety of products, for the general economic situation in the industrialized countries usually has varying effects on exports of each of the various groups of commodities; moreover, the market for each product is subject to individual fluctuations.

16. International trade in foodstuffs (including tropical beverages) is usually less affected by fluctuations in the world economic situation than are raw materials (including agricultural raw materials as well as ores and metals). During the 1958 recession, for instance, foodstuffs were on the whole only slightly affected by the slackening in world trade between 1957 and 1958 (see Table 3), with the exception of coffee and sugar. The products most affected were raw materials, almost all of which suffered some setback, and in particular wool, copper, tin and rubber. In 1959 and 1960 the overall situation for primary products, in particular the four products mentioned, improved noticeably, while trade in foodstuffs remained stable.

¹The percentages quoted in this paragraph refer to imports by the OEEC countries only.

17. Table 3 also shows that, in the period 1957-1960, trade in a number of the selected commodities mentioned in that table developed in a different way from commodity trade as a whole. Thus, exports of sugar and coffee among foodstuffs, and of wool and non-ferrous metals among raw materials, were considerably lower in 1960 than in 1957. On the other hand, exports of products other than those shown separately in Table 3 - including exports of manufactured goods - rose at a noticeably faster rate between 1957 and 1960 than the overall exports of the countries considered.

(f) Trade balance of the non-industrialized countries

18. The trade deficit of the non-industrialized areas as a whole became more serious in 1960. The deficit of about \$4,200 million (imports c.i.f., exports f.o.b.) recorded for 1958 had been reduced to \$1,700 million in 1959, but rose again to over \$5,500 million in 1960. The improvement in the trade balance in 1959 was due to an increase in exports and a simultaneous drop in imports, while in 1960 the increased deficit resulted from a sharp rise in imports which was only partly offset by increased exports.

19. During this period the rôle of three countries, i.e. Australia, New Zealand and South Africa was important enough to deserve special mention. While exports from these three countries account for less than 15 per cent of total exports from the non-industrialized regions, the variations in their trade balance represented nearly one third of the variations noted for the non-industrialized countries, taken together, between 1958 and 1959, and about one half between 1959 and 1960. While between 1958 and 1959 a large increase in, inter alia, wool and butter exports from these countries contributed strongly to the important reduction in the deficit, in 1960 a main factor behind the deterioration in the trade balance was the upsurge in imports. Wool exports remained unchanged but the value of butter exports fell. The fluctuations mentioned are shown below:

<u>Total trade deficit of all non-industrial countries</u>	<u>1958</u>	<u>1959</u>	<u>1960</u>
	(million dollars)		
(imports c.i.f., exports f.o.b.)	-4,190	-1,710	-3,540
Oceania and South Africa	-1,090	-210	-1,140
Others	-3,100	-1,500	-2,400

Source: United Nations Monthly Bulletin of Statistics, September 1961.

20. While the above table shows the total trade balance of the non-industrial countries, the data published in International Trade 1960, Table 3, enable the study of these trade balances with respect to two groups of countries, as shown below:

<u>Trade balance of non-industrial countries with:</u>	<u>1958</u>	<u>1959</u>	<u>1960</u>
	(1,000 million dollars)		
Industrial areas	-2.17	-0.25	-2.15
Eastern trading area	-0.20	+0.05	+0.09
Total	-2.37	-0.20	-2.06

Note: Exports and imports are both at f.o.b. values. The non-industrial countries include Oceania and South Africa.

It is seen that the deficit in f.o.b. trade of the non-industrial countries with the industrial areas, which had nearly been wiped out in 1959, in 1960 almost reverted to the position which existed two years earlier.

21. The total reserves of gold and foreign currency of non-industrial countries (excluding Australia, New Zealand and South Africa), which at the end of 1956 reached a record level of about \$13,200 million, fell to \$12,400 and \$11,600 million in the two following years. Minor additions to the reserves occurred in both 1959 and 1960, the figure at the end of last year being about \$11,950 million and at the end of March 1961 about \$12,060 million. Australia, New Zealand and South Africa, considered together, increased the reserves from \$1,500 million to nearly \$1,900 million between 1956 and 1959. During 1960 they lost, however, about \$600 million, which corresponded to about two thirds of the increase in their combined trade deficit.

Table 1 - Indices of prices of primary commodities entering world trade
(Index 1953 = 100)

Tableau 1 - Indices des prix des produits primaires du commerce mondial
(Base 100 en 1953)

	<u>Foodstuffs/</u> <u>Produits alimentaires</u>		<u>Agricultural</u> <u>raw materials/</u> <u>Matières premières</u> <u>d'origine agricole</u>		<u>Minerals/</u> <u>Minéraux</u>	<u>Total</u> (including petroleum)/ (y compris le pétrole)	
	<u>Total</u>	<u>Coffee, tea, cocoa/</u> <u>Café, thé, cacao</u>	<u>Total</u>	<u>Textiles</u>			
1957	98	97	101	97	114	102	
1958	94	94	90	78	108	96	
1959	89	80	94	75	103	94	
1960	88	76	96	80	101	93	
1959							
	I	90	81	89	70	105	92
	II	88	80	95	76	102	93
	III	89	80	95	77	102	94
	IV	90	78	96	77	102	95
1960							
	I	87	75	98	81	102	94
	II	86	74	98	82	101	94
	III	89	77	94	78	101	93
	IV	88	76	92	81	100	92
1961							
	I	86	72	93	83	99	91
	II	85	70	95	84	100	92

Source: United Nations Monthly Bulletin of Statistics, September 1961. The indices shown combine import and export prices/Bulletin mensuel de statistique des Nations Unies, septembre 1961. Les indices donnés combinent les prix des importations et des exportations.

Table 2 - Exports of selected groups of primary commodities (excluding fuels) from industrial countries and non-industrialized areas, 1953 and 1957-1960
(thousand million dollars f.o.b.)

Tableau 2 - Exportations de certains groupes de produits primaires (à l'exclusion des combustibles) en provenance des pays industriels et des régions non industrialisées en 1953 et de 1957 à 1960
(en milliards de dollars f.o.b.)

	<u>1953</u>	<u>1957</u>	<u>1958</u>	<u>1959</u>	<u>1960</u>
<u>I - Exports from industrial countries/Exportations des pays industriels</u>					
<u>Foodstuffs/Produits alimentaires</u>	<u>7.50</u>	<u>9.17</u>	<u>9.33</u>	<u>9.72</u>	<u>10.40</u>
of which: "Competing" products ¹ / dont: Produits "rivaux" ¹	3.91	4.40	4.21	4.34	4.65
<u>Agricultural raw materials/Matières premières agricoles</u>	<u>4.73</u>	<u>6.85</u>	<u>5.52</u>	<u>6.35</u>	<u>7.65</u>
of which: Textile fibres/ dont: Fibres textiles	1.45	2.17	1.51	1.51	2.19
<u>Non-ferrous metals and ores²/Métaux non ferreux et minerais²</u>	<u>2.08</u>	<u>3.80</u>	<u>3.32</u>	<u>3.81</u>	<u>4.40</u>
Ensemble	<u>14.31</u>	<u>19.82</u>	<u>18.47</u>	<u>19.88</u>	<u>22.45</u>
<u>II - Exports from non-industrialized areas/Exportations des régions non industrialisées</u>					
<u>Foodstuffs/Produits alimentaires</u>	<u>8.63</u>	<u>9.48</u>	<u>9.34</u>	<u>9.23</u>	<u>9.45</u>
of which: "Competing" products ¹ / dont: Produits "rivaux" ¹	3.55	4.05	3.88	3.83	3.90
Coffee, tea, cocoa/Café, thé, cacao	3.30	3.21	3.08	2.97	2.96
<u>Agricultural raw materials/Matières premières agricoles</u>	<u>6.53</u>	<u>7.42</u>	<u>6.39</u>	<u>7.55</u>	<u>7.60</u>
of which: Textile fibres/ dont: Fibres textiles	3.28	3.27	2.62	2.82	2.86
<u>Non-ferrous metals and ores²/Métaux non ferreux et minerais²</u>	<u>2.22</u>	<u>2.77</u>	<u>2.20</u>	<u>2.56</u>	<u>2.90</u>
Ensemble	<u>17.38</u>	<u>19.67</u>	<u>17.93</u>	<u>19.34</u>	<u>19.95</u>

¹By competing products is meant major commodities exported both by the industrial countries and the non-industrialized areas, i.e. wheat, maize, barley, rice, butter, meat, sugar, citrus fruit and tobacco/Principaux produits de base exportés à la fois par les pays industriels et par les régions non industrialisées, à savoir: blé, maïs, orge, riz, beurre, viande, sucre, agrumes et tabac.

²Including iron ore and, for non industrialized areas, exports of iron and steel/Y compris le minerai de fer et, pour les régions non industrialisées, y compris les exportations de fer et d'acier.

Source: United Nations Monthly Bulletin of Statistics, March and April 1961; national trade returns/Bulletin mensuel de statistique des Nations Unies, mars et avril 1961; statistiques nationales du commerce

Table 3 - Changes in export earnings in 57 non industrialized countries from selected commodities, 1957 to 1960

Tableau 3 - Variations des recettes tirées par 57 pays non industrialisés de l'exportation de divers produits, 1957-1960

(million dollars - en millions de dollars)

Commodities - Produits	1957	1958	1959	1960
Wheat and wheat flour/Blé et farine de blé	329	251	306	347
Maize/Maïs	132	178	188	185
Barley/Orge	81	64	65	24
Rice/Riz	459	387	370	401
Butter/Bouurre	157	147	242	201
Meat/Viande	626	740	791	684
Sugar/Sucre	1284	1160	1021	1153
Bananas/Bananes	207	205	217	222
Citrus fruit/Agrumes	168	154	142	146
Coffee/Café	2182	1941	1872	1846
Cocoa beans/Fèves de cacao	394	480	497	509
Tea/Thé	554	599	555	573
Tobacco, unmanufactured/Tabac, non fabriqué	222	232	235	285
TOTAL ABOVE FOODSTUFFS/ TOTAL CI-DESSUS, PRODUITS ALIMENTAIRES	6795	6538	6501	6581
Groundnuts and oil/Arachides et huile d'arachide	237	249	242	241
Coconuts products/Produits de la noix de coco	305	282	303	278
Rubber, natural/Caoutchouc naturel	1005	849	1265	1298
Hides and skins/Cuir et peaux	247	220	289	303
Cotton/Coton	1073	1042	1055	1038
Wool/Laine	1861	1265	1437	1473
Sisal, abaca, henequen	108	101	126	134
Jute, raw/Jute, brut	166	178	150	159
Iron ore/Minerai de fer	208	188	201	265
Copper, incl. ore and concentrates/Cuivre, y compris minerai et concentrés	800	625	890	1031
Tin/Étain " " "	298	191	224	249
Lead/Plomb " " "	216	160	149	145
Zinc " " "	100	69	72	89
TOTAL ABOVE RAW MATERIALS/ TOTAL CI-DESSUS, MATIÈRES PREMIÈRES	6624	5419	6413	6703
TOTAL LISTED/TOTAL	13419	11957	12914	13284
OTHER EXPORTS/AUTRES EXPORTATIONS	7648	7496	7978	8518
TOTAL EXPORTS/EXPORTATIONS TOTALES	21067	19453	20892	21802

Note: See overleaf/Voir page suivante

Note to Table 3

The table lists the value of a number of important commodities exported from fifty-seven selected countries and territories which in 1959 accounted for about 90 per cent of total exports from all primary exporting countries, excluding Hong Kong, Singapore, and the following mainly oil-exporting countries: Kuwait, Brunei, Qatar, Saudi-Arabia, Venezuela, Netherlands Antilles. The residual shown in the table, e.g. in 1959 amounting to \$7,978 million, thus contains manufactured goods in addition to primary products not covered. The following fifty-seven countries and territories were included: Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Cuba, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Uruguay, Trinidad, Jamaica, Tunisia, Morocco, Algeria, Ghana, Nigeria, Mauritius, Angola, Mozambique, Congo Republic (Leopoldville), former French Equatorial Africa, former French Cameroons, former French West Africa, Madagascar (Rep.), Sierra Leone, Fed. Rhodesia-Nyasaland, British East Africa, South Africa, Sudan, Ethiopia, Syria (UAR), Egypt (UAR), Iraq, Israel, Pakistan, India, Ceylon, Thailand, Malaya, Burma, Indonesia, Taiwan, Philippines, Viet-Nam, Cambodia, New Zealand, Australia.

In addition to national trade statistics, the principal source for the table is the International Financial Statistics, published monthly by the International Monetary Fund.

II. General exchange of views

22. During the general exchange of views in the Working Party it was stressed that, while it was important to take measures to deal with the short-term difficulties in international trade in primary commodities, the underlying problems were not short-term but reflected a growing imbalance between supply and demand. It was important to distinguish between problems arising from short-term price fluctuations and the long-term problems which stemmed from this fundamental imbalance, including the deterioration in the terms of trade of the less-developed countries.

23. It was recognized that the problems were not the same for every commodity and there was general support for the commodity-by-commodity approach and for international commodity agreements with maximum participation by producing and consuming countries. It was pointed out that bilateral and regional arrangements were only a palliative and could not be as effective as international co-operative action.

24. The view was expressed that, in the long-term, only the industrialization of the less-developed countries would enable these countries to overcome the present difficulties in their external trade; in turn, this industrialization and the economic development generally of the less-developed countries would

only be achieved through an increase in their exports, including exports of manufactured and semi-manufactured goods. Direct investment and international financial aid alone would not solve the problem.

25. It was necessary, therefore, in any attempt to solve the problems of international commodity trade, for there to be a co-operative effort to achieve stability of commodity prices at an adequate level. However, while international commodity agreements might contribute to the stabilization of prices, they did not provide the complete answer to the problems which arose in this connexion for the less-developed countries. For this reason, the proposals for compensatory financing to offset sharp declines in the export incomes of less-developed countries, such as the proposals summarized in the note by the secretariat (L/1595), were of great importance. The view was also expressed however that, as the United Nations group of experts had stated in their report, International Compensation for Fluctuations in Commodity Trade (E/3447), compensatory financing was only a partial solution to the difficulties which arose in international commodity trade.

26. The need for the industrialized countries to restrain uneconomic production of primary commodities and to eliminate restrictions and preferences which disturbed international trade was also emphasized. Concern was expressed at the growing share of the industrialized countries in trade in primary commodities. It was stressed that a solution must be found to commodity problems which had their origin in agricultural protectionism if the CONTRACTING PARTIES were to succeed in their objective of expanding world trade on a multilateral basis. The impact of national policies in the agricultural field was of great importance, as had been brought out in the reports of Committee II. Emphasis was put on the need for the industrialized countries to follow liberal import policies and to give growing opportunities to less-developed countries to increase their exports and export earnings. The Working Party concluded that the work of Committees II and III, and the results which were hoped for from the carrying out of the recommendations of the Committees, would represent a very valuable contribution by the GATT to the solution of commodity problems.

27. Finally, the representative of a non-industrialized country pointed to the need for primary producing countries to adjust their production to the scale of potential markets and to work toward the diversification of their economies. The view was expressed that less-developed countries should concentrate their production in those sectors where they were the most efficient. The point was also made that, when talking about "primary producing countries", it had to be clear that this included those countries which were important producing and exporting, as well as importing, countries.

III. Exchange of views on particular commodities

28. The Working Party took note of the information contained in Part II of the note by the secretariat (L/1595) on the subject of developments in intergovernmental consultation on certain commodities. It recommended that the CONTRACTING PARTIES should continue to give their full support to the work being done in connexion with commodity problems by other international organizations.

29. The Working Party then had a useful exchange of views on some individual commodities, particularly coffee.

30. The representative of Brazil, having referred to his comments (paragraph 27) on the need for producing countries to adjust their production to the scale of potential markets, informed the Working Party of some of the measures his Government had taken in connexion with coffee. He said that his Government's policy was based on three principles: (a) to encourage the production and export of best quality coffee; (b) to improve productivity and to eliminate anti-economic production; (c) to achieve stability of export income through a strengthening of coffee prices on external markets.

31. Having referred to Brazil's exchange reforms, which aimed at the elimination of multiple exchange rates and the special rate for coffee, the representative of Brazil explained that, so as to avoid the possibilities that such measures might encourage additional coffee production, his Government had decided that any increase in the exporters' receipts from coffee sales, as compared with their earlier receipts, should go into a reserve fund. The resources of this fund would be applied (a) to the maintenance, when necessary, of internal and external prices; (b) to the purchase of surplus exportable coffee; (c) to the purchase of non-exportable coffee; (d) to the provision of financial guarantees for new harvests; (e) to the cost of transporting, storing and sorting coffee stocks and (f) to assist producers to replace non-economic coffee production by the cultivation of other crops.

32. The Brazilian Government would no longer buy coffee of very low quality and this would reduce by about 10 per cent the quantity of coffee actually put on the market. In addition, about seven million bags of this low quality coffee from earlier harvests were being destroyed. Further, coffee plantations with a poor yield were being destroyed or replaced. Through measures such as these, the representative of Brazil concluded, his Government hoped to reduce existing stocks and total production with the aim of adjusting supply to the situation on world markets.

33. Representatives of three newly-independent African states also commented on the question of coffee. It was explained that the participation of many newly-independent African countries in the International Coffee Agreement had not produced the results they had hoped for. While the Agreement did help the prices of certain categories of coffee, it did not prevent the worsening of prices in the case of Robusta coffees, which were by far the most important from the point of view of the African countries concerned. As a result the Inter-African Coffee Organization, which had its first meeting in December 1960, was established with the participation of both French-speaking and English-speaking African countries. The value of a regional organization of this kind was stressed. One of these representatives, commenting on the statement of the representative of Brazil on the desirability of producing countries adjusting their production to the scale of potential markets, pointed out that it was much more difficult for countries like the newly-independent African States to do this than it was for a country like Brazil, which had

already gone some way in the process of diversifying its economy and exports. Having referred to the current work which was being done and which aimed at a long-term coffee agreement, the representative of another African State expressed his opinion that it was also the wish of the African countries that world production of coffee should be put on a satisfactory footing.

34. The Working Party stressed the importance it attached to the statements that had been made concerning the willingness of coffee producers to take steps to adjust production to demand. Recent statements by the United States Government that it was ready to join a new coffee agreement were also welcomed by the Working Party.

35. As regards cocoa, representatives of producing countries stressed the great importance of cocoa exports and the stability of cocoa prices to the economies of their countries. The hope was expressed that current efforts to find solutions being made under the auspices of FAO would produce satisfactory results.

36. In the case of tea it was pointed out that prices had held, not because of increased external demand, but mainly because of increased consumption in producing countries. Nevertheless, there was a serious problem as export earnings had remained static or even declined. Reference was made to the work of Committee III and to the stress that had been put in the Committee on the need for importing countries to reduce internal taxes and duties on tea.

37. Mention was made of the deterioration in jute prices in 1961 and it was pointed out that the situation might result in problems similar to those that arose in the case of other commodities where price declines had occurred. In this connexion reference was also made to the use of substitutes both in the case of jute and of other commodities. Emphasis was put on the relationship between prices of primary commodities and the use of substitutes.

IV. Consideration of possible further international action

38. The Working Party noted the information contained in Part III of the secretariat's document L/1595 concerning action taken in the international field relevant to the recommendations made by the Working Party at its last meeting in November 1959. This action related in particular to the diversification of the economies of the less-developed countries and to the question of compensatory financing to offset fluctuations in commodity trade.

39. The Working Party also noted that certain countries had, during the present year, used the GATT consultation procedures in connexion with a short-term commodity problem. The Working Party had stressed the availability of these procedures at its meeting in November 1959 and it again suggested that contracting parties should keep these procedures prominently in mind whenever they were faced with difficulties, either as exporters or importers, or when contemplating action on problems arising on commodity trade.

40. During the discussion in the Working Party, it was pointed out that commodity problems fell into three groups: (a) problems due to short-term fluctuations in the export value and volume of certain commodities; (b) problems due to the low level of export earnings and the insufficient growth in trade in primary commodities; and (c) problems in connexion with the long-term trends in commodity prices and volume of exports as well as changes in the purchasing power of primary products in relation to manufactures. The second group of problems, which raised the question of the removal of barriers to the exports of primary producing countries, was essentially a matter for the GATT and fell within the province of Committees II and III.

41. The view was expressed by one member of the Working Party that the concept of a "commodity" should be enlarged to include, not only primary commodities which had undergone a certain degree of transformation, but also products where processing had been carried to an advanced stage. In this connexion it was pointed out that exports to African countries from a country like Brazil for example were hardly likely to consist of tropical products; the best chance for such exports lay in the field of semi-finished or finished products. It was suggested that the GATT secretariat should study (a) market conditions for exports of semi-finished and finished products which could be produced by less-developed countries and (b) possible new trends in trade in these products between the various less-developed regions of the world.

42. It was also suggested that there was a need for the GATT and other bodies to study the repercussions of the present situation in the copper market on the export earnings and the economies of the producing and exporting less-developed countries and the means whereby the adverse effects of such repercussions could be reduced. In connexion with references made earlier in the Working Party's discussions to the question of the diversification of the economies of less-developed countries, the point was made that there was an urgent need for the study of the economic necessity and possibilities for enlarging the scope of processing facilities in the less-developed countries. In this connexion the necessity for giving these processed products the same tariff treatment as the basic products when imported by industrialized countries was stressed.

43. It was agreed that the secretariat should investigate the possibility of studies of the kind suggested in paragraphs 41 and 42 being carried out. In this connexion, however, it was stressed that Committee III had already, at least to some extent, considered certain of the problems referred to and thought should be given as to how these suggestions could be related to the work of the Committee.

V. Futures markets

44. The Working Party considered the note by the International Chamber of Commerce on futures markets which had been distributed in document L/1318.

45. The Working Party agreed to recommend to the CONTRACTING PARTIES that they should (a) invite governments to examine their regulations and see to what extent they could modify such regulations in order to facilitate the operation of futures markets both in their own and in other countries and (b) to invite governments to inform the GATT secretariat of the result of this examination.