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Information

DEVELOPMENT AID

THE RAW MATERIALS DOSSIER

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THE RAW MATERIALS DOSSIER

Between the wealthy countries of the earth and the poor there is a permanent state of negotiation. They are thrashing out the methods of balancing the world economy afresh,so that the Third World countries can be given a better deal. The negotiations take place in many centres and in many forms and they are subject to many turns of fortune. On one day it may be a question of seeking agreement in redefining the monetary system of the world; and the FMI negotiations in Jamaica in January 1976 did not come up to all the expectations of the Third World countries. On another day there may be the simpler task of agreeing to regulate the world market for a single product,as was done in 1975 for tin,for cocoa and for coffee. On yet another day,discussion may be focussed on solving the food problem,as occurred in June 1975 when the World Food Council was so tumultuously brought into being.

This is the"North-South dialogue",and all the time we are thinking in terms of the northern and the southern parts of the earth. With such a multitude of approaches to their problems,it might be feared no solution could be found to redefine the relations between them. This,however, would be snapping one's fingers at the three major encounters already fixed between the developed and the developing countries. Two of the negotiations,both of general scope, have already begun. Since February 1975 the GATT countries negotiating in Geneva,have entered the active phase of the "multilateral commercial negotiations",known for short as the "Tokyo Round". The object here,while taking the special interests of developing countries into account,is to reduce or eliminate customs duties and non-tariff barriers to trade in agricultural produce and manufactured goods. Secondly, in December 1975,27 countries selected among the most representative western industrial countries and Third world countries,opened the "North-South dialogue" itself. Thirdly,we are now on the eve of an encounter of the very first importance. In May 1976,the governments of 100 countries will be sending ministers to Nairobi for the fourth United Nations Conference on Trade and Development (UNCTAD). No setback in the Kenya talks can be allowed to happen,for it would almost inevitably engulf the other negotiations. It is on Nairobi that all eyes are turned.

Oil and after ....

It may be asked why the international community has chosen this moment for closely-reasoned discussions on a problem which is far from being really new. The economic development of the Third World has been on the agenda for a very long time. Everything in fact began with the oil crisis. Those peaceful carless Sundays which so many Europeans enjoyed at the end of 1973, were the screen which hid the forceful entry onto the international stage of the countries of the Third World. They wanted to leap into the breach then and there,to take advantage of the disarray of the West following the five-fold rise in oil prices. To them the bold stroke of the oil-exporting countries was an example to be followed. Within a few weeks a group of countries -- all of them from the Third World -- had successfully secured what had been beyond their reach in years of negotiation. Developing countries quickly recognised the link between oil,raw materials and development. They knocked louder than ever before on the doors of the industrial countries of the West,demanding explanations and setting in motion a mighty drive for reform in the functioning of the world economy.

The first reaction among the industrial countries was to call a halt. They then began organising their line of defence on the energy side, by forming the International Energy Agency, the members of which are almost all the OECD countries, except France. They were assailed with demands by the countries of the Third World, sometimes in very lively terms; but they proceeded little by little to what amounted to a searching of their conscience. They could not but recognise that their efforts at development over the past two decades had not produced the expected results. This was true enough; for there are few developing countries today who have succeeded in getting their economic plans really off the ground. The Third World as a whole has not enough industry and it now has too much debt; and it has not yet been able to secure its defences against famine. The part it plays in world trade in manufactured goods is still extremely small. This searching of hearts, admittedly, was partly induced by fear; for the supply of raw materials to the western economies was under threat. There was indeed no group of raw material producers in the Third World, which was in a position to repeat the exploit of the oil producers. The world market for crude oil is not comparable with any other. Crude oil stands out in importance as a strategic raw material; exports come predominantly from the Third World; and there is no quick substitute. Nevertheless the industrial countries could not altogether escape "wildcat" action by other raw material producers, who were quick to exploit such strains as might appear in any of the markets. In such cases deliveries might be held up for a time, or orders might issue to impose big additions to the prices, as was done, for example, for Moroccan phosphates. The supply of raw materials to industrial countries could not be thrown altogether out of gear, but there was no way of excluding mishaps on the road. Added to this, was the boom in raw material prices in 1973-74 which added to the fears of the industrial world.

From loggerhead to dialogue

For some months the developing countries and the industrial countries were engaged in discussions which got them nowhere, and were interspersed with threats and attacks, some of which were quite direct. The extraordinary meeting of the United Nations Assembly on raw materials and development, held in April 1974, thus became the scene of open defiance and the declaration about the "new international economic order" was adopted against a background of utter confusion. Quite a number of industrial countries, including the United States, Germany and Japan, cast their votes against a text which is now regarded as the economic creed of developing countries. After all, it contained a vigorous denunciation of the privileges enjoyed by industrial countries, and the new world economic order is claimed by a collection of countries believing themselves to have been abusively exploited. It contains a number of claims likely to give rise to reservations among the western countries. They include the right to nationalise and assert permanent sovereignty over their natural resources; there should be an automatic link between the prices of exports from developing countries and of the goods they import; there should be an association of raw material producers; the chronic trade deficit of developing countries should disappear altogether; limits should be placed upon the competition of synthetic articles with natural products; low-cost access should be provided to the technologies of the West; the activities of multinational corporations should be brought under control..... all this and a great deal else.

In April 1974, therefore, the relations between rich and poor countries were far from being set fair. Later there were to be other misunderstandings and stormy passages. They arose at Rome in November 1974 at the World Food Conference;

again at Dakar in February 1975 at the Conference on raw materials of ministers from the non-aligned countries; at Lima in the following March at the UNIDO Conference on the industrialisation of the Third World; and yet again at Paris in April 1975,when there was a check in the progress of the preparatory conference for the "North-South dialogue". Little by little the international community was edging up a blind alley. And yet,though the seeds of confrontation were not wholly scattered,reason triumphed in the end.

The turning point at Kansas

The voice of reason came in the first instance from the EEC. The successful issue of negotiations between the Nine countries of Europe and the 46 countries of Africa,the Caribbean and the Pacific (some of them among the poorest countries on earth) was hailed as a success for the policy of development cooperation,alike for Europe and for the Third World. The Lomé Convention,signed in February 1975, marks an important step forward in the relations between North and South. The regional solutions,which had been negotiated and not imposed are matters of universal value. It is not only a matter of multilateralised financial aid,but also such points as industrial cooperation,guaranteed markets for sugar producers, not to mention the quite original machinery known as STABEX,for stabilising export receipts. Lomé by itself,however, was not enough to thaw out the relations between the industrial countries and the poor ones. Much depended on the attitude of the Americans,who had till now approached the dialogue in a not very talkative mood. Eventually Washington diplomacy took a new angle. In the same fortnight, Secretary of State Henry Kissinger made two key speeches -- on May 13 in Kansas City and on May 28 to the OECD Council in Paris.

Mr. Kissinger,to be sure, did not make any major express concessions to the ideas of the Third World. The present economic system which has brought us to "record rates of growth" should be preserved,he believed. For him, the foundations of prosperity in industrial countries had lain in freedom of trade and of capital and technological transfer; and without this the developing countries could not hope to be prosperous. Nevertheless, the United States,without which "there is no possibility of a solution" would be prepared to countenance various adjustments in this system for the sake of facilitating the growth of Third World countries. In yet another speech,made in September 1975 at the UN Extraordinary Session of the Assembly on Development, Mr. Kissinger put his thoughts into more definite form. The adjustments envisaged,he said, should make it possible to meet the three current challenges to the world economy -- energy,raw materials and food.

The Community mediates

The change in the American attitude fell short of the expectations of Third World countries,especially if these be assessed in the light of the "new world economic order",but it went far enough for a dialogue to begin. Since the oil crisis the economic and financial position of the Third World countries had changed considerably for the worse. These countries had been more critically affected than the industrial countries by the rise in crude oil prices. They had passed through a food crisis. They had had less benefit than the wealthier countries in the raw materials price boom of 1973-74. Whether by necessity or by reason, it was clear the time was ripe for dialogue. It was this which was the basis for the comparative success of the Extraordinary meeting of the UNO Assembly held in New York,September 1 - 15 last. Without this success,none of the three major negotiations mentioned above would have had the least chance of success.

The compromise resolution,adopted at New York,bears witness to the desire in both camps to find solutions which would be mutually acceptable. The EEC had less to say in open session than had the United States; but in the lobbies it played a decisive part in developing the compromise. Before the Assembly met the Nine had coordinated their attitudes on the basis of a communication from the European Commission,and they were successful in maintaining their unity of approach throughout the session. Between the United States and the Third World, they played the part of conciliation and mediation. In the coming months Community negotiators will doubtless need a high degree of skill to keep their function in the forefront of discussion. What is needed now is to go beyond the assertion of high principles,such as came forward in New York,and give more definite replies to the aspirations of the Third World. At Paris and at Geneva the negotiations are already on foot. In both cases the reform of the trade in raw materials will have an important place in the discussions; but the crucial test will be at Nairobi and,for the developing countries,there is much at stake. Raw materials still provide them with the bulk of their foreign currency earnings. Soon they will be having to serve as a basis for their industrialisation. In advance of the Nairobi talks,a raw materials dossier is a necessary document. It must cover :

I. Raw materials and development containing the essential data needed for an understanding of the raw materials problem.

II. Stabilising the markets or the techniques devised or already in application to keep in order the world markets for raw materials.

III. The major workings of the UNO compromise -- or the position of the chief protagonists : United States, EEC and the Third World.

IV. Illustration or a description of some of the markets for raw materials -- wheat,sugar,coffee,copper,textiles,rubber.

Part I : RAW MATERIALS AND DEVELOPMENT

1. - The world trade in raw materials
2. - Raw material prices
3. - Cartel risks
4. - Investment and technology
5. - The food position in the Third World
6. - The economic and monetary crisis.

I. WORLD TRADE IN RAW MATERIALS -- BASIC INCOME SOURCE FOR THIRD WORLD

Raw materials play a very important part in world trade,accounting (1973) for 25.6% of total exports from industrial and developing countries combined. If fuel (and therefore oil) be included, the proportion is 36.7%. These,however, are global figures and they cover a number of important disparities.

- Exports of raw materials are vital for the developing countries,and even for industrial countries taken together,they are not a mere supplement to the export receipts. Again using the 1973 figures, exports of raw materials and fuel accounted respectively for 42.3% and 41.5% of the total exports from developing countries, a total of 83.8%. For industrial countries,the share of raw materials in total exports was 21.5% and of fuel 3.6%,thus accounting altogether for 25.1%. It is easy to see from these figures why it is the developing countries,who depend so largely on selling their natural resources,who are the most insistent in claiming a reform of world trade in raw materials.

- It is wrong to think of industrial countries as a class,as being the raw material consumers,and the developing countries as being the producers. It is in fact the industrial countries who account for the bulk of world exports -- $ 97 000 million in 1973 out of a world total of $151 700 million.

  By way of comparison exports of raw materials from developing countries were $40 000 million,and from the eastern countries $14 200 million. In other words, the industrial countries are far from ranking principally as raw material importers,and they are in fact important producers. The reverse is also true. Developing countries are too easily ranked as raw material producers and are in fact importers as well. In 1973 they imported nearly $10 000 million of food products from the industrial countries of the West.

- The flow of exports from the various groups of countries are not in any way comparable. Both the industrial countries of the West and the countries of the East,do the main part of their export trade with the countries in their own group. The developing countries,on the other hand, do very little trade with one another (about $5 000 million in 1972) and most of their total exports ($30,000 million) go to the industrial countries of the West ($22 000 million). Classified by destination, of the $97 000 million raw material exports from the western industrial countries in 1973, no less than $77 000 million went to other countries in the same category,while the sales to developing countries were $14 000 million and to eastern countries $5 000 million. In the same way the eastern countries (1972) exported a total of $10 000 million of raw materials, of which a little more than $5 000 million went to the western industrial countries and scarcely $1 000 million to developing countries. The latter are the only group basically dependent on the other two groups,which are themselves accustomed to reserving their exports for those in the same group as themselves. The developing countries have acquired the image of being raw material suppliers, not because they dominate the world markets -- which is far from being the case-- but because they are the only group predominantly supplying the other two groups, especially the western industrial countries.

- The North-South trade flow amounts to $45 000 million. This figure of $45 000 million is the focus of the discussions in hand between the rich and the poor countries. Its composition contains points of interest. The developing countries exported (1973) raw materials to the industrial countries to a value of $30 000 million. It is for this volume of trade that the rich countries would like to be given a delivery guarantee; but from this we must not jump to the conclusion that the figure is a measure of the western world dependence on the Third World. The industrial countries themselves are big exporters to the developing countries to a value (1973) of nearly $15 000 million. Food products predominate,both in the exports from industrial countries to developing countries (over $10 000 million out of a total of $15 000 million) and in the other direction ($16 000 million out of $30 000 million).

The North dominates the markets

The above general survey of the world trade in raw materials can be rounded off with product data. A statistical note was compiled by UNO experts in preparation for the Extraordinary Assembly Session on Raw Materials,held in April 1974; and calculations based on this give a good indication of the hold each of the three main groups of countries exercises upon the different markets. The 66 products listed by UNO can thus be put into three specific categories :

1) Markets dominated by developing countries (18 products,of which developing countries supply over 60% of world exports). The products are,crude oil, coffee,sugar,rubber,cocoa,tin,tea,bauxite,groundnuts,palm oil,copra oil, jute,groundnut oil,copra,sisal,tin-ore,palm kernel oil and palm kernels.

2) Developing countries cover an appreciable part of the market. (10 articles, of which between 30 and 60% of world exports come from developing countries). These are,oil products, copper,cotton,fruit,iron ore,timber,cattle-cake and oleaginous flours,copper-ore,raw fertilizers,manganese ores.

3) Markets dominated by western industrial countries.(37 articles, of which over 60% of world exports come from western industrial countries). These are, wheat,wood pulp,grinding timber,aluminium,coal,maize,beef and veal, wool,fish,soya,tobacco,nickel,rice,milk,leather,cheese,wine,butter,barley, pork,nickel ore,fur skins,animal oils and fats,lead,zinc,mutton and lamb, bacon,soya oil,poultry,zinc ores,eggs,olive oil,lead ore,flax,linseed, cotton-seed oil,linseed oil.

The above lists only 65 of the 66 products. The remaining one is chromium-ore,which is dominated by the eastern countries with a supply of 40% of all exports. The other products of which the eastern countries supply 15% or over of world exports are coal,flax,timber and grinding timber,raw fertilizers, cotton and manganese ore. On the import side, the articles most in request by the eastern countries are palm kernels,linseed,cotton,sugar,barley,wheat, linseed-oil,wine,raw fertilizers,rubber and poultry. In general the chief impression emerging from the table based on the UNO statistics is the strong hold of the western industrial countries on the various world markets.

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II. RAW MATERIAL PRICES : CAUSES OF A FLARE-UP

The first question is whether the general movement in raw material prices since the war has been to the detriment of developing countries which export them. On this question the experts are divided. A working party,including a number of the most eminent, was set up by UNCTAD and was not able in June 1975 to produce any definite reply. The controversy between the experts is mainly concerned on the year of reference which should be taken for measuring changes in the purchasing power of developing countries which export raw materials. A comparison based on 1950 would obviously be to the advantage of the developing countries,because this year was marked by a price boom occasioned by the Korean war. There are also a number of technical factors,for the price indices used for measuring the general up-and-down movement are not in all cases regarded as satisfactory. The fact remains that the problem of raw material prices is a fundamental issue. It is the background to all the discussions between North and South. Moreover, if there is nowadays a great deal of talk about raw materials,the fact is due to the price problems. More precisely, it is due to the price flare-up such as had never been seen before,occurring in 1973-74. It very abruptly brought to light the inadequacies of the international trade mechanism for raw materials. This makes it important that we should examine the causes of the boom.

Have developing countries suffered a long-term fall in their purchasing power ?

For a rough measure of changes in the purchasing power of developing countries since the war, the essential information is what specialists call the "terms of trade". This is the ratio calculated between the prices of exports and the prices of imports. For the group of countries with which we are here concerned, the relevant ratio is between the prices of the raw materials they habitually export and the prices of the manufactured goods they import. The calculation is naturally full of approximations. It may be undue simplification to assume the developing countries import nothing but manufactured goods and that these were produced nowhere but in the western industrial countries. They may be,and in fact they are, importers of other raw materials, such as wheat and oil. The most we can say is,that manufactured goods are the principal class of item in the imports of developing countries.

The UNCTAD secretariat has made a calculation relating to 28 articles with which developing countries are concerned and the changes in the purchasing power of these countries over the period 1952-73. Over this period it compares the price curve for the 28 products and for manufactured goods. Its conclusion is,that for all the products taken together the annual loss of purchasing power was 2.2%. Practically all the individual products were affected by the fall. It was at its worst (over 3% p.a.) for cocoa,manganese ore,bananas,cocoa,coffee, wool and cotton. It was medium (between 1% and 2 % p.a.) for tea,tobacco, aluminium,alumina,iron ore,lead and phosphates. It was classed as moderate (between 0 and 1%) for jute and oranges. Only the developing countries which produce sugar,bauxite,copper,tin and zinc enjoyed a rise in the prices of the raw materials they produce,sufficient to offset the increased cost of manufactured goods.

According to the UNCTAD secretariat,therefore, the deterioration of the purchasing power of developing countries since the war,does not admit of any doubt. This express conclusion of course is open to criticism on the grounds mentioned above. The period covered by the UNCTAD calculations does not include the 1973-74 boom. The lack is made good in another study carried out by the World Bank. The terms of trade are analysed in relation to 34 articles exported by developing countries over the period 1950-74. The index,based on 1973 = 100, rose in 1974 to 116; but this compares with 125 in 1950 and 127 in 1954. In other words, the "real" prices of the 34 raw materials covered by the calculations never recovered their prices of the early fifties,even in the 1974 boom. This again supports the contention that developing countries have suffered a deterioration in their purchasing power.

The 1973-74 boom

Quite suddenly the machine went out of gear. Prices for raw materials which had been comparatively steady through the sixties and had indeed had a slight tendency to ease, abruptly turned upwards in 1972,took wing and zoomed to a peak in the second quarter of 1974. There were a few exceptions -- tea,bananas,jute,hides and leather -- but apart from these no product escaped the rise which was quite unprecedented.

Between 1972 and 1974 the prices of cocoa,sisal and zinc rose to practically three times their price at the outset. The prices of wheat,rice,timber,copper and tin advanced to twice the former level and the price of sugar was multiplied by almost four. The advancing tide carried everything with it.

In the third quarter of 1974 the wave toppled over and broke,and almost every one of the products was involved. The prices went on tumbling well into 1975,but by the end of that year some signs of recovery were beginning to appear. We may ask who it was who got the benefit of the 1973-74 boom ? It would be absolutely wrong to believe that developing countries as a whole were the main beneficiaries. No emphasis could be too much in insisting that these countries are very far from having an export monopoly in raw materials. Most of them have to buy their cereals from industrial countries (especially USA). Moreover there can be no denying the fact that the rise in oil prices,though it affected many industrial countries, was also a heavy burden on the trade balances of many-a developing country.

The prices of manufactured goods which the Third World imports were a long way from remaining steady during the raw material boom. For the most part whatever gain the developing countries were able to make by putting up the prices of the raw materials they sold was very quickly swallowed up by the higher prices for the goods they imported. The secretariat of GATT circulated an extremely informative note in May 1975. It worked out a relationship between the prices of imports of three main categories of goods -- manufactures, fuel and cereals. The results need no commentary. There was a net loss for Third World countries producing copper,bananas,rubber,coffee,tea,tobacco, hides and leather,jute and iron ore. In other words, the rise in the prices they charged for what they sold were less than those they had to pay for the manufactures,the fuel and the cereals they bought. On the other side of the picture the countries which were able to offset the higher prices of manufactures by the rise in those of their exports were the producers of cotton,tin,coconut oil,groundnut oil,palm oil,cocoa and copra.

Even in these cases,however, the rise (again in the period 1969-71-74) were less than enough to offset the rise in prices for fuel and cereals. In fact the producers of sugar were the only ones in the Third World whose price rises were enough to leave them a surplus after covering the higher prices under the three main import headings. The GATT analysis helps get rid of some of the nonsense. Conclusively a rise in raw material prices is not necessarily a benefit to the countries of the Third World. World trade has to be looked as a whole.

An unfortunate set of circumstances .....

What then were the real origins of the 1972-74 boom ?

Many explanations have been put forward,alike from Brussels (European Commission) from Geneva (UNCTAD,GATT) and from New York (UNO). In an attempt to identify the essential points, a distinction has to be drawn between raw foodstuffs and industrial raw materials. For the former the flare-up in prices came from inadequacies of supply,in the latter from a runaway demand. The fall in 1972 crops,though it was not on a big scale, was enough to bring exaggerated rises in prices. The inadequacy of supply was the result of an unusual combination of adverse factors -- bad crops in the USSR, reduced crop area in the United States, widespread shortage of rainfall and catastrophic drought in Africa and Asia; fall in the world catch of fish; frosts in Brazil destroying a large part of the coffee crop. There were some products, such as sugar, for which the bad weather conditions accentuated an imbalance which was already structural. In other cases, especially some of the vegetable oils,the growth in production was maintained,but prices were carried away in a general upward movement,because of the interconnexions between the different food and fodder markets.

The runaway prices for industrial raw materials,on the other hand, were due to the unprecedented jump in demand from industrial countries where expansion was running at full tilt. To meet this fantastic demand the counterpart supplies were lacking. This was largely due to comparative under-investment in the years immediately before the boom. This in its turn can be traced to the fact that during the sixties raw material prices were not sufficiently remunerative. There are various other factors which help to explain the price boom. Anti-pollution measures had put new cost burdens on mining companies; the higher oil prices had made mineral ores more expensive to extract and process; there were crises of a political character,nationalisations,strikes and similar disturbances; and the level of stocks was abnormally low.

Moreover, there was one factor conditioning the boom,both for food products and for industrial materials. This was speculation. There can be no doubt about the fact that in recent years the markets for basic products have attracted a flow of capital greatly swollen by the quest for an anti-inflation hedge, and for insurance against currency fluctuations. The volume of business transacted in raw material markets was swollen quite out of proportion to the increase in world imports. Most popular among the speculators of the world were the markets for sugar and for non-ferrous metals.

III. CARTELS : SMALL RISKS BUT .....

For the developing countries,the example of the oil producers might well be tempting. How indeed could they fail to be thrilled when the OPEC countries suddenly jumped the price of oil and obtained in three months what years of discussion and tergiversation had not brought to hand ? Three years earlier it would have been beyond the bounds of imagination that Iran should be taking up a major shareholding in Krupps,and ordering nuclear power stations. Whenever opportunity offers, the developing countries always maintain that groups of producers are legitimate. For them this ranks as one of the more important of their claims,and the developed countries do their best to play it down. Are there really big risks in the cartelisation of markets by developing countries which produce raw materials ? Surely not. Oil is not a raw material of the same kind as most of the others.

The OPEC stranglehold

Events can always be understood the better after they have happened. Looking back it is easy to see the factors which foreshadowed concerted action by the oil exporters. The OPEC had been formed in 1964; and its members were certainly very dissimilar in their economic,social and political systems. All of them, however, were developing countries; and no developed country could possibly deny the stranglehold they possess over the market for crude oil. It grew stronger as the years went by,and reached the point of controlling 80% of the world's exports. Little by little,too, the OPEC countries took possession of the oil operating companies; and this enabled them to choose their own moment for bringing the output rate under control. This was a field in which Libya was the first to act. On a general assessment of the position,the oil exporting countries had three advantages,without which any cartel action is in practice impossible. The advantages were :

- big reserves of foreign exchange. This applied to several OPEC members,such as Saudi Arabia,Kuwait and Libya. They thus had funds in hand to carry the short-term cost of reducing their deliveries,if it should be decided to do so,for the purpose of bringing the market into line with the interests of the cartel.

- lack of ~~quickly~~-available substitutes. In most consuming countries imported oil covers about 50% of the energy used,so that the rate of dependence is enormous. Other sources of primary energy cannot be brought at all easily into play as substitutes for oil.

- small stocks in consuming countries.The stocks in consuming countries represented average consumption for three months. This is too little for an article so widely used and of such strategic importance.

The oil-producing countries were alert in spotting a favourable state of the market and adroit in the use they made of it; but their difficulties began when it came to making sure of the continuity of their cartel. In this connexion the Council for International Economic Policy,an American official body, issued a report (December 1974) in which it comments : "Cartels usually break up because of a deterioration in their monopolistic position,insofar as substitute products and additional suppliers make their appearance in the market. Other factors which have to be taken into consideration are differences between the members about prices which are to be defended on a falling demand,

and of course,rivalries between the members themselves." The survival of a cartel is a matter of continuous concern. In all circumstances it presupposes from the outset a considerable hold over the market,and this has to be maintained by conciliation between members and facing the reactions of consuming countries. In the case of oil the reaction in question was quite clear. The formation of an International Energy Agency was one step calculated to enfeeble the position of the exporters. Others were the campaigns against energy wastes and the review of energy policies. The life of a cartel seems to beforcibly transient. For oil there is the danger that the transitional period may last longer than anything which might be possible for any other raw material. In this sense,too,oil is not a raw material like the others. But does this mean there is no risk of cartelisation of markets by developing countries ? It is indeed difficult to suppose that these countries could really set up cartels which would endure. We can see examples in products over which they have a certain market ascendancy through the large proportion of world exports they supply which is,of course, an absolute condition for setting up a cartel. Such an organisation,for example, to cover cocoa or coffee or tea, might very well run against the interests of the exporters themselves,because it would discourage consumption in developed countries. For vegetable oil (e.g. groundnut oil,copra oil or palm kernel oil) there are unduly abundant possibilities of substitution. Rubber,jute or sisal can be quickly replaced by synthetic products. In sugar the developed countries -- and the EEC most of all -- are in a position to boost their own production considerably. For timber (e.g. sawn timber and plywood) the product types are too diverse for cartels to be really effective. In fact the list of products for which cartel action by developing countries would be possible,scarcely extends beyond such products as bauxite,tin,perhaps copper and manganese. Even in these cases the action taken could not have such wide scope as that taken by the oil producers. In the case of bauxite,an international association has been formed on the initiative of Jamaica; and Australia as the world's biggest producer,though a developed country,has become a member of it. For tin there has been an international agreement since 1956,and the machinery set up is calculated to defend the purchasing power of producers who cannot contemplate going any further. In copper the four chief producers in the Third World (Peru,Chile,Zambia and Zaïre) have set up an association,but it has not succeeded in dictating prices, because it has not sufficient hold over the market. In manganese,about a third of total world exports come from developed countries,and this provides them with a guarantee against the risk of cartelisation by developing countries. Remembering also that most of the producing countries do not command adequate financial resources, it is easy to see that lasting cartel action is difficult to envisage.

How then can we explain the reluctance of the developed countries about the formation of producers' associations,on which the countries of the Third World are so keen ? There is in fact one main reason -- the fear that when there are strains in the market,such associations may be able to turn them quickly to their own profit. If,for example,a strike in developed countries should force up the world market price of copper as a result of short-term insufficiency of supply,the CIPEC countries -- which already have a long experience in cooperation -- could easily come to a decision among themselves as to how best to take advantage of the state of the market. They will already have gained command of various formulae which will save a lot of pointless discussion. The example makes it clear enough that the developed countries can indeed fear "wildcat" action by developing countries, though it will be for the latter to find their way back into the ranks once the tension has disappeared. One country, incidentally, was able to act on these lines. This was Morocco, which took full advantage of the strains in the market to order a four-fold increase in the price of phosphate, but had unwillingly to accept a continuing diminution because of the competition of American producers. Jamaica, too, was able to secure a doubling of the price of bauxite. Once cooperation has become a habit, why should not several countries combine to obtain advantages such as individual countries in a comparatively strong commercial position have been able to secure for themselves. Already there have come into existence a number of associations consisting solely of developing countries -- "café mondial", the association of countries producing natural rubber, the union of banana exporting countries and others. The most powerful of these, and the one which holds out the most evident threat to developed countries, is the CIPEC.

The copper market, in terms of the value traded, is one of the biggest raw material markets, ranking with coffee, sugar and wheat, and added to which is its strategic importance. In order to make up for their comparatively weak position in many world markets, developing countries can have recourse to another weapon, a sort of "pool" of producers' associations. This idea was put forward in February 1975 at the Conference at Dakar of ministers from non-aligned countries. The following August, the Lima Conference earmarked $3 000 million for a fund to support the prices of raw materials exported from developing countries; but up to now this fund has not yet seen the light. Perhaps this is just as well, if there is to be a real dialogue between the rich countries and the poor. The former might easily regard the setting up of such a fund as a hostile act, and the current talks in Paris -- or even UNCTAD IV in Nairobi -- might be envenomed. In actual fact it should not be forgotten that the developed countries, too, have their own ways of controlling markets. What, for example, would be the reaction of the Third World if there should be "reprisals" by the United States and Canada which, according to the American expert, Mr. Lester Brown "today control by themselves a bigger proportion of world grain exports than do the countries of the Middle East of oil exports"?

It is indeed true, that in 1966-70 the United States supplied no less than half the world exports of cereals. We have already noted (page 7 above) that a great many markets are controlled by the developed countries. In a number of cases, too, they have set up producers' associations with the developing countries. This is the case with bauxite, mercury, iron and various others.

IV. INVESTMENT AND TECHNOLOGY : THE DISPUTED POWER OF THE MULTINATIONALS

Financing the production of raw materials calls for a great deal of capital, and technologies which are increasingly sophisticated. From this standpoint -- and there is no object in refusing to admit it -- the developing countries are considerably in arrear. The "nouveaux riches" of the oil world can of course stand in for the industrial countries of the West in matters of project finance; but they cannot (yet) supply the technology. This is still the perquisite of the western countries which, incidentally, are not particularly keen about passing on their knowhow to developing countries. Some of the firms in the West have important cooperation agreements with eastern countries.

The degree to which the developing countries are dependent varies from sector to sector and from product to product. Producing wheat certainly calls for capital, but the first thing for countries which are predominantly rural, is the problem of getting production organised. On the other hand a great deal of technological knowledge is needed to produce copper or nickel and the technologies become more and more advanced as the mines are progressively worked out and become more difficult to operate. Mining is an expensive passtime. For example, the big copper mine at Bougainville (Papua-New Guinea), before it could be made operational, took over eight years of surveys and works at a total cost, estimated at $400 million. The problems of investment and technology are at their most acute in industries of high capital intensity, such as mines, forestry and wood pulp and also in industries where there is strong competition between natural and synthetic products, such as textiles, leather and rubber.

Natural versus synthetic

It may be noted in parenthesis, that synthetic products are among the difficulties with which developing countries have been confronted. Firms in western countries have made big investments in making substitutes; and since the beginning of the sixties this has had its natural effect in the very small growth in the exports of the natural product from Third World countries. Massive R & D expenditure -- around $2 000 million annually -- by the big western chemical companies has greatly reduced the share of the market covered by natural products which come principally from the poorer countries. These companies have huge financial and technical resources, often exceeding the whole of the resources available for investment in any of the countries producing the natural products.

The power of the multinationals

The manifest superiority of the West in matters of technology and investment brings us inevitably to consider the problem of the multinational corporations. For many years they have reigned unchallenged in the developing countries, but in the last few years things have changed. In many of the developing countries there has been keen criticism of the way these corporations set about the exploitation of raw materials, especially minerals. Many authorities have been doing their utmost to show that the activities of the multinationals were not always compatible with the development strategy of Third World countries. The criticism refers to the three major capacities associated with the multinationals in regard to raw materials. These are :

- technological capacity : The countries of the Third World, led by Algeria, complain that the western world -- and more especially the multinationals -- deny them a fair share of technological knowledge. Rights to patents taken out in the western countries are only sparingly made available; and even when they are, the costs are so high and the patent itself is designedly so obscure that the developing countries -- subject once more to their having to find the finance -- are forced to seek out western experts who alone can "decode" the patent. Moreover, the technology is often designed for developed countries and does not come close enough to meeting the needs of countries where conditions of climate, geography and topography and economic circumstances are quite different. Moreover, when these western firms are commissioned to put up an operating unit in a developing country, they make abusive use of their "technological power " by making false technical excuses as pretext for buying material from the developed countries, when corresponding local products would have done just as well.

- capacity to invest : The multinational corporations have a financial standing such as few developing States could boast. It is comparatively easy for them to raise money in the western capital markets, national or international. Often, too, they are able to finance investments from their own resources. It is true, too, that they usually like to have "several eggs in the same basket" in the hope of lessening the financial risk. For example, mining companies often work several types of ore in the hope that profits on one will offset the losses on another. Developing countries, on the other hand, often depend on what they can earn from a single product, or at best, a limited number. Price fluctuations make it extremely difficult for them to frame and carry out a long-term investment programme. In many cases national savings are insufficient and the countries themselves do not qualify for access to the great capital markets of the world, so that the only finance they can get is from the big multinational companies, even for production units of their own if they have any. At the UNIDO Conference on industrialisation, held at Lima in March 1975, the CIPEC countries (Chile, Zaire, Zambia and Peru) gave illustrations of the inconveniences which may arise from this state of financial dependence. A point they made was, that the international financing of projects is usually subject to an obligation regarding the technology to be used. Those who supply the capital ask for a rate of profit which only certain specific technologies can achieve. In other words, the technological level required is such that only western firms are in a position to supply the tools, apparatus and material needed for its application. This is so much the worse for the industrialisation of the country in question; and, if special care is not taken, delays are liable to pile one upon another. As things stand today, the countries of the Third World make only a ridiculously small contribution of 7% to the world's industrial activity. In the Lima declaration it is proposed, that this should be raised to 25% by the year 2000. The local processing and making-up of raw materials should play a very important part in this decisive strategy for the economic future of the Third World.

There is more to it than this. The provider of the finance usually has processing units of his own in some distant country to handle the raw and semi-processed materials. He accordingly refuses to cooperate in projects put forward by a developing country for the specific purpose of raising the added value. To put it baldly, the "plans" of the multinational corporations are not often compatible with the development planning of the poorer countries.

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- marketing circuits. The marketing divisions of the multinationals are usually very much on the ball. The nickel ores of New Caledonia,for example, will already have found a buyer in a developed country before they are even taken out of the ground. Multinational companies have very highly developed marketing circuits,and they alone hold the keys. Often,too, they have gentlemen's agreements among themselves to avoid over-competitive selling. An example of this was seen in the intervention of the EEC Commission in 1975,under the anti-trust provisions of the Treaty of Rome,seeking to set aside an agreement between Europe's leading aluminium producers (Pechiney Ugine Kuhlmann, Alusuisse, Vereinigte Aluminium Werke and others) fixing the prices to be charged and discounts to be allowed to European customers. These marketing circuits were built up by patient action by the multinationals over very long periods. It gives them some sort of monopoly status which they are in a position to abuse without any regard to the interests of the countries from which they get their raw materials. Thus they can adjust their production rate to suit the needs of their western customers without paying any heed to the local outlets. They stand on very firm ground in their relations with the authorities in developing countries; but it would be all wrong to over-estimate their power. For some years they have been running into improvised and often incoherent opposition from Third World countries anxious to re-constitute their "permanent sovereignty" over their natural resources.

During the sixties a host of nationalisation schemes came close on one anothers heels; but if they had not been carefully thought out beforehand, the country responsible for them quite often found itself in serious economic difficulties. It is hard to cut oneself off over-night from finance,technology and marketing connexions,even if they have not in the past been used consist-ently for the benefit of the developing country itself. Governments often had no alternative to quick and ruthless action,because attempted discussion between companies and the local authorities so often ended in a storm.

Ending the uncertainty

This gradual recovery by developing countries of control over their natural resources, linked as it is with the express political desire of the Third World to have the process speeded up,has given rise to a serious mis-understanding. Multinational companies are increasingly doubtful about in-vesting in Third World countries,preferring others which are politically more "reliable". They take unkindly to the new economic conditions (e.g. fiscality and dividend remittances) or the legal ones (e.g. property owner-ship) to which they are made subject. Most of all they fear that when they have carried out an investment they may lose it by confiscation. One must, nevertheless, accept the evidence,as was done in a report by the International Labour Office ("recent events and progress in mines other than coal" June 1975): "In the mining industries there are only a few companies which possess both the practical knowledge of technique and management which is necessary for the successful conduct of large-scale modern mining operations, and also access to the sources of finance required". If the misunderstanding between multinational companies and the Third World countries were to continue on its present basis,the international community would be exposing itself to a big risk -- the risk of under-investment which could not fail to set up increasingly serious disturbances in the world markets for raw materials.

The elimination of such risks should be the target in any negotiation between the North and the South. This presupposes that the western countries are willing to recognise the desire of the Third World countries to promote their own industrialisation,and to exercise their own national sovereignty over their own natural resources.

In seeking a compromise,the western and the developing countries might usefully adopt a legal expedient which has been gaining acceptance on the international scene for some years past. This is the formation of "joint companies",in which the host country holds 51% of the capital,while the rest is in the hands of foreign-owned private companies.

V. FOOD FOR THE THIRD WORLD : CEREALS DEFICIT RAISES ANXIETIES

There are 400 million human beings suffering from under-nourishment. This simple dramatic fact is proof enough that the world trade in foodstuffs is badly out of balance. The fate of great numbers of human beings depends in fact on markets governed by the iron law of demand and supply; and for the countries of the Third World the results have been utterly disastrous. Cereals are the basic foodstuff for a large part of humanity; and in these the developed countries -- most conspicuously the United States -- wield complete control. The food problem is still the basic weakness of the Third World. The crisis which developed after the poor crops of 1972 has still not been fully absorbed. Though it did much to make governments alive to the problem there is one essential fact it should not be allowed to obscure. This is,that the food position of the Third World has already been growing worse for a number of years. During the sixties food production grew at much the same rate in developed and developing countries,but in the latter, the increase in production per head of population was very much the lower. "In 1961-63", say the FAO experts, "food production per head in the developed countries was three times greater than in the developing countries; and in 1971-73 it was three-and-a-half times as great." These ratios were reached despite the restriction policies of many developed countries. The growth in the food production in developing countries was much smaller than the growth in population.

Discouraging outlook

All this made the 1972 crisis the more serious. It brought to everybody's attention "the serious unpreparedness of the entire world for the vagaries of the weather". The world production of wheat fell 2%,rice 5%.This led to prices rocketing and world stocks disappearing. In 1973 things got a little better; but in 1974 there was to be another fall in the world output of wheat and secondary cereals to a total of 1,010 million tonnes against the 1973 figure of 1,052 million tonnes.

In 1975,though production was again better, world stocks were still at a critical level of only 10 or 12 % of total cereal consumption compared with an estimated security level of 17 or 18%. For Third World countries which have to import,the cost of supplies was materially higher. The cereals deficit had been estimated in 1972 at $2 500 million; and in 1974 it reached $10 000 million. Cereals are,in fact,the principal item in the food imports into developing countries. The imports of meat,sugar and fish are comparatively small,and the question arises whether this increase in the cost of cereals cannot be remedied. According to the FAO ("the world food and agriculture situation",July 1975) remedies seem unlikely. In 1985,developing countries with a market economy will have to face a net cereals deficit of nearly 85 million tonnes,against an average of only 16 million tonnes in 1969-71,prior to which these countries were net exporters. In 1974 dollars,the shortfall in 1985 will be $18 000 million. Moreover, the total deficit applies to all market economy developing countries; and if we were to exclude the countries such as Argentina and Thailand,which are themselves cereal exporters, the deficit might well be over 100 million tonnes per annum,or three times the amount of the average imports in 1969-71. All this is based on the assumption that production rates will be normal. In a good year the deficit might be smaller; but in a year of bad crops it might be 120 million tonnes or over by the mid-eighties. This is an enormous figure,if we think back to the cereals deficit of the Third World countries of around 52 million tonnes in 1973-74. The developed countries could cover the deficit by increasing their production. If wheat,like oil, were to become a negotiating weapon between North and South, it is to be noted that it looks like becoming a stronger weapon during the next few years. Did not Mr. Kissinger,the American Secretary of State, ask the developed countries of the world to raise their wheat production when he spoke at the World Food Conference in Rome (November 5-16 1974).

Nowadays it is fashionable to be pessimistic about the food situation in the Third World,but this has not always been the case. In the late sixties the "green revolution" was in full force,and everything was for the best in the best of all possible worlds. Though the countries of the Third World are not yet able to feed their own populations,the growth in their total food production was fully as good as that of the developed countries. Undoubtedly the "green revolution" helped diminish the food deficit in developing countries; but nowadays its has its critics nevertheless. Underemployment in agriculture was made worse by <u>mechanisation</u>; and in the poorer countries <u>work and bread</u> are often thought of as practically the same thing. The new land <u>brought into cultivation</u> was not always adequately irrigated,and in too many cases the methods of <u>irrigation</u> were bad. The substitution of high-yielding <u>varieties</u> of cereals for those traditionally grown,did not go ahead fast enough. The only thing which went according to plan was the growth in the consumption of <u>fertilizers</u> and <u>insecticides</u>. This would have been satisfactory in itself,but the main criticism of the "green revolution" comes under another heading. It is connected with the difficulties in social organisation; and the FAO deplores "the general ineffectiveness of rural institutions and the public services provided for farmers". It appears,in fact, that the "green revolution" brought its benefits essentially to the big agricultural operators,to the detriment of the main body of farmers. Most of the Third World countries did not succeed in "arousing the interest of the rural population throug h education,consumption and stimulus". "The few new agrarian farm programmes put in hand in recent years were often of limited scope". "Nor was there much success in integrating the small farmer and the outcast population in rural areas into the general social and economic framework for purposes of development". It must be emphasised,too,that the higher yields which resulted from the "green revolution" techniques involved costs on a comparatively high level,especially in the last few years. The truth is,that these techniques require the use of agricultural machinery,fertilizers,insecticides,irrigation systems,oil and much else,an overwhelmingly large part of which has to be obtained from abroad. The "green revolution" therefore, increased the extent to which developing countries depend on the developed.

Food aid called in question

Another explanation is advanced of the precariousness of the Third World's food position. It lies in the part played by the food aid distributed by the wealthy countries. Since 1964 the amount of this aid has varied between $1 000 and $ 1 500 million at current prices; and it has to be admitted the "real" amount of the aid has fallen very seriously. In 1964 dollars the aid amounted to $1 400 million,but in 1973 it was only $ 500 million. The FAO experts consider the real volume of the aid ought to be raised to $5 000 million annually. Subject to this it might be thought the countries not covering their own requirements should be glad and grateful that aid is granted them by those who can afford it,even if part of it is repayable. This is not the real truth. There can of course be absolutely no doubt of the value of emergency aid in mitigating the impact of a calamity; but apart from this,some people wonder whether it is not a poisoned cup the wealthy nations are handing to their partners of the Third World. Through the sixties the developed countries put their food aid to the Third World onto a systematic basis; and it is open to argument that they were thus competing with local produce and taking the sting out of the incentive to grow more. Food aid was originally designed -- the EEC Commission is currently waging ferocious war against this concept-- as a way of getting rid of the surpluses in rich countries,and this may well have discouraged production in the developing ones. It is now too late to recover the mistakes of the past,but at least the developed countries should learn their lesson. Nowadays,in any case, nobody thinks of questioning the need for food aid. The countries of the Third World are confronted with a very serious solvency problem. Only with very great difficulty could they indulge in the luxury of long-term delivery contracts,as the Russians did with the Americans in October 1975. This Moscow agreement covers an annual delivery to the Soviets of 6 million tonnes of American wheat and maize.

The world food Conference

Food aid was made into a precise and definite undertaking at the world food Conference in Rome in November 1974. The wealthy countries undertook to supply each year not less than 10 million tonnes of cereals. This is the first time a target has been laid down in volume and not in value,and represents in itself important progress. The Conference also took three other significant steps :

- formation of world food council. This Council was set up in June 1975, following a stormy meeting,at which it was feared for a time there would be a full-scale rupture between the developed and the developing countries. The mandate of the Council is to coordinate the activities of international organisations and act as general policy coordinator regarding food production, nutrition,security of supply and food aid. The new organisation has been dubbed the security council of hunger; but nobody has a right of veto.

- formation of an international development fund.This fund would have the task of collecting funds received by way of voluntary contributions to agricultural development in the Third World. It should be given a contribution of $1 000 million by the oil countries and the developed countries.

- international commitment regarding food security. This project is based on co-ordination of national food storage policies; inter-governmental consultation on the level of stocks; assistance to developing countries to enable them to carry out effectively their storage and production programmes; and a system of information and quick alerts. Up to now this programme has not been brought into effect. Its operation might be badly hindered if countries as important as USSR and China persist in regarding information about their agriculture as confidential.

In the raw material negotiations between North and South, this problem of food security -- especially the storage policies -- should be regarded as specially important.

VI. THE ECONOMIC AND MONETARY CRISIS : A TROUBLED WORLD

The raw material negotiations between the developed and the developing countries will be taking place in a remarkably disturbed economic and monetary environment. The developed countries are wondering about the scope and duration of the recovery which is just becoming perceptible. The developing countries are powerless to do anything about the dramatic worsening of their external accounts. Only the oil countries -- or at any rate the richer of them -- are managing to keep comparatively serene; but even they cannot sit by unperturbed about the international monetary uncertainties and the fate of their developed and developing partners.

A problematic recovery ...

The recovery so impatiently awaited by the western governments will not be like other recoveries. The worst depression since the war, in which the GNP of the OECD fell 2% and the number of unemployed climbed to 15 million, has necessarily left its scars. The individual countries are emerging from it one at a time and in no special order. In the middle of 1975 economic activity had already shown some recovery in the United States and Japan; while in Europe, France and Germany are the only ones among the bigger countries which may be following in their footsteps in 1976. Both Great Britain and Italy will have to go on putting the accent on prices, trade balances and stability generally. Since the timing of recovery is spread out country by country, the western economy will not enjoy the "multiplier effect" which results from different countries having their economic cycles at the same time. If there is to be a lasting expansion it is quite possible the governments will be forced to open further recovery budgets. This will largely depend on the behaviour of consumers who are still showing their preference for continued saving; and also on the behaviour of investors who believe the crisis bogey has not been finally exorcised and are chary of indulging in investment expenditure. It looks as though the recovery, if recovery indeed there is, will be much more moderate than was the case in earlier economic cycles. There is at present nothing to show whether measures which may be taken to support continued economic activity, will not have damaging effects in or after 1976. This will, in any case, be a year in which unemployment is expected to continue rising, because of the low rate of growth forecast for the early future and the large proportion of unutilised production capacity.

... and galloping inflation

There are other reasons for anxiety about the prospects for OECD countries. Recovery measures have been taken while the inflation had not been brought completely under control; and the OECD countries are coming out of the recession with consumer prices rising at an annual rate of about 8%, which is admittedly only half the 1974 maximum,but is nonetheless double the average rate during the sixties. It is obvious that,with things in this state,most of the governments will not be able to go straight on with their recovery programmes,because of the risk of a new price boom which would oblige them to slow down the growth process. There would also be the risk of increasing the external deficit of the OECD area after its slight contraction in 1975. The current deficit in 1975 was apparently around $ 6 000 million,which compares with $33 500 million in 1974. It is likely to grow wider in 1976 and the OECD estimate for the whole area it covers is $17 500 million.

The western governments are walking the tight-rope. The recovery for which they hoped has got to be kept seriously under control for fear of yet another sideslip in prices and trade balances. This very control might easily stop the recovery in activity from taking hold; and these very precarious conditions in the economies of the West cannot fail to make it more difficult to negotiate with developing countries which are putting in their claims for financial assistance. The coin,however, has its reverse side. These same conditions might very well strengthen the wish of developed countries to get the raw material markets under control. They cannot afford the luxury of another price boom which would seriously prejudice the efforts they have made to put their economic house in order.

A necessity for the Third World : Bigger export receipts

It is here that we come to the very heart of the contradiction between the attitudes of developed and developing countries. The former would like to see raw material prices kept at the 1975 level,which has been reached after the material falls from the 1974 peaks. The developing countries,on the other hand, have practically no other way to avoid being financially stifled,except by increasing their export receipts which,as everybody knows, are almost 80 % dependent on their sales of raw materials. We must allow for the fact that the countries of the Third World in general and excluding the oil countries, have taken a very hard knock from the way the crisis worked out. Their aggregate current trading deficit rose from $2 500 million in 1973 to $17 500 million in 1974 and no less than $ 27 000 million in 1975. The OECD experts forecast a slight improvement in 1976,but nevertheless they expect the deficit to be $21 500 million. The Annual Report of the World Bank issued in September 1975 does not conceal its pessimism regarding the economic future of developing countries which are not oil producers. "If the developing countries as a whole,are to reach an annual growth-rate of 6% by 1980 -- and this is the rate needed for a reasonable degree of economic and social development -- and if they are to do it entirely by increasing the incoming supplies of capital,it will be necessary for this inflow to be on a massive scale. In fact the sums needed would have to go far beyond any probable estimates, even on the assumption that there is rapid economic growth in the industrial countries", the World Bank says.

In point of fact "it cannot be hoped that additional capital inflows on so large a scale will in fact occur". For a growth-rate of 6 % "to be secured solely by increasing the flow of public development aid from the wealthier OECD countries, it would be necessary for the aid given on favourable terms to increase to 0.81% of the GNP of the latter countries. In fact the available projections show that the flow of aid on favourable terms may not by 1980 be more than 0.24% of the GNP, despite the fact that the figures showed an improvement in 1974 and some of the countries have stated they will be keeping their official public aid at a high level, or even increasing it. " If it be added, that private firms in the West are at present shy of investing in the Third World and thus depriving the poorer countries of any inflow of capital, while the indebtedness of these developing countries can scarcely be increased beyond its present level, there is only one possibility left. This is to increase the export earnings. This is where we put a finger on the stake which is being played for, both in Nairobi and in Paris. During the past 18 months there have been two factors telling against the developing countries -- the fall in the value of their exports and the deterioration in their terms of trade (through the rise in the costs of their imported manufactures and without even mentioning the rise in oil prices). The representatives of these countries in Nairobi and Paris will have the job of ventillating this two-fold adversity.

<u>Financial rescue plans</u>

Measures have been taken on an international footing to provide some degree of relief for the countries of the Third World but those decided upon in Jamaica by the IMF Interim Committee in January 1976 are still on only a modest scale. Their main provisions were :

- setting up of a fiduciary, or trustee fund. This fund would be derived from the sale of one sixth of the gold stocks held by the IMF. It is estimated that these would bring in some $400-500 million annually, and this would be turned over in the form of loans to countries where the income per head does not exceed $351.

- the enlargement of the IMF credit tranches should enable developing countries to secure additional support of $2 000 million.

- a "third counter" (target: $ 225 million from voluntary contributions) would enable the loans given by the World Bank to be made cheaper. The normal interest rate in January 1976 was 8.5%.

The countries with surpluses had set up an emergency fund in the UNO framework ($3 000 million) to provide succour for such developing countries as were most affected by the food crisis and the oil crisis. It should also be noted that the "oil facilities" of the IMF (amounting to 5 000 million Special Drawing Rights in 1975) available to countries suffering prejudice from the rise in oil prices (whether they be developed countries or not) will no longer be available in 1976. Most of the resources mentioned here are repayable, and it would be difficult indeed to use them to solve the finance problems of developing countries during the next few years, especially if the

World Bank's forecasts on the volume of public aid to the Third World from OECD countries should prove correct. In 1974 the aid was far short of the target of 0.7% of the GNP to be provided as public aid,which had been laid down at the beginning of the seventies as part of the "second development decade" of UNO. In 1974 the lending countries of OECD provided $11 300 million for developing countries. This was 0.33% of their GNP,or slightly more than in 1973 (0.30%) which had,however, fallen from 0.31% in 1971. The developing countries can,nevertheless, count on further support from the oil countries, from which the financial aid for development is proportionately more ample than that of the western industrial nations,amounting to 1.8% of their GNP, or $2 500 million. The oil countries,of course, are financially flourishing, even though their external surplus is trending downwards. Their record surplus on current account of $67 000 million in 1974, receded in 1975 to $43 000 million,but even this is not exactly poverty. For 1976 the OECD experts forecast an improvement to about $46 500 million.

The oil countries are very worried about the deterioration in the international currency position. It was they (especially Saudi Arabia) who insisted that the North-South dialogue in Paris should include a committee specially appointed to consider financial and monetary questions. The countries with big surpluses are afraid the fluctuating quotations for the dollar -- which is,after all, the principal currency for international settlements -- may result in a shrinkage in the real value of their assets, more especially the short-term placings they have made in western markets. In general,too, the considerable swings in the value of the dollar,which three years discussion has not yet brought to an end, are a matter of concern for all the raw material industries. Floating exchange rates may result in a miscarriage in profit calculations and are thus an obstacle to the international investment which, for raw materials production, is considerable. They are a continual disturbance to international trade and they encourage speculation. In all sorts of ways they make commodity agreements more complex,especially when these provide for a "price fork" or range of maximum and minimum prices. After all,was it not because of prices stated in dollars which had been devalued,that the coffee agreement was denounced by the producers in 1971.

PART II - STABILISING THE MARKETS

1. - Commodity agreements

2. - Stabilisation of export receipts

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I. COMMODITY AGREEMENTS : OR STABILISATION A LA CARTE

Prices are the central factor in all discussions about raw materials. In 1973-74 it was the price explosions which really set these discussions going. The problem of prices is one which has three aspects :

- chronic instability. The market prices are more volatile in some cases than others, but this instability is disliked, both by the developing countries and by the developed. The former live in economic systems which depend very heavily on the receipts (both from the export trade and from taxation) derived from raw materials; and because these prices are so unreliable they are not able to launch into continuing investment programmes as they would wish. In some degree the swings in price prevent them from identifying their own economic horizon. For the developed countries which are importers of raw materials, the reasons for disliking excessive fluctuations are quite different. They fear the inflationary pressures which are associated with rising prices; and this is an anxiety which is particularly keen just now. Finally the unstable prices bring a major inconvenience which is common both to the developing and the developed countries. They upset the whole process of programming investment in the raw material industry itself. This creates a lack of elasticity in the adjustments of demand and supply, and thus inevitably leads to excessive fluctuations in prices.

- the absolute levels of the prices lead, as may well be supposed, to a divergence of opinions between the Third World and the developed countries. For a long time the former countries have been complaining that their export produce was being sold at unremunerative prices. The developed countries, on the other hand, are responsible for a very large part of the world's imports of these products and their tendency is much more to look for supplies at a lower cost. A compromise between the two groups of countries is necessary if anybody is to settle prices which will be both "equitable" for consumers and "remunerative" for producers. In parallel with the fundamental price question commodity agreements have a second important function. This is, the guarantee of supply to the consuming countries which sign the agreements.

In practice there is a whole range of expedients for getting the markets under control, not only to eliminate excessive fluctuations, but also to ascertain and secure a level of prices satisfactory both to consumers and to producers. These commodity agreements differ widely in the arrangements they specify. One can in fact talk of commodity agreements as soon as there is a concerted approach between consumers and producers, whatever be its form and whatever be the compulsive elements. The following enumeration of the chief instruments for stabilising raw material markets is in the ascending order of the generally recognised effectiveness.

- <u>Exchanges of information</u> : this is the minimum. Representatives of producers and consumers hold regular meetings to exchange the most recent information on the prospects of growth in supply and demand. There is no real constraint or compulsion, but meetings of this kind are often useful in preventing either side being caught unawares.

- Influencing demand :this is primarily a matter of making it easier for a product to come into the consumer market. Instances are the reduction,or even elimination, of consumption taxes which often add unduly to the price of a product and discourage buying. Trade promotion is another possibility.

- Price conformity : producers and consumers agree on minimum export prices, subject to possible adjustment if the price proves to be out of line. It is also possible to lay down not only a minimum price,but also a "price fork", or range of price maxima and minima. The prices are always purely indicative,except when specific machinery is provided to ensure conformity by operations in the market.

- Long-term contracts :in these cases both producer and consumer make mutual commitments. The former undertake to deliver specified quantities and the latter undertake to buy them. A contract of this type may contain a price clause. They may be bilateral (i.e. between two national governments), regional (between two groups of countries) or multilateral (between the majority of producers and consumers). There are certain problems inherent in arriving at these contracts. It is not easy to forecast supply and demand,especially for agricultural produce; and governments (specially in the West where private firms play so important a part) are not always in a position to fulfil such commitments in their entirety.

- Export quotas : the principle here is to fix export quotas for the producers and vary their amount in accordance with the prices quoted for the product. On a rising market the national quotas are usually enlarged stage by stage, or even eliminated altogether. On a falling market the quotas are progressively cut; and if there are fears of a collapse in prices,it is even possible to ban exports altogether. Action on these lines resolutely controlling the supply enables prices to be kept within a determined range or fork. It is not invariably to the advantage of exporters who,if the prices should fall,bear the whole economic and social cost of the operation.

- Buffer stocks : a buffer stock is undoubtedly the most effective way of stabilising markets. It is also a method which can be extremely costly,either because the product is itself expensive (copper) or there may be a wastage problem if it has to be kept more than a certain length of time (coffee, cocoa). The stock can be an instrument for defending both maxima and minima When prices rise some of the stock is released; and when the movement is the other way the stock is reconstituted. Such stocks can be managed on a national or an international basis,the latter being the method offering the greater security. It is important to choose a level of prices not far distant from the long-term equilibirium which is not always easy to define. If target prices are set too high,they would quickly lead to de-stocking and if they are set too low they would promote stock-piling -- unless prices are to be allowed to move temporarily "outside the fork" and unless the stock policy is linked with machinery for export quotas. Usually if the scheme is to be effective,the stocks must be not less than three months consumption in the participating countries. The logical function of a buffer stock is to defend the price,but there is no reason why the arrangement should not be more flexible. For example,the price curve might be smoothed by "conjunctural stocks" which would not need to be so big as a buffer stock. Such stocks would not be defending the scale of prices laid down in advance,but simply smoothing out the unduly wide fluctuations. Another possibility is for an agreement with a buffer stock and a price fork to be rounded off with a clause guaranteeing deliveries to consumers. In this case the buffer stock might be accompanied by specific reserve stocks for the express purpose of dealing with any serious supply shortage. Another possibility would be a clause by which exporters would be obliged to give priority for deliveries to consumers who are signatories to the agreement. In the event of a temporary shortage, it would also be possible to fix import quotas within which supplies would be delivered at the upper limit of the price fork,or even slightly above it.

- Financial instruments : other possibilities include export or import to taxes,the product of which would be earmarked for specific purposes,such as financing a buffer stock,marketing or sales promotion or diversification measures.

Finance

The next question is how to choose among all these techniques. Everything depends from the outset on whether consumers and producers really want to act jointly. This brings us by a roundabout route to the question of what the agreements cost. Obviously if nobody wants to put up any money,the most that will be possible will be periodic meetings without any stockpiling. The financing of the agreements is a key problem. A well balanced agreement will need to have contributions both from consumers and producers,but this is not always the case. Funds could also be raised from private sources (e.g. from a banking consortium) or by an offer of bonds to the public. The World Bank, for example, has stated it will give sympathetic consideration to any proposal for stock finance.

The IMF,too, has started a "facility for financing international stocks" This was set up in 1969,and enables raw material exporting countries to refinance any contributions they may make to international stock-holding arrangements. These loans are given at specially low interest rates,and are for a maximum period of five years,but their granting is subject to a number of conditions.The applicant country must produce evidence of balance of payments difficulties; part of the financing for the stock must come from sources other than those connected with the IMF; and the loans are limited to 50% of the applicant country's IMF quota. It must,however, be admitted that very little of the 3 000 million SDR at the IMF's disposal has yet been used,for the very simple reason that the number of commodity agreements with provision for international stocks is extremely limited; but this does not mean that this facility may not become popular in the future.

Survey of agreements made

To some extent the financing problem conditions the others; but beyond this there are a number of factors which determine the choice between the various commodity agreement techniques. These depend on the product itself -- for a buffer stock would not suit a fruit agreement and an agreement on timber or hides and leather raises problems of definition and comparative prices to cover a great number of sorts,descriptions and categories. Problems may also arise from individual commodity markets,for the open market prices are often not wholly representative.

The techniques listed are sometimes used in combined form,and in this way a number of commodity agreements have been made,though few of them include really compulsive market disciplines. Just at this moment when the international community has mobilised to attack the raw materials problem,it has to be recognised that it will find no encouragement by a scrutiny of the past. The most it can hope for is valuable information; for 1975 was a bumper year,with renewals for three of these agreements -- coffee,cocoa and tin.

Before beginning a survey of the commodity agreements actually in existence at the beginning of 1976,summary mention must be made of a large number of arrangements mainly limited to exchanges of information,and in some cases market disciplines of [illegible] very flexible kinds. These include :

- tea : Unofficial agreement (1970) under FAO auspices providing for fixing of export quotas,which have not yet checked the long-term downward trend in prices ;
- jute : informal arrangement of 1968,also under FAO auspices,providing indicative maximum and minimum prices within which market prices have not always been kept,especially in 1974. There is a similar agreement for sisal, which also provides for the fixing of export quotas,but this has been no more successful than the arrangements made for jute;
- rubber : exchanges of information about natural and synthetic rubber in an international working party in which both consumers and producers are represented;
- tungsten and manganese : regular exchanges of views between producers and consumers are organised in a committee under the authority of the UNCTAD secretariat;
- dairy products : there are three international arrangements currently in force. The first deals with powdered full-cream milk (OECD 1963); the second with powdered skim (GATT 1969) and the third with butter-oil and butyric fatty substances (GATT 1973). All three cases cover the fixing of minimum export prices,but the market effects of these have never been fully tested,because the actual prices have always been higher than those laid down ;
- lead and zinc : inter-government consultative groups have been set up under UN auspices ;
- olive oil : the 1963 agreement between a limited number of countries is aimed at exchange of information and sales promotion. The agreement was renewed for five years from the beginning of 1974. It includes a propaganda fund to be applied in sales promotion.

These are all arrangements rather than formal agreements,and for the most part their effects on the market have not been decisive. In certain other products producers and consumers have sought to go further than simple exchanges of information. To this end they have earmarked resources for attaining the much desired market stabilisation,but the results have not been conclusive. Most of these agreements are now a dead letter,and all that is left is a permanent secretariat. In some cases the setbacks have been due to the refusal of major consuming countries (the USA for cocoa, the EEC for sugar) to take part. These must be discussed separately :

- the wheat agreement : the world wheat market has been subject to international agreements since 1949, usually for three years at a time. Over the period the substance of these agreements has passed through important changes. In the sixties the agreements defined a price fork, inside which importing countries undertook to make part of their purchases from exporters who were signatories to the agreements. The latter undertook to cover the commercial requirements of the importers concerned. Fundamentally these agreements were a guarantee of supplies at reasonable costs. The fact that they operated reasonably well was due to the production and storage policies of the United States and Canada. When the agreement came up for renewal in 1967, there was a decision to insert additional clauses. The major problem at that time was to unload the surpluses of the world's big producers. The 1967 agreement contains two sections -- one on the food aid commitments of exporting countries; and the other on the mechanics of the market itself, including the fixing of a minimum price. In practice, however, this agreement did not stand up to events; and with the surplus supplies in the market the minimum export price was a mere illusion. Against this background, when it came to the 1971 renewal the 1967 text had to be renegotiated altogether. The food aid convention was retained, and in 1975 it was continued afresh; but there was a new convention on the trade in wheat, the old one being completely empty of its contents and left without any economic clause whatever. This, too, was continued in 1975, so that the world market for wheat, most strategic of all the strategic products, is left to the free play of demand and supply. The fact that the agreement is still in existence has enabled the international wheat Council to survive. This body has its seat in London and is a forum through which consumers and producers can exchange useful information on production, trade and stocks.

- the sugar agreement : nothing is left of the 1968 Geneva agreement, except a skeleton staff. It came up for renegotiation in 1973, but this attempt was a failure. The economic clauses contained in the 1968 texts do not now apply. These texts included the fixing of adjustable export quotas for keeping prices inside a predetermined fork; national stocks were required to be between 10 and 15 % of free market exports; in time of shortage (with prices at the upper limit of the fork) exporters were required to deliver specific quantities of sugar to importers who were party to the agreement; there were special clauses to take account of conditions in developing countries; importers undertook to give priority in securing their supplies to producers who were parties to the agreement.

  The agreement worked quite well at first; but after 1971 it served no practical purpose. This was because it applied only to a small proportion of world trade. Neither the EEC nor the United States was a party to it. The big importers (USA, UK and USSR) all had contracts with producing countries, providing guaranteed purchases and guaranteed prices. When suppliers had surpluses they dumped them on the open market and put the prices immoderately down. In 1971 the downward price tendency went into reverse,and it was the preferential delivery contracts which were now least scrupulously fulfilled. With the help of speculators sugar prices soared to peaks in 1974 and began their reaction sometime after those of most other raw materials. The free market has now regained its importance, because, at the end of 1974 the United States did not renew their supply contract with their usual suppliers. It is,nevertheless, a very disorganised market.

The EEC withdrew from the talks preparatory to renegotiating the agreement in 1973,but it has made an important gesture to safeguard the interests of Commonwealth developing countries which are producers of sugar and have since 1951 had the advantages of the Commonwealth Sugar Agreement giving them guaranteed outlets at guaranteed prices in the British market. In the Lomé Convention the EEC undertakes (without time-limit) to buy 1.2 million tonnes of cane sugar every year from the ACP producing countries. This affects 13 of these countries,the chief among which are Mauritius,Fiji, Guyana and Jamaica. Each exporting country is given a delivery quota and undertakes to conform to it. The guaranteed prices are negotiated annually.

- the cocoa agreement : the first cocoa agreement was signed in 1972. It was never operational because world market prices rose too high. A new agreement was negotiated in October 1975 at Geneva. Its provisions are not unlike those of its predecessor,but there have been various adjustments.

This new agreement,which is scheduled to come into force in October 1976 is based on two principal provisions. The first is,that exports will be subject to a quota fixed each year; and the second,that there should be a buffer stock not exceeding 250 000 tonnes. The stock is to be financed by a levy of 1 cent (US) per lb. This tax has in fact been collected since 1972, and has brought in some $80 million. Those in charge of the agreement, however, have not yet been able to build up the buffer stock,purchases for which in a market with prices already deemed unduly high, would have pushed them up still further. The fixing of quotas for each exporter,combined with the buffer stock machinery is intended to defend a price fork of between 39 and 55 cents per lb. A feature is the laying down of price ranges inside the fork within which the intervention techniques can operate in specific ways :

39 - 42 cents : buffer stock may enter market as a buyer for quantities not exceeding 4% of annual quotas ;

42 - 45 cents : quotas to be strictly observed;

45 - 53 cents : no market intervention,but producers may export without limit;

53 - 55 cents : buffer stock to defend ceiling price,and may sell up to 7% of annual quotas.

There is a risk of serious prejudice to the agreement from the attitude of the United States,which is the world's biggest importer (22.9%) and refuses to be associated with the agreement. Moreover, the Ivory Coast, which is the world's third largest producer,is understood to be reluctant about signing an agreement which lays down prices it does not consider sufficiently remunerative.

- the coffee agreement : the first coffee agreement was made in 1968. It came to grief in 1971 because of the refusal of consumers to allow for the devaluation of the dollar in their price-fixing procedure. The economic clauses of the agreement were the essential ones; but even without them it was extended up to 1975. In December of that year a new agreement was signed at the premises of the International Coffee Council in London. It is more flexible than its predecessors and sets up an arithmetical relationship which was not in the earlier agreement,between prices and the size of the export quotas. If market prices rise beyond 15% above the agreed ceiling price,the quotas are automatically suspended.

  There was also a change in the way quotas are calculated. This is designed to avoid any country's share of world coffee production being fixed in a way which will make it permanent. Before this the basic quotas were proportional to the production of each country; but now only 70% of their quotas will be fixed this way and the other 30% will be awarded by reference to the national stocks. This new system should discourage exporters from dumping massive surpluses into the world market. Instead,they will be encouraged to build up stocks,and this should make for a less volatile market. The agreement indeed provides for the collection of a small tax,the product of which will be paid into a Voluntary Promotion Fund. These should make it possible to finance a sales promotion campaign in the importing countries. The new agreement is to come into force in October 1976.

- the tin agreement : the first tin agreement dates from 1956. Since then it has been regularly renewed; and its current version,which came into force in 1971, expires on June 30 1976. Negotiations for the fifth agreement took place in 1975,and agreement has already been reached. The new version is much the same as its predecessor,except on one point -- the size of the buffer stock. The market control system is the most elaborate yet brought into force. There are four fundamental provisions :

  1) buffer stock : since 1961 the volume of the buffer stock has been 20 000 tonnes of metallic tin. Only the producing countries (which are all developing countries,excpt Australia) contribute to setting up the stock; and in the fifth agreement the scale of this stockpile is raised to 40 000 tonnes. Theoretically the total is divided into two parts. The first 20 000 tonnes,like the existing stock, is to be provided by the producers alone; and the other 20 000 tonnes can be built up by the consuming countries,but only from voluntary contributions. Up to the present only France,the Netherlands and Belgium have let it be known that they were willing to make their contribution to this stockpile. Indeed,France and the Netherlands had already done this in 1971. The fact remains that there is very little chance that the 20 000 tonne section depending on the goodwill of consumers will be effectively contributed.

  2) intervention prices : the agreement lays down that a floor price and a ceiling price shall be fixed by agreement between producers and consumers meeting in the international tin Council,where their voting rights are equal. These prices are to trigger the intervention of the stock organisation.

3) export control : when intervention by the stock does not suffice to keep market prices above the floor,the Council may decide to initiate a period of control. This will in fact be a matter of reducing the exports. The rate of reduction will be fixed for each country by reference to the trade done in the period before the initiation of control.

4) action in case of shortage : the measures envisaged are stimulants and are not automatic. When market prices are approaching the ceiling, the Council recommends producing countries to do everything possible to increase the supply. It is also entitled to ask producers to give priority to supplying those consumer countries which are parties to the agreement.

The tin agreement has on the whole worked quite well. Prices have been kept at levels regarded as remunerative in the developing countries (Malaysia, Bolivia,Thailand and Indonesia) which account for most of the world's production. According to UNCTAD,the terms of trade of tin-exporting developing countries rose 2.8% each year between 1955 and 1972. This is specially worth recording,because most of the poorer countries producing most of the other raw materials suffered a deterioration in their terms of trade over the same period. The fact remains that just before the fifth international tin agreement came up for renegotiation, the UNCTAD secretariat called attention to various shortcomings in the way the agreement works. Too often,they said, the adjustments to the price fork were dictated by changes in the market price; the agreement worked better in defending the floor price than the ceiling price,and this had been the result of periods of of export control which are a heavy charge upon the exporters; prices laid down in the agreement seldom take proper account of changes in production costs; the negotiators did not make any radical changes in the terms of the agreement,which would have called for sacrifices on the part of the developed countries; and the developing countries had refused to insert a supply guarantee as the consumers had begged them to do. It should be noted that two important countries are outside the agreement,a producer and a consumer. These are China and the United States and the latter has a stockpile of 200 000 tonnes,which is enough to put the operation of the agreement completely out of gear. This risk has in fact been disposed of to quite a large extent through a tacit agreement between the United States and the heads of the international tin Council. In September 1975,too, Mr. Henry Kissinger told the extraordinary meeting of the UN Assembly,that his country might ask for membership of the agreement.

II. STABILISATION OF EXPORT RECEIPTS : LOME LEADS THE WAY

Commodity agreements are intended to stabilise prices and thus to stabilise the export receipts of the developing countries by which the raw materials are supplied. They do not always succeed in this,for another requirement is,that the quantities exported should also be comparatively steady. Machinery for stabilising export receipts must take into account both prices and quantities in the same context. The stability target for the commercial receipts of developing countries is a potential remedy for the endemic problem of fluctuation which :

- puts investment planning out of gear : a sudden shrinkage in export receipts leads to the abandonment or suspension of investment projects in hand. When the receipts increase developing countries often fear they will slump again and hesitate about resuming their investment projects,preferring instead to import consumption goods ;

- prejudice the internal balance in the public finances : a large part of the budget in developing countries is fed directly or indirectly by the production of raw materials;

- upset the external payments balances : if there is a fall,sentiment in the business community accentuates the imbalance of the payments,because a number of phenomena occur -- exodus of capital,quicker payments for imports and delays in bringing home the receipts for goods exported.

Wide possibilities

The action of stabilising export receipts for developing countries is a way of clearing their economic horizons. It will enable them to have investment programmes and stick strictly to them; and thus they will be able to plan their development more effectively. There are many ways by which it can be done,for there are many possible approaches. How many countries are to benefit -- all the developing countries or only the poorer ones ? What exports are to be covered -- all the trade in goods and services or simply the goods ? What destinations are to be taken into account -- all destinations or only those to the countries which finance the scheme ? These are only a few of the relevant questions.

As with commodity agreements,the success of the scheme will largely depend on how much money is to be made available for it. Here again a number of decisions need to be made. What is to be the reference basis to trigger the interventions ? Is action to be based on past performance,on the amount of the export in earlier years ? or on performances deemed desirable,taking into account the need for safeguarding developing countries against a deterioration in their terms of trade ? Is the aid to be given in the form of loans or grants ? And is it to be automatic ?

As always in such cases, the choice of method will depend on the scope and effectiveness to be sought. Up to the present we know of only two systems for stabilising export receipts -- the Lomé system which links the EEC with 46 countries in Africa,the Caribbean and the Pacific; and the IMF system. These are conceived on very different lines. The essential differences are four in number. The IMF system covers all receipts for the export of goods,whereas the stabex system in the Lomé Convention covers only exports of a precise list of raw materials. The IMF system operates exclusively in the form of loans,whereas stabex is based on advances which,depending on the specific case,may or not be repayable. The IMF system is available for all developing countries,whereas stabex is regional in scope,applying only to the 46 ACP countries,among which however, are included many of the poorest countries on earth. The stabex system,too, gives these countries preferential treatment which the IMF system does not.

The IMF system

The IMF compensation scheme was introduced in 1963 and was slightly amended in 1966. Of the 3 000 million SDR made available,only 1 000 million SDR has been effectively used. At the end of July 1975 the outstandings were 56.8 million SDR. The facility has been used by some 30 countries,but the amounts have varied considerably from 150 million SDR for India to only 9.5 million SDR for Burundi. In 1967 and in 1962 the loans were particularly high. The compensation (in the form of 3-year or 5-year loans at fixed rates of interest) kept exclusively for raw materials producers are granted on the basis of the total export receipts. They are made available when there has been a deficit in the real value of exports in comparison with a 5-year period,of which the year of application is the third. The figures for two years,therefore, are projections. The country which becomes a debtor under this facility is encouraged to repay the money in advance,if and when the value of its exports rises above the "norm".

The fact that developing countries have made little use of this system is due to the operational rules being rather strict. Compensation is not entirely automatic,and account is taken of the whole of the balance of payments. The amounts come under a strict ceiling,depending on the applicant country's IMF quota . The price inflation leads to an artificial growth in the receipts. The granting of IMF loans is subject to administrative rules which developing countries are not always able to comply with in good time.

The IMF compensation finance scheme,though it has been rather rigid in its application so far, may nevertheless attract more interest. The IMF experts are considering how it can be made more flexible in ways which would make it more attractive as a source of finance to developing countries. The ministers belonging to the IMF Interim Committee,at their meeting in January 1976,decided in principle,that the funds available to the scheme should be increased by 1 000 million SDR.

The "stabex system"

The "stabex" system for the stabilisation of export receipts, is contained in the Lomé Convention,and has been hailed alike in EEC and in ACP countries as a new departure in relations between developed and developing countries. The system was not thought out and laid down unilaterally by the Nine,but was a product of negotiation between the European and the ACP partners. Stabex is to earmark UA 375 million for five years for stabilising the receipts to the ACP countries from their exports of raw materials (total of 29 products) to the Community. The volume of the exports concerned was about UA 2 000 million in 1973. The main features of the scheme are as follows :

- cover : a selection of 29 products was laid down,depending on a number of criteria,including their importance in providing employment,the fluctuation in prices and quantities delivered and their economic importance to the ACP countries. They include groundnut products, cocoa,coffee,cotton,coir,palm and palm kernels,hides and leather,timber products,fresh bananas,tea,raw sisal and iron ore.

  A number of other products (including copper,phosphates,bauxite and tin),though some of the ACP countries are concerned with them,were not included in the list. All the ACP countries have the benefit of the guarantee,which is given in respect of each product taken individually. For a country to receive compensation the product in question must represent at least 7.5% of the export receipts of the applicant country (reduced to 5% for exporters of sisal and 2.5% when the raw materials in question are exported by one of the ACP countries ranked as "least developed,land-locked or on an island"). There are 24 countries on the latter list. The Community guarantee is given in respect of the amount of the exports consigned to its own member countries. To this rule,too, there is an exception,for the guarantee relates to exports to all destinations from Burundi,Guinea-Bissau,Rwanda and Swaziland. It is provided that the list of products may be revised,but not before the Lomé Convention has been in force for a year. It is the Council of Ministers of the Nine European and 46 ACP countries which has authority to make amendments.

- triggering of the machinery : a reference figure is calculated by which the scale of any loss in export receipts can be measured. It is "the moving average of the export receipts procured to each ACP State by its exports to the Community during the four years preceding that to which the application relates". In other words the reference level is defined by reference to past performance. When the amount of the exports in any year is lower by 7.5% than this reference level,the ACP country concerned has a right to a financial transfer. This tolerance is reduced to 2.5% for the list of the poorest countries.

- payment of the compensation : we have just seen that when the compensation threshold is reached,the ACP country concerned has the right to a transfer. This is practically automatic,but the European Commission which carries a very considerable responsibility in managing this machinery,has to carry out various tests before the contribution is paid over. It has first to make sure there has been no diversion of traffic. It might happen,for example,that a country knowing there is a guarantee for the export receipts on consignments to the EEC,will have attempted to sell its goods outside the Community. It would thus be procuring an artificial decrease in its receipts from exports to the Nine,and getting an undue compensation. The European Commission has also to determine whether the fall in the relevant receipts may not have resulted from a large increase in the local processing of raw materials.

If the right to the transfer is duly recognised,the European Commission may draw it from the UA 375 million which stands at the disposal of the scheme. The total amount of these contributions,however, is subject to a maximum of UA 75 million a year. In certain circumstances the figure may be exceeded, but this will reduce the amounts available in the following years. In the same way any balance remaining at the end of the year is carried forward to be available in the next.

The amount of the indemnity is equal to the difference between the effective receipts and the level of reference. In some cases the ACP may be asked to reconstitute the fund from which its compensation was drawn. The rule is,that these indemnities are to be repaid,but it is softened in quite a number of ways. The 24 countries listed as the least developed are not asked to repay these "advances" in any circumstances. For the others the rule operates when their export receipts in any year are above the level of reference; but nothing will be claimed from them if the increase is solely due to an increased volume of exports (as opposed to higher prices). In all cases the repayment will not exceed the amount the ACP country received by way of compensation,and no interest will be payable for the period between the receipt of it and its restitution,and in such circumstances this will rank as an advance.

Any country which has received a transfer may not be asked to "reconstitute the fund" more than five years after it received it. At the end of this period,if there has not been "total reconstitution" the EEC/ACP Council of

Ministers will determine what is to happen to the credit. It may decide it shall be repaid "wholly or in part,in instalments or immediately", or it may simply decide to abandon it. The choice will be determined,inter alia, by "the position and prospects for the balance of payments of the ACP countries concerned,its reserves of foreign exchange and its external indebtedness.

III. INDEX NUMBERS : THE INFERNAL MACHINE ?

Adjustment by index numbers is a perfectionist technique. It can be grafted into commodity agreements,or into systems for stabilising export receipts. The fact that it is perfectionist does not mean that its importance is secondary. This is far from being the case. Indeed "indexation" adds a new dimension to arrangements instituted for market control and is concerned with one of the key elements -- the level of prices -- concerned in these arrangements. Adjustment to an index is a guarantee of purchasing power for developing countries and might even be an assurance for their progress. It would consist of their being given an increase in the prices of the raw materials they export exactly proportionate to,or even bigger than,the increase in the prices of the goods they import. They would thus be avoiding a deterioration in the terms of trade, especially as affecting the poorer countries. It is the technique of index number adjustment which gives rise to the keenest controversy. Most developed countries regard it as a sort of infernal machine which would fan the fires of an inflation and bring the whole world economic system to the brink of disaster. Most developing countries regard it as the only definite and effective way of avoiding a transfer of incomes from the poorer countries to the richer.

The guarantee for the purchasing capacity of developing countries,or even its increase,can be secured in one of two ways -- either by market operations to impose a fixed price (direct indexation) or by transferring funds to the developing countries (indirect indexation).

Preference for indirect indexation ?

"In practice",according to an UNCTAD report issued in July 1975 "a system of direct indexation can only be applied to any basic product if there are ways of fixing the market price for it at the desired level -- i.e. if it is possible to operate effectively on the market prices". This action of course is aimed to bring the rise in prices for raw material into line with the rise in the prices of the goods which developing countries import. It means that direct indexation is only possible if you are in a position to control the supply of the products in question. For this purpose there are only two possible solutions. One is the making of commodity agreements in which a price fork is laid down and strictly respected,but subject to index number adjustments depending on the prices of imports into developing countries. The second is the setting up cartels which is practically out of the question for developing countries with the solitary exception of the oil producers.

Indirect indexation,on the other hand, does not depend on market manipulation. It is the simpler business of "making financial transfers corresponding to the movement in market prices for specific products by comparison with the reference level reduced to an index". This technique could very well be coupled with a system for stabilising export receipts. It is worth looking at the two forms of indexation to see what are their respective advantages and inconveniences. Both of them in practice have the same inconvenience that they may lead to an excess of market supplies. Producers in the Third World, knowing that their prices are guaranteed, will tend to produce as much as possible, and some of the less efficient might even be tempted to start up new production. This inconvenience can be mitigated, for example, by limiting the price to a certain physical volume of production. Both the techniques raise difficult statistical problems, especially in selecting the indices which are really representative of prices. Apart from this indirect indexation seems to have more points in its favour than the other.

The experts make three important criticisms of the direct method. In the first instance there is a risk of feeding the inflation in the developed countries; and as a counterpart to the rise in the prices of manufactures exported which results naturally from the inflation, there is the counterpart danger of forcing further rises in raw material prices. In other words, the direct indexation of raw material prices would foster the viscious circle of inflation. Secondly, direct indexation might lead to serious market disturbances (quite apart from cases of over-production) by unduly high prices discouraging the demand for the product. Direct indexation would require stockpiling and the cost would soon be prohibitive. Thirdly, the guaranteed price rises would be of indiscriminate benefit both to producers in developing countries and those in developed countries.

If we consider only the product of concern to developing countries, the field of application for direct indexation becomes materially smaller. The criticisms in question cannot be laid at the door of indirect indexation which appears as a system of more general and also more differential scope however paradoxical this may sound. It is more general because it can be applied indiscriminately in all markets and not only to those which lend themselves to commodity agreements (i.e. buffer stocks and substitution problems). It is more differential because the amount of the financial transfers can be adjusted by reference to the wealth or poverty of the raw material producing countries. This does not mean, however, that direct indexation must be put entirely out of court. It means only, that its field of possible application is smaller.

IV. THE UNCTAD "INTEGRATED PROGRAMME" : A BUNDLE OF COMMODITY AGREEMENTS

Since UNCTAD was set up in 1964,its secretariat has been consistently pleading for a thorough overhaul of international trade to give it a new balance to the advantage of developing countries. This was,to a large extent, the purpose for which it was formed. Just at the time when the international community was concerning itself with the approach to this very problem,the secretariat thought fit to put forward broad-based proposals on the raw materials problem.

It was early in 1975 that it published the outline of its "integrated programme", an ambitious document if ever there was one. It proposes a number of arrangements for stabilising the markets for 18 raw materials regarded as essential products for developing countries in the first place, but also for the developed ones. The list is not fixed and final,but can be extended or shortened if required. For UNCTAD, the important thing is,that there should be a definite commitment to operate the programme,introducing it gradually if necessary. The programme is supported by the developing countries and disliked by the developed ones. The key occasion for its discussion is UNCTAD IV which is to be held at Nairobi in May 1976. Its destiny will depend on these discussions. It is the great brain-child of the UNCTAD secretariat and it depends fundamentally on setting up international buffer stocks for the chief raw materials. This is the central plan; and around it are four other proposals:

- joint financing of the stocks ;
- multilateral undertakings to buy and to sell ;
- adoption of machinery for stabilising export receipts;
- commercial measures to encourage local processing of the raw materials.

What it comes to is that UNCTAD is seeking a whole bundle of commodity agreements.When such agreements are not possible for whatever technical or political reason, measures will have to be taken to stabilise the export receipts of the developing countries. Moreover, the Geneva experts have an eye to the future in claiming commercial measures to promote local processing. In other words,they want to extend the scope of the measures already adopted (on their initiative) by all developed countries to promote the export of manufactured goods from developing countries. These measures are embodied in various systems of generalised preferences,by which the developed countries give preferential tariff treatment (waiver or reduction of duty) to the poorer countries. The importance of these measures should not be underestimated. In the 1975 report of the World Bank, it was noted that "liberalised imports of basic products,important as it may appear on paper, would probably be only of limited value to the developing world on the long-term. The outlets for products in this class can only expand slowly,becuse in most cases the income-elasticity is low. The long-term improvement in export prospects will accordingly depend primarily on the trade in manufactured goods".

On the short-term,nevertheless, it would be unprofitable to overlook the importance of stabilising raw material markets.

18 commodities in quest of agreements

We must therefore examine the list of 18 commodities with which UNCTAD would like to begin. In all cases both developing and developed countries are concerned,either as importers or exporters. They fall into four groups :

- food products : wheat,maize,rice,sugar
- essential industrial minerals : copper,lead,zinc,tin,bauxite,alumina and iron-ore ;
- raw materials of agricultural origin : cotton,jute,wool,hard fibres and rubber ;
- tropical beverages : tea,cocoa,coffee.

The 18 products have in fact been extended to 19,by the inclusion of oil-seeds and oil-bearing fruit,nuts and plants. According to the UNCTAD calculations, the developing group of countries was a net exporter in the 1970-72 period,with an average annual surplus of exports amounting to $10 800 million. This compares with an average deficit in the developed countries of $11 900 million,and in the socialist countries of $2 300 million. If,on the other hand,the four food products and the oil-bearing materials are moved from the list,the developing countries still have an export surplus; but if we take wheat and rice by themselves, the developing countries are shown as a net importer to the extent of an average of $2 100 million annually.

These figures of course are rather out of date. The view of the UNCTAD secretariat is,that the price boom of 1973-74 must have resulted in a deficit for developing countries which are exporters of these 18 commodities,principally because of the rise in imports of food products. In this connexion it is to be noted that the integrated programme would lose its significance altogether if the developing countries,while their position as exporters was growing stronger, should suffer a deterioration through their position as importers. Attention should be paid to the share of the various groups of countries in the trade in the raw materials of the UNCTAD list (see table p. 40). It will be seen that for a number of these products the exports from the developing countries are bigger than those from the developed countries. In this class are,sugar,coffee, tea,natural rubber,cotton,jute,hard fibres,copper and tin. For a number of others,even though the developed countries export more than the developing ones, the latter are nevertheless net exporters. This is the case for maize,bauxite and iron ore. In two other cases,wool and zinc,the trade of the developing countries is pretty well in balance.

In wheat and rice,as mentioned above, the developing countries import more than they export. The authors of the UNCTAD document,incidentally,are fully aware of the danger of basing an argument on groups of countries for the individual countries are far from having the same trade structure. In this connexion it is shown,that out of 100 developing countries and territories,80 were net exporters of the listed products.

Among these 80 net exporters,there were 60 for which the total exports of the 18 commodities were three times as big as the imports. There were 20 countries which were net importers of the "integrated programme commodities",but some of them had been able to offset this by exports of oil,or other raw materials, (e.g. phosphates). After making all the necessary adjustments it was eventually found that seven countries structurally import more than they export -- Laos,

TRADE IN PRINCIPAL STORE PRODUCTS (average 1970-72)
(million US dollars)

	Exports from (countries)				Imports to (countries)			
	All	Industrial	Socialist	Developing	All	Industrial	Socialist	Developing
Wheat	9 913	3,256	514	143	4 287	1 429	1 075	1 783
Maize	2 004	1 466	67	471	2 233	1 799	212	222
Rice	1 222	517	265	440	1 215	162	90	963
Oilseeds, fruit etc.	4 025	2 474	306	1 245	4 309	3 409	266	634
Sugar	2 892	654	223	2 015	2 956	1 910	497	549
Coffee	2 936	72	1	2 863	3 241	2 920	142	179
Cocoa	759	-	-	759	781	607	139	35
Tea	713	74	56	583	771	472	64	235
Rubber (natural)	1 004	21	-	983	1 230	767	343	120
Cotton	2 669	568	419	1 682	2 859	1 467	821	571
Jute and mfrs	750	70	21	659	810	501	116	193
Hard fibres and mfrs.	179	37	-	142	196	170	13	13
Wool	1 330	1 120	45	165	1 554	1 176	248	130
Copper	4 594	1 854	253	2 487	4 744	4 109	338	297
Tin	770	123	25	622	761	618	54	89
Lead	512	347	37	128	570	469	61	40
Zinc	822	539	93	190	870	690	77	103
Bauxite, alumina & aluminium	2 359	1 440	311	608	2 567	2 041	320	206
Ire ore	2 648	1 273	365	1 010	3 488	3 080	383	25
Total	36 101	15 905	3 001	17 195	39 441	27 796	5 259	6 387

Source : "Impact of the integrated programme on imports" (UNCTAD - June 1975)

Afghanistan,Lesotho,Somalia,Yemen,Botswana and Guinea-Bissau -- and five others were close to the margin -- Bangladesh,Upper Volta,India,Sri Lanka and Senegal. In a reform of world trade in raw materials, it is difficult to provide specially for the position of individual countries; but the UNCTAD proposal is that the integrated programme should include special measures for the benefit of countries which could not enjoy the full advantage of the arrangements to be made.

These arrangements, as already noted,are based on five proposed measures:

1) <u>setting up of international buffer stocks</u> :

The key idea in the integrated programme is the stabilisation of prices by the formation of buffer stocks,at any rate for those commodities which lend themselves to such treatment. This is considered to be in the interest both of exporters and of importers. For the exporters the stocks would enable them to avoid having to sell on a falling market,which is liable to result in further price weaknesses; they would facilitate better investment programming and a more constructive utilisation of resources,since fluctuating prices make it difficult to assess the long-term profitability of production; they should improve the position of primary commodities in their competition with synthetic products; and in stabilising the prices,they would also be stabilising the export receipts. From the standpoint of the importers the setting up of the stocks should make it possible,whether on the long-term or the short, to rely on the possibility of finding supplies and on fair access to natural resources if there should be a shortage, Moreover, importers have everything to gain from knowing in advance the prices at which they can secure supplies.

The UNCTAD proposal favours "multi-product stocks" meaning,that the administration of the different stocks should be handled by the same organisation. This would give greater coherence to the action taken in the many individual markets. The stock administered under international control would be helping to defend price forks laid down for each product. The fixing of the floor and ceiling prices would,of course, be a difficult and thankless task for the stock management,for nobody really knows what is a "fair" price for any product. No magic formula is suggested,and there is no question of "indexation". It is proposed,nevertheless, that various specific criteria should be borne in mind -- movements in "real" prices and the rise or fall in production costs for example. Each year there would be a price review to correct any errors which might have been made hitherto,and which would inevitably have their impact on the level of stocks.

It is by no means certain that international buffer stocks would be a sufficient instrument for lasting price stabilisation. Other instruments might also be considered,including export quotas,at any rate when it is proving difficult to hold prices above the predetermined floor. If the long-term price trend is consistently downwards,consideration could be given to export taxes when times are good. In this way part of the export incomes would be mopped up,thus reducing the stimulus to over-investment which inevitably occurs in times of runaway prices. The product of such a tax would be paid into a joint fund which might serve for financing diversification schemes when any individual production seemed likely to go into decline.

2) Formation of a joint finance fund

The main obstacle to setting up international buffer stocks is obviously a question of finding finance for them. Up to now no country has given any undertaking,which makes it extremely difficult to devise any financing machinery. According to the UNCTAD document,a joint fund to finance multi-product stocks works out less costly than the financing of stocks for each individual product. This is on the supposition that operations in different markets will tend to offset one another,with the stock machinery buying one product and selling another.

Moreover, stock-management usually earns profits,depending on the price movement (the more the fluctuation the greater the possible profit) their price-cycle (the shorter the cycle the smaller the volume of stock needed), storage costs and other factors. There must of course be substantial working capital from the outset,but it is difficult to determine orders of magnitude, because a number of items have to be taken into account -- the number of products,for example, the level of price guarantees,the gap between floor and ceiling prices and the level of stocks. According to UNCTAD,the setting up of international buffer stocks for the 18 products listed in the integrated programme,would require about $10 700 million. This is based on stocks of between 6 weeks and 3 months of world trade bought in at the average prices of 1970-74. Of this, $ 4 700 million would be for cereals (wheat,maize and rice) and another $4 700 million would be wanted for sugar (1.2)coffee(1.0), jute (0.1),hard fibres (0.03), rubber (0.2), copper (0.85) and tin (0.2) and the remaining $1 300 million would cover wool (0.5),lead (0.1),zinc (0.270), bauxite and alumina (0.130) and iron ore (0.290).

This figure,of course, is no more than an indication. It may seem on the high side; but if we calculate the cost of purchase at 1972-74 prices, the bill works out at $13 100 million. The UNCTAD proposal is for a progressive approach,concentrating on different products in turn,instead of setting up the whole of the stocks for the whole of the list at the outset. The proposal is,that priority should be given in the first phase to 10 products -- sugar, coffee,cocoa,tea,cotton,jute and hard fibres,rubber,copper and tin. The pragmatic approach can be pushed a stage further by noting that three of these commodities (coffee,cocoa and tin) are already subject to international agreements,so that action could be concentrated primarily on the others. It should also be remembered that the list of products itself is only an indication. Many other products might become candidates for international agreements -- such as the oil-bearing materials. Other commodities,too, might be withdrawn from the integrated programme.

In a note issued in September 1975, UNCTAD gave up the idea of setting up buffer stocks for iron ore. The market prices for this product are not really representative,because most of the mines rank as "captive", meaning, that they belong to companies or State organisations,which take their product for their own blast furnaces. However this may be, and whatever be the basic finance requirement,the problem remains of where and how the money is to be raised. This is a field in which nothing is impossible. There might,for example, be an increased contribution from the developed countries, or contributions could be based on shares in the export trade; or of course, the funds might be borrowed.

3) Stabilisation of export receipts

The commodity agreement system is not necessarily applicable to every market. Machinery must therefore be thought out,so as not to penalise developing countries the products of which come into other categories. It might happen, for example,that some specific product was unsuitable for storage; that it was subject to keen competition from synthetic products; or that
stabilising prices in the market had to be set aside because of the high cost. In such cases,according to UNCTAD,the machinery of stabilising export receipts could be a useful alternative. The same machinery might indeed be added to the guarantee available in any case to the exporter through the existence of a commodity agreement.

There are many possible ways of stabilising export receipts for developing countries;and without such stabilisation,they cannot programme their investments to the best advantage and must run the risk of getting into chronic difficulties with their trade balances. A calculation made by the UNCTAD secretariat shows,that the average annual cost between 1964 and 1973 of the various stabilisation formulae put forward by the experts or by some of the international organisations,would have varied between $1 000 million and $23 000 million. This is,accordingly, another field in which the scope for negotiation between the rich and the poor countries stretches over a considerable area. The number of technical variables includes the products to be covered,the number of participants,the duration of the scheme and the way it is to be financed. The UNCTAD view is,that instead of setting up entirely new machinery,the best course would be to use the existing IMF machinery described above,and subject to various adjustments to make it more flexible.

4) Multilateral sale and purchase commitments

One of the instability factors in markets,lies in the uncertainty about the demand. This often leads producers into over-investment or under-investment. To counteract so fundamental a difficulty a method which has long been in use is for suppliers and their customers to enter into contractual arrangements. The suppliers in such cases undertake to deliver a specific quantity of the product concerned,while the customers agree to buy the same quantity. The eastern countries have used contracts of this kind more freely than most. The arrangements usually extend over several years,and include price clauses. The arrangements are bilateral and are made not only by governments,but by the big corporations of the West. Sometimes the contracts are not entrely bilateral,but operate between groups of countries in the same way as the sugar supply agreement in the Lomé Convention. The arrangement,however, is far from being general,and in any case the contracts (especially in their price clauses) are by no means uniform. It is part of the UNCTAD thesis,that primary importance attaches to generalising these sale and purchase undertakings at the world level,applying them to as many commodities as possible. This would facilitate the stabilisation of raw material prices,especially since it would be possible to increase the supply guarantee desired by importers. The Geneva experts,incidentally,do not claim to replace the "free play of market forces" by any world programming of trade. The aim of the commercial undertakings is simply to introduce a "certain element of planning" as is already done "to quite a large extent by governments and private companies operating on a scale large enough to influence markets". There is no risk of trade being frozen into unchangeable patterns,as might be feared from the nature of the arrangement. The commitments would be contractual between all the exporters and all the importers of any given product,and the volume of sales and purchases would not be fixed on a country-by-country basis. The advantage of having multilateral instead of bilateral commitments would lie in the introduction of more uniformity (especially in the prices) in the different markets.

5) Commercial measures to encourage local processing of raw materials.

Many developing countries look to the local processing of their raw material as a method of furthering their industrialisation. In the UNCTAD view,this desire should not be frustrated. Indeed it should be encouraged,for these countries will,on the long-term, owe their economic health to the increase in the proportion of manufactured goods in their total exports -- the proportion was 20% in 1973 against 7% in 1966. UNCTAD intends,therefore, to give its integrated programme a dynamic aspect which will not be limited to laying down new rules for the trade in raw materials between developed and developing countries,but will also be looking to the future,when manufactured goods begin to predominate in the exports from the poorer countries. Some of them,indeed, have already reached this point (India,South Korea,Hong Kong,Taiwan,Jugoslavia); but today everything indicates that the developed countries,by putting limits on the traditional exports from these countries (especially textiles) are in some measure putting the brakes on their industrialisation. The limitation results from the tariff and non-tariff barriers put by the developed countries as obstacles to their imports from the developing ones. It is estimated that in the markets of industrial countries,the developing countries have to face customs duties some 50% higher than those charged on imports from other industrial countries. The disparity is traceable to three principal factors -- tariff cuts negotiated in GATT (Dillon Round and Kennedy Round),related primarily to trade between developed countries. Secondly,the customs duties charged by the developed countries increase in line with the degree of manufacture,the rates being minimal for raw materials and high for finished goods. Thirdly, various types of goods are charged specific duties,often by reference to physical characteristics,such as packaging,weight or number of units,instead of being charged ad valorem. The effect of this technique is to protect manufacturers in the developed countries.

On the other hand, tariff obstacles are not the only ones. In practice the developed countries put a whole series of non-tariff obstacles in the way of trade from the developing countries. They include, import quotas,licensing and unduly severe rules regarding (for example) health and hygiene. All these questions are at present under commercial negotiation in GATT (Tokyo Round). At Nairobi,nevertheless, the UNCTAD experts would like to secure a recognition in principle by the developed countries of the need for promoting imports of manufactured goods from the developing countries. They lay special emphasis on the importance of strengthening the various systems of generalised preferences currently in force.

PART III - THE BIG GUNS AND THE UNO COMPROMISE

In the international discussions on raw materials,and side-by-side with the United States and the "group of 77",the European Community is one of the chief protagonists. In many international conferences the Nine have been distinguished for their more open attitudes to the ideas put forward by the developing countries. Admittedly the Nine,quite apart from politics, have an important motive for dialogue with the Third World. Apart from Japan the European Community is more dependent than any other developed country on raw material supplies from the outside world (see table below)

Estimated self-sufficiency of EEC for certain raw materials

	%
Wheat	90
Beaf and veal	83
Rice	82
Rubber (natural and synthetic)	65-70
Maize	54
Tin	51
Aluminium	43
Zinc	42
Lead	39
Copper	35
Feedstock proteins	21
Tungsten	4
Natural calcium phosphate	±0
Nickel	±0 (N.B. 65% with Nouvelle Caledonie)

These figures are mainly taken from secondary sources and cannot therefore be regarded as a first indication. The year of reference is usually 1972.

Source : EEC Commission

The two-fold dependence of the EEC

The European Commission,under the chairmanship of M. François-Xavier Ortoli, has done all in its power to convince the member governments of the Community of the importance of taking action. In February 1975, in a communication to the Council of Ministers on "Community supplies of raw materials" it gave a summary of international problems facing the Nine,and the approach to possible solutions. The communication was limited to industrial raw materials and gave a clear picture of the Community's shortage of supplies. It brought out the two-fold dependence of the Nine in regard to these supplies,first upon the other developed countries and also upon the countries of the Third World. The supply problem in raw materials,at any rate on the economic side, is not solely a question of North and South. The diagnosis is ruthless : "the problem for Europe is real and serious. As a matter of history the continent became the leading industrial power in the world,primarily because it could draw from its own soil the coal,the iron ore,the copper ore,the zinc ore it needed. When it was coming closer to exhaustion of its mineral resources, it was obliged to import the raw materials required for its industry." Today it is "a region engaged in processing raw materials imported from other continents, and re-selling them as finished goods". "The dangers for Europe in its high degree of dependence on other continents" the Commission continues,"have been consistently growing during the past few decades".

In a reference to the declaration on the "new economic order" the Commission takes the view that this high degree of dependence should encourage the Nine to mould a future in which each nation shall be assured of a fair place in the economic and social development of the world. The Commission document proceeds to review the various problems facing the Community in regard to raw materials. The survey ranges from the problems of method (insufficiency of knowledge) to the more technical problems (risk of absolute or comparative shortages) and including :

- supply sources insufficiently varied :

  "for most raw materials the rate of the Community's dependence on imports from outside countries varies between 70 and 100 %. These figures,of course, are trending upwards". The Commission rules out any possibility of Europe adopting a self-sufficiency policy,though there is much to be gained in "ensuring the rational use of the limited resources which Europe possesses." It is important,nevertheless, to seek a greater variety in the sources of supply.This is a spreading ofrisks,which includes "a limitation of the hold on various markets exercised by certain multinational corporations, especially foreign ones". There was also the possibility of arrangements to "guarantee private investments in developing countries and promote their profitability",which would lead to an "unfreezing of the flow of private investment" capable of inducing "astonishingly positive results," both for underdeveloped countries and for Europe. Looking at matters from this angle, a useful departure might be the formation of "joint companies" consisting of private investors in the Community and public authorities in Third World countries.

- processing of raw materials in their countries of origin

  the tendency in this direction is increasingly widespread. "It is thus becoming essential to conciliate the interests of producing and consuming countries". As a method of diminishing the risk of nationalisation, systems of shared ownership and profit-sharing could be envisaged. This,however, does not solve the whole problem. "Those of the developing countries which possess both raw materials and under-employed populations are understandably anxious to process their materials on the spot". "The fears engendered by this tendency among industrialists in developed countries has led them in the past to ask for measures of trade protection". The Commission insists, that "this leads nowhere"; and that what is really wanted is "a more rational sharing of the world's industrial activity,more especially to the advantage of the developing countries". The Commission goes even further than this,arguing that, "Europe must agree to the gradual cessation of industrial activities which could be done better somewhere else. Abandonment on these lines is only relative,because it will be accompanied with european investments in outside countries". Reasonable and well-reasoned steps must, therefore, be taken in this direction.

- risk of temporary bottlenecks and price fluctuations :

  to mitigate such risks, a number of measures "of a conservative character" can be envisaged. The Commission mentions : long-term contracts, safety stocks (not to be confused with international buffer stocks) and the setting up of international observation points.

Four steps by the EEC

In a number of cases there should be no hesitation about making international agreements,provided the necessity for eliminating export risks is duly borne in mind.

The February communication is palpable evidence of the Commission's desire to seek negotiated solutions, especially with the countries of the Third World. This will never be disproved,least of all in the Commission's further communication to the Nine governments in May 1975,on "raw material problems and relations with developing countries which are exporters of raw materials". In this the Commission envisaged four series of measures :

- trade cooperation : "these measures should make for the elimination of tariffs and non-tariff barriers obstructing access to the markets of industrial countries of raw materials,with special reference to the scaling down of protection for the value added on the first processing"... "equitable solutions should be found for the problems of controlling export restrictions".

- industrial cooperation :"it should be one of the aims of the Community to promote the production and local processing of raw materials,taking into account the employment problems both in the developing countries and in the industrial countries". Action suggested under this head includes : the promotion of investment in developing countries; increasing the sources of investment; protection of investments,guaranteed profit transfers; the encouragement of joint companies; avoidance of bottlenecks arising through under-investment; encouragement of long-term purchase and delivery contracts; promotion of technology transfers.

- limitation of price fluctuations : In the Commission's view this is in the interest both of producers and of consumers. The measures will require examination on a product-by-product basis. "In the first instance the examination must relate to commodities mainly exported by the developing countries and the prices of which are subject to wide fluctuations". In some cases there should be stockpiling and de-stocking measures. "The functioning of some of the world agreements might be improved by the consuming countries taking a share in financing the stocks". The Commission takes a rather doubtful line about "indexation" which"it would be a mistake to regard as a panacea,providing by rule of thumb a solution to every problem".

- stabilisation of export receipts : the Commission itself maintains an international operation for this purpose,and adds that "this should be additional to the aid at present provided for developing countries". The Commission records the existence of two approaches to stabilisation -- the system which covers a wide range of products,but only for the benefit of the poorest developing countries; or a system to benefit all developing countries,but applying only to a limited range of commodities.

This communication by the Commission was in fact the raw materials section of its proposals to the Nine,in readiness for the 7th extraordinary special Session of the UN Assembly in September 1975. Two other documents on raw materials were also put before the Nine in June 1975. These contain valuable information,primarily of a technical character about commodity agreements and machinery for stabilising export receipts.

The various communications from the Commission were used as a basis for discussions between the Nine. The raw materials question came upon the Community scene through the main entrance,at the meeting of the European Council in Dublin (March 10 and 11 1975). It was settled for the time being through the adoption by the Nine of a joint attitude at the EEC Council of Ministers on July 22 1975 in Brussels.

There was nothing really new for the Nine in discussing the raw materials problem. It is a problem which impinges alike on its agricultural,its commercial and its development cooperation policies,and the Community has been concerned with it on several occasions. In the multilateral negotiations in GATT,the Community countries proposed the negotiation of agreements covering a wide range of agricultural produce (wheat,maize,sorgho,barley,rice,sugar,powdered milk,butter and butyric fatty substances). In addition,the Community as such is associated in various ways with a number of existing agreements,including those on coffee,cocoa,tin,sugar and wheat. Still more,it cooperated with the 46 ACP countries in devising the"stabex" system which figures in the Lomé Convention. It made a long-term contract with the sugar producers of the Third World,providing guaranteed outlets over the long-term; and,quite apart from the agriculture policy,which is entirely within the competence of the Community, it has available various instruments relating to several classes of products -- e.g. the fixing of export quotas for copper and other non-ferrous metals or for scrap.

The New York compromise

The joint attitude made ready by the Nine for the extraordinary UN Assembly in September 1975,covered the whole ground relating to raw materials and development. In New York,in September 1 - 15, the representatives of the Nine played a decisive part in working out the compromise between the arguments of the Third World and those of the developed countries. The Nine,and more especially the Commission,were very active as mediators between the United States and the"group of 77". Their joint declaration was made by the Italian Foreign Affairs Minister, Signore Mariano Rumor; and though observers were less impressed by this than by the flowing discourse of Secretary of State Henry Kissinger, the part played by the Community in the lobby was of first class importance. After several days intensive negotiation,punctuated by threats of rupture, a resolution was adopted on September 15 and this sets up a new starting point. Without this,the prospects for holding a dialogue between the Third World and the developed countries would have suffered serious prejudice. It contained many areas which are not completely clear,and which will have to be fully ventilated in the course of the UNCTAD meeting in Nairobi,the Tokyo Round discussions in GATT and the North-South dialogue in Paris; but the citadel is intact and the bridges have not been destroyed. The resolution was accepted by all the delegations taking part in the Assembly, even though some of them raised reservations on specific questions,such as the target of bringing up public aid to the equivalent of 0.7% of the GNP. At the previous extraordinary Assembly in April 1974, no such tranquility prevailed,and the declaration on the "new international economic order" had been adopted in a background of utter confusion. The resolution of September 15 is concerned with the general question of relations between developed countries and developing countries; and it does this under five headings -- international trade; transfer of real resources; science and technology,industrialisation; and food and agriculture.

Reference to the section directly concerned with the raw materials problem,gives us a certain insight into the future negotiations. Moreover, we can see the broad lines of the attitude to be taken by the three chief parties. The Community's view is set out in the document approved by the EEC Council on July 22 1975; the developing countries' in a memorandum drafted by the "group of 77",also in July 1975; and the United States in a Kissinger speech in UNO in September. The other delegations,including the eastern countries and Japan, have so far left the initiative with these three.

I. The trade in raw materials

Commodity agreements : the resolution thinks the 4th UNCTAD conference should make it possible "to reach decisions about improving the structure of markets for raw materials and basic products,the export of which is a matter of concern for developing countries,including decisions on an integrated programme and the application of its component elements. The resolution suggests that having regard to the special aspect of each of the basic products and raw materials,these decisions should relate to :

- "suitable international storage to ensure stable,remunerative and fair prices for basic products,the export of which is a concern of developing countries,and to promote a state of balance between supply and demand. including,whenever possible, multilateral commitments on the long-term";
- "the setting up of suitable international finance mechanisms for the purpose of these arrangements regarding stockpiling and markets";
- "the adoption,whenever possible, of measures calculated to encourage long-term and medium-term contracts" ;
- "the setting up of improved machinery for compensatory finance in respect of fluctuations in export receipts by broadening and strengthening the machinery already in existence";
- "the adoption of measures calculated to encourage the processing of raw materials in the developing countries which produce them,and generally the expansion and diversification of their exports,especially those consigned to developed countries".

"The UNCTAD secretariat general should put before the fourth session of the Conference a report on the repercussions of an integrated programme on imports into developing countries,which are net importers of raw materials and basic products,including those which are lacking in natural resources and should recommend such corrective measures as may appear necessary".

This text gives partial satisfaction to the "77",because it refers in terms to the integrated programme and gives a statement of its component elements. The satisfaction is only partial,because the developing countries would have preferred to see a more open support by the international community for the integrated programme put forward by the UNCTAD secretariat. Instead the resolution mentions only "an" integrated programme,and that some of its "elements" might be interesting. Neither the EEC nor the United States was willing to give its endorsement to the UNCTAD project,which they were only prepared to consider as asa working paper. For them there was no question of launching into the simultaneous negotiation of a great number of commodity agreements. In each case studies must be made of the solutions most appropriate to the individual market -- or if you prefer it that way, you must "take account of the special aspects of each basic product or raw material". The Community nevertheless, took a more positive line about commodity agreements than did the United States. It is willing to examine possible ways of coping with the problems of developing countries,especially in the light of particular cases,and in order to "avoid excessive fluctuations" in prices. For the United States,Mr. Kissinger did not conceal his dislike of price agreements which disturb the markets,check production and lead to a waste of resources. "Price stabilisation is not in general a promising approach",he said."Such an objective can only be secured"he continued,"through severe restrictions on production or export,and the setting up of extremely costly stockpiles inducing price rises which might well lead to encouragements to the production of substitutes". According to the United States,too, the price stabilisation which is being sought, would not be of automatic benefit to developing countries. What the United States would like to see,would be the setting up of producer-consumer discussion forums for each individual product,even if this did not exclude adhesion to some of the commodity agreements (coffee,cocoa,tin). To mark their reserve about any unduly close control of markets,the United States embodied it in a note to UNO on the advisability of regulations. It is clearly indicated that the Nairobi negotiations,which will settle the destiny of the integrated programme of UNCTAD,are likely to be very closely argued.

Under the food and agriculture heading in the resolution, there are several points relating more specifically to the trade in raw materials. The resolution provides,that the developed countries should "effectively" facilitate access to their markets for agricultural produce and food products,the export of which is of concern to developing countries. Further "insofar as concerns improved productivity for agricultural non-food products and forestry products,and their ability to withstand the competition of synthetic products, it would be desirable for research and technological assistance to be coordinated and financed by appropriate machinery". The UNO resolution recommends the developed countries,when they are liquidating their surpluses to be careful "not to induce unjustified price fluctuations and not to disturb the markets for export products of concern to exporting developing countries". It would be desirable, too, to "set up and maintain world stocks of food cereals on a sufficiently large scale to provide remedies for the big production deficits which can be foreseen".

This extract from the resolution is of special advantage to the "77", and much less ambiguous than the preceding passage. The United States consider that the problem of raw materials is primarily the problem of food products, which must therefore be taken as a priority matter. They proposed the setting up of world stocks (under national administration) of rice and wheat, equivalent to 30 million tonnes. By way of indication it may be noted that the FAO estimates the safety level of cereal stocks to ensure the world's food requirements at 45 - 50 million tonnes, including the secondary cereals. Moreover, the American proposal was mentioned in the UNO resolution. The stocks proposed are not for any permanent regulation of the market, but solely for dealing with shortage conditions. The United States propose, too, that developing countries with storage difficulties should be assisted. The Community has recognised the special importance attaching to "the production and supply of food products"; and the Nine have already made proposals to GATT that commodity agreements should be made for a number of food products.

<u>Stabilisation of export receipts</u> : the compensatory finance machinery currently available through the IMF should be developed and liberalised". The IMF, also, should thus examine at an early date the proposals aimed at liberalising its cover of current account transactions and extend it to manufactured goods and services; to take all possible steps to see that compensation for export deficits shall take place at the time when they are actually happening; to determine the level of compensation by reference to movements in the prices of goods imported; and to extend the period allowed for repayment. The greater flexibility envisaged for the IMF machinery must not lead to other proposals being bypassed, especially that of the United States for a "new security mechanism".

The "77" have got practically all they claimed. The Community had decided to take part in an international movement "to improve the IMF compensatory finance scheme, and set up specific arrangements for the benefit of the poorest developing countries". In the UNO resolution the Community thus agrees to give details of some of the improvements it had contemplated. It will be noted, in particular, that it is not opposed to the financing being extended to all the current account receipts of the developing countries, and not confined to the exports of manufactured goods. It also agrees that the amount of compensation shall be determined by reference to the movement of import prices which is in fact a form of indexation. The United States have the satisfaction of seeing that the proposal they made to UNO has not been expressly rejected. The effect of it was to drop the present compensatory finance system of the IMF, and replace it with a system covering all the export receipts and financed with a float of $2 500 million p.a. (more if possible), the total outstanding being allowed to run to $10 000 million. All the developing countries could have the benefit of this new source of finance; and loans made to the poorest of them could be converted to grants by the fiduciary fund (see page 22) contemplated as an adjunct to the IMF.

Indexation : the resolution contains two references to indexation. The first is indirect, stating that production in developing countries should be "improved" and their export receipts should be "increased in such a way as to counter-balance the adverse effects of inflation, and thus maintaining the real income of the developing countries, so as to improve their terms of trade and eliminate the economic imbalance between developed and developing countries". The second is more direct : "There are a number of solutions open to the international community for preserving the purchasing power of the developing countries. They should, as a matter of priority, be more closely studied. The UNCTAD Secretary General should continue the studies of direct and indirect indexation plans and other solutions, with a view to putting forward definite proposals before the fourth session of the Conference".

The wording of the resolution is very cautious. There is an agreement to study the problem, but not to accept the principle. This is not surprising. Neither the Kissinger speech nor the joint document of the Nine contains any reference to indexation, though the principle is aggressively defended by the "77". The developing countries would in fact like the integrated programme to help in improving (and not merely maintaining) their terms of trade. They hope to stave off the inflation exported by the developing countries.

trade in manufactured goods : "concerted efforts should be made to speed up the development and diversification of exports from developing countries of manufactured and semi-finished goods, processed and partly worked products, so as to increase their share of the world's industrial production, and international trade in the framework of an expanding world economy". The resolution also suggests that in the Tokyo Round negotiations, effective arrangements be made "to reduce or eliminate non-tariff barriers " to their exports set up by the developed countries "on a differential basis, more favourable to the developing countries". It would also be desirable to extend the period during which the generalised preferences apply, and to improve the system. "Compensatory duties should only be applied in conformity with known international obligations. Developed countries should show the greatest possible flexibility within the framework of their international obligations when it comes to charging compensatory duties to imports from developing countries". During the Tokyo Round developing countries should be given "differential and more favourable treatment if this is justified by the circumstances". Restrictive commercial practices which impede international trade, and especially the trade of developing countries, should be eliminated; and efforts should be made, both on the national and on the international level, to draw up a code of equitable rules and principles".

The United States and the Community have given their approval of principle to a large part of the claims made by developing countries. There are, however, many precautions and approximations marked by phrases such as "whenever this is feasible"; "on a basis more favourable to developing countries"; "in conformity with international obligations"; "the greatest possible flexibility". The fact remains that the "77" have not been successful in getting what they so insistantly claimed --"preferential,non-discriminatory and non-reciprocal" concessions within the shortest possible time. On the other side of the picture, they have not recognised two principles to which both the United States and the Community are very faithful -- the international regulation of export restrictions and guaranteed access to the natural wealth of the Third World.

PART IV - INSTANCES AND ILLUSTRATIONS

1.- An important basic food product : wheat

2.- Intensive competition between North and South : sugar

3.- A monopoly for developing countries : coffee

4.- A strategic raw material : copper

5.- Competitive production from developing countries : textiles

6.- Competition between natural and synthetic : rubber

1. WHEAT : A CASE OF PRIORITY

The eastern countries are the world's biggest wheat producers,accounting for 150 million tonnes in 1974 against 140 million tonnes from the developed countries of the West and 72 million tonnes from the developing countries. This predominance,however, is quite relative,for the western developed countries have practically a monopoly of the world market sales. In 1974-75 their exports amounted to 63 million tonnes out of total world exports of 70 million tonnes. The share of the other groups of countries is thus practically non-existent.

Two western countries play the key role in world exports -- the United States (30 million tonnes) and Canada (11 million tonnes). The Community is also a considerable exporter (nearly 11.5 million tonnes annually since 1973) and so is Australia (8.4 million tonnes in 1974-75). All these countries have an important part to play in the negotiation of a wheat agreement. The chief importers are the developing countries (40 million tonnes) especially the countries of the Far East. Other importers include the eastern countries (12.3 million tonnes). The western developed countries are also importers of substantial quantities (17.7 million tonnes).

The world market for wheat has for some years been very irregular. It has never yet been possible to reconstitute the sharp fall in stocks in the exporting countries (EEC,Canada,USA,Argentina,Australia) at the end of their 1972-73 crop. The total of nearly 50 million tonnes in 1971-72 amounted to scarcely 23 million tonnes in 1974-75. Against this background the supply of wheat to a number of importing countries depends very largely on the production in the year of supply; and this is subject to many hazards,such as drought and crop maladies. At the slightest threat of comparative shortage prices naturally soar.

For the developing countries,whose financial resources are negligible, this instability is very damaging. The inconveniences of the price boom can be diminished to some extent by the food aid programmes sponsored by the big exporting countries; but even so, the world wheat market is one of those in which international action is specially urgent.

2. SUGAR : BEET AND CANE

The world market for sugar is dominated by the cane producers. In 1975, out of the world production of nearly 80 million tonnes of sugar, 30 million came from the beet producers and the other 50 million from cane. The same distribution is really applicable to the shares of developed and developing countries. In 1975 the developing countries produced 40 million tonnes,the western industrial countries 22 million tonnes and the eastern countries 17 million tonnes. The EEC,with a production of 9 million tonnes, ranks among the world's biggest producers,with the USSR (8.3 million tonnes) and Cuba (5.2 million tonnes).

The bulk of the world's exports comes from the developing countries accounting for 16 million tonnes out of a 1974 total of 23 million tonnes. Some of them (the sugar producers among the ACP) have a sales guarantee from the Community and Cuba has one from the USSR. Up to the end of 1974, too, the United States had a supply contract with a number of producers, but this agreement was not renewed. The main part of the international trade in sugar, therefore, passes through the open market; and in 1974, with stocks abnormally low, the fear of a shortage led to soaring prices. The quotations rose six-fold during the year, a very exceptional occurrence which was maintained by speculation. The sugar producers of the Third World were among the biggest beneficiaries in the whole boom in raw material prices in 1973-74. Their position in the world market is, nevertheless, rather precarious, for the developed countries, including the EEC, are in a position to raise their output substantially.

3. COFFEE : HOW TO SELL AT A HIGHER PRICE

Coffee is a typical example of a Third World monopoly. All the producers are developing countries, led by Brazil and Colombia. The latin-american producers are responsible for nearly half the world production (2.12 million tonnes in 1975 out of a world total of 4.78 million tonnes). Next in order comes the african continent with a total of 1.27 million tonnes.

Coffee exports go primarily to the industrial countries of the West, with 2.9 million tonnes in 1974 out of a world total of 3.2 million tonnes. The chief importers are the EEC (1.15 million tonnes and the United States (1.07 million tonnes). Producers' efforts to coordinate the marketing of coffee to their own best advantage have had only a limited success. Producers do not seem able to enforce their price.

4. COPPER : A TEST FOR NORTH-SOUTH COOPERATION

The world market for copper fluctuates wildly. With an extra push from speculation, the price went very high in the 1973-74 boom. Though copper can be replaced in some of its uses by other non-ferrous metals, it nevertheless ranks undeniably as a strategic supply. In September 1975 Mr. Kissinger expressly mentions the case of copper in his speech to UNO. World exports come in almost equal shares from developed and developing countries; and it is important that there should be close cooperation between them. This is also the desire of Zaïre, Zambia, Chile and Peru, which set up the inter-governmental copper producers' Council in 1967. They are not themselves in a position to get control of the world market, and hope they will be able to cooperate with the developed countries. This co-operation might well lead to market stabilisation, though the developed countries are hesitant about the costs potentially involved in setting up a buffer stock. All four of the CIPEC countries have nationalised most of their mines and processing plant and the wider cooperation might also extend into the investment field.

Production and consumption : The world output of refined copper in 1973 was 8.5 million tonnes. The chief producers included the United States (2.1 million tonnes, or 24.3% of the world total. Next came USSR (1.3m), the EEC (1.0m),Japan (0.95m),while Canada,Chile and Zambia produced rather less than half a million tonnes each. The CIPEC countries (Chile,Peru,Zaïre and Zambia) accounted for only 15.1% of the world output of refined,though this represented 28.6% of the world production of ore,and 25.4% of the output of raw copper. The world consumption of refined copper is dominated by the EEC,the United States,USSR and Japan. These four countries together account for more than three quarters of world consumption in 1973,whereas the CIPEC countries consumed only half of 1%. The EEC consumes much more than it produces,with a supply deficit of about a million tonnes. The Nine EEC countries have practically no copper ore,which is found mainly in the United States (1.6 million tonnes extracted in 1973,USSR (1.1m),Canada (0.815m),Chile 0.735m),Zambia (0.707m),Zaïre (0.490m),Peru and the Philippines about 220,000 tonnes each and Papua-New Guinea slightly less. The EEC depends on importing copper ores and raw copper,and on its substantial recoveries from scrap to produce refined copper,of which its 1973 output was 900 000 tonnes.

Trade : Developing countries account for 55% of world exports,against about 40% for western industrial countries and 5% for the eastern countries. Nearly 90% of the imports are into industrial countries. The world's chief copper exporters are Zambia (average of $760 million in 1970-72),Chile (700m),Canada (550m),Zaïre ($450m),Belgium (400m),the United States ($260m),Peru ($260m), the Philippines ($190m) and USSR ($180m). The chief importers are Japan ($860m),Germany ($720m),Great Britain ($520m),France ($410m),Belgium ($410m), the United States ($390m) and Italy ($360m).

In 1973 the EEC spent $235 million for its supply of copper ores,which came primarily from the developed countries (Australia,Canada and South Africa). To this must be added no less than $3 500 million for the imports of copper in metallic form. The chief suppliers included Zaïre ($630m), Zambia ($497m) and Chile ($408m). Belgium,which has a big copper refining and processing industry exported $423 million to its EEC partners.

Prices : Copper prices did not escape the 1973-74 boom. In the London Metal Exchange the quotation for electrolytic bars rose from £412.4 in June 1972 to a peak of £1 267.7 per tonne in April 1974. Since then prices have been falling back,but they have not passed the 1972 low.

5. TEXTILES : WHEN THE POORER COUNTRIES ARE COMPETITORS

The world markets for cotton and wool,which are the two principal natural textile fibres,provide us with indications of the problems which may arise in the cooperation between developing and developed countries. This is for three reasons. In the first instance the two fibres compete with one another,at any rate over part of the ground; and whereas cotton is largely a Third World product,the wool market is dominated by the developed countries. Secondly,both the cotton and the wool markets are under the threat of synthetic products. And finally,the developing countries have successfully taken to themselves the local processing of a great deal of their own cotton.

cotton. The four big cotton producers are USSR (2.8 million tonnes in 1974), the United States (2.5m), China (2.1m) and India (1.2m). These four countries produce nearly two thirds of the total world crop of 13.6 million tonnes, of which 42.3% is grown in developing countries, 20.8% in western industrial countries and 36.8% in eastern countries. Production therefore is not dominated by any of the three groups, but the developing countries account for only a little less than two-thirds of world exports. For many developing countries, indeed, the exports of raw cotton are an important source of income. For Sudan they represent about 60% of the export receipts, for Egypt 45% and Syria 40%, while the corresponding figure is also high for Turkey and Nicaragua (24% each) Uganda (20%), Angola (15%), Tanzania (14%), Salvador, Pakistan and Guatemala 10% each. Projects for reforming the world trade in cotton are largely concerned with better international planting programmes and the setting up of an international stockpile.

wool is produced mainly in developed countries. In 1974, with a total world output of 2.6 million tonnes, Australia contributed 770 000 tonnes, USSR 460 000 tonnes, New Zealand 300 000 tonnes, South Africa 110 000 tonnes, the United States 70 000 tonnes. Among the developing countries, the only important contributions were 180 000 tonnes from Argentina and 63 000 tonnes from Uruguay. This predominance of the developed countries is repeated in the world trade figures. The western industrial countries contributed nearly 90% of world exports, Uruguay being the only developing country to earn a material portion (20%) of its export receipts from wool. As for cotton, the world market stabilisation projects call for better production-planning and the building-up of stocks.

Both for wool and for cotton the steps envisaged for bringing world markets under control run up against a great number of difficulties. To begin with, the competition between the two fibres means that neither must be appreciably better treated than the other. In practice, however, the chief competition is not between the two fibres, but between them and the chemical fibres. This puts a very special responsibility on the shoulders of the industrial countries (both western and eastern) in the administration of any agreement which may be made about cotton and wool, because they are overwhelmingly the biggest producers, both of synthetic (petrochemical) fibres and artificial (cellulosic) fibres. Competition has been running consistently in favour of the chemical fibres, especially since the sixties. As recently as the 1964-66 period, the world consumption of natural fibres (cotton, wool, linen and silk) was running at an average of 70% of the total, but in 1974 it was only 58%. European textile experts are convinced that this trend still has some years to run. Some of the developing countries, indeed, are hitting back by making their own chemical fibres; but so far only half a dozen countries have taken this step (Mexico, Brazil, India, South Korea, Taiwan and Hong Kong). For natural fibre producers, therefore, there is a risk that the position may grow worse, even if the rise in oil prices should momentarily chill the enthusiasm of the chemical fibre producers.

Last of all, there may be yet one more bone of contention between the developed countries and the developing ones. The poorer countries, at any rate some of them, have successfully set up textile industries of their own, and these are well able to withstand the competition of the developed countries.

The latter have sought to protect themselves,and to this end have set up all manner of obstacles against exported cotton goods from the developing countries. Customs duties charged by the wealthier countries on imported yarns and fabrics are among the highest in their tariffs; and these imports, too, are in many cases kept out by the quota system. Moreover, the curious systems of generalised preferences are extremely restrictive when it comes to textiles. There can be no doubt whatever about the restrictive effect these obstacles are having on the industrialisation of the Third World which,nevertheless, accounts for an estimated proportion of nearly 20% in the world trade in textiles and clothing. A country such as India,for example,though it is a big cotton producer,still has to import cotton to feed its spinners and manufacturers. The trade in cotton and,to a somewhat lesser extent in wool,is not only a raw material problem. It brings us face to face with the question of industrialisation in the Third World and the ability of developing countries to process their own raw materials. The GATT multi-fibres agreement,which dates from the end of 1973, represents a first attempt to facilitate continued growth in the exports of processed products from the developing countries. They themselves,nevertheless, do not seem to think this is enough.

6. RUBBER : A WAR OF TWO WORLDS

The world market for rubber is a battlefield between the producers of natural rubber and the producers of synthetic. It is a war between two worlds and the price is the chief weapon.

natural rubber producers : natural rubber is almost entirely a Third World product. It is the main ingredient in the incomes of big rural populations, and the source of important export receipts for countries such as Malaysia (28% of total exports) Sri Lanka and Indonesia (18%),Liberia (18%),Thailand (11%). Production is dominated by South East Asia,where Malaysia contributed 1.5 million tonnes to a 1974 world total of 3.5 million tonnes. Indonesian production was 935 000 tonnes, Thailand 380 000 tonnes, Sri Lanka 135 000 tonnes and India 130 000 tonnes. Apart from India these countries have a predominant place in world exports, the 1974 figure showing Malaysia contributing 1.5 million tonnes to a total world export of 3.2 million tonnes. Indonesia exported 890 000 tonnes,Thailand 365 000 tonnes and Sri Lanka 135 000 tonnes. In these countries rubber-growing is almost entirely an export industry. Local processing of the raw material scarcely exists and the exports go mainly to western industrial countries. In 1973 the EEC imported natural rubber to a value of $660 million,Japan $810 million and the United States $380 million.

Synthetic rubber producers : apart from some very small exceptions, the producers of synthetic rubber are all in the industrial countries of the West and East (20.1% of world production). The output comes from mighty petrochemical firms,which are owners of the raw material needed,or from equally mighty firms which make rubber tyres and thus consume between them nearly three quarters of the rubber produced in the world,whether it be natural or synthetic.It is much easier for such firms to adjust their production to conform to their requirements. The biggest producers in the world are the United States,which made 2.5 million tonnes of synthetic rubber in 1974,out of a world total of 7.2 million tonnes. Next in order comes the EEC (1.7 million tonnes) and Japan (860 000 tonnes). The trade in synthetic rubber is mainly a trade between the western industrial countries.

Up to now synthetic rubber has been continually increasing its share of the world market,snatching more and more ground from the natural product. It is estimated that 70% of the world consumption today consists of synthetic rubber; but this trend may be seriously checked by the oil crisis and the resulting higher cost of the raw material. The fact remains, that with this background the producers of natural rubber cannot reasonably hope to stabilise their market. In 1971 they set up their association of natural rubber producing countries; and they are doing what they can to bring a little more stability into a market to which they look for their indispensable receipts. They are hoping this will enable them to plan their investments better (at any rate in the big plantations) and ultimately to set up a buffer stock. Any international solution,however, if it seeks to steady the rubber market,will have to be founded on co-operation between the producers of natural and the producers of synthetic rubber.