

## **Action for Development**

UN Special Session: A New Commodities Deal

by Robert Swann, September, 1975

*Preface: September will bring a new attempt to design agreements regulating international trade in commodities. This will be the main preoccupation of the Seventh Special Session of the United Nations General Assembly. The session will enable both producers and consumers to state their positions and try to reconcile them.*

The UN Conference on Trade and Development (UNCTAD) has proposed an integrated program for commodities. Britain has outlined principles for a general commodities agreement in a white paper titled "World Economic Interdependence and Trade in Commodities" (HMSO). These principles were first suggested by Mr. Wilson at the Commonwealth Heads of Government meeting in May, and have been examined by a group of ten "wise men," whose first report on ways of achieving a new world economic order went to governments on July 24. There has also been considerable discussion on commodity agreements by the Organisation for Economic Cooperation and Development (OECD), which reacted to signs of a more liberal stance by the U.S.

The commodity price boom, caused partly by the rise in oil prices and partly by world food shortages, has now slackened, although very recent trends suggest another boom may be on the way. Almost all commodity prices have now fallen in real terms, reflecting the economic recession in industrialized countries, and the rise in output of some commodities.

Producers want to stop this decline, and importers are worried about the low stocks of many essential foodstuffs and industrial raw materials. Producers want to sustain and increase their earnings. Importers want to stabilize prices at below peak levels. If producer or consumer cartels were introduced to achieve these aims, international trade would be disrupted. Many producers realize that cooperation is better than confrontation.

Production and export controls, buffer stocks, or both can achieve price stabilization. Production can prevent price swings arising from variations in planned production levels, but they cannot prevent variations in demand or in the weather, both of which are important influences on many primary commodity markets. Export controls can be used to stop prices from falling below the trend. This can make a subsequent swing in the opposite direction less likely. But without buffer stocks, neither import nor production controls can deal with unforeseen supply shortages, nor sudden rises in demand. A buffer stock can achieve almost complete stability, and may even make a profit if stocks are brought up when the price falls below the trend level and sold when it rises above the level. This is not practicable for very perishable agricultural commodities, such as bananas, while more durable farm products are often expensive to store.

Most consumers tend to underestimate the trend price, and most producers tend to overestimate it. Many low cost producers want to push prices down in order to expand their market share. Net importers who already produce most of their own requirements at home often wish to push up international prices as a way of supporting domestic producers and reducing imports. A buffer stock is soon depleted if it supports too low a price and soon runs out of money if it supports too high a price.

UNCTAD emphasizes the maintenance of prices that will encourage producers to invest in production.

This could mean higher prices for many commodities. The aforementioned British white paper stresses price stability, without arguing for a gradual rise in overall price levels.

UNCTAD favors the establishment of internationally held buffer stocks “sufficient to provide assurance of adequate supplies at all times for importing countries, and also large enough to ensure that excessive movements in prices—either upward or downward—can be prevented by market intervention.” These stocks would be financed by a common fund. UNCTAD hopes that the fund would make a profit, and thus attract commercial finance.

The white paper stresses the general value of buffer stocks but also pays particular attention to the difficulties of control and management, stock size, financing, and time.

UNCTAD proposes that governments should enter into multilateral purchase and supply agreements “as a means of improving the predictability of trade requirements and encouraging rational levels of investment of resources in commodity production.”

It also proposes “measures removing discrimination in trade against processed products, encouraging the transfer of technology and supporting a more intensive research effort, in order to secure rapid development in the processing of raw materials in producing countries.”

Both the UNCTAAD and the white paper proposals favor schemes to stabilize export earnings by means of the transfer of funds to compensate for fluctuations from the overall trend. These would be specifically designed to help developing country exporters, for whom buffer stocks and purchasing commitments would not provide enough protection.

Some economists are critical of the proposals put forward thus far for neglecting the interest of the poorest countries. They argue that if commodity agreements of export stabilization schemes are to have a fair redistribution element, they must ensure that the resources go from the rich producers and consumers to the poor.

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