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International Commodity Agreements

A Report of the U.S. International Trade Commission

to the

Subcommittee on International Trade

of the

COMMITTEE ON FINANCE
UNITED STATES SENATE

RUSSELL B. LONG, *Chairman*

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C O N T E N T S

INTRODUCTION

On June 17, 1975, the Subcommittee on International Trade of the Senate Committee on Finance asked the United States International Trade Commission to undertake a study of the experience of the United States with international commodity agreements to assist the subcommittee in its oversight function and with a view to the possibility of future legislation.

Following receipt of the subcommittee's request, the United States International Trade Commission instituted an investigation on June 24, 1975. Public notice of the institution of the investigation was issued on June 26, 1975. Notice of a public hearing in Washington, D.C., was issued on July 29, 1975. 1/ The hearing, at which all interested parties were afforded an opportunity to be present, to produce evidence, and to be heard, was held on August 11, 1975.

The Commission obtained information during this investigation at the public hearing; from written briefs submitted by interested parties; from interviews by members of the Commission's staff with associations, importers, and consumers; and from Federal agencies.

The report itself is in the form of a summary of conceptual problems in negotiating and operating international commodity agreements, a summary of actual experience with agreements on five commodities

1/ Notices of the investigation and public hearing were posted at the Commission's offices in Washington, D.C., and New York City, and were published in the Federal Register (40 F.R. 27737, July 1, 1975, and 40 F.R. 31995, July 30, 1975, respectively).

(tin, coffee, cocoa, wheat, and sugar), and a statement on the legal basis for U.S. participation in such agreements. There are five appendixes to the report. Appendix A is a comprehensive background report dealing with the subject matter in this summary report; appendix B reproduces that part of the International Trade Organization Charter (Havana Charter) dealing with international commodity agreements; appendix C is a bibliography; and appendix D provides a list of persons and organizations presenting testimony or briefs along with a summary statement of their positions. Appendixes A through D are bound in one volume, and appendix E, which reproduces original copies of the five commodity agreements, is separately bound.*

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*Appendix E is not reproduced in this document.

INTERNATIONAL COMMODITY AGREEMENTS

International commodity agreements take various forms, but in general they are agreements between governments of both producing and consuming countries that attempt to raise and stabilize the prices of commodities.

In the pursuit of these objectives, such arrangements impose restrictions on the free movement of commodities in international trade. They often result in economic waste and the misallocation of scarce productive resources, and historical experience has demonstrated their frequent failure to achieve their objectives. Many of the problems that gave rise to agreements in the past remain; however, new agreements are being discussed in the hope that increased cooperation between producer and consumer countries will result in ultimate success. Although producer and consumer interests can and often do diverge, "success," broadly defined, implies the stabilization of prices, the maximization of producers' earnings, and the delivery of steady, adequate supplies to consumers.

International commodity agreements aim to control supplies and prices and usually attempt to support price levels above those that would prevail in the absence of an agreement. These objectives result from general dissatisfaction with the relatively severe instability of commodity prices (demonstrated dramatically in the 1970's) and from a specific attempt by developing countries to force or negotiate a transfer of income from consuming countries to developing producer countries.

International commodity agreements employ the economic mechanisms of stocks, long-term multilateral contracts, and quotas. Stocks and multilateral contracts are designed principally to achieve price stability. Quotas are used mainly as a device for holding up price levels. Supply shortages and strong upward pressures on price have generally exceeded the capacity of all three types of control mechanisms to maintain prices within negotiated ranges and ultimately have resulted in either the abandonment of particular mechanisms or the breakdown of the agreements.

Buffer stock arrangements attempt to stabilize the price of a commodity between maximum and minimum levels. Price is artificially controlled as the managers of the buffer stocks buy up the commodity when the price falls and sell when the price rises. This approach has the disadvantage of requiring considerable capital to acquire and maintain the stock. If sufficient commodity stocks and financing to support them are not available, a buffer stock will exhaust itself without successfully controlling the price of the commodity. Historically, buffer stocks have failed to maintain price ceilings, but they have had somewhat more success in preserving floor prices.

Quotas, if sufficiently flexible, can be directed toward maintaining price stability. Export quotas are most commonly used; quotas on national stocks have also been employed. Any system of quotas promotes resource misallocation, because quota shares often reward inefficient producers and penalize efficient ones. Sufficiently flexible quotas would tend to reduce this problem, but efficient reallocation of quotas among producers has proved extremely difficult. The quota approach creates great pressure on producers to circumvent their quotas, and it invites producers outside an agreement to expand production. Therefore, consuming countries are often called upon to police the quotas. Export quotas have been used to protect buffer stock arrangements. If the price falls to the lower limit, quotas are imposed to prevent large purchases for the buffer stock. This relieves problems of financing large stocks, but it also means that the buffer stock seldom acquires supplies adequate to defend price ceilings at some later time.

A system of multilateral contracts is based on a negotiated price range. Consumer countries agree to purchase particular quantities at no less than the minimum price, while producer countries guarantee to supply stipulated quantities at no more than the maximum price. The market mechanism then functions between these price levels. The wider the price range, the closer the system approaches a free market, while the more restricted the range, the closer the system approaches export and import quotas with guaranteed prices.

A principal flaw in the multilateral contract, aside from problems of enforcement, arises from the difficulty of anticipating the correct price range. If the range is lower or higher than "normal," a transfer of income from one party to the other will result. Either consumers pay too much or producers receive too little. This difficulty in forecasting the required conditions is a problem for the other schemes as well. If the price range for a buffer stock is too high, the stock will be quickly depleted. Under a quota system, if the target quantity of the commodity that will be demanded at the target price is too low, the price will be forced above the target level.

The largely technical problem of forecasting the normal or equilibrium prices or quantities is compounded by an inherent conflict between producers and consumers, who must agree on negotiated prices or quantities that anticipate future market developments. In negotiation to achieve price stability alone, the compromise may approach the normal price to the extent that it can be accurately forecast. However, in negotiation to determine a price that will ultimately result in transfers of income from consumers to producers, the compromise solution is very difficult to achieve and has several important political and economic consequences.

Heretofore, such transfers have been thought of in terms of aid to developing countries as producers. Critics question whether aid from consuming countries to producing countries should be carried out by international commodity agreements, which are, in effect, financed by individual consumers of the commodity and not by the body politic. Questions also arise concerning the long-term success of maintaining the agreement price above the equilibrium price, whether for aid or other purposes. If the higher price is received by producers, they will respond by expanding production, which results in the building of stocks. These stocks exert downward pressure on the price and are a consequent threat to the agreement itself. They must be dealt with, sometimes through their destruction--a wasteful solution. If the government of the producer country, through its export policy, captures as a tax the aid transfer represented by the difference between the agreement price and the equilibrium price, this revenue can be used for reallocations of production in the export sector or for general development. This raises for the producer country a question similar to that posed above for consumer countries--i.e., whether a specific sector of an economy should finance overall economic development. A further question is whether an international commodity agreement can effect this transfer to the desired recipient.

A final question in the context of an agreement price in excess of the equilibrium price relates to the concern of consumer countries to maintain access to supplies. If adequate supplies are to be forthcoming, there must be sufficient stocks on hand and adequate productive capacity in times of even acute shortage. An agreement, such as a supply access agreement designed to guarantee equitable access to supplies, if it chooses the price mechanism to provide this reserve, would require an agreement price in excess of the equilibrium price to encourage the necessary investment and to finance the costs of adequate stocks. If there are to be adequate supplies, there would also necessarily be provisions in the agreement to insure that the agreement price would be passed to the individual producers without diversion to finance development of other sectors, so that capacity could expand.

In summary, the purpose of international commodity agreements is to solve problems of commodity trade that can themselves cause waste and inefficiency; but such agreements are extremely difficult to negotiate and operate, and their restrictive provisions for stocks, quotas, and contracts cause various degrees of additional waste and inefficiency. The difficulties, generalized above, have been demonstrated in past agreements. The effects of these agreements on producers and consumers and the success or failure of the agreements are discussed below for five commodities--tin, coffee, cocoa, wheat, and sugar.

Tin

World tin production has been under some form of international control for most of the last 50 years. Successive agreements made up solely of producing nations began in 1921. The First International Tin Agreement, including both consumers and producers, came into effect in July 1956 for a period of 5 years. There have been three subsequent agreements, also of 5 years' duration. The current agreement, the Fourth International Tin Agreement, is in effect through June 1976.

The principal objectives of the agreements have been "to provide for adjustments between world production and consumption of tin and to alleviate serious difficulties arising from surplus or shortage of tin" and "to prevent excessive fluctuations in the price of tin and in export earnings from tin." The primary methods of obtaining these objectives are buffer stock operations and export controls.

Most major producing and consuming countries have been parties to the agreements. The People's Republic of China, the fourth largest exporter, is the only important producing country not a party to the agreement. The United States, the major consumer, has not joined primarily because of opposition by domestic tin consumers, particularly the tin-plating industry. In early September 1975 it was announced by the U.S. representative on the floor of the United Nations that the United States intends to sign the agreement subject to congressional consultations and verification. The Fifth International Tin Agreement was drafted in mid-1975 and is scheduled to become effective on July 1, 1976.

The chief tool of the agreement in defending both the floor and ceiling prices has been buffer stock operations. Such operations have not only contributed to price stability but also resulted in profits in the normal function of buffer stocks of being purchased when prices are low and sold when prices are high. Export controls have had to be imposed on only four occasions and have been operative for less than 5 of the 19 years of the agreements.

The agreements appear to have been extremely successful in maintaining the established floor prices. Since 1956 the price has fallen below the floor level only during a short period in September 1958.

The price decline then was primarily the result of sales by the U.S.S.R., which at that time was not a member of the agreement.

The agreements have been less successful in maintaining ceiling prices. Ceiling prices were exceeded during parts or all of the years 1961, 1963-66, 1973, and 1974. Ceiling prices would have been exceeded for longer periods if increases in the ceiling prices had not been made. Control of ceiling prices is more difficult than that of floor prices. For the latter, buffer stocks may be purchased and export quotas tightened. The agreement, however, has no mechanism to control ceiling prices after all buffer stocks are sold and export quotas suspended, as occurred in the 1970's when stocks were exhausted and the price exceeded the ceiling. To improve the effectiveness of buffer stocks in protecting the ceiling price, the draft of the fifth agreement authorizes a doubling of the buffer stock.

The new agreement specifies that during periods of tin shortages the International Tin Council can recommend that producers give preference to consuming countries which are members of the agreement, unless such action would be inconsistent with other international agreements on trade. Such a provision has not been a part of previous agreements. This was apparently aimed at the United States, which, as indicated previously, is not a member of the agreement but which is the world's largest tin consumer. It was further stipulated that voluntary contributions of up to 20,000 metric tons could be made by the consuming members and that, if the producing countries were not satisfied with the level of such contributions, the agreement could be renegotiated in 2-1/2 years.

Despite the difficulties in defending the ceiling price, the agreements have probably contributed to relative stability in tin prices--a goal sought by both producers and consumers. It is reasonable to assume, however, that in the absence of the agreements average prices would have been lower and that from a strict monetary standpoint producers have benefited more as a result of the agreement than consumers.

Contributing substantially to the stability of tin prices and the viability of the tin agreement have been sales from the large U.S. strategic stockpile acquired in the early 1950's. Sales have been made primarily when prices were high. The United States has agreed in principle not to sell except under tight supply conditions.

Coffee

The 1962 and 1968 International Coffee Agreements have been multilateral treaty arrangements between the major coffee-importing and coffee-exporting countries, including the United States. The agreements, administered by the International Coffee Council, have had the primary objective of achieving a reasonable balance between supply and demand at equitable prices. The objective was to be attained principally through a system of variable export quotas which were automatically adjusted to keep prices within specified price ranges. There were no provisions for buffer stocks.

The United States emphasized two major objectives in its membership in the 1962 and 1968 International Coffee Agreements--(1) guarding the interests of the U.S. consumer through ample coffee supplies at reasonable prices and (2) promoting the economic development of coffee-producing countries.

It is difficult to specify what the price of coffee would have been to the U.S. consumer without the influence of the agreements. However, it can reasonably be assumed that retail coffee prices would have been lower during 1963-72 in the absence of the agreements. A 1969 report by the Comptroller General of the United States projected that a transfer of income from the United States to producing countries because of higher coffee prices as a result of the agreement during 1964-67 averaged $314 million a year. Under the 1962 agreement, no explicit attention was given to the use to which coffee-producing countries put their coffee revenues, and therefore there was no assurance that the higher revenues obtained as a result of the agreement would be used for economic development. The 1968 agreement did establish a diversification fund to enable producing countries to shift coffee resources to other economic activities.

The agreements were basically designed to deal with the large coffee surpluses and the declining coffee prices of the late 1950's and early 1960's. The agreements achieved a degree of success in stabilizing the wild price fluctuations associated with the coffee "boom or bust" cycle, and, in general, prices held within the price ranges specified in the agreement. This degree of success was in effect financed by coffee-consuming countries, chief among which is the United States, accounting for more than a third of world coffee imports.

Frosts in Brazil in 1969 and 1971 materially reduced supplies, and coffee prices began to rise. In contrast to its success in defending the floor price, the agreement was not successful in dealing with price increases and consequently fell apart after producer and consumer disagreement over quota and price adjustments following the devaluation of the U.S. dollar in 1971. Another frost in 1975 resulted in severe damage to the Brazilian coffee crop, causing coffee prices to rise sharply.

The current agreement, effective through September 30, 1976, does not include economic provisions, serving merely as a forum for the collection and dissemination of coffee statistics and as a basis for the renegotiation of a new agreement. A drafting group has prepared some proposals for a new agreement which would include more flexible export quota provisions and automatic suspension of quotas when prices are high. The matter of provision for buffer stocks is still under consideration. The United States is participating in the preparatory drafting, and the next negotiating session is scheduled for November 3-21, 1975.

Cocoa

A cocoa conference, convened by the United Nations Conference on

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Trade and Development, resulted in October 1972 in establishment of the International Cocoa Agreement. After ratification by most producing countries and by countries accounting for about 70 percent of consumption, the agreement became effective for the period of 3 crop years beginning October 1, 1973. The principal objective of the agreement is to prevent excessive fluctuations in the price of cocoa. The techniques provided to obtain this objective are export quotas and buffer stocks, which are to be manipulated to keep prices within a target range.

Because of unanticipated increased world demand and slightly reduced crops in 1972 and 1973, prices have been above the ceiling throughout the effective period of the agreement. Because no buffer stocks have been available to sell to depress prices, the agreement has been helpless to date in bringing prices down to the target price range. The failure to keep prices within the objective is basically due to an inability to anticipate these market developments. More than $55 million in funds for eventual purchase of buffer stocks has been accumulated through an export levy, but the agreement may expire before prices fall to the level that would trigger the purchase of buffer stocks under the agreement.

The United States participated in the negotiations for the Cocoa Agreement of 1972, but did not sign it because of reservations that the objective price range was too high and that the export quota and buffer stock operations specified in the agreement would not be likely to achieve the specified price objective. The United States has continued to cooperate with the International Cocoa Organization by supplying statistics and participating in current negotiations to draw up a new agreement. The stated U.S. position in the current negotiations is that "the provisions of any cocoa agreement must be technically feasible, flexible, and nondisruptive to fundamental market forces and established trade practices. They should be designed to deal with present and future market developments, not the past. They should be flexible enough to adapt to changing production and consumption trends, and to encourage, rather than hinder, the expansion of cocoa production and consumption."

Wheat

International discussions on the possibility of bringing a greater degree of stability to world wheat prices began in 1930. However, the first international commodity agreement covering wheat did not come into effect until 1949. This and subsequent agreements in 1953, 1956, 1959, 1962, and 1967 have been "multilateral purchases and sales" agreements. The currently effective International Wheat Agreement, 1971, has no economic provisions and is essentially a statistics-gathering operation.

All of the agreements from 1949 through the 1967 agreement provided for some or all commercial transactions between members to take place between specified maximum and minimum prices. The United States and Canada, together often accounting for two-thirds of world wheat exports, have been members of all of the agreements, as have most of the major importing countries and other major exporting countries, although some major importing and exporting countries have not joined particular agreements.

The 1949 agreement was negotiated at a time of high prices and shortages and had coverage of 60 percent of world trade. Surpluses developed in the 1950's, but owing to effective export control by the major exporting countries, the price remained within the price ranges specified in the agreements. This price maintenance resulted in the refusal of major importers to participate in the agreements of 1953 and 1956, and coverage of trade fell to 25 percent by 1956. In 1959 the ceiling price was reduced and important importers rejoined.

The apparent success of the earlier agreements is attributed more to the pricing, inventory, and export policies of the major exporters, the United States and Canada, which accumulated large stocks and, in effect, administered export sales through the Commodity Credit Corporation and the Canadian Wheat Board.

The failure of the 1967 agreement, during which prices remained below the minimum, was due primarily to the accumulation of burdensome stocks which the national governments would no longer carry. The agreement was powerless to require importing countries to pay minimum prices or to prevent exporting countries from selling below minimum prices.

The United States, as the major exporter, also subsidized commercial exports at levels below the agreement's minimum prices as world market prices declined. The failure of the 1967 agreement casts doubt on the effectiveness of purchase and sales contracts as a mechanism to maintain prices within specified limits. Member governments have generally not been willing to buy and sell within agreed price ranges unless the natural and usually unpredictable market forces of supply and demand happen to result in equilibrium prices within that range.

The 1967 and 1971 agreements also provided for a Food Aid Convention (FAC) wherein member ccuntries agreed to contribute as food aid to developing countries a specified quantity of wheat, coarse grains or products derived therefrom, suitable for human consumption, or the case equivalent thereof. The amounts specified are significantly less than the total food aid shipments made by participating countries, and undoubtedly most of the shipments would have been made in the absence of the FAC.

Discussions on a new wheat agreement are still in a preliminary form with most substantive matters still undecided. Because of exceptional market forces, prices for wheat have been more volatile in recent years than at any time during which pricing provisions of an international wheat agreement have been in effect. The current skeleton agreement of 1971, as extended, contains a provision calling for the International Wheat Council to request a negotiating conference to be convened when it is judged that the question of prices and related rights and obligations are capable of successful negotiation. Such a conference has not been convened.

Sugar

International sugar agreements were negotiated in 1937, 1953, 1958, and 1968. The agreements have not included that large part of international sugar trade covered by preference arrangements such as the U.S. Sugar Act, the Commonwealth Sugar Agreement, and U.S.S.R. trade with Communist countries. In view of the large portion of world sugar products and trade benefiting from protection or preferential arrangements, the residual free market covered by the agreements has generally amounted to only about 10 percent of world production. This free market tended to be a residual market for surplus sugar which could not find an outlet in preferential markets and was put up for distress sale for whatever price could be obtained. Because sugar production continued on the basis of the blend price resulting from sales in both preferential and free markets, free market sugar prices often remained below costs of production.

All of the sugar agreements attempted to raise the general level of and to stabilize free market prices for sugar. While the agreements were prompted primarily by exporting countries, importing countries, most of which also produced sugar, had an interest in elevating free market prices so as to simplify maintenance of prices on their protected domestic production and their preferential sugar imports.

The 1953, 1958, and 1968 agreements all had objective price ranges which were to be achieved through automatic changes in export quotas as prices fluctuated. There were no provisions for buffer stocks, but members made commitments on maximum and minimum national stocks. The 1968 agreement had a provision of particular significance to consuming countries. It required member exporters, in times of high prices, to offer sugar at ceiling prices to member importers.

The United States was a member of the 1937, 1953, and 1958 agreements. However, U.S. imports were excluded from the terms, and therefore U.S. membership was primarily a gesture of cooperation. The United States did not join the 1968 agreement, holding that the terms were too favorable to Cuba and the U.S.S.R.

The U.S. Sugar Act effectively isolated the U.S. sugar market from the free market until its expiration on December 31, 1974. Prices available in the U.S. market were generally well above free market prices. Thus, foreign suppliers had a strong incentive to always fill their quotas in the U.S. market. For purposes of U.S. access to supply, the U.S. Sugar Act was a most effective arrangement, although it was effective at the cost of higher priced sugar.

During part of the time when the international sugar agreements were in effect, free market prices were within the objective price range of the agreements. However, it appears that when this occurred it was as much a result of normal market forces as of effective supply management under the agreement. For long periods during the agreements, free market prices remained below the minimum of the objective range, but in 3 years--1954, 1972, and 1973--prices were well above the maximum.

The agreements were generally unsuccessful in achieving their price objective for several reasons. Export-quota changes often failed to affect the market as anticipated--a recurrent problem of failure to anticipate future developments correctly. Actions of nonmembers diluted the effectiveness of controls on members, and members did not always abide by commitments. Price-stabilizing measures in preferential markets such as the U.S. quota system had a destabilizing effect upon the free market by either shunting supplies to the free market or attracting supplies from the free market.

The economic provisions of the 1968 agreement expired at the end of 1973, but the International Sugar Organization is still functioning as a statistics-gathering agency. Failure to renew or extend the economic provisions of the 1968 agreement in 1974 was largely due to the failure of importers and exporters to agree on prices for quota operations.

In the near future the achievement of any agreement on prices between importing and exporting countries is doubtful in view of the extreme sugar price instability in 1974 and 1975. The International Sugar Council has scheduled a decision, to be made in November 1975, as to whether to attempt to renegotiate the agreement or to extend the current statistical functions.

Presidential authority to enter into international commodity agreements

Presidential authority to enter into international commodity agreements comes in three forms--executive agreements, treaties requiring ratification by a two-thirds majority of the Senate, and specific legislation delegating authority. The international commodity agreements discussed in this report have all been effected by treaty.

The most substantial U.S. legislation affecting international trade recently enacted is the Trade Act of 1974. However, nowhere in the act do the words "international commodity agreement" appear.

Section 102 addresses itself to nontariff barriers and "other distortions of trade." The President is urged by subsection (a) "to take all appropriate and feasible steps within his power . . . to harmonize, reduce, or eliminate such barriers to (and other distortions of) international trade." In subsection (b), the President is given the authority to enter into trade agreements to accomplish that objective.

When international commodity agreements possess features such as buffer stocks, export controls, and price floors, they must inevitably distort trade within the meaning of the act. 1/ The President is

1/ "Nontariff barriers to, and distortion of, trade cover a variety of devices which distort trade, including quotas, variable levies, border taxes, discriminatory procurement and internal taxation practices, rules of origin requirements, subsidies and other direct and indirect means that nations use to discourage imports or artificially stimulate or restrict exports." Trade Reform Act of 1974: Report of the Committee on Finance, United States Senate, Together With Additional Views on H.R. 10710 . . ., 1974, p. 74.

authorized to harmonize, reduce, or eliminate such distortions of trade. In the General Statement of the report on the Trade Act by the Senate Finance Committee (cited in footnote 1 on p. 21), the problems arising from the Organization of Petroleum Exporting Countries (OPEC) and other producer cartels are mentioned. The report finds that in light of this trend "it is imperative that the fundamental inequities in the world trading system be corrected in a spirit of international cooperation." This statement suggests that since producer cartels are likely to continue, they should be brought within a broader international arrangement which includes consumers. Such action is within the President's section 102 authority to "harmonize" distortions.

One means of obtaining such harmonization is through supply access agreements. Section 108 states that a principal objective in section 102 negotiations is to assure "fair and equitable access at reasonable prices to supplies of articles of commerce which are important to the economic requirements of the United States. . . ." This objective is extended beyond concern for articles important to the United States in section 121(a)(7) of the act, as well as in the Senate Finance Committee's report:

> . . . the Committee wishes to emphasize that the problem of supply access goes well beyond articles "important" to the United States. Bananas may not be considered of dire importance to the U.S. economy; oranges may provide an acceptable substitute. However, the Committee believes that banana

> cartels are not to be encouraged and that efforts should be made to bring the members of such or other cartels into supply access agreements. 1/

Although the act does not specify what is to be encompassed within supply access agreements, section 108 sets out the purpose of such arrangements as the assurance of sufficient supplies at fair prices. Such agreements should attempt to be as free of trade distortions as possible or should harmonize distortions in the spirit of international cooperation. One way that this objective may be attained is by international commodity agreements, wherein producing countries assure consuming countries of supply access in exchange for assured prices. However, in the Trade Act of 1974 it is not clear whether international commodity agreements are being endorsed or condemned.

1/ Trade Reform Act of 1974: Report of the Committee on Finance, op. cit., pp. 81-82.

Appendixes to the Report to the Subcommittee on International Trade
of the Committee on Finance of the U.S. Senate
on Investigation 332-75
Under Section 332 of the Tariff Act of 1930

Appendixes A - D

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INTRODUCTION

This volume consists of appendixes to the United States International Trade Commission's summary report on international commodity agreements (Investigation No. 332-75), which is in a separate volume. Appendix A is a comprehensive background report dealing with the subject matter in the summary report. The reasons for international commodity agreements (ICA's) are examined in part I of appendix A along with consideration of their mechanisms and the theoretical aspects of the regimentation involved in ICA's versus the free market. The constitutional and legislative authorities and limitations on Presidential negotiation of ICA's are detailed in part II. Part III examines the special concerns of consuming and producing countries and the practical problems in operating an ICA. In part IV there is an examination in some detail of the U.S. experience with some major ICA's--those on tin, coffee, cocoa, wheat, and sugar. Prospective agreements and related arrangements emanating from international organizations such as the Food and Agriculture Organization of the United Nations and the United Nations Conference on Trade and Development are detailed in part V, as are other existing or prospective supply control arrangements of particular interest to the United States.

Appendix B is a reproduction of the Havana Charter--Chapter VI, Inter-Governmental Commodity Agreements. Appendix C lists the references used in the report. Appendix D is a listing of persons and organizations presenting testimony or briefs along with a summary statement of their position.

Appendix E, which consists of the texts of the current international commodity agreements on tin, coffee, cocoa, wheat, and sugar, is separately bound.

APPENDIX A

BACKGROUND REPORT ON INTERNATIONAL COMMODITY AGREEMENTS

I. INTERNATIONAL COMMODITY AGREEMENTS--CONCEPTS AND MECHANISMS

The objectives of international commodity agreements (hereinafter ICA's) and the mechanisms employed to achieve these goals have definite ramifications for the functioning of the current system of international markets. This section of the report introduces the concept of an ICA and the characteristics which distinguish it from other trade arrangements. The aspects of an ICA which are inconsistent with free trade and unrestricted world markets are also discussed.

Objectives and Mechanisms of ICA's

Trade arrangements take many forms, e.g., bilateral or multilateral trade agreements between countries, exporter groups, cartels, and ICA's. What distinguishes an ICA from these other arrangements is the presence of all of the following characteristics: (1) It is multilateral in membership; (2) membership includes both producer and consumer countries; (3) the subject thereof is one commodity or two or more related commodities internationally traded; (4) it has an objective such as the stabilization of prices of such commodity or commodities, the assurance of adequate supplies, and facilitating economic development; (5) it contains specific economic provisions (e.g., those for buffer stocks, export and import controls, or long-term contracts) to achieve the objective; and (6) it is administered by a central body or council representing the members. Although the other trade arrangements noted above have some of these characteristics, only ICA's encompass all of the provisions.

For example, a cartel such as OPEC is not an ICA because it lacks consumer country participation; similarly, a bilateral arrangement effected by an exchange of notes is not an ICA because it is not multilateral.

Internationally traded goods can be broken down into two broad classes--primary goods or commodities and manufactured goods. A primary commodity derives from a natural resource which undergoes only that processing necessary to introduce the resource into the marketplace. A manufactured good takes a primary commodity one or more steps further in processing, so that the natural resource is transformed and loses its initial identity.

ICA's have been proposed to achieve price stability for those primary commodities with histories of extreme price fluctuations. The relatively large movements in price and quantity of primary commodities are a result of the economic characteristics of these commodities, their market behavior in the business cycle, and (for agricultural commodities) the vagaries of weather. An upturn in demand and production in industrial countries is normally accompanied by accelerated raw materials imports, partly caused by acceleration in stockpiling of raw materials. Since supply of the raw materials cannot be expanded rapidly in the short run, their prices rise, often substantially. Similarly, industrial slowdowns lead to more than proportionate decreases in raw materials imports, partly caused by a running down of stocks, and the prices of raw materials fall more rapidly than the general level of prices. These accelerations and decelerations have a tendency to be particularly strong in easily storable raw materials.

ICA's are administered by a central body or council representing all members. Generally, exporting and importing members as separate groups are equally represented with the same number of votes. Within each group, votes are usually roughly proportional to volume of trade. The council may employ a staff to develop and maintain market information. The organization may attempt to influence price by direct price fixing, negotiation of long-term contracts, or control of supply or demand.

Supply control measures include export and import quotas or stock control through internationally held buffer stocks or national stocks. An agreement may have provisions for financing the purchase of buffer stocks by marketing levies or may provide for diversion of excess stocks to noncompetitive uses or outright destruction.

There may be measures to stimulate consumption through reduction of trade barriers or through product promotion. Conversely, the agreement may promote efficient production through discouragement of export and production subsidies and through awarding larger quotas to efficient producers. The agreement may provide special incentives to membership by providing preference in sales to consumer members when prices are high and restriction on purchases from nonmembers when prices are low.

ICA's Versus the Free Market

Conceptually, the economic regimentation imposed by ICA's is inconsistent with free trade and unfettered world markets. ICA's may involve planning and execution of supply controls as deemed necessary to achieve a planned price objective. Sellers may be restricted in producing and freely offering their product, and buyers may be restricted in purchasing at the lowest offer.

In the absence of knowledge of longrun equilibrium prices and freely competitive conditions, the arbitrary prices resulting from ICA actions may lead to distortions of real costs and to market inefficiencies. If the price of a commodity was set above its equilibrium price, substitution of other less satisfactory commodities would result. At prices above the equilibrium level, to the extent that the demand for the product is inelastic, consumers suffer a loss of real income, which amounts in effect to a transfer of income to producers. However, such income transfers from consumers to producers are minimized if the demand for the product is elastic.

Arbitrarily determined high prices and artificial division of the market may interfere with the efficient allocation of investment resources, both as to country and commodity, wastefully encouraging increased capacity in those countries and for those commodities whose prices are artificially high. High-cost producers would be effectively subsidized, while low-cost efficient producers would realize higher than normal profits.

This concern over the economic inefficiencies of ICA's as compared with competitive free markets is moderated to some extent by other factors. For example, there may be economic advantages to both consumers and producers if an ICA results in relatively more stable prices, even though the average price over time is higher than would obtain in a free market. In considering ICA membership, the choice for an efficient producing country may be in whether it wants to expand its share of the market by cutting prices or by accepting an allocated share of the market at more stable prices. The similar choice for a consuming country may be between facing a quasi-monopoly of exporters or joining them in an ICA in an attempt to insure access to supplies at reasonable prices.

II. AUTHORITY OF THE PRESIDENT TO NEGOTIATE INTERNATIONAL COMMODITY AGREEMENTS

The President's General Authority To Enter Into ICA's

General Presidential authority to enter into international commodity agreements comes in two forms--executive agreements, and treaties which must be ratified by a two-thirds majority of the Senate. The executive agreement, it is interesting to note, has never been used to formalize U.S. participation in an international commodity agreement. 1/

The President's treaty-making authority is spelled out in article II, section 2 of the Constitution, which states that the President "shall have Power, by and with the Advice and Consent of the Senate to make Treaties, provided two thirds of the Senators present concur." The authority to enter into executive agreements, on the other hand, is not specifically provided for in the Constitution. Nevertheless, such agreements are considered constitutional as a part of the President's inherent powers to represent and shape U.S. foreign affairs. The President is also said to have authority to enter into executive agreements when in his discretion they are necessary to carry out legislation.

Limitations on Presidential Authority Under International Law

Buffer stocks, quantitative limits on exports and imports, and quantitative allocations among suppliers are features common to

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1/ For purposes of this statement, an international commodity agreement is a trade arrangement possessing the six characteristics set out in the previous section.

international commodity agreements. These mechanisms, however, run afoul of the GATT, particularly articles I (General Most-Favored-Nation Treatment), XI (General Elimination of Quantitative Restrictions), and XIII (Nondiscriminatory Administration of Quantitative Restrictions). Nevertheless, article XX(h) provides that nothing in the agreement shall prevent the adoption of measures--

> undertaken in pursuance of obligations under any intergovernmental commodity agreement which conforms to criteria submitted to the Contracting Parties and not disapproved by them or which is itself so submitted and not so disapproved.

Although the GATT uses the term "commodity agreement," no criteria for such an arrangement are provided. The criteria are to be provided by the submitting contracting party. Under part IV of the GATT, contracting parties may act through international arrangements to improve access to world markets for primary products of particular interest to developing contracting parties.

In addition to the GATT, existing bilateral commercial agreements may indirectly impose limitations on international commodity agreements. The United States is a party to more than 700 bilateral international agreements involving commodities with approximately 77 countries. All of the relevant trade agreements in force treat with agricultural commodities or with cotton, wool, and manmade-fiber textiles. Some cover financing arrangements whereby the government of the exporting country undertakes to finance the sale of agricultural commodities to selected representatives of the importing country. Most of the treaties provide for the sale of a particular commodity in a specified quantity over a given period and at a set price. Quantitative limitations in a bilateral treaty may not parallel such limitations in an international commodity agreement.

The first significant international law to be proposed on international commodity agreements was in chapter VI of the Havana Charter. 1/ The Economic and Social Council of the United Nations adopted chapter VI by resolution in 1965, but the charter was never adopted by nations. In spite of this, the chapter has acquired some authority as a code of behavior to be followed. Therefore, although not legally binding, chapter VI 2/ of the Havana Charter should be considered in any discussion of international commodity agreements.

Specific Authorities

In addition to the President's general authorities--treaty and executive agreement--Congress has enacted specific legislation with respect to certain aspects of international commodity agreements. The broadest specific authority granted the President is within the Agricultural Act of 1956, as amended, particularly section 204 (7 U.S.C. 1854). The authority reads as follows:

1/ The Havana Charter was the proposed agreement to replace the temporary GATT of 1947 and become the permanent international code of principles designed to guide world trade away from restrictive and discriminatory trade practices.

2/ See app. B.

> The President may, whenever he determines such action appropriate, negotiate with representatives of foreign governments in an effort to obtain agreements limiting the export from such countries and the importation into the United States of any agricultural commodity or product manufactured therefrom or textiles or textile products, and the President is authorized to issue regulations governing the entry or withdrawal from warehouse of any such commodity, product, textiles, or textile products to carry out any such agreement. In addition, if a multilateral agreement has been or shall be concluded under the authority of this section among countries accounting for a significant part of world trade in the articles with respect to which the agreement was concluded, the President may also issue, in order to carry out such an agreement, regulations governing the entry or withdrawal from warehouse of the same articles which are the products of countries not parties to the agreement. Nothing herein shall affect the authority provided under section 624 of this title.

This provision provided the authority for Executive Order 11052 of September 28, 1962, a delegation of authority by the President to the Secretary of State to undertake negotiations for trade agreements on cotton textiles and cotton textile products. The provision was also applied in the issuance of Executive Order 11539 of June 30, 1970, a delegation of authority by the President to the Secretary of State to negotiate bilateral agreements limiting exports of certain meats to the United States.

Section 624(f) of title 7 of the United States Code, commonly known as section 22 of the Agricultural Adjustment Act, as amended, states that--

> No trade agreement or other international agreement heretofore or hereafter entered into by the United States shall be applied in a manner inconsistent with the requirements of this section.

Section 624 is designed to protect Government programs from imports and requires the President, after certain preliminaries are met, to impose fees up to 50 percent ad valorem or quantitative limitations on agricultural commodities which--

> render or tend to render ineffective, or materially interfere with, any program or operation undertaken under this chapter or the Soil Conservation and Domestic Allotment Act, as amended, or section 612c of this title, or any loan, purchase, or other program or operation undertaken by the Department of Agriculture, or any agency operating under its direction, with respect to any agricultural commodity or product thereof, or to reduce substantially the amount of any product processed in the United States from any agricultural commodity or product thereof with respect to which any such program or operation is being undertaken. . . .

The requirement for Presidential action under this provision may, by virtue of section 624(f), result in inconsistencies with international commodity agreements the President negotiates with respect to agricultural commodities. The degree of congressional intent to maintain the efficacy of this provision is illustrated by a continuation of section 624 in the Trade Expansion Act of 1962. Section 257(h) of that Act states:

> Nothing contained in this Act shall be construed to affect in any way the provisions of section 22 of the Agricultural Adjustment Act, or to apply to any import restriction heretofore or hereafter imposed under such section.

Congress has also chosen to enact legislation in the international commodity agreements area affecting specific commodities and agreements. 19 U.S.C. 1356 treats with the 1968 International Coffee Agreement. 1/

1/ The agreement continues in effect, but is devoid of its operative economic provisions.

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Subsection (f), which follows, sets out Presidential powers and duties:

> On and after the entry into force of the International Coffee Agreement, 1968, and for such period prior to October 1, 1973, as the agreement remains in effect, the President is authorized, in order to carry out and enforce the provisions of that agreement--
>
> (1) to regulate the entry of coffee for consumption, or withdrawal of coffee from warehouse for consumption, or any other form of entry or withdrawal of coffee such as for transportation or exportation, including (A) the limitation of entry, or withdrawal from warehouse, of coffee imported from countries which are not members of the International Coffee Organization, (B) the prohibition of entry of any shipment from any member of the International Coffee Organization of coffee which is not accompanied by a valid certificate of origin or a valid certificate of reexport, issued by a qualified agency in such form as required under the agreement, and (C) the imposition of special fees or such other measures as he deems appropriate to offset discriminatory treatment by other governments in favor of the export or reexport of processed coffee;
>
> (2) to require that every export or reexport of coffee from the United States shall be accompanied by a valid certificate of origin or a valid certificate of reexport, issued by a qualified agency of the United States designated by him, in such form as required under the agreement;
>
> (3) to require the keeping of such records, statistics, and other information, and the rendering of such reports, relating to the importation, distribution, prices, and consumption of coffee as he may from time to time prescribe; and
>
> (4) to take such other action, and issue and enforce such rules and regulations, as he may consider necessary or appropriate in order to implement the obligations of the United States under the agreement.

Subsection (h) of section 1356 provides for the delegation of Presidential powers and duties and for certain Presidential action if there is an unwarranted increase in the price of coffee. Although this legislation remains on the books, by its own terms it has not been effective since October 1, 1973. Since this section has not been amended since 1972, it must be assumed that Congress did not intend to extend Presidential authority beyond 1973.

7 U.S.C. 1641 sets out specific Presidential responsibilities with respect to the International Wheat Agreement of 1949.

> The President is authorized, acting through the Commodity Credit Corporation, to make available or cause to be made available, notwithstanding the provisions of any other law, such quantities of wheat and wheat-flour and at such prices as are necessary to exercise the rights, obtain the benefits, and fulfill the obligations of the United States under the International Wheat Agreement of 1949 signed by Australia, Canada, France, the United States, Uruguay, and certain wheat importing countries, along with the agreements signed by the United States and certain other countries revising and renewing such agreement of 1949 for periods through July 31, 1965 (hereinafter collectively called the "International Wheat Agreement").

Section 1642(a) of title 7 provides additional Presidential authority for the implementation of the agreement.

> The President is further authorized to take such other action, including prohibiting or restricting the importation or exportation of wheat or wheat-flour and to issue such rules or regulations which shall have the force and effect of law, as may be necessary in his judgment in the implementation of the International Wheat Agreement.

In 1967 the 1949 agreement was replaced by the International Grains Arrangement, 1967, which, in turn, was replaced by the International Wheat Agreement, 1971.

Presidential Authority Under the Trade Act of 1974

The most substantial domestic legislation affecting international trade recently enacted is the Trade Act of 1974. However, nowhere in the act do the words "international commodity agreement" appear. Section 102 addresses itself to nontariff barriers and "other distortions of trade." The President is urged by subsection (a) "to take all appropriate and feasible steps within his power . . . to harmonize, reduce, or eliminate such barriers to (and other distortions of) international trade." In subsection (b), the President is given the authority to enter into trade agreements to accomplish that objective.

When ICA's possess features such as buffer stocks, export controls, and price floors, they must inevitably distort trade within the meaning of the act. 1/ The President is authorized to harmonize, reduce, or eliminate such distortions of trade. In the General Statement of the report on the Trade Act by the Senate Finance Committee (cited in footnote 1), the problems arising from the Organization of Petroleum Exporting Countries and other producer cartels are mentioned. The report finds that in light of this trend "it is imperative that the fundamental inequities in the world trading system be corrected in a spirit of

1/ "Nontariff barriers to, and distortions of, trade cover a variety of devices which distort trade, including quotas, variable levies, border taxes, discriminatory procurement and internal taxation practices, rules of origin requirements, subsidies and other direct and indirect means that nations use to discourage imports or artificially stimulate or restrict exports." Trade Reform Act of 1974: Report of the Committee on Finance, United States Senate, Together With Additional Views on H.R. 10710 . . ., 1974, p. 74.

international cooperation." This statement suggests that since producer cartels are likely to continue, they should be brought within a broader international arrangement which includes consumers. Such action is within the President's section 102 authority to "harmonize" distortions.

One means of obtaining such harmonization is through supply access agreements. Section 108 states that a principal objective in section 102 negotiations is to assure "fair and equitable access at reasonable prices to supplies of articles of commerce which are important to the economic requirements of the United States. . . ." This objective is extended beyond concern solely for the United States in section 121(a)(7) of the act, as well as in the Senate Finance Committee's report:

> . . . the Committee wishes to emphasize that the problem of supply access goes well beyond articles "important" to the United States. Bananas may not be considered of dire importance to the U.S. economy; oranges may provide an acceptable substitute. However, the Committee believes that banana cartels are not to be encouraged and that efforts should be made to bring the members of such or other cartels into supply access agreements. 1/

Although the act does not specify what is to be encompassed within supply access agreements, section 108 sets out the purpose of such arrangements as the assurance of sufficient supplies at fair prices. Such agreements should attempt to be as free of trade distortions as possible or should harmonize distortions in the spirit of international cooperation. One way that this objective may be attained is by international commodity agreements, wherein producing countries assure

1/ Trade Reform Act of 1974: Report of the Committee on Finance . . ., op. cit., pp. 81-82.

consuming countries of supply access in exchange for assured prices. However, in the Trade Act of 1974 it is not clear whether international commodity agreements are being endorsed or condemned.

III. PARTICIPANTS IN INTERNATIONAL COMMODITY AGREEMENTS AND PRACTICAL PROBLEMS IN THEIR OPERATION

Historically, attempts to institute international commodity agreements have occurred under conditions of excess supply and depressed prices, largely at the initiation of producer countries which want to raise prices. Participation by consumer countries has resulted primarily from an interest in stabilizing prices at a level they consider reasonable. The difficulties in achieving a compromise on price and workable supply control mechanisms in the face of the conflict of interests of producer and consumer countries constitute the complex combination of factors addressed in this part of the report.

Consuming Countries

For natural reasons, the production of any particular primary commodity tends to occur in relatively few countries. In contrast, most countries consume that product, including the producers, e.g., Brazilians drink lots of coffee and Americans eat a great deal of wheat products. Consumers cannot be equated with developed countries any more than the producers can be taken to mean the developing countries. The recent experience with OPEC is a revealing example. Developing countries, along with developed ones, have very strong consumer interests indeed. The basic interests of consumers in the conduct of international trade in commodities include (1) access to supplies, (2) reasonable prices, and (3) stable prices.

Access to supplies

The threat to the achievement of the first of these goals, access to supplies, may reflect either a political, economic, natural, or productive constraint. Thus, a group of producing countries may decide to withhold available supplies of a commodity to a particular consuming country or to all consumers in order to enforce political demands, as the Arab oil-producing nations did in the aftermath of the 1973 Arab-Israeli war. Countries may use export taxes, licensing, dual exchange rates, or other devices to discourage exports of primary products and thereby promote domestic processing or prevent foreign buyers from bidding up prices, e.g., U.S. controls on exports of wheat to the U.S.S.R.

Access to supplies may be limited because of genuine natural scarcity, i.e., the supply of a raw material may be completely depleted or agricultural production may face a technological limit. Short-run variations in production because of natural scarcity occur mostly in agricultural products, generally as a result of natural disasters or the vagaries of the weather. Such supply interruptions are usually only temporary but can be disruptive to ongoing production and consumption patterns. With regard to food supplies, the threat of starvation is real and particularly tragic.

Another threat to supply availability is a shortage of productive capacity, i.e., although there is no natural scarcity of a commodity, there is a scarcity of capital investment to expand or even maintain production. Thus, the continued growth in world income and consequent increasing demand for primary commodities require the maintenance of adequate productive capacity of specific commodities.

Among other measures to assure access to supplies, consuming countries have in some instances sought this guarantee through participation in commodity agreements. Some ICA's have given preference in sales to members or encouraged investment for adequate productive capacity.

Reasonable prices

A second basic interest of consumers in commodity trade is in obtaining their requirements at reasonable prices. This concept is imprecise. Almost invariably the consumers' concept of a reasonable price range is at a lower level than that of the producers. It is, of course, in the consumers' interest to provide the necessary incentive for producers to maintain or expand production, utilizing the most efficient technology and resources, but not in the consumers' interest to pay monopoly or cartel profits.

The notion of a reasonable price may not be consistent with the economically efficient price discussed earlier. It may include a premium to assure access to supplies in periods of shortage, either through buffer stock sales or excess capacity. In an ICA, a negotiated price target or range generally is agreed to by consumers as their part in a bargain with producers to guarantee access to supplies.

Price stability

The third aspect of consumer interest in commodity trade is the maintenance of stable prices, i.e., prices that do not fluctuate erratically and excessively. Instability can be generated by demand factors such as swings in the business cycle and speculative purchases or by supply factors such as natural shortages alternating with abundance. At times the erratic and unpredictable entry of the Socialist countries into the market has upset price stability. Price instability can contribute to inflationary pressures as well as balance-of-payments disruptions as imports become cyclically expensive or some price increases prove irreversible. In the developing countries, development plans may be upset owing to increased cost of necessary imports. The investment process may be disturbed, posing a long-term threat to the availability of an adequate supply of the commodity.

When the prices of a primary product are unstable, processing and marketing markups in all consuming countries are probably higher for the manufactured goods than when the primary product prices are stable. Larger inventories and long-term contracts prove necessary. Long-range market planning and promotion by processors are facilitated by stable and predictable prices for primary products.

Producing Countries

As with consumers, producers of primary commodities cannot be identified by their level of development. Developing countries, instrumental in the current push for ICA's, are not the major source of primary products. In 1973, developed countries supplied one-half of world exports of all primary commodities; developing countries supplied two-fifths to one-third. The remainder were supplied by Socialist countries.

Although developed countries are the principal producers and exporters of primary commodities, their economic base is usually sufficiently broad and their total exports sufficiently diversified to be relatively well insulated from adverse movements in revenues from exports of primary commodities. Adverse developments in these revenues can have a serious effect on developing economies, both in the present and in the continuing implementation of their development plans. The economies of many small developing countries rely to a great extent on a single commodity for their export earnings. Estimates have been made that for half of the developing countries as few as three primary commodities represent over 80 percent of their total merchandise exports.

Developing countries

The issue of economic development has had a fitful evolution in the past two decades, culminating in increased support of international commodity agreements by developing countries as a means of obtaining redistribution of wealth. Efforts to coordinate several different policy alternatives have not been entirely successful. Efforts to obtain assistance from developed countries began in the 1950's and resulted in the goal put forth at the Delhi session of UNCTAD in 1968 that the industrial countries devote 1 percent of their gross national product to the aid of developing countries through public and private transfers. On the average the transfer of resources to developing countries through this scheme has fallen short of the 1-percent goal.

A second method designed to increase the transfer of resources from developed to developing countries was advanced within the context of international monetary reform. Its purpose was to achieve a transfer of resources through tying aid to the issuance of special drawing rights (SDR) by the International Monetary Fund. This approach is still under consideration but there is a reluctance to incorporate development aid with international monetary reform. Also, the widespread adoption of floating exchange rates has reduced the need for new reserves through SDR allocations.

A third approach to assist the economic position of developing countries has been to increase the flow of export earnings to developing countries through a generalized system of preferences (GSP). The United States is scheduled to join other developed countries in providing GSP on January 1, 1976.

A principal reason cited in favor of needing ICA's to improve prices for developing countries is the long-term deterioration of the terms of trade between their traditional exports and their imports from developed countries. Most simply, the "terms of trade" is the ratio of export prices to import prices. A long-term deterioration implies that, on a price basis, exports can purchase fewer imports.

The issue of deterioration in the terms of trade is subject to some disagreement and debate between developed and developing countries over concepts and measurement. Changes in export and import prices must be viewed in conjunction with changes in quantities traded and in productivity. For example, an increase in the quantity of exports may more than offset a decrease in a country's export prices, so that the terms may decrease, but the total import purchasing power of the country's exports may be unchanged or higher. Thus, a consideration of the terms of trade based on prices without consideration of additional factors may be misleading.

Another issue in this area is the renewed interest in the concept of price indexation owing to the increased rate of worldwide inflation since 1969. Under this concept, the actual market price of a primary commodity exported by a country or countries would be tied to the market prices of products imported by that country or countries. As generally proposed, an index of the prices of goods imported by a country would determine the price of the product exported. In this manner, primary commodity prices would be maintained at par with manufactured goods--a concept not unlike some domestic agricultural programs, but much more rigid in operation as currently proposed. 1/ Objections to this scheme are that (1) owing to the fact that most raw material production takes place in the industrial countries, indexation would benefit those least in need of assistance and would have an adverse effect on developing countries which are net importers of raw materials, particularly foodstuffs, (2) such a scheme would cause misallocation of resources, distortion of investment patterns, and introduce increased rigidity in the world economy, and (3) the complex technical problems involved in the implementation of such a scheme.

1/ See pt. V, the section on UNCTAD, for more discussion of indexation.

There is general dissatisfaction among developing countries with the various forms of assistance offered in the past few decades, and the issue of deterioration of their terms of trade has convinced this group of producers that not only do they need additional support, but they are falling farther behind. The current push for ICA's as one of the few remaining alternatives is a direct result of these conditions, and this campaign has received considerable fuel from the success of OPEC. 1/

Developed countries

Developed countries are the principal producers of primary commodities, as noted in the introduction to this section. It is difficult to generalize on their position, but it can safely be said that their enthusiasm for ICA's is not as high as that of developing countries. Producers in those countries are generally reluctant to submit to the inflexibility of ICA's, with the opinion that they can probably do better in a free market. In many ICA's, the allocation of export quotas is politically influenced, and producers in developed countries prefer the freedom to expand their markets and market shares as they see fit or find economically possible.

In many developed countries producers of agricultural products would rather depend on the services of a domestic agricultural program than on the uncertainty of a multilateral organization. Sometimes, however, a domestic program has not been enough, and the developed countries

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1/ See pt. V, the section on OPEC.

have turned to ICA's, as did Canada and the United States for wheat. Finally, it should be noted that ICA's are negotiated between governments, and it is their reading of the problems described in preceding paragraphs that determine their positions as member producers in any ICA.

Practical Problems in Operating an ICA

Some supply control programs, when used in a single country for a particular standardized primary commodity, have been fairly successful in achieving their price objectives. In contrast, under an ICA the practical problems of supply control are compounded manyfold. Instead of one government there are many governments with varying degrees of dedication to abiding by the terms of an agreement. While one government may decide on a price objective, it is often difficult for several producing and consuming countries to agree on a price objective for a commodity. Furthermore, there are usually nonmembers who make no commitments and who pose a threat to an agreement's successful operation. Changes in monetary systems and fluctuating exchange rates make it difficult to achieve a common price objective, sometimes to the detriment of individual countries.

In attempting to set a price goal, ICA's often lack the specific market knowledge that is needed to establish supply controls that will achieve that goal. For many commodities adequate information is not available on price elasticities of supply and demand to enable an ICA council to initiate appropriate supply control actions to counter unanticipated changes in supply. The market price for a commodity often varies significantly from expectations.

A further complicating factor for some ICA's is the lack of homogeneity of products, e.g., grains or coffee, that have many grades, types, and qualities. Markets seldom recognize rigid price differentials among different grades; thus, attempted supply control in terms of fixed differentials can generate pressure on prices by traders bidding in response to market conditions, making such differentials difficult to maintain.

In practice, there has been little prolonged experience of an ICA attaining price objectives by engaging in market allocation and buffer stock control. There remain many unresolved technical questions relating to reallocation of quota deficits, adjudication of requests for supplemental quotas, and buying, selling, storage, financing, and rotation of buffer stocks.

IV. HISTORY OF SELECTED ICA'S

The history of commodity agreements extends over a considerable period of time and encompasses a number of products. A comprehensive discussion of the variety of agreements, the particular market circumstances, and the effects on participating countries and important nonmembers would require a voluminous report. This section of the report presents case histories of ICA's on five major commodities--tin, coffee, cocoa, wheat, and sugar. Appendix E includes copies of the following agreements:

The Fifth International Tin Agreement
The 1968 International Coffee Agreement
The International Cocoa Agreement of 1972
The International Wheat Agreement, 1971
The International Sugar Agreement of 1968

At various times producers and consumers of these commodities have been organized in agreements, although for some of the products considerable periods of time have elapsed without agreements in force. Although the United States has been only tangentially involved in two of the five agreements, the discussion attempts to examine the experience of the United States with each of the five agreements.

The International Tin Agreements

The international tin agreements in effect since 1956 have been multilateral treaties between the governments of tin-producing and

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tin-consuming nations. Administered by the International Tin Council, the agreements have provided for supply control through export quotas and buffer stocks. Although the United States has not been a signatory to any of the past agreements, it is expected to participate in the next agreement, which is to become effective in 1976. 1/

World tin production has been under some form of international control for most of the last 50 years and is, in many ways, adaptive

1/ For a track of congressional interest in these international commodity agreements, the following library references are provided:

International Tin Agreements

U.S. Congress, House Committee on Foreign Affairs
. . . Investigation of the extent to which the U.S. is dependent upon foreign nations for its supply of tin. . . . Report. Pursuant to H. Res. 717. . . . Washington, U.S. Govt. Print. Off. 1935. (74th Cong., 1st Sess., House Rept. 748)

U.S. Congress, House Committee on Foreign Affairs

Tin investigation. Report of the Subcommittee of the House Committee on Foreign Affairs. . . . on House Resolution 404, 73d Congress, 2d Session, and House Resolution 71, 74th Congress, 1st Session, to authorize an investigation into the extent to which the U.S. is dependent upon foreign nations for its supply of tin and for other purposes. . . . 1934-35. Washington, Government Printing Office, 1935.

U.S. Congress, House Committee on Military Affairs

. . . Provide for protection and preservation of domestic sources of tin . . . . Report. [to accompany H.R. 4754] . . . . Washington, U.S. Govt. Printing Off. 1935. (74th Cong., 1st Session, House Report 257).

U.S. Congress, House Committee on Military Affairs

Supplies for the armed forces in time of an emergency. Hearings. . . . 75th Cong., 1st Session on H.R. 1608, acquiring certain commodities essential to the manufacture of supplies for the armed forces in to such control. Production is geographically centered in a few countries, primarily in Southeast Asia. In 1974 Malaysia, Thailand, and Indonesia accounted for some 62 percent of total free-world production. Bolivia, Nigeria, Zaire, and Brazil account for much of the remainder. Brazil, with some 2 percent of total free-world production in 1974, and the People's Republic of China are the only major world producers that are not members of the current International Tin Agreement. The People's Republic of China has significant tin reserves and is known to be a major world producer and exporter of tin.

Consumption, on the other hand, is centered in the industrialized nations of Western Europe, Japan, and the United States. In 1974 the United States accounted for some 27 percent of total world consumption

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time of an emergency, May 18, 25, 26, June 1, 1937. Washington, U.S. Govt. Printing Off., 1932.

U.S. Congress, Senate Committee on Armed Forces

Governmental control of tin production in the United States. Hearings before a subcommittee . . . 80th Cong., 2d Session . . . . May 24, and 26, 1948. Washington, U.S. Govt. Printing Off., 1948.

Preparedness Subcommittee of the Committee on Armed Services, U.S. Senate, Investigation of the Preparedness Program, 6th Rept., tin: 82d Cong., 1st Sess., 1951, and U.S. Senate, Supplemental Report on tin; 82d Cong., 2d sess., 1952.

of primary metal. Secondary tin recovery is an important source of supply and in 1974 accounted for more than 20 percent of total U.S. consumption. The United States is the only major world tin consumer not a member of the agreement.

It is generally recognized that supply and demand for tin are not readily responsive to price changes. Because relatively small amounts of tin are required in most tin-containing products, consumption does not readily increase in response to price declines. Similarly, as a result of the dependence by the major producing countries upon revenues obtained from tin and the investments made in production facilities, production tends to be maintained when prices decline. Owing primarily to these factors, it was generally believed that tin-mining countries had an inherent tendency to overproduce.

Tin is generally sold to industrial buyers, and tin production is dependent upon a single use (tinplating) for much of its viability. In 1974 this use accounted for slightly less than 50 percent of total primary consumption in the United States. Moreover, tin is more expensive than many other metals, such as aluminum or lead, and substitution of these products--for example, the substitution of aluminum for tin in foil and canning--have affected tin consumption. After World War II the hot-dipping process for tinplating was replaced by electro-deposition, which meant that significantly less tin per unit was required to plate sheet steel. This process change has been one of the most significant factors affecting tin consumption.

Circumstances leading up to the International Tin Agreement of 1956

The resurgence of world tin consumption and rising prices which occurred immediately following World War I were short-lived, and by 1921 consumption had substantially declined. The producing countries were unable to adjust readily to the changing economic conditions, and tin stocks substantially increased. In early 1921 the Federated Malay States (now Malaysia) and the Netherlands East Indies (now Indonesia), which together accounted for about half of total world tin production, established the Bandoeng Pool. The Bandoeng Pool was the first inter-governmental arrangement to be established in the tin industry. Its purpose was to keep excess supplies of tin off the market until the price recovered. Liquidation of the pool, which amounted to 19,000 long tons, or about 15 percent of world production, was accomplished in 1923 and 1924 at a substantial profit, and the principle of concerted action to control the tin market was firmly established.

The remainder of the 1920's was a period of increasing production, consumption, and prices, which changed the character of the industry and made it more conducive to the future imposition of controls. The rising price trend attracted substantial amounts of capital, primarily from outside sources. Tin production became increasingly mechanized.

Production costs declined, and the proportion of fixed overhead costs increased. This change in the cost structure lessened the responsiveness of supply to price during a declining market, i.e., producers were more inclined to maintain output in order to reduce fixed costs per unit when prices declined.

By 1928, however, stocks began to increase, and prices began to decline. In mid-1929 some 300 directors of tin-producing companies that accounted for about 60 percent of total world production met and established the Tin Producers Association. The members agreed to limit production voluntarily. The restrictions did not extend to nonmembers, such as Chinese miners in Malaya and relatively low-cost producers in the Netherlands East Indies. By the end of 1930 it was generally recognized that such an arrangement was not workable and that effective implementation of restrictions would require intergovernmental action.

By 1930 the major tin-producing countries were being severely affected by the loss in revenue resulting from declining production and were sympathetic to such a control mechanism. As a result the International Tin Control Scheme of 1931, administered by the International Tin Committee, was established by the Governments of the Federated Malay States, Nigeria, Bolivia, and the Netherlands East Indies. The first agreement was in effect from 1931 to 1933; the second agreement, from 1934 to 1936; the third agreement, from 1937 to 1941; and the fourth agreement, from 1942 to 1946. The principle of the agreements was to regulate production through a quota system enforced by governmental action. By the end of 1931, some 95 percent of total world tin production was controlled.

The first agreement did not provide for a buffer stock, although the privately financed International Tin Pool was in existence from 1931 to 1933 and acted with the knowledge and approval of the Committee. In June 1934 a buffer stock (consisting of slightly more than 8,000 long tons) financed by the producer countries, scheduled to operate until December 31, 1935, was made a part of the second agreement. The inclusion of the buffer stock expanded the authority of the Committee at a time of high prices and insufficient supply. Criticism of the buffer stock came from several quarters. The chairman of the Tin Producers Association resigned, the Malayan Chamber of Mines voiced strong objections, and, in the United States, a subcommittee of the House Committee on Foreign Affairs inquired into the possibility of reducing U.S. dependence on foreign tin supplies. As a result of these criticisms the Committee invited consumer representatives to form an advisory panel to attend its meetings, but with no voting rights. By the end of 1935 the buffer stock had been liquidated with apparently little effect on the market.

The control measures, i.e., export restrictions, adopted by the Committee appear to have been successful, for by early 1937 the price had reached its highest level since 1927. By yearend, however, the price had declined as industrial consumers began liquidating stocks, and a new buffer stock, financed by the producers, was placed in effect in 1938. The buffer stock (initially authorized at 10,000 long tons and later at 15,000 long tons) was to last the life of the agreement and was to be bought and sold within specified price limits. Objections to the buffer stock were again evident, primarily from the Malayan Chamber of Mines and the United States. With the beginning of World War II in September 1939, the stock was quickly liquidated.

As a result of the wartime situation, the controls administered by the International Tin Committee ceased to be effective, although it continued to operate until 1946. In that year the International Tin Conference was convened, and it was attended by Belgium, Bolivia, the United Kingdom, France, the Netherlands, Siam (now Thailand), China, and the United States. The United States indicated its commitment to the expansion of free trade and to the elimination of restraints to trade, such as international arrangements which restricted markets or fixed prices. It did recognize, however, that surplus tin supplies could arise and recommended that a study group be established to make recommendations, among other functions, regarding tin to participating countries. The study group was established in 1946 and operated until the First International Tin Agreement--administered by the International Tin Council--became operative in July 1956.

The international tin agreements since 1956

The first agreement was operative from July 1, 1956, to June 30, 1961; the second agreement, from July 1, 1961, to June 30, 1966; and the third agreement, from July 1, 1966, to June 30, 1971. The fourth agreement became effective on July 1, 1971, and will remain in effect through June 30, 1976.

The first agreement went into effect with a membership of 6 producing countries, which accounted for some 90 percent of total free-world production, and 10 consuming countries, which accounted for some 40 percent of total free-world consumption. The fourth agreement has 7 producing members, which account for about 95 percent of total free-world production, and 22 consuming members, which account for about 70 percent of total free-world consumption.

Producing and consuming members are represented in the administering body and are each provided with a total of 1,000 votes, distributed among the individual members according to their percentage of total production or consumption by all the members. Of the 7 producing members, 4 (Malaysia, Bolivia, Indonesia, and Thailand) account for 870 of the total producing countries' votes; of the 22 consuming members, 3 (Japan, the Federal Republic of Germany, and the United Kingdom) account for 462 of the total consuming countries' votes.

Operations

The two basic objectives of the agreements (10 objectives are listed in article I of the fourth agreement) are "to provide for adjustments between world production and consumption of tin and to alleviate serious difficulties arising from surplus or shortage of tin" and "to prevent excessive fluctuations in the price of tin and in export earnings from tin."

The primary methods of obtaining the objectives of the agreements are export controls and the buffer stock. In fixing permissible export tonnages, the International Tin Council attempts to maintain the price between the established floor and ceiling prices. The periods of export controls during the agreements were from December 15, 1957, to September 30, 1960;

from September 19, 1968, to December 31, 1969; from January 19, 1973, to September 30, 1973; and from April 18, 1975, to September 30, 1975. The agreement provides for penalties, which range from additional contributions to the buffer stock to forfeiture of a portion of a country's share of the buffer stock, against countries which exceed the permissible export amount. The principle of sovereign government liability for exceeding the export amount was established in 1960, when Thailand made a voluntary cash contribution to the buffer stock after exceeding its quota in 1959.

A summary of buffer stock operations is provided in table 1. In general, buffer stock sales correspond to periods of tight supply, while purchases correspond to supply surpluses.

In each of the agreements, the buffer stock has been financed by compulsory contributions, either in cash or metal as determined by the International Tin Council, from the producing countries. Voluntary contributions were also authorized for consumers, and in 1971-72 such contributions were made by the Netherlands and France. A buffer stock of the equivalent of 25,000 metric tons was authorized in the first agreement; this was reduced to 20,000 metric tons in the subsequent agreements. Although no provision was made in the first agreement for the Council to borrow funds for buffer stock operations, such funds were obtained from banking sources in 1958, after the buffer stock manager had depleted his resources, and the price remained close to the established floor. In subsequent agreements, provisions were made for such borrowing. In 1969 the International Monetary Fund agreed that members of the agreement could use their drawing rights on the Fund to pay for buffer stock contributions if they were experiencing

Table 1.--Buffer stock operations of international tin agreements, 1956-75

(In metric tons)

INTERNATIONAL TIN AGREEMENT															
First				Second				Third				Fourth			
Year and quarter	Purchases	Sales	Holdings 1)	Year and quarter	Purchases	Sales	Holdings 1)	Year and quarter	Purchases	Sales	Holdings 1)	Year and quarter	Purchases 2)	Sales 3)	Holdings 1)
1956 III				1961 III				1966 III				1971 III	785		3,477
IV				IV				IV	36		36	IV	3,160		6,637
1957 I				1962 I				1967 I	1,498		1,534	1972 I	1,462		8,099
II	3,978		3,978	II				II			1,534	II	20		8,119
III	406		4,384	III	1,834		1,834	III	1,961		3,495	III	2,012		10,131
IV	11,162		15,546	IV	1,488		3,322	IV	1,336		4,831	IV	2,348		12,479
1958 I	7,254		22,800	1963 I	5		3,327	1968 I	3,526		8,357	1973 I		2,004	10,475
II	874		23,674	II		1,971	1,356	II	991		9,348	II		406	10,069
III	51		23,725	III		193	1,163	III	2,123		11,471	III		5,329	4,740
IV		26	23,699	IV		1,163		IV			11,471	IV		3,739	1,001
1959 I		2,342	21,357	1964 I				1969 I			11,471	1974 I	4/	4/	142
II		7,143	14,214	II				II		2,885	8,586	II	4/	4/	142
III		2,885	11,329	III				III		818	7,768	III	4/	4/	122
IV		1,118	10,211	IV				IV		3,104	4,664	IV	4/	4/	142
1960 I		20	10,191	1965 I				1970 I		732	3,932	1975 I	4/	4/	4/
II			10,191	II				II		2,962	970	II	4/	4/	4/
III			10,191	III				III			970	III			
IV			10,191	IV				IV	262		1,232	IV			
1961 I	51		10,242	1966 I				1971 I	1,460		2,692	1976 I			
II		10,242		II				II			2,692	II			

1/ At the end of period stated.
2/ Net purchases.
3/ Net sales.
4/ Not available.

Source: International Tin Council, Tin Prices, London and Penang, April 1974.

balance-of-payments difficulties. During the course of the fourth agreement, several members used this means to satisfy their obligations.

U.S. relationship

The United States has not been a signatory to the agreements primarily because of opposition by tin consumers, such as the tin-plating industry. The position of the consuming interests, as expressed by the American Iron and Steel Institute, is that "the Agreement as implemented by the International Tin Council operated virtually exclusively in the interest of tin producing countries." A contributing factor may also include the influence which could be exercised by the International Tin Council over the strategic stockpile.

With the start of the Korean conflict in 1950, the United States began buying substantial quantities of tin for its strategic stockpile. As a result, in large part, of these purchases, the price substantially increased. In March 1951 the Preparedness Investigating Subcommittee of the Committee on Armed Forces recommended that tin purchases be centralized in a single Government department and that stockpile purchases be suspended until the price decreased to a reasonable level. Further purchases for the stockpile were suspended, and the private importation of tin metal for resale was prohibited. In January 1952 the United States and the United Kingdom entered into a mutual assistance agreement whereby the United States agreed to purchase tin at a price which was substantially below that of early 1951. Further, in March 1952 purchase contracts were concluded with Indonesia and the Belgian Congo. In July 1952 a supplemental report by the Preparedness Subcommittee criticized tin producers.

In August 1952 private importation for resale was again permitted. Purchases for the stockpile were discontinued in 1955 after the acquisition of some 350,000 long tons of tin, which was equivalent to some 2 years of world production or 6 years of U.S. annual consumption.

The second agreement came into effect in July 1961 at a time of increasing tin consumption and a tin shortage. The export controls which characterized the period of the first agreement were apparently maintained too long, and producers were unable to adjust readily to the changing economic conditions. The United States became increasingly concerned about the shortage, and discussions were begun with the International Tin Council regarding stockpile disposals. At the beginning of these discussions in 1962 the United States affirmed that disposals would be regulated in accordance with market conditions but did not agree to the International Tin Council's proposal that a cutoff price be established below which sales would not occur. The shortage estimated by the Council, however, was less than that anticipated by the United States, and, in July-December 1962, stockpile releases coincided with buffer stock purchases.

By the end of 1966, however, the economic situation had changed. Consumption began to decline and prices weakened. In October 1966 the United States agreed in principle to moderate its tin sales program if that program was inconsistent with operations authorized under the agreement. On July 1, 1968, commercial sales were suspended and not resumed until the supplies became tight in 1973.

During the 1962-68 period, commercial sales from the stockpile totaled some 79,000 long tons; additional sales of more than 43,000 long tons occurred from 1973 to June 1975. In 1967, 1968, and early 1975, stockpile disposals had again coincided with buffer stock purchases. Disposals during these years, however, were at lower levels than in preceding years. The stockpile inventory at the end of 1974 totaled more than 207,000 long tons.

The agreements appear to have been extremely successful in maintaining the established floor prices. Since 1956 the price has fallen below the floor level only during a short period in September 1958. This price decline was primarily the result of sales by the U.S.S.R., which at that time was not a member of the agreement. The agreements have been less successful, however, in maintaining the ceiling prices. Periods during which the price exceeded the established ceiling prices were from about May 1961 to December 1961, November 1963 to July 1966, and November 1973 to October 1974. These periods would undoubtedly have been extended if increases in the ceiling prices had not been authorized by the Council (see table 2).

Buffer stock sales which closely corresponded to the latter periods do not appear to have been successful in holding the price. This lack of apparent success can be attributed primarily to the size of the buffer stock's being inadequate for effective control. Authorization has been granted in the draft of the fifth agreement for doubling the buffer stock through voluntary contributions by consuming members.

Maintenance of the established floor price has undoubtedly kept marginal mines, generally gravel pump mines, in production. These producers are a significant factor in production, accounting for close to 50 percent of total Malaysian output. In the absence of the floor price, much of this production would probably be lost. However, increased production from more efficient operations would offset at least part of the loss.

The only serious challenge to the agreement from tin produced by nonmember countries began in 1957, when the U.S.S.R. began selling substantial quantities of tin it had previously obtained from the People's Republic of China. By the end of 1958 the consuming members agreed not to import tin from countries that were not members of the agreement, thereby eliminating the market for U.S.S.R. tin. In 1971 the U.S.S.R. became a member of the agreement, after it was unable to obtain Chinese

Table 2.--Price ranges in the international tin agreements, July 1, 1956-Jan. 31, 1975

Periods	Floor price	Sector: Lower	Sector: Middle	Sector: Upper	Ceiling price
	Pounds sterling (per long ton)				
July 1, 1956-Mar. 22, 1957--	640	640- 720	720- 800	800- 880	880
Mar. 22, 1957-Jan. 12, 1962--	730	730- 780	780- 830	830- 880	880
Jan. 12, 1962-Dec. 4, 1963--	790	790- 850	850- 910	910- 965	965
Dec. 4, 1963-Nov. 12, 1964--	850	850- 900	900- 950	950-1,000	1,000
Nov. 12, 1964-July 6, 1966--	1,000	1,000-1,050	1,050-1,150	1,150-1,200	1,200
July 6, 1966-Nov. 22, 1967--	1,100	1,100-1,200	1,200-1,300	1,300-1,400	1,400
Nov. 22, 1967-Jan. 16, 1968--	1,283	1,283-1,400	1,400-1,516	1,516-1,633	1,633
Jan. 16, 1968-Jan. 2, 1970--	1,280	1,280-1,400	1,400-1,515	1,515-1,630	1,630
	Pounds sterling (per metric ton)				
Jan. 2, 1970-Oct. 21, 1970--	1,260	1,260-1,380	1,380-1,490	1,490-1,605	1,605
Oct. 21, 1970-July 4, 1972--	1,350	1,350-1,460	1,460-1,540	1,540-1,650	1,650
	Malaysian dollars (per picul) 1/				
July 4, 1972-Sept. 21, 1973--	583	583-633	633- 668	668- 718	718
Sept. 21, 1973-May 30, 1974--	635	635-675	675- 720	720- 760	760
May 30, 1974-Jan. 31, 1975--	850	850-940	940-1,010	1,010-1,050	1,050
Jan. 31, 1975----------------	900	900-980	980-1,040	1,040-1,100	1,100

1/ 1 Malaysian picul=133.33 pounds.

Source: International Tin Council, Monthly Statistical Bulletin, No. 7, vol. XIX, July 1975, p. 59.

Note.--The current floor and ceiling prices are equivalent to about $2.92 per pound and $3.57 per pound, respectively, based upon exchange rates in effect in June 1975 ($1 US=2.3108 Malaysian dollars or 0.455 pound sterling). In early August the price of tin on the New York market was $3.38 per pound.

tin supplies. In 1974 the People's Republic of China was the fourth largest world exporter of tin (shipping 8,918 long tons, 37 percent of which was imported by the United States). Although little is known of Chinese intentions or the capability of the Chinese tin industry, substantial continuing exports by a nonmember primarily to a nonmember could have deleterious effects on the viability of the agreement.

Much of the effectiveness of the agreement depends upon the ability of the International Tin Council to judge existing and prospective market conditions. Export controls imposed from 1957 to 1960 appear to have been maintained too long and hence to have contributed to the tin shortage which subsequently followed. More recently, the Council apparently misjudged the shortage which began in mid-1973 and continued export controls through September. In addition, despite the imposition of export controls, buffer stock sales occurred throughout the year. Complicating the supply situation at that time, however, was the possibility of General Services Administration (GSA) stockpile releases. These sales have relieved two periods of tight tin supply and have thereby probably contributed to continued viability of the agreement.

Current status of the agreement

The Fifth International Tin Agreement was drafted in midyear 1975 and is to become effective on July 1, 1976, for a period of 5 years. Buffer stock financing was one of the most important areas of consideration during discussions relating to the new agreement. The producer nations demanded that the size of the buffer stock be doubled (from 20,000 metric tons) and that it be financed by compulsory contributions from both producer and consumer nations. Apparently as a result of the world recession and tin oversupply, such a concession by the consuming members was not forthcoming. An additional factor which may have contributed to the lack of agreement was the suspension of the buffer stock manager and his deputy. No reason for the suspension was given by the Council. It was stipulated, however, that voluntary contributions of up to 20,000 metric tons could be made by the consuming members and that if the producing countries were not satisfied with the level of such contributions the agreement could be renegotiated in 2-1/2 years. It was further specified that contributions would be made at the floor price prevailing at the time of the contribution instead of at the floor price prevailing when the agreement went into effect, as was true in the previous agreements.

The new agreement further specifies that during periods of tin shortages the International Tin Council can recommend that producers give preference to consuming countries that are members of the agreement, unless such action would be inconsistent with other international agreements on trade. Such a provision has not been a part of previous agreements. It was apparently aimed at the United States, which, as indicated previously, is not a member of the agreement but which is the world's largest tin consumer.

In early September 1975 the U.S. delegate to the United Nations stated in a speech delivered to the U.N. General Assembly on behalf of the U.S. Secretary of State that President Ford had authorized him to announce that the United States intends to sign the tin agreement subject to congressional consultation and ratification.

The International Coffee Agreements

Recent international coffee agreements have been multilateral treaty arrangements between the major coffee importing and exporting countries, including the United States. 1/ The agreements, administered

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1/ For a track of congressional interest in these international commodity agreements, the following library references are provided:

Inter-American Coffee Agreement. Legislation implementing the Agreement (the Act of April 11, 1941, 55 Stat. 133).

U.S. Congress, Senate, Committee on Foreign Relations. . . . The Inter-American Coffee Agreement . . . . Report to accompany Executive A, 77th Cong., 1st Sess. [Washington] 1941.

Inter-American Coffee Agreement. Protocol between the United States of America and other American Republics modifying and extending for one year from Oct. 1, 1946, the Agreement of Nov. 28, 1940 . . . . proclaimed by the President of the United States April 1, 1947. (U.S. Dept. of State Publication 2852. Treaties and other international acts series, 1605.)

Inter-American Coffee Agreement. Protocol between the United States of America and other American Republics modifying and extending for one year from Oct. 1, 1947, the Agreement of November 28, 1940, as modified and amended . . . . proclaimed by the President of the United States June 9, 1948. (U.S. Dept. of State, Publication 3247. Treaties and other international acts series, 1768.)

U.S. President, 1945 (Truman)
Protocol extending the Inter-American Coffee Agreement. Message from the President of the United States . . . January 21, 1948. ([U.S.] 80th Cong., 2d Sess. Senate Executive A.)

International Coffee Agreement, 1962
S. 701 (H. Res. 364) --International Coffee Agreement, 1962, obligations of United States. Reported in Senate Feb. 1, 1965; Finance; Rept. 53. Passed Senate Feb. 2, 1965. Reported April 19, 1965; Rept. 252. Union Calendar. Passed House, amended, May 12, 1965. Senate

by the International Coffee Council, have had the primary objective of achieving a reasonable balance between supply and demand at equitable prices. The objective was to be attained principally through a system

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agrees to House amendments May 13, 1965. Approved May 22, 1965. Public Law 89-23.

U.S. Congress, Senate Committee on Foreign Relations
International Coffee Agreement, 1962. Hearing before the Committee on Foreign Relations, United States Senate, 88th Cong., 1st Sess., on Executive II. 87th Cong., 2d Sess., March 12, 1963.

U.S. Congress, Senate Committee on Finance
Coffee hearings before the Committee on Finance, United States Senate, 88th Cong., 2d Sess. on H.R. 8864. February 25, 26, and 27, 1964.

U.S. Congress, Senate Committee on Finance
Coffee Agreement, hearings before the Committee on Finance, United States Senate, 89th Cong., 1st Sess., on S. 701, January 27, 1965.

U.S. Congress, House of Representatives Committee on Ways and Means
Annual report on the International Coffee Agreement, 1st- , 1965- , U.S. President--submitted to the Congress of the United States, January 14, 1966-, Washington.

International Coffee Agreement, 1968
Legislation implementing the Agreement was signed into law (P.L. 90-234) on October 24, 1968. The legislation has been twice extended to July 1, 1971 (P.L. 91-694), and to September 30, 1973 (P.L. 92-262).

U.S. Congress, Senate Committee on Foreign Relations --International Coffee Agreement, 1968. Hearings, 90th Cong., 2d Sess., on Executive D, June 4 and 12, 1968.

U.S. Congress, House Committee on Ways and Means
International Coffee Agreement, Hearings, 90th Cong., 2d Sess., on H.R. 18299, July 8, 1968.

U.S. Congress, Senate Committee on Finance
International Coffee Agreement. Report to accompany H.R. 8293, 92d Cong., 2d Sess., Senate Report No. 92-685. Bound with H. Rept. 92-242 and P.L. 92-262.

U.S. Congress, Senate Committee on Finance
The International Coffee Agreement: its impact on coffee prices; its ability to deal with unforeseen supply and demand conditions; alleged

(Continued)

of variable export quotas which were automatically adjusted in response to changes in specified price ranges. The current agreement, however, does not include economic provisions and presently serves as a forum for the collection and dissemination of coffee statistics and as a basis for the renegotiation of a new agreement.

(Continued)

discrimination against U.S. ships in the carriage of coffee; and the soluble coffee controversy. Report by the Comptroller General of the United States, 93d Cong., 1st Sess., July, 1973.

U.S. General Accounting Office
Foreign aid provided through the operation of the United States Sugar Act and the International Coffee Agreement; report to the Congress by the Comptroller General of the United States. B. 167416. Oct. 23, 1969.

H.R. 17324 (H. Res. 1181) --Renegotiation Amendments Act of 1968. Reported from Ways and Means, May 20, 1968. Rept. 1398. Union Calendar. Reported in Senate, July 11, 1968; Finance; Rept. 1385. Rept. 1385, pt. II, filed July 26, 1968. Conference report filed Oct. 3, 1968; Rept. 1951. Approved Oct. 24, 1968. Public Law 90-634.

H.R. 18299 --International Coffee Agreement Act of 1968. Reported from Ways and Means, July 11, 1968; Rept. 1704. Union Calendar . . . . Union 687.

H. Res. 1295 (H.R. 19567) --International Coffee Agreement Act, consideration of. Reported from Rules, Dec. 8, 1970; Rept. 91-1682. House Calendar. Passed House, Dec. 18, 1970.

H.R. 19567 (H. Res. 1295) --International Coffee Agreement Act, continue. Reported from Ways and Means, Dec. 1, 1970; Rept. 91-1641, Union Calendar. Passed House, Dec. 18, 1970. Reported in Senate, Dec. 30, 1970; Finance; Rept. 91-1534. Passed Senate, Dec. 31, 1970. Approved, Jan. 12, 1971. Public Law 91-694.

H.R. 8293 (H. Res. 465) --Tariff, International Coffee Agreement Act of 1968, continue. Reported from Ways and Means, June 2, 1971; Rept. 92-242, Union Calendar. Passed House, Nov. 5, 1971. Reported in Senate Mar. 9, 1972; Finance; Rept. 92-685. Passed Senate Mar. 13, 1972. Approved Mar. 24, 1972. Public Law 92-262.

Circumstances which led to the formulation of the agreements, their structure, and their operations

The coffee market was characterized by persistent overproduction and depressed prices from the mid-1920's to the early 1940's. Although several international conferences were held to discuss measures intended to be of benefit to the coffee trade, no definitive agreements were reached until the outbreak of World War II, when the Inter-American Coffee Agreement was signed. This agreement, which was signed in 1940 by the United States and 14 Latin American coffee-producing nations, was intended to solidify U.S. relations with Latin America during World War II and deal with the particular wartime problem created for Latin American producers by the closing of European markets, rather than to solve basic coffee problems. The agreement functioned through annual import quotas for the U.S. market, both for members and nonmembers, and export quotas for members to other markets. No provisions for price controls were contained in the agreement.

The quota arrangements of the agreement were terminated in 1945 (at the end of World War II), and the agreement expired in 1948, with the Inter-American Coffee Board reporting that the oversupply problem was under control.

After World War II the demand for coffee increased, and by the late 1950's world coffee production was again much larger than demand, and prices were declining sharply. In August 1961 U.S. Secretary of the Treasury Douglas Dillon formally declared that the United States was "prepared to join a workable coffee agreement, to use its good offices to urge the participation of other consuming countries, and to help in the enforcement of export quotas through the use of import controls," and "the United States would propose that a new agreement be drafted to achieve these ends."

Thereafter, negotiations moved swiftly as an International Coffee Conference was held in July and August of 1962 under the sponsorship of the United Nations. At the Conference, the International Coffee Agreement, 1962, was successfully negotiated and adopted. Membership in the agreement consisted of 54 countries (32 coffee-exporting and 22 coffee-importing countries), accounting for about 95 percent of world coffee imports and exports.

The agreement functioned through the International Coffee Organization (ICO) which was governed by the International Coffee Council (ICC). The Council was composed of a representative of each member country with exporting and importing members (as a group) having an equal number of votes. The number of votes each country was delegated was related to its share of total coffee trade (see table 3). The stated objectives of the agreement were as follows:

> (1) To achieve a reasonable balance between supply and demand on a basis which will assure adequate supplies of coffee to consumers and markets for coffee to producers at equitable prices and which will bring about long-term equilibrium between production and consumption;
>
> (2) To alleviate the serious hardship caused by burdensome surpluses and excessive fluctuations in the prices of coffee which are harmful both to producers and to consumers;

Table 3.--International Coffee Agreement, 1968: Distribution of votes for coffee year 1972-73

COUNTRY	Exporting	Importing
Australia	—	9
Austria	—	13
Belgium	—	27
Bolivia	4	—
Brazil	331	—
Burundi	8	—
Canada	—	32
Colombia	113	—
Costa Rica	21	—
Cyprus	—	5
Czechoslovakia	—	10
Denmark	—	24
Dominican Republic	12	—
Ecuador	16	—
El Salvador	34	—
Ethiopia	27	—
Federal Republic of Germany	—	103
Finland	—	21
France	—	79
Ghana	4	—
Guatemala	32	—
Guinea	6	—
Haiti	12	—
Honduras	11	—
India	11	—
Indonesia	25	—
Israel	—	7
Italy	—	54
Jamaica	4	—
Japan	—	28
Kenya	17	—
Liberia	4	—
Mexico	31	—
Netherlands	—	42
New Zealand	—	7
Nicaragua	13	—
Nigeria	4	—
Norway	—	16
OAMCAF	(88)	—
OAMCAF	(4)[1]	—
Cameroon	15	—
Central African Republic	3	—
Congo, People's Republic	1	—
Dahomey	1	—
Gabon	1	—
Ivory Coast	46	—
Madagascar	14	—
Togo	3	—
Panama	4	—
Paraguay	4	—
Peru	16	—
Portugal	47	—
Rwanda	6	—
Sierra Leone	6	—
Spain	—	26
Sweden	—	37
Switzerland	—	23
Tanzania	15	—
Trinidad & Tobago	4	—
Uganda	41	—
United Kingdom	—	51
United States of America	—	386
Venezuela	9	—
Zaire	20	—
TOTAL	996	1,000

[1] Basic votes not attributable to individual contracting parties under Article 5 (4) (b)

(3) To contribute to the development of productive resources and to the promotion and maintenance of employment and income in the member countries, thereby helping to bring about fair wages, higher living standards, and better working conditions;

(4) To assist in increasing the purchasing power of coffee-exporting countries by keeping prices at equitable levels and by increasing consumption;

(5) To encourage the consumption of coffee by every possible means; and,

(6) In general, in recognition of the relationship of the trade in coffee to the economic stability of markets for industrial products, to further international cooperation in connection with world coffee problems.

These objectives were to be attained principally through a system of variable export quotas. Each exporting member country was assigned a basic quota which was negotiated prior to ratification of the agreement. The annual quotas were established for each year (beginning October 1) by a distributed two-thirds majority vote (i.e., a two-thirds majority vote of the importers and exporters voting separately). The annual quotas were based on an estimate of total world coffee imports and probable exports from nonmember countries. Each country's annual quota was determined by applying its share of the basic quota to the annual quota. The annual quotas were broken down into quarterly quotas which were to be, as nearly as possible, 25 percent of the annual export quotas. Exporting member countries were required to affix certificates of origin to coffee exports to member countries. Importing member countries were to refuse any shipments from exporting countries not accompanied by valid certificates.

The annual quota limited exports from member countries to "traditional markets." Excluded were exports to "new markets" consisting of 29 countries with low coffee consumption.

One of the chief problems encountered with the quota control system was the provision permitting unlimited sales to "new markets." Coffee transshipments through nonmember countries did not require certification of origin. Consequently, substantial amounts of coffee shipped to "new markets" were subsequently transshipped to the higher priced markets of member countries.

In order to remedy the transshipment problem, the ICC adopted additional control measures in 1966 and 1967. Imports of coffee by members from nonmembers were limited to the average annual imports of 1960-62. Member country transshipments of coffee through nonmember countries had to be accompanied by a certificate of origin and were valid only if they had an attached ICC-issued stamp corresponding to the amount of coffee shipped.

The mechanism for quota adjustment was modified after 1965 to allow quota adjustments with respect to the demand for coffee of a particular type. Before that time, the annual quota was adjusted to changing prices on an ad hoc basis. After 1965 the annual quota was adjusted whenever an indicator price fell below or rose above a predetermined level. The indicator price was an average for the three major types of coffee. Later the ICC adopted a system for adjusting annual and quarterly quotas in relation to the movement of prices for each of four different types of coffee in accordance with its own indicator price.

The agreement's policy on coffee stocks was undefined. Although Brazil and Colombia traditionally performed the function of stockpiling, there was no precise obligation on the part of any country to hold stocks.

The International Coffee Agreement, 1962, expired on September 30, 1968, and was replaced by a similar 5-year agreement--the International Coffee Agreement, 1968, signed by 53 member governments (34 exporting and 19 importing), effective October 1, 1968.

The objectives and basic mechanisms of the 1968 agreement remained unaltered from those of the 1962 agreement, although major changes were made with respect to a diversification fund and individual members' production goals. The diversification fund was established to enable exporting countries, heavily dependent on the production of coffee, to shift resources to other economic activities. All members with an export entitlement of 100,000 bags or more were required to contribute 60 cents per bag of coffee exported to quota markets. Importing members were allowed to participate on a voluntary basis. At the close of coffee year 1971-1972, the diversification fund had approved 25 projects in 21 countries.

The 1968 agreement required each member exporting country to submit periodic estimates of the production it would require to satisfy home and export demand and maintain adequate stocks. After these estimates were received and accepted by the ICC, the exporting countries were required to attempt to limit their crops to the accepted levels. The ICC would keep individual production goals under constant review and could revise them to the extent necessary to insure that individual member goals were consistent with estimated world requirements. Individual exporting countries were held responsible for production control. A noncomplying country was subject to loss of any subsequent increase in export entitlements and possible suspension of voting rights.

The International Coffee Agreement, 1968, was scheduled to complete its fifth and final year of operation on September 30, 1973, but in August and September 1972, producer and consumer countries were unable to reach agreement on a working arrangement. Consequently, there was no agreement on specifics for the remainder of the 1972-73 coffee year.

At the ICC meeting in August and September 1972, an interim solution was agreed on without a Council vote. The iterim solution provided for a short-term marketing arrangement without pricing provisions; it established a theoretical annual export quota. A first-quarter export quota was established, and it was provided that the Council should meet prior to December 10, 1972, to discuss arrangements for the remainder of the 1972-73 coffee year, and, unless the Council at that time confirmed the provisions of the overall quota or took alternative action, all provisions of the interim arrangement would cease to have effect.

The usual difficulties of the negotiations regarding quota size and pricing provisions were increased in 1972 because of producer insistence that prices be raised to reflect the lower value of the U.S. dollar relative to other currencies as well as Brazil's desire to have a relatively small quota (because of small Brazilian crops which resulted from freezes, thus reducing Brazil's available export supplies). In addition, a group of producer countries (21 countries that accounted for about 80 percent of the world's coffee supplies) known as the Geneva group had agreed to withhold coffee from the market to increase prices. Their actions, if not in direct violation of the terms of the

International Coffee Agreement, were certainly in violation of the spirit of the agreement.

At the November-December 1972 meetings of the International Coffee Council, producer and consumer countries were still unable to reach agreement on the quotas and prices for the adjustment of the quotas for the last three quarters of the 1972-73 coffee year, and the interim arrangement ceased to have effect.

In April 1973 the ICC approved a 2-year extension of the International Coffee Agreement for the period September 30, 1973, to September 30, 1975. The objectives of the extended agreement were stated as follows:

> (1) To preserve and promote the understanding between producers and consumers necessary for the conclusion of a new International Coffee Agreement and to avoid the consequences prejudicial to both which would result from the termination of international cooperation;
>
> (2) To preserve the International Coffee Organization--
> (a) as a forum for the negotiation of a new agreement
> (b) as a competent and effective center for the collection and dissemination of statistical information on the international trade in coffee, in particular on prices, exports, imports, stocks, distribution and consumption of coffee and on production and production trends.

The extended agreement contained no provision for export-import controls, quota arrangements, or price stabilization mechanisms. The infrastructure that remained was essentially a shell which served as a forum for the collection and dissemination of coffee statistics and as a basis for the renegotiation of a new agreement.

U.S. relationship and effect of the International Coffee Agreement on the United States

U.S. participation in both the 1962 and 1968 agreements has been by treaty. Congress passed enabling legislation for both agreements, authorizing the President to perform certain functions in relation to the control of imports. The legislation, twice extended, expired on September 30, 1973. The International Coffee Agreement, 1968, as extended, now continues without operative economic provisions and, hence, does not require implementing legislation by the United States. The International Coffee Council has adopted a resolution extending the current agreement for 1 year to September 30, 1976, and ratification by the U.S. Congress is pending.

The United States emphasized two major objectives in its membership in the 1962 and 1968 International Coffee Agreements: (1) guarding the interests of the U.S. consumer through ample coffee supplies at reasonable prices and (2) the economic development of coffee-producing countries. President Nixon stressed these points in the 1971 report to the Congress on the International Coffee Agreement:

> It is accordingly appropriate that we join in a collective effort which serves to protect the American consumer from the extremely high prices which prevail in times of a coffee shortage. Moreover, we have an equal interest in stabilizing the export earnings of coffee producing countries whose economic development programs we have supported and most of which are important customers for American export products.

It is impossible to say what the average price of coffee would have been to the U.S. consumer without the influence of the agreements. However, it is generally assumed that retail coffee prices would have been lower during 1963-72 in the absence of the agreements. This assumption is based on the following:

> (1) There were large annual coffee surpluses concurrent with rising price trends during 1963-72, while in the period immediately before agreement regulation there were significant surpluses but declining prices;
>
> (2) Substantially lower coffee prices existed in countries, such as Japan, which were not subject to agreement quota regulations; and
>
> (3) Many member producing countries shipped less than their quota, thus limiting the effectiveness of the quota mechanism in controlling price rises.

Under the agreement regulations, producing countries were not required to export the full amount of their quotas. Consequently, some countries such as Brazil, which followed price maintenance policies, shipped less than their quotas. When prices rose 22 percent in 1969-70, adjustment regulations increased the world quota by 6 million bags, but shipments amounted to 2.5 million bags under the quota. Brazil received 37 percent of the total 1969-70 quota increases; however, it shipped only 25 percent of its increased quota.

A 1969 report by the Comptroller General of the United States projected the total foreign aid made available through the International

Coffee Agreement and the U.S. share of the aid during 1964-67. The basic methodology used for the projection was to estimate what the price of coffee, the world quantity of coffee exports, and the quantity of exports to the United States would have been in the absence of the agreement by assuming that the characteristics of the world coffee market before the 1962 agreement would have prevailed for the duration of the agreement. The result showed that U.S. coffee aid during 1964-67 averaged $314 million a year, which was about 8 percent of official aid disbursements during the same period.

Most forms of U.S. economic development aid are intended for specific development projects or general development objectives. Under the 1962 agreement, no explicit attention was given to the use to which coffee-producing countries put their coffee foreign aid. The 1968 agreement did establish a diversification fund, which was to enable producing countries to shift coffee resources to other economic activities. This fund insured that at least some portion of the coffee aid received through the 1968 agreement would be used for development purposes.

Generally speaking, during 1963-72 the agreements achieved a degree of success in stabilizing the wild price fluctuations associated with the coffee "boom or bust" cycle, as can be seen in figure 1. This stabilization or commodity trade assistance was in effect financed through higher prices for the U.S. coffee consumer.

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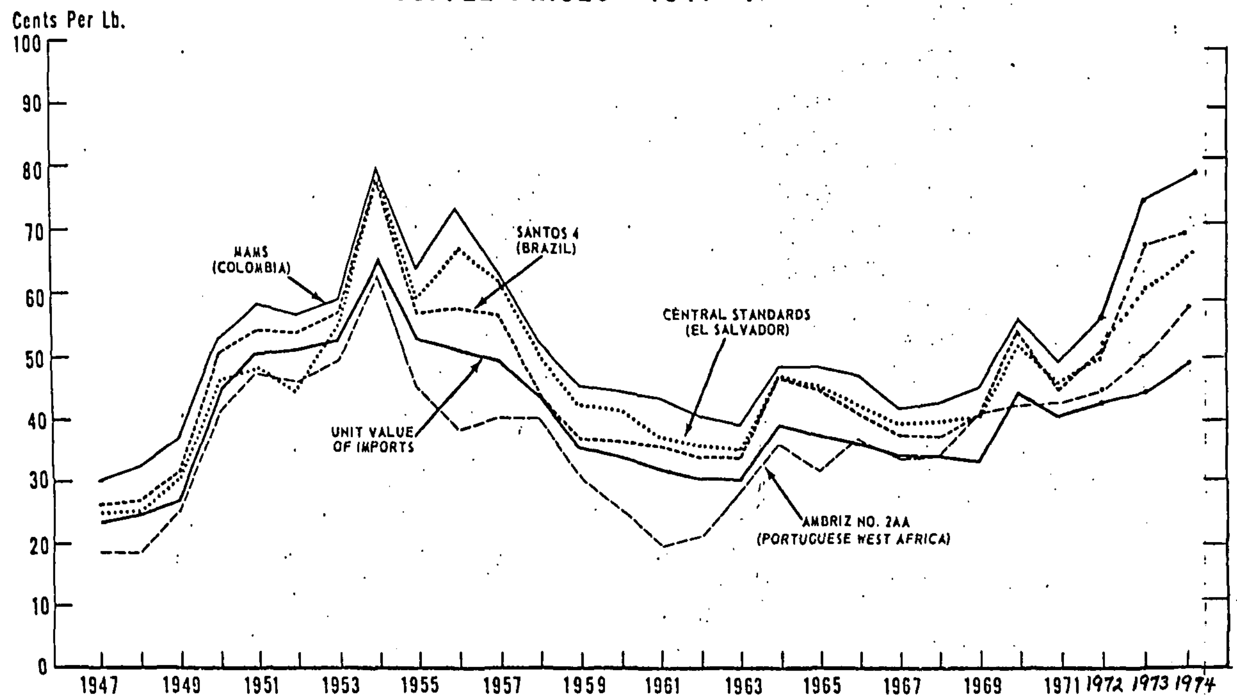
Figure 1

COFFEE PRICES* 1947–74



SOURCE: PAN-AMERICAN COFFEE BUREAU EXCEPT 1954 PRICE OF CENTRAL STANDARDS FROM SPRAGUE & RHODES COMMODITY CORP.
* THE PRICES OF MAMS, SANTOS 4, AMBRIZ NO. 2AA AND CENTRAL STANDARDS ARE NEW YORK SPOT PRICES REPRESENTING EACH OF THE 4 MAJOR TYPES OF COFFEE. THE UNIT VALUE OF IMPORTS IS THE DOLLAR VALUE OF ANNUAL U.S. IMPORTS OF GREEN COFFEE DIVIDED BY THE CORRESPONDING VOLUME OF GREEN COFFEE IMPORTS.

Current status of the International Coffee Agreement

The ICO Executive Board held meetings throughout 1973-75 for the purpose of negotiating a new coffee agreement. In September 1974 the ICC adopted a resolution extending the existing International Coffee Agreement, 1968, as extended for 1 year to September 30, 1976. The extended agreement was designated the International Coffee Agreement, 1968, as extended by protocol. The additional year is intended to provide the time to negotiate a new agreement and carry out the constitutional procedures for approval, ratification, or acceptance.

The most recent session of the ICC began in London on June 24, 1975, and continued through July 13, 1975. Officials of the U.S. Department of State have indicated that although the special ICC Working Group, set up to negotiate a new international coffee agreement, was not able to submit the text of a new pact for negotiation at this session, it had accomplished enough to permit the ICC to reach positive conclusions on the framework of a new agreement.

The essential elements on which the Contact Group agreed was that annual and quarterly quotas be distributed among exporting members in fixed and variable parts. The fixed part should be distributed pro rata to the basic quota of each exporter, and the variable part should be based on the volume of verified stocks held by each exporter. The Council should be empowered to establish arrangements (a) for indicator prices for different types of coffee, (b) to effect pro rata adjustments in response to movements of a composite indicator price, and (c) to provide for selective upward adjustments in response to movements of the indicator prices for the different types of coffee.

In order to prevent excessive price rises, the Contact Group agreed that quotas should be suspended automatically (1) in any year for which the Council has adopted a price range, whenever prices reach 20 percent above the maximum of that range, or (2), if the Council has not adopted a price range, whenever prices reach 30 percent above the average price registered in the first 3 months of the previous 6 calendar months. The report recommended that shortfalls of quota entitlements should be redistributed among exporters of the same type of coffee. The question of an international guarantee stock was left pending. The agreement was to be either 5 or 6 years in duration.

A detailed draft text of the Contact Group's recommendation is to be prepared by a special drafting group and ICA Executive Director Alexandre Beltrao and will be submitted to the ICC at the session scheduled for November 3-21, 1975.

A few days after the completion of the July 1975 session of the ICC, a widespread frost seriously damaged the 1976-77 Brazilian coffee crop, causing uncertainty as to future supplies and causing prices to rise substantially. At this time it is uncertain how the frost damage will affect the next round of international coffee agreement negotiations. Preliminary indications by major producing and consuming countries are that negotiations will continue. A further complicating factor for the negotiations is the current political unrest in Angola and Ethiopia.

The International Cocoa Agreement

A Cocoa Conference, convened by the United Nations Conference on Trade and Development (UNCTAD), resulted in October 1972 in establishment of the International Cocoa Agreement. Upon ratification by June 30, 1973, by most producing countries and by countries accounting for about 70 percent of consumption, the agreement became effective for the 3 crop years beginning October 1, 1973. The United States did not ratify the agreement. The agreement is between governments that make commitments on supply control involving export quotas and buffer stocks. A council representing all member governments administers the agreement.

Circumstances leading to the formulation of the agreement

Cocoa and chocolate food products are consumed throughout the world and particularly in temperate zone countries with relatively high per capita incomes. The United States alone accounts for about one-fourth of total consumption. Production, however, is limited to tropical areas, and five countries--Ghana, Nigeria, Ivory Coast, Cameroon, and Brazil--often produce more than three-fourths of the total output. International trade is primarily in cocoa beans, with four-fifths of the crop being exported from producing countries in raw form. Most processing has been done in the temperate zone consuming countries, but to an increasing extent processing of the beans is now taking place in tropical producing countries with shipment of semiprocessed products--particularly cocoa powder and cocoa butter. Some producing countries have used systems of export duties and subsidies to encourage development of this processing industry. Final processing into consumer goods such as chocolate confectionery, baked goods, and beverage bases still occurs almsot entirely in consuming countries.

Cocoa bean prices have a history of being among the least stable prices of all primary commodities. In the period 1965-74, average annual prices varied from one year to the next by about 30 percent; annual production varied by less than 10 percent, and annual grindings, as a measure of consumption, varied by less than 4 percent.

While the price elasticity of demand appears moderately inelastic, the price elasticity of supply is probably even more inelastic. Cocoa bean products are not a necessity, but consumers evidently do not react strongly to moderate price changes in cocoa beans. This is due in part to the fact that there are no adequate substitute cocoa flavors and that final consumer product prices are moderated by prices for other ingredients such as sugar, flour, and milk. There is also a significant and relatively stable cost component of value added by manufacture which further moderates changes in consumer product prices despite wide fluctuations in cocoa bean prices.

The small response in year-to-year production to changes in price may be attributed to the fact that cocoa beans are a tree crop with usually more than 5 years between planting and harvesting. A further factor preventing a supply response to price change has been the marketing organization in some countries which has failed to pass increased market prices on to the grower. Year-to-year changes in production stem largely from natural causes such as weather and plant diseases.

For many years cocoa-producing countries made efforts to stabilize and improve prices through quasi-government marketing boards engaging in supply control for the cocoa beans of the particular country. These boards achieved only temporary successes. There was no overall supply control, and some countries continued to sell or even subsidize exports while others were withholding supplies from the market. To strengthen their position by pooling crop information and timing sales, six major producers (Ghana, Nigeria, Ivory Coast, Brazil, Cameroon, and Togo) set up the Cocoa Producers Alliance in July 1962. This Alliance is still active as a producers' forum with enlarged membership.

In 1956 the Food and Agriculture Organization of the United Nations had set up a Cocoa Study Group for consumers along with producers to develop statistical information and jointly explore possibilities for an international agreement to stabilize prices. The United States opposed efforts toward stabilization that might result in generally higher price levels. The activities of the Cocoa Study Group were taken over by the UNCTAD in 1965, and a higher price level as an aid to developing countries was clearly stressed as an objective. With rising prices from 1965 to 1969, there was not strong pressure from producing countries to conclude an agreement. However, following a big price break in 1970 and 1971, an International Cocoa Agreement was adopted in October 1972.

Structure of the cocoa agreement and administrative arrangements

The agreement was originally intended to stabilize cocoa bean prices within a range of 23 to 32 U.S. cents per pound. In view of market prices well above the minimum, the objective range was changed beginning October 1974 to 29.5 to 38.5 cents per pound. The agreement provides for decreasing export quotas and buying buffer or reserve stocks as prices fall toward the minimum level and for enlarging quotas and selling buffer stocks when prices rise near the top end of the range.

Membership of the agreement includes about 50 countries representing producers of about 90 percent of the world output and consumers of 70 percent of the supply. All major producing countries are members. Important, but still minor, producing countries which are not members include Equatorial Guinea, Ecuador, the Dominican Republic, Mexico, and Malaysia. The United States and Poland are the only nonmember consuming countries that buy significant quantities of cocoa beans.

The agreement is administered by a Council representing all members. Exporting members and importing members as separate groups each have 1,000 votes. The votes of exporters are distributed approximately in proportion to production, and the votes of importers, approximately in proportion to net imports.

The initial basic export quotas for cocoa beans, and cocoa products in terms of beans, were assigned to major producing countries according to each country's highest production of beans since the 1964-65 crop year. This resulted in initial quotas well in excess of any likely supply. The current basic quotas as revised in October 1974 take into account production in the crop years 1971-73. The current basic quotas, which are somewhat closer to actual supplies, are as follows:

Country	Basic export quota: 1,000 metric tons	Basic export quota: Percent
Ghana	545.0	39.5
Nigeria	289.1	21.0
Ivory Coast	212.1	15.4
Brazil	188.4	13.5
Cameroon	118.3	8.6
Togo	26.5	1.9
Total	1,379.4	100.0

Three minor producing countries--the Dominican Republic, Equatorial Guinea, and Mexico--together produce about 7 percent of the world supply. Since these countries did not ratify the agreement, they are not assigned quotas and assume no responsibilities under the agreement. The many other minor producing countries were not assigned quotas by virtue of two exemptions. The exports of fine or flavor grade cocoa beans, which also account for about 7 percent of world production, were not subject to quota nor were any of the exports of countries producing less than 10,000 tons of cocoa beans.

The agreement provides for a reduction in export quotas to 90 percent of the basic quotas when indicator prices, based on an average of nearby futures on the New York and London exchanges, are at the minimum and for successive increases in export quotas to 105 percent of the basic quota and eventual suspension as prices rise. Sales of buffer stocks are commenced when prices reach 1 cent below the maximum, and buffer stocks are purchased when export quotas are reduced below 100 percent of the basic quota. The amount purchased is equal to the amount of the quota reduction. If prices exceed the maximum or are less than the minimum, a special vote is taken on further measures to defend the maximum and the minimum of the price range.

Funds are raised by an export levy of up to 1 cent per pound for purchase of a buffer stock of up to 250,000 metric tons of cocoa beans when prices are low. Provision is made for initial payments to producers of somewhat less than half the market value of beans going into the buffer stock. When prices rise and buffer stocks are sold, final payment is made to the producing country. When the quantity of cocoa beans held in the buffer stock exceeds the maximum amount of 250,000 tons, each member country shall cooperate in the diversion of such excess supplies to nontraditional uses.

Operations of the International Cocoa Agreement

The agreement was signed following record world production and declining prices in the 1971-72 crop year. The 1972-73 crop was significantly lower and well below world comsumption (see following table). World production continued below consumption in the 1973-74 crop year, and prices have been well above the ceiling during the entire effective period of the agreement to date despite an increase in the objective price range in 1974. As a consequence, export quotas have not been imposed, and no buffer stocks have been accumulated. However, funds for financing a buffer stock have been accumulated through the aforementioned export levy and now total about $55 million--enough to make partial payment at 10¢ per pound on the maximum authorized buffer stock of 250,000 tons--equivalent to about one-sixth of the world annual output. A negotiating conference to renew the agreement before the September 30, 1976, expiration date is scheduled for September 15-October 17, 1975.

World cocoa bean production, grindings, exports, and prices, years beginning Oct. 1, 1964-74

Year beginning Oct. 1--	Production	Grindings 1/	Exports 1/	Prices 2/
	1,000 metric tons	1,000 metric tons	1,000 metric tons	U.S. cents per lb.
1964	1,494	1,341	1,298	17.6
1965	1,216	1,392	1,117	22.3
1966	1,344	1,378	1,081	25.8
1967	1,351	1,420	1,052	29.2
1968	1,209	1,364	998	41.4
1969	1,419	1,355	1,121	33.1
1970	1,505	1,442	1,186	26.6
1971	1,572	1,557	1,224	26.4
1972	1,397	1,541	1,095	46.0
1973	1,402	1,464	1,073	66.0
1974	1,435	1,407	3/	4/ 70.9

1/ Data are for calendar year following year beginning Oct. 1.
2/ Yearly average of nearby future prices on the New York and London Cocoa Exchanges.
3/ Not available.
4/ October-February average.

Source: International Cocoa Organization, Quarterly Bulletin of Cocoa Statistics.

U.S. relationship and effect of the International Cocoa Agreement on the United States

The United States participated in the negotiations for the International Cocoa Agreement of 1972 but did not sign it because of reservations at that time that the price range was too high and that the export quota and buffer stock mechanisms would not be likely to achieve their objectives. The United States has continued to cooperate with the

International Cocoa Organization in supplying statistics. In view of the fact that cocoa bean prices have been above the maximum throughout the effective period of the agreement to date, the quota provisions have not been operative, and the agreement has probably had little effect on the cocoa market. It has set a precedent for producers and consumers getting together for a better understanding of opposing interests and for the collection of statistics bearing on the cocoa market. The United States is participating in the negotiations beginning September 22, 1975, to draw up a new international cocoa agreement.

The International Wheat Agreements

The international wheat agreements have been multilateral treaties between the governments of wheat-importing and wheat-exporting nations. Administered by the International Wheat Council, the agreements have basically been multilateral purchase and sales contracts providing for wheat trade between member nations to take place within specified price ranges. The current agreement, however, does not contain pricing provisions. The United States has been a member of each of the agreements since 1949. 1/

1/ For a track of congressional interest in these international commodity agreements, the following library references are provided:

International Wheat Agreement, 1949

The International Wheat Agreement, Message from the President of the United States to Senate, 80th Cong., 2d sess., April 30, 1948.

U.S. Congress, Senate Committee on Foreign Relations. Agreement Revising and Renewing the International Wheat Agreement of 1949. Rept. No. 4., 83d Cong., 1st Sess., July 8, 1953.

H.R. 6305 (S. 2383) (H. Res. 391) --International Wheat Agreement. Reported from Banking and Currency Oct. 10, 1949; Report No. 1395. Conference report filed Oct. 18, 1949; Report No. 1455. Approved Oct. 27, 1949. Public Law No. 421.

H. Res. 391 (H.R. 6305) --International Wheat Agreement, consideration. Reported from Rules Oct. 11, 1949; Report No. 1400. Laid on House table Oct. 13, 1949.

S. 2383 (H.R. 6305) --International Wheat Agreement. Reported in Senate Oct. 5, 1949; Agriculture and Forestry; Report No. 1123. Passed Senate Oct. 13, 1949.

International Wheat Agreement, 1953

S.J. Res. 97 (H. Res. 360) --International Wheat Agreement. Reported in Senate July 8, 1953; Foreign Relations (see Executive Report No. 4.). Passed Senate July 13, 1953. Referred to Banking and Currency July 14,

(Continued)

Circumstances leading to the formulation of the agreements

International discussions on the possibility of bringing a greater degree of stability into world wheat prices began in 1930, following a buildup of wheat surpluses in the late 1920's and the collapse of wheat prices in the years 1930-31. The initial discussions, which included

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(Continued)

1953. Reported July 21, 1953; Report No. 893. Passed House July 29, 1953. Approved Aug. 1, 1953. Public Law No. 180.

H. Res. 360 (S.J. Res. 97) --International Wheat Agreement, consideration of. Reported from Rules July 28, 1953; Report No. 1008. Laid on table July 29, 1953.

International Wheat Agreement, 1956

S. 4221 --International Wheat Agreement Act of 1949, amend. Reported in Senate July 18, 1956; Agriculture and Forestry; Report No. 2623. Approved Aug. 3, 1956. Public Law No. 945.

International Wheat Agreement, 1959

H.R. 8409 (S. 2449) --Wheat Agreement Act of 1949, extend. Reported from Banking and Currency Aug. 12, 1959; Rept. 883. Union Calendar. Approved Sept. 21, 1959. Public Law 86-336.

S. 2449 (H.R. 8409) --International Wheat Agreement Act of 1949, extend. Reported in Senate Aug. 13, 1959; Agriculture and Forestry; Rept. 704.

International Wheat Agreement, 1962

S. 3574 --Agriculture, International Wheat Agreement, extend. Reported in Senate Aug. 2, 1962; Agriculture and Forestry; Rept. 1804. Referred to Banking and Currency Aug. 9, 1962. Reported Aug. 16, 1962; Rept. 2246. Approved Sept. 5, 1962. Public Law 87-632.

International Wheat Agreement, 1971

Hearings before the Ad Hoc Subcommittee on International Wheat Agreement of the Committee on Foreign Relations. 92d Cong., 1st Sess., June 1971.

only exporting countries, were directed toward a system of export quotas. Further discussions of wheat-exporting countries were held in 1931.

A comprehensive export quota type of agreement was approved in 1933 by 9 exporting and 13 importing countries. The agreement broke down during its first year of operation, largely because it proved impossible to obtain full cooperation of all major exporters in adhering to the agreed export quotas.

Wheat prices were depressed during World War II because shipments to Europe from the major exporting countries were reduced, and large stocks accumulated. In 1941 and 1942, representatives of Argentina, Australia, Canada, the United States, and the United Kingdom adopted a Memorandum of Agreement, which included a Draft Convention to be submitted to a general conference of wheat-trading nations after the war. The memorandum provided that the agreement should be administered by an International Wheat Council (IWC), which was set up in 1942. Further international wheat discussions were held in 1945, 1946, 1947, 1948, and 1949. The 1947 Conference marked a turning point in negotiations on wheat in that for the first time serious consideration was given to a "multilateral purchases and sales" agreement rather than an agreement based on export quotas.

At a meeting of the IWC in 1948, an international wheat agreement (IWA) was negotiated. This IWA, which was of the multilateral contract type and provided for maximum and minimum prices, did not go into effect because the United States failed to ratify it. In 1949, however, a similar agreement was negotiated, ratified, and put into effect for a period of 4 years. Similar agreements operated from 1953 to 1956, 1956 to 1959, 1959 to 1962, and 1962 to 1967.

Under the 1949, 1953, and 1956 agreements, each participating exporting country agreed to sell to participating importing countries (as a group) a "guaranteed quantity" of wheat at prices no lower than a stated minimum. The concept of guaranteed quantities was adopted at a time when wheat was generally in short supply; it was abandoned when there was no longer a world shortage of wheat. The 1959 IWA was expanded to cover the whole of the importing countries' commercial requirements for wheat and flour. As long as prices remained below the maximum specified in the agreement, each importing country agreed to purchase during each crop year a specified percentage of its total commercial purchases of wheat from member countries as shown in the following table:

Members' purchase obligations and actual transactions under the 1949, 1953, and 1956 IWA's (annual averages)

Item	1949/50-1952/53 IWA	1953/54-1955/56 IWA	1956/57-1958/59 IWA
Members' total imports			
Million metric tons	22.2	13.7	20.1
Members' total guaranteed quantities			
Million metric tons	15.3	10.7	8.0
Members' transactions under agreement---Million metric tons	14.4	7.0	5.4
Total world trade			
Million metric tons	25.8	26.3	34.6
Transactions under agreement as--			
A percent of members' total imports	65	51	27
A percent of total world trade	56	27	16
Members' total guaranteed quantities as--			
A percent of members' total imports	69	78	40
A percent of total world trade	59	41	23

Source: Food and Agriculture Organization of the United Nations.

The exporting countries agreed, as a group, to supply all the commercial requirements of the member importing countries. The 1962 IWA was essentially a continuation of the 1959 agreement, with the maximum and minimum prices being increased by 12.5 cents per bushel.

The 1962 IWA was extended unchanged in 1965 and again in 1966, in view of the continuing negotiations aimed at a more comprehensive grain agreement. In the year 1967-68, however, exporting members were no longer prepared to continue this procedure, and the price and other operational provisions of the agreement were suspended. The 1967 International Grains Arrangement (IGA) (which went into effect in mid-1968) contained a Wheat Trade Convention (WTC) and a Food Aid Convention (FAC). The WTC was essentially the same as the 1962 IWA, but with a higher price range.

Shortly after coming into force, the minimum price provisions of the WTC were ineffective. The IGA continued in effect throughout the remainder of its 3-year life, with the minimum-price provisions of the agreement being ignored.

The 1971 IWA, which continues in effect, having been twice extended during negotiations for a new agreement, also contains a WTC and an FAC. The WTC contains no price provisions but does collect data and provides a forum for continued cooperation and discussions. The FAC of the 1971 IWA is nearly identical to that of the 1967 IGA. During the life of the 1971 agreement, world supplies of wheat have gone from a situation of surplus to that of relative shortage, and prices have fluctuated wider than in any other period since the first IWA went into effect in 1949.

Structure of the wheat agreements and administrative arrangements

Beginning with the 1949 IWA, all of the agreements have been multilateral contracts for purchases and sales. Each has consisted of a series of articles setting forth a comprehensive agreement regarding the rights and obligations of member countries with reference to trade in wheat, the establishment of an administrative mechanism for the agreement, financing for the agreement, methods and time limits ...

for accession to the agreement, and specifics for the entry into force and duration of the agreement.

All of the international wheat agreements since the 1949 IWA (including the 1967 IGA) have been administered by the International Wheat Council, which meets in London and which is composed of the member importing and exporting countries. Member importing countries (as a group) and member exporting countries (as a group) have the same number of votes. Members of the IWC and their votes as of June 30, 1974, are as follows:

Exporting members	Votes
Argentina	102
Australia	102
Canada	282
European Economic Community	102
Greece	6
Kenya	6
Spain	5
Sweden	11
Union of Soviet Socialist Republics	102
United States of America	282
	1,000

Importing members	
Algeria	14
Austria	1
Barbados	1
Bolivia	5
Brazil	80
Costa Rica	3
Cuba	2
Dominican Republic	1
Ecuador	3
Egypt (Arab Republic of)	74
El Salvador	2
European Economic Community	321
Finland	2
Guatemala	3
India	40
Iraq	5

Importing members--(Continued)	Votes
Israel	5
Japan	201
Kingdom of the Netherlands 1/	1
Lebanon	11
Libyan Arab Republic	5
Mauritius	2
Nigeria	8
Norway	16
Pakistan	19
Panama	2
Peru	29
Portugal	21
Republic of Korea	19
Saudi Arabia	12
South Africa	11
Switzerland	18
Syrian Arab Republic	5
Trinidad and Tobago	4
Tunisia	5
United Kingdom 2/	12
Vatican City	1
Venezuela	34
	1,000

1/ Votes with respect to the interests of Netherlands Antilles and Surinam.
2/ Votes with respect to the interests of certain dependent territories.

Decisions of the IWC are (with certain specified exceptions) determined by a majority of the votes cast by exporting members and a majority of the votes cast by importing members, counted separately. Four exporting members and eight importing members are elected each crop year to form an Executive Committee. This Committee does much of the basic work on issues confronting the IWC. An Advisory Subcommittee on Market Conditions consisting of not more than five exporting members and not more than five importing members is established annually by the

Executive Committee to keep current market conditions under continuous review. The IWC has a Secretariat which is composed of an Executive Secretary and the staff necessary to do the work of the IWC and its committees and subcommittees.

All of the major wheat-exporting and wheat-importing countries have generally been members of the IWA's. However, there have been notable absences from the agreements. The United Kingdom, the world's largest commercial importer of wheat, did not participate in the 1953 and 1956 agreements, and Argentina, an exporter, was not a member of the 1949 and 1953 agreements. The United Kingdom did not participate in the 1953 agreement because of the substantial increase in the price range from that in the 1949 agreement. In 1956 the United Kingdom again stayed outside the agreement, feeling that the agreement was no longer appropriate for the changed conditions of the world wheat market. Argentina stayed outside the 1949 and 1953 agreements, this at a time when wheat sold outside the agreements generally at prices higher than the maximums stated in the agreements. The U.S.S.R. and Brazil did not join the 1967 IGA. The principal features of the IGA were negotiated in the Kennedy Round of trade negotiations under the General Agreement on Tariffs and Trade as part of an overall trade package and were not renegotiable when non-GATT wheat-trading nations were invited to participate.

Operations of the international wheat agreements

The IWA's of 1949, 1953, 1956, 1959, and 1962 provided for certain commercial transactions involving wheat between member countries to take place between specified minimum and maximum prices. The obligations applied only to commercial transactions and not to other (i.e., "special") transactions. Special transactions are defined as those transactions which, whether or not within the price range, include features introduced by the government of a country concerned which do not conform to the usual commercial practices.

The agreements provided for a price range for only one class of wheat (No. 1 Manitoba Northern) in one position (Fort William/Port Arthur) with a formula for determining equivalent prices in other positions, taking account of prevailing freight rates. The price ranges specified under the IWA's were as follows (in U.S. dollars per bushel):

	Maximum	Minimum
1949	$1.80	$1.50-$1.20
1953	2.05	1.55
1956	2.00	1.50
1959	1.90	1.50
1962	2.025	1.625

The 1949, 1953, and 1956 agreements involved "guaranteed" quantities of wheat that participating exporting countries undertook to sell to participating importing countries and that participating importing countries undertook to buy from participating exporting countries in each crop year.

Members' purchase obligations and actual transactions under these agreements are shown in a table on page 80. In the 1959 and 1962 agreements, the rights and obligations applied to all of the importing countries' commercial requirements for wheat and wheat flour.

The Wheat Trade Convention of the 1967 International Grains Arrangement essentially provided for a continuation of the 1962 IWA; however, it provided for minimum and maximum prices for 14 reference wheats, compared with the one reference wheat in the earlier IWA's. The price range in the 1967 IGA was approximately 20 cents per bushel higher than that in the 1962 IWA. The 1971 IWA does not contain any pricing provisions. A summary of the main provisions in the international agreements for wheat is shown in table 4.

The 1967 International Grains Arrangement and the current 1971 International Wheat Agreement contain a Food Aid Convention. Each country participating in the FAC has agreed to contribute as food aid to developing countries a specified quantity of wheat, coarse grains, or products derived therefrom, suitable for human consumption, or the cash equivalent thereof. The inclusion of an FAC in an international agreement was possible because the 1967 International Grains Arrangement was negotiated as a part of the overall trade negotiations conducted under the General Agreement on Tariffs and Trade. This set forth guaranteed quantities of food aid for the first time; however, the amounts specified are significantly less than the total food aid shipments made by participating countries and, undoubtedly, most of the shipments would have been made in the absence of the FAC. The U.S. contributions under the FAC have all been made under the terms of Public Law 480.

U.S. relationship and effect of the IWA on the United States

The United States, the world's largest exporter of wheat and wheat

Table 4.-- SUMMARY OF MAIN PROVISIONS IN INTERNATIONAL AGREEMENTS FOR WHEAT
1933 - 1970

Date and Place of Negotiations Duration of Agreement	Participating Countries	Price Provisions	Quantitative Commitments on Exports	Quantitative Commitments on Imports	Stockholding Provisions	Production and National Policies	Concessional Transactions
Final Act of the Conference of Wheat Exporting and Importing Countries 25 August 1933 in London Duration: 2 yrs.	Exporters: Argentina Australia, Bulgaria, Canada, Hungary, Poland Romania, U.S.A., USSR, Yugoslavia. Importers: Austria, Baltic States, Belgium, Czechoslovakia, Denmark France. Greece. Germany Italy, Lituania, Netherlands, Portugal, Spain, Sweden, Switzerland, U.K.	No provision	1933-34: Export quotas determined on the basis of an estimated trade volume of 560 mill. bu. Countries — mill.bu. Argentina 110 Australia 105 Canada 200 Danubian basin 54 U.S.A. 45 USSR and other countries 48 562 1934/35: Export quota of each country to be 15% less than the average yield of the average area of the years 1931-33, after deduction of normal domestic requirements. If additional exports would be necessary, additional quotas would be given to Canada and the proportion to their carry-over stocks.	No provisions	No provisions	The USA, Canada, Argentina and Australia agree to reduce wheat production by 15% in 1934/35. The Danube countries undertake not to extend their wheat area in 1934/35. No commitment concerning production control was made by the USSR. Importers undertake not to take advantage of the voluntary export restrictions of exporting countries by encouraging the extension of their own wheat areas.	No provisions
Memorandum of Agreement concerning the Draft Wheat Convention 22 April 1942 in Washington Planned duration: 4 years	Exporters: Argentina Australia, Canada, U.S.A. Importers: U.K.	Minimum and maximum prices to be set by the Council each August for the coming season. Prices are to be "remunerative to producers in exporting countries, fair to consumers in importing countries, and in reasonable relationship to prices of other commodities.	Export quotas: Country — % — Maximum amount mill.bu. Argentina 25 125 Australia 19 95 Canada 40 200 U.S.A. 16 80 100 500 If required, secondary export quotas will be determined in proportion to the "permitted surplus stocks". If no permitted surplus stocks exist, quotas go to countries with available supplies. Supplementary export quotas will be determined if one of the exporters is not able to fill its basic export quota.	Importers are to guarantee the functioning of the agreement by refusing imports from an exporting country which has filled its quotas.	Maximum and minimum limits of carryover stocks: Country — Min. — Max. Argentina 35 130 Australia 25 80 Canada 80 275 U.S.A. 150 400 290 885 The holding of "excess stocks" can be allowed if resulting from above average yields.	Exporting countries to take suitable measures to reduce production if and when their carry-over stocks exceed a specified maximum level. Permitted "excess stocks" carry no obligation to reduce production	No provision
1948 IWA 6 March 1948 in Washington Duration: 5 yrs. 1948/49-1952/53 (not ratified)	Exporters: Australia Canada, U.S.A. Importers: Afghanistan Austria, Belgium, Brazil China, Colombia, Cuba, Czechoslovakia, Denmark, Dominican Rep., Ecuador, Egypt, France, Greece, Guatemala, India, Ireland, Italy, Lebanon, Liberia, Mexico, Netherlands, New Zealand, Norway, Peru, Philippines, Poland, Portugal, South Africa, Sweden, Switzerland, U.K. Venezuela.	Maximum and minimum prices: 1948/49 $2,00 $1,50 1949/50 $2,00 $1,40 1950/51 $2,00 $1,30 1951/52 $2,00 $1,20 1952/53 $2,00 $1,10	The agreement covers only a part of total exports of member countries. Exporters' supply commitments are fixed in absolute terms to apply only at the maximum prices: Mill.bu. Australia 85 Canada 230 USA 185 500	The agreement covers only part of total trade of member countries. Importers' purchase commitments are fixed in absolute terms to apply only at the minimum prices.	Exporters are obliged to hold minimum stocks as follows: Mill.bu. Australia 25 a/ Canada 70 a/ U.S.A. 170 b/ a/ excluding stocks on farm b/ including stocks on farm In addition, both importing and exporting countries are required to maintain price stabilisation reserves amounting to 10% of their respective quotas.	Countries have complete freedom in their domestic policies, but are to operate their policies in a way which does not impede the free movement of prices within the price range.	No provision

Date and Place of Negotiations Duration of Agreement	Participating Countries	Price Provisions	Quantitative Commitments on Exports	Quantitative Commitments on Imports	Stockholding Provisions	Production and National Policies	Concessional Transactions	Food Aid
1949 IWA 23 March 1949 in Washington Duration: 4 yrs. 1949/50-1952/53	Exporters: Australia, Canada, France, U.S.A. Importers: Austria, Belgium, Bolivia, Brazil Ceylon, Costa Rica, Cuba Denmark, Dominican Rep. Ecuador, Egypt, El Salvador, Germany, F.R., Greece, Guatemala, Haiti, Honduras, Iceland, India Indonesia, Ireland, Israel Italy, Japan, Lebanon, Liberia, Mexico, Netherlands, New Zealand, Nicaragua, Norway, Panama, Peru, Philippines, Portugal Saudi Arabia, Spain, Sweden, Switzerland, South Africa, U.K., Venezuela. Of the above members, Honduras Rep., Iceland and Spain became members in 1950/51 and Japan in 1951/52.	Basic minimum and maximum prices of the Agreement. Canadian No.1 Manitoba Northern in store Fort William/Port Arthur Max. Min. (US$/bushel) 1949/50 1.80 1.50 1950/51 1.80 1.40 1951/52 1.80 1.30 1952/53 1.80 1.20	Commitments are quoted in terms of a specific volume and apply only at the maximum of the price range Quota: '000 met.tons Australia 2 177 Canada 5 527 France 90 U.S.A. 4 574	Commitments are quoted in terms of a specific volume and apply only at the minimum of the price range.	Each exporting country shall endeavour to maintain stocks of old crop wheat at the end of its crop year at a level adequate to ensure that it will fulfill its guaranteed sales under this Agreement in each subsequent year.	Each member country has complete liberty of action in the determination and administration of its internal agricultural and price policies but shall endeavour not to operate its policies in such a way as to impede the free movement of prices within the price range.	No provisions	No provisions
1953 IWA 13 April 1953 in Washington Duration: 3 yrs 1953/54-1955/56	Exporters: Australia Canada, France, U.S.A. Importers: Austria, Belgium, Ceylon, Costa Rica, Cuba, Denmark, Dominican Rep., Ecuador Egypt, El Salvador, Germany F.R., Greece Guatemala, Haiti, Honduras, Iceland, India Indonesia, Ireland, Israel, Japan, Jordan, Korea Rep., Lebanon, Liberia, Mexico, Netherlands, New Zealand, Nicaragua, Norway, Panama, Peru, Philippines Portugal, Saudi Arabia, Spain, Switzerland, South Africa, Vatican City Venezuela, Yugoslavia.	Basic minimum and maximum prices for the duration of the Agreement. Canadian No.1 Manitoba Northern in store Fort William/Port Arthur. Max.: US$2.05/bu. Min.: US$1.55/bu.	Commitments are quoted in terms of a specific volume and apply only at the maximum of the price range. Quota: '000 mt.tons Australia 1 207 Canada 4 105 France 9 U.S.A. 5 270	Commitments are quoted in terms of a specific volume and apply only at the minimum of the price range.	Each exporting country shall endeavour to maintain stocks of old crop wheat at the end of its crop year at a level adequate to ensure that it will fulfill its guaranteed sales under this Agreement in each subsequent crop year.	No provisions	No provisions	No provisions
1956 IWA 25 April 1956 in Washington Duration: 3 yrs, 1956/57-1958/59	Exporters: Argentina, Australia, Canada, France, Sweden, U.S.A. Importers: Austria, Belgium, Bolivia, Brazil, Ceylon, Colombia, Costa Rica, Cuba, Denmark, Dominican Rep., Ecuador Egypt, El Salvador, Germany F.R., Greece, Guatemala, Haiti, Honduras Rep., India, Indonesia, Ireland, Israel Italy, Japan, Jordan, Korea, Lebanon, Liberia, Mexico, Netherlands, New Zealand, Nicaragua, Norway, Panama, Peru, Philippines, Portugal Saudi Arabia, Spain, Switzerland, South Africa, Vatican City, Venezuela, Yugoslavia.	Basic minimum and maximum prices for the duration of the Agreement. Canadian No.1 Manitoba Northern, in store Fort William/Port Arthur. Max.: US$2.00/bu. Min.: US$1.50/bu.	Commitments are quoted in terms of a specific volume and apply only at the maximum of the price range Quota: '000 mt.tons Argentina 400 Australia 823 Canada 2 800 France 450 Sweden 175 U.S.A. 3 595	Commitments are quoted in terms of a specific volume and apply only at the minimum of the price range	Each exporting country shall endeavour to maintain stocks of old crop wheat at the end of its crop year at a level adequate to ensure that it will fulfill its guaranteed sales under this Agreement in each subsequent crop year.	No provisions	No provisions	No provisions
1959 IWA 10 March 1959 in London Duration: 3 yrs. 1959/60-1961/62	Exporters: Argentina, Australia, Canada, France Italy, Mexico, Spain, Sweden, U.S.A. Importers: Austria, Belgium and Luxembourg, Brazil, Cuba, Denmark Dominican Rep., Germany F.R., Greece, Haiti, India, Indonesia, Ireland, Israel, Japan, Korea, Netherlands, New Zealand, Norway, Peru, Philippines Portugal, Rhodesia and Nyasaland Fed., Saudi Arabia, Switzerland, South Africa, UAR, U.K., Vatican City, Venezuela	Basic minimum and maximum prices for the duration of the Agreement. Canadian No. 1 Manitoba Northern, in store Fort William/Port Arthur. Max.: US$1.90/bu. Min.: US$1.50/bu.	In association with one another exporters are to supply all the commercial needs of the importing countries at prices within the price range	Importers' commitments quoted as a specific percentage of their total commercial purchases of wheat from all sources at prices within the price range	No special provision, however, member exporters should to the maximum extent feasible make wheat available for purchase to meet their obligations under the Agreement.	No provisions	The Council takes within its purview not only commercial purchases but also special transactions introduced by the government of a country concerned, which do not conform with the usual commercial practices, whether or not within the price range	No provisions
1962 IWA Duration: 3 yrs. 1962/63-1964/65 with yearly extensions with substantive economic provisions expiring on 31 July 1967 and administrative provisions expiring on 31 July 1968	Exporters: Argentina, Australia, Canada, France Italy, Mexico, Spain, Sweden, USSR, U.S.A. Importers: Austria, Belgium and Luxembourg, Brazil, Ceylon, Cuba, Dominican Rep., Germany F.R., Fed.of Rhodesia and Nyasaland, India, Indonesia, Iran Ireland, Israel, Japan Liberia, Libya, Netherlands, New Zealand, Nigeria, Norway, Philippines, Poland, Portugal, Rep. Korea, Saudi Arabia, South Africa, Switzerland, UAR., U.K. Vatican City, Venezuela	Basic minimum and maximum prices for the duration of the Agreement. Canadian No.1 Manitoba Norther, in store Fort William/Port Arthur. Max.: US$2.02½/bu. Min.: US$1.62½/bu.	In association with one another exporters are to supply all the commercial needs of the importing countries at prices within the price range.	Commitments quoted as a specific percentage of importers' total commercial purchases of wheat from all sources at prices within the price range.	No special provision, however, member exporters should to the maximum extent feasible, make wheat available for purchase to meet their obligations under the Agreement.	No provisions	The Council takes within its purview not only commercial purchases but also special transactions introduced by the government of a country concerned, which do not conform with the usual commercial practices, whether or not within the price range.	No provisions

(Continued)

Date and Place of Negotiations Duration of Agreement	Participating Countries	Price Provisions	Quantitative Commitments on Exports	Quantitative Commitments on Imports	Stockholding Provisions	Production and National Policies	Concessional Transactions	
GATT Memorandum of Agreement June 1967 in Geneva	Argentina, Australia, Canada, Denmark, Finland, Japan, Norway, Sweden, Switzerland, U.K., U.S.A. EEC.	Schedule of minimum and maximum prices, basis f.o.b. Gulf ports, for duration of Arrangement Min. Max. (.US$/bu..) Canada Manitoba No.1 1.95½ 2.35½ Manitoba No.3 1.90 2.30 U.S.A. Dark Northern Spring No.1, 14% 1.83 2.23 Hard Red Winter No.2 (ordinary) 1.73 2.13 Western White No.1 1.68 2.08 Soft Red Winter No.1 1.60 2.00 Argentina Plate 1.73 2.13 Australia f.a.q. 1.68 2.08 EEC Standard 1.50 1.90 Sweden 1.50 1.90	Exporters undertake, in association with one another, that wheat shall be made available for purchase by importing countries in any crop year at prices consistant with the price range in quantities sufficient to satisfy on a regular and consistant basis the commercial requirements of those countries subject to the other provisions of this Agreement.	Each member country importing wheat undertakes that the maximum possible share of its total commercial purchases of wheat in any crop year shall be purchased from member countries, except when an exemption is granted by the Council due to extraordinary circumstances	No provisions	No provisions	No provisions	Cou Agr tri gra equ aid cou of Gre be con may cou Qua of Arg Aus Can Den EEC Fin Jap Nor Swe Swi U.K U.S
1968 IGA (a) Wheat Trade Convention August 1967 in Rome Duration: 3 yrs. 1968/69–1970/71	Exporters: Argentina Australia, Canada, EEC, Greece, Kenya, Mexico, Spain, Sweden, U.S.A. Importers: Barbados, Bolivia, Costa Rica, Cuba, Denmark, Dominican Rep., Ecuador, EEC, Finland Guatemala, India, Iran, Ireland, Israel, Japan, Rep.Korea, Lebanon, Libya, Netherlands, Nigeria, Norway, Pakistan, Peru, Portugal, Saudi Arabia, South Africa, Switzerland, Trinidad and Tobago, Tunisia UAR, U.K., Vatican City, Venezuela.	Schedule of minimum and maximum prices for duration of Arrangement (US$ per bushel) (basis f.o.b. Gulf ports) Min. Max. Canada Manitoba No.1 1.95½ 2.35½ Manitoba No.3 1.90 2.30 U.S.A. Dark Northern Spring No.1 14% 1.83 2.23 Hard Red Winter No.2(ordinary) 1.73 2.13 Western White No.1 1.68 2.08 Soft Red Winter No.1 1.60 2.00 Argentina Plate 1.73 2.13 Australia f.a.q. 1.68 2.08 EEC Standard 1.50 1.90 Sweden 1.50 1.90 Greece 1.50 1.90 Spain Fine wheat 1.60 2.00 Common wheat 1.50 1.90 Mexico (basis f.o.b. Mexican Pacific ports or at the Mexican border) Wheat on sample or description 1.55 1.95	Exporters undertake, in association with one another, that wheat shall be made available for purchase by importing countries in any crop year at prices consistent with the price range in quantities sufficient to satisfy on a regular and continuous basis the commercial requirements of those countries subject to the other provisions of the Convention	Each member country importing wheat undertakes that the maximum possible share of its total commercial purchases of wheat in any crop year shall be purchased from member countries, except when an exemption is granted by the Council due to extraordinary circumstances. The share shall not be less than a percentage established by the Council in agreement with the country concerned.	No provisions	No provisions	Concessional grain transactions should be conducted in such a way as to avoid interference with normal patterns of production and international commercial trade. Member countries shall undertake appropriate measures to ensure that concessional transactions are additional to normal commercial sales. Such measures shall be consistent with the FAO Principles of Surplus Disposal and Guiding Lines. A member country offering wheat on concessional terms is to consult with any member whose commercial exports might be affected by such transactions, prior to the conclusion of such arrangements with recipient countries.	Se (
(b) Food Aid Convention August 1967 in Rome Duration: 3 yrs. 1968/69–1970/71	Argentina, Australia, Canada, Denmark, EEC, Finland, Japan, Norway, Sweden, Switzerland, U.K., U.S.A.	—	Quantitative Commitments of Members '000 m.tons Argentina 23 Australia 225 Canada 495 Denmark 27 EEC 1 035 Finland 14 Japan 225 Norway 14 Sweden 54 Switzerland 32 U.K. 225 U.S.A. 1 890	—	—	—	Food aid under this programme will be supplied on soft terms (as a grant or against payment in local currency which will, except for amounts up to 10%, not be available for use by the contributing country).	Mem whe the as cou 4.5 Gre sui tio mad lat mem rec Whe mad giv exp cou

flour, has been a participant in each of the international wheat agreements. During the 1949 IWA, there was a general shortage of world wheat supplies. In this period the United States and Canada provided about two-thirds of the wheat entering international trade and were virtually the only countries with any stocks of wheat. In the early 1950's there was growing concern over the emergence of surplus wheat stocks. The United States, in addition to storing surplus wheat, employed acreage restrictions in order to control production.

In the period since the 1949 IWA went into effect, U.S. domestic wheat programs have provided for supporting the price of wheat, generally at prices above the price ranges specified in the various IWA's, and usually for a form of production controls. Legislation (7 U.S.C. 1641) authorized the President (acting through the Commodity Credit Corporation) to make available such quantities of wheat at such prices as were necessary to fulfill the obligations of the United States under the IWA. In practice, this often necessitated the payment of export subsidies.

U.S. participation in the agreements has been by treaty, the latest extension ratified for an effective period through June 30, 1975. The President transmitted to the Senate for advice and consent the protocols for further extension of the agreement (through June 30, 1976) on June 11, 1975. The Senate's advice and consent is pending as of the date of this report. The United States has filed its application for provisional membership in the further extended agreement with the International Wheat Council.

Current status of the wheat agreement

The current agreement, the International Wheat Agreement, 1971, has been extended so that it will remain in effect until June 30, 1976. The International Wheat Council has been and continues to be at work on the development of a new international wheat agreement. Discussions on a new agreement are still in a preliminary form with most substantive matters still undecided. Unresolved issues include the use of price provisions as regulators, indicators, or a combination of both, and the issue of stocks. Prices for wheat have been more volatile in recent years than at any time during which pricing provisions of an international wheat agreement were in effect. The current agreement contains a provision calling for the International Wheat Council to request a negotiating conference to be convened when it is judged that the question of prices and related rights and obligations are capable of successful negotiation. Such a conference has not been convened.

The International Sugar Agreements

Recent international sugar agreements have been multilateral treaty arrangements of governments of most importing and exporting countries attempting to stabilize sugar prices on the free market through a system of export quotas. The free market covers sugar traded outside of preferential markets--markets where specfic quantities are sold at premium prices, such as United States imports under the Sugar Act, United Kingdom imports under the Commonwealth Sugar Agreement, and U.S.S.R. imports from Cuba under contract. In the agreements, export quotas were adjusted automatically in response to price changes, but the administrative arm, the International Sugar Council, had some discretionary authority in reallocating quota deficits. U.S. imports have never been affected by international sugar agreements.1/

1/ For a track of congressional interest in these international commodity agreements, the following library references are provided:

International Sugar Agreements

U.S. Senate Committee on Foreign Relations

International agreement and protocol regarding production and marketing of sugar. Message from the President of the United States transmitting an international agreement...Signed at London on May 6, 1937 (75th Cong., 1st Sess., Executive T). Washington 1937.

U.S. Senate Committee on Foreign Relations

International Sugar Agreement. Hearing before a subcommittee of...U.S. Senate 83rd Cong., 2d Sess. on Ex. B...March 18, 1954 (Washington).

Circumstances leading to the formulation of the agreements

Sugar is an internationally traded agricultural commodity which is produced in almost every country in the world. About 60 percent of world sugar production is derived from sugar cane, a perennial plant produced in tropical and subtropical climates. Sugar cane is milled near producing areas to make raw sugar, an intermediate product easily adaptable to bulk shipment. Raw cane sugar, the principal commodity of international sugar trade, is generally further refined into refined white sugar near the point of consumption. Approximately 40 percent of world sugar production in recent years has been derived from the sugar beet, an annual plant grown in temperate climates, which is processed near producing areas directly into refined sugar. The principal substitutes for sugar in world trade are corn sweeteners and noncaloric sweeteners such as saccharine and cyclamates.

Demand for sugar in world trade is highly price inelastic within normal price ranges. Only during 1974 and 1975, when sugar prices rose phenomenally above normal prices to more than 60 cents per pound, has there been much evidence of falling consumption and subsitution of competitive products in response to price increases. As among different countries, demand for sugar is income elastic. Supply response to sugar prices is slow because of high fixed costs. For both beet sugar and cane sugar, production increases require a startup time of from 3 to 4 years for construction of factories. Also, sugar cane continues to grow and be harvested from rootstock even when prices just cover operating costs.

Sugar tends to have high price volatility, with sharp price changes, as a result of relatively small shifts in supply and demand. There is a recurrent sugar cycle of 7 to 9 years between price peaks. High prices tend to lead to increased investment in productive capacity. This is followed by long periods of low prices until enough resources are driven out of sugar production to allow natural disaster or wartime stockpiling to trigger another high price surge.

Most sugar is consumed in the country where it is produced, with only about 30 percent of world sugar production entering world trade. Most sugar entering world trade prior to 1974 went to preferential markets at premium prices, such as imports into the United States under the U.S. Sugar Act, imports into Great Britain under the Commonwealth Sugar Agreement, and imports into the U.S.S.R. from Cuba. Only about a third of international trade, or 10 percent of world production, has been in the so-called free market. This free market tended to be a residual market for surplus sugar which could not find an outlet in preferential markets and was put up for distress sale for whatever price could be had. Because sugar production continued on the basis of the blend price resulting from sales in both preferential and free markets, free-market-sugar prices often remained below costs of production for years.

Structure of the sugar agreements and administrative arrangements

Two notable international agreements on sugar antedate the International Sugar Agreement of 1937. The Brussels Convention of 1902 was effective for more than 15 years in putting a stop to competitive export subsidies which had characterized the European beet sugar industry for decades. The Chadbourne Agreement of 1931 was a major but futile effort by major world exporters to stabilize prices in the early 1930's through export quotas.

There have been four International Sugar Agreements subsequent to the Chadbourne Agreement. The 1937 agreement was formulated for the period September 1, 1937, through September 1, 1940. The 1953 agreement was established for 1954 through 1958, but was significantly modified by the 1956 protocol, which provided a new arrangement for 1957 and 1958. The 1958 agreement was effective for the period 1959 through 1961, and the 1968 agreement was formulated for 1969 through 1973.

The purpose of these agreements was to stabilize world or free-market prices within certain price ranges primarily through the mechanism of export quotas. Efforts to control stocks were included in the agreements to avoid the destabilizing effect of excessive stocks or shortages. Importing countries made commitments to maintain markets for member exporting countries. Each agreement defined the free market to exclude preferential arrangements.

The 1937 International Sugar Agreement.--The failure of the Chadbourne Agreement to improve world market prices prompted exporting countries to seek the cooperation of importing countries in a broader agreement. The International Agreement Regarding the Regulation of Production and Marketing of Sugar was signed on May 6, 1937. This agreement included countries and associated areas accounting for about seven-eighths of world sugar production and consumption (including the United States), although the economic provisions were concerned primarily with free-market sugar. The agreement was to become the foundation for subsequent international sugar agreements.

The 1937 agreement established export quotas to the free market and put upper and lower limits on stocks to be held by member countries. It provided only a general price guideline of cost of production plus a reasonable profit. The free market was defined as excluding United States sugar imports within sugar quotas, United Kingdom imports from Commonwealth countries within the terms of the Sugar Industry (Reorganization) Act of 1936, exports of the U.S.S.R. to associated states, exports of Belgium within the Belgium-Luxembourg Customs Union, and the internal shipments within the colonial empires of Belgium, Portugal, and the Netherlands.

The agreement allowed for changes in quotas on a proportionate basis as deemed necessary--a vague guideline at best. Although quotas could not be transferred between quota countries or quota years, provision was made for hardship exceptions to quotas and for pro rata redistribution of any declared quota deficits. The agreement attempted to discourage the accumulation of excessive stocks of sugar. Production in member countries was to be regulated so as to limit sugar stocks to not less than 10 percent nor more than 25 percent of production. The International Sugar Council, headquartered in London, was established to administer the agreement. Voting power was allocated 55 votes to exporting members and 45 votes to importing members, with votes in each group proportional to each country's net imports or exports.

The 1953 International Sugar Agreement.--During World War II, combatants' domestic production declined, while many noncombatant countries increased their production to take advantage of higher sugar prices. In a few years following the war, much of the European beet sugar production capacity had been restored, and supply again exceeded demand for sugar.

Discussions concerning a new international sugar agreement began shortly after the end of World War II, and by 1953 an agreement was reached. The general form of the agreement, effective on January 1, 1954, was similar to that of the 1937 agreement, which it superseded, except that it provided specific price guidelines which were lacking in the 1937 agreement.

Major protected sugar trade not covered by the agreement included that of the United States, most trade between Communist countries, trade between exporting countries and their overseas associated states, and trade covered by the Commonwealth sugar agreements. The International Sugar Council was to determine free-market sugar requirements for each quota year and establish quotas for each exporting country on a basis proportionate to its basic quota. The agreement provided for automatic quota action when world prices were outside the range of 3.25 cents to 4.35 cents per pound for an excessive period. Provision was also made for making changes in the price ranges. The agreement provided for pro rata sharing of quota deficits and for dealing with hardship quota problems. Importing countries were obligated to give preference in buying sugar to exporting members and to limit free-market imports from nonmembers to the same amount as was imported in 1951, 1952, or 1953.

A new International Sugar Council with revised voting rights was formed for administration of the 1953 agreement. Importing countries and exporting countries each received 1,000 votes to be divided among exporting countries proportionate to their sugar production and among importing countries proportionate to their sugar imports. In each group no country was to have more than 245 votes or fewer than 15 votes. Most important decisions required a special vote of two-thirds of all votes cast, including a majority of both importers' and exporters' votes. The countries participating in the 1953 agreement accounted for 84 percent of the net exports and 54 percent of the net imports to the free

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market in 1953. For the most part only the largest importing countries were members.

The 1956 protocol and the 1958 International Sugar Agreement.--The 1956 protocol was primarily a revision of the quotas, taking into account new membership and changes in the productive capacity of old members. However, administrative provisions of the agreement were revised to provide for more automatic quota action when prices were above or below specific points. This resulted in a minimum price objective of 3.25 cents per pound and a price at which quotas were suspended of 4 cents per pound. When prices passed certain points automatic quota adjustments occurred with the International Sugar Council empowered to take further action as it deemed necessary.

The 1958 International Sugar Agreement revised quotas to reflect new membership, but made few basic changes in the economic or administrative provisions determined in the 1956 protocol. The membership in the 1958 agreement represented 94 percent of free-market net exports in 1959.

The 1968 International Sugar Agreement.--In 1963 and 1964, owing to shortfalls in sugar supply, prices rose sharply to high levels. However, by late 1964 prices were sharply depressed as increased production in response to high prices brought world prices down to the 2-cents-per-pound range for several years. As a result of these depressed prices, in 1968 the sugar agreement was revised and reactivated, effective January 1, 1969, for a 5-year period.

The International Sugar Agreement of 1968 was similar to the 1958 agreement but contained a much more detailed provision regarding automatic quota actions related to various price levels. The price levels specified had a new range of 3.25 to 5.25 cents per pound. The 1968 agreement also included specific commitments for both importing and exporting members to favor members of the agreement in sugar purchases and sales.

The free market in the 1968 agreement was defined to include all net exports, but with major exclusions of exports to the United States, exports to the United Kingdom within the negotiated price quota under the Commonwealth Sugar Agreement, exports of Cuba to centrally planned countries, and exports under the Afro-Malagasy Sugar Agreement. The International Sugar Council was restructured into a new International Sugar Organization with the Council as its administrative arm for purposes of operating the agreement. Voting rights were reallocated with importing members and exporting members each sharing half the votes. Within each group, votes were allocated with no member receiving more than 200 or fewer than 5 votes.

In 1970 the exports of member countries represented 85 percent of net exports to the free market, but imports of member countries represented only 51 percent of net imports of the free market. The notable absence of the United States, some countries participating in the U.S.

market, and the European Community were not conducive to the success of the agreement.

Operations of the international sugar agreements

All the international sugar agreements, beginning with the 1937 pact, provided basic yearly quotas (as shown in table 5) for members' exports to the free market to be proportionately increased or decreased as necessary to achieve price objectives of the agreements.

World prices over the life of the 1937 agreement remained at levels below the minimum price of the agreement, but by mid-1939 they were rising as countries, notably the United Kingdom, began to stockpile sugar in anticipation of war. By the third quota year, hostilities among parties to the agreement broke out, and the agreement broke down. World prices remained remarkably stable near the minimum price during the first 3 years of operation of the 1953 agreement. During this period world production and consumption were in balance, and prices were within the guidelines. World prices soared in 1957 because of European beet crop shortfalls, and export quotas were suspended. In 1958, prices stabilized near the middle of the price range of the agreement.

During the effective period of the 1958 agreement (1959-61), world prices were unstable and generally below the minimum of 3.25 cents per pound. In June 1960, U.S. sugar imports from Cuba were terminated. The free market (and the International Sugar Agreement) proved unable to

TABLE 5.—*Basic quotas under international sugar agreements, specified years, 1937 to 1973*

[In thousands of metric tons]

Country	1937 International Sugar Agreement, 1937–39 [1]	1953 International Sugar Agreement, 1954–56	1956 Protocol, 1957–58 [2]	1958 International Sugar Agreement, 1959–61 [3]	1968 International Sugar Agreement, 1969–73 [4]
Argentina					55
Australia					1, 100
Belgium	20. 0	50	55	55	
Brazil	60. 0			550	500
British Honduras					22
China (Taiwan)		600	655	655	630
Colombia				5	164
Congo (Brazzaville)					41
Cuba	940. 0	2, 250	2, 415	2, 415	2, 150
Czechoslovakia	250. 0	275	275	275	270
Denmark				75	41
Dominican Republic	400. 0	600	655	655	186
Fiji					155
France		20	20	20	
Germany	120. 0				
Guatemala					
Haiti	32. 5	45	45	45	
Honduras					
Hungary	40. 0	40	40	40	51
India				100	250
Indonesia			350	350	
Italy				20	
Malagasy Republic					41
Mauritius					175
Mexico		75	75	75	96
Netherlands	1, 050. 0	40	40	40	
Nicaragua					
Panama					
Peru	330. 0		457	490	100
Philippines		25	25	25	
Poland	120. 0	220	220	220	370
Portugal	30. 0			20	
South Africa					625
Swaziland					55
Thailand					36
Uganda					39
U.S.S.R.	230. 0	200	200	200	
West Indies					200
Total	3, 622. 5	4, 440	5, 527	6, 330	7, 352

[1] Quota year beginning Sept. 1.
[2] 1958 basic quota.
[3] 1961 basic quota.
[4] 1971 basic quota.

Source: International sugar agreements.

absorb these additional quantities of Cuban sugar, and prices fell to about 2 cents per pound.

Prices during the 1968 agreement stabilized at somewhat higher levels than in preceding years. From 1969 through 1971, prices gradually rose, but in 1972 and 1973, world prices were well above the maximum price of the agreement, as growth in world sugar supplies failed to keep pace with the growth in world sugar demand. Price stabilization was attempted primarily through controlling redistribution of declared shortfalls. Economic provisions were automatically suspended in 1972 and 1973 because the prices were above the maximum price provided by the agreement.

U.S. relationship and effect of the U.S. sugar program on the international sugar agreements

The United States was a member of the 1937, 1953, and 1958 International Sugar Agreements. The agreements and amending protocols were negotiated and ratified as treaties and required no other enabling legislation. The 1968 agreement did not include a U.S. negotiating representative at the final session, although the United States has always participated as an observer. The United States held that the terms of the 1968 agreement were too favorable to Cuba and the U.S.S.R.

The agreements had virtually no direct effect on the United States sugar market. In all the international sugar agreements, U.S. imports were excluded from the terms, with the U.S. market defined as not being part of the free market regulated by the agreements. Because of the

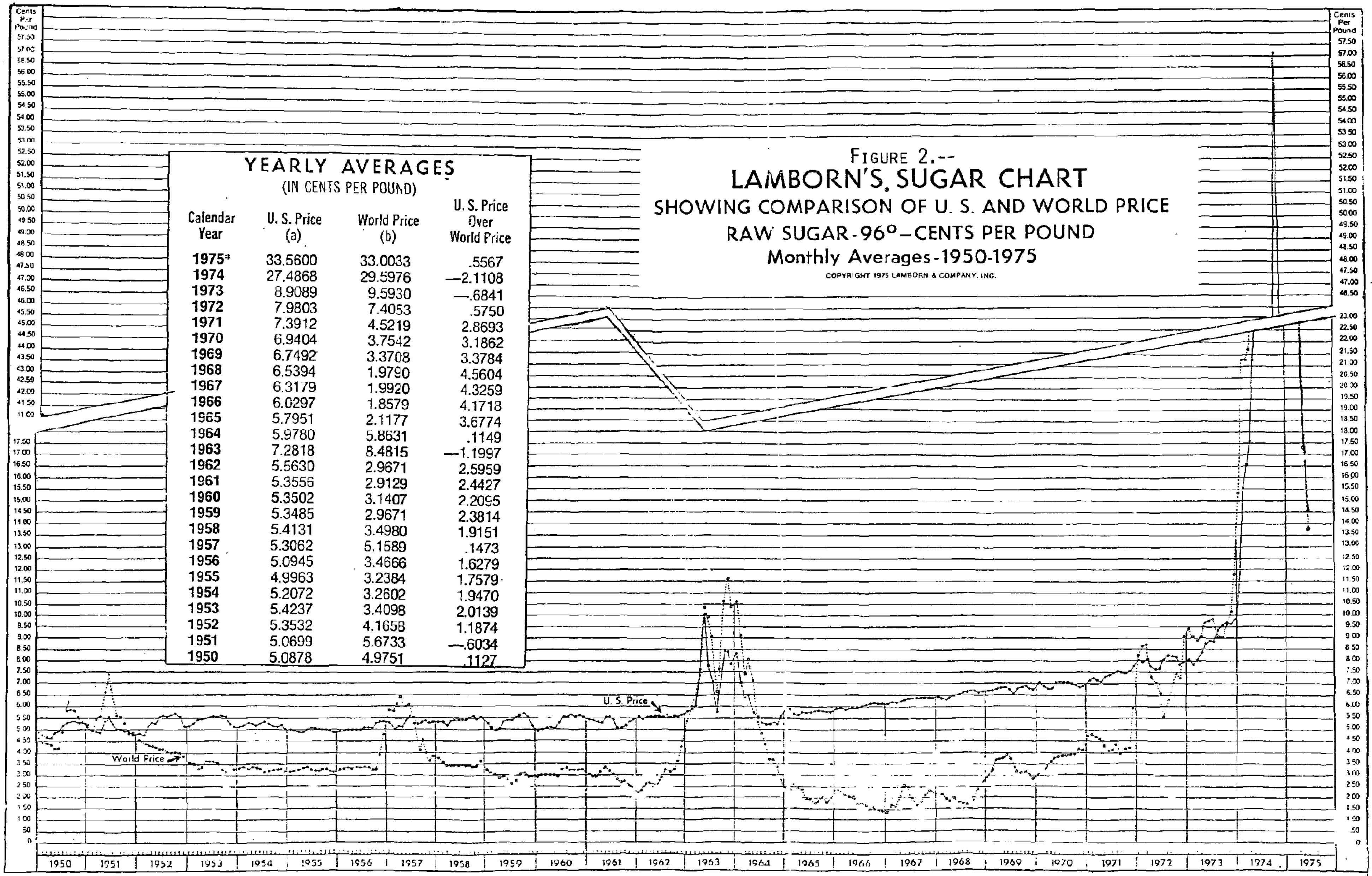

FIGURE 2.--
LAMBORN'S SUGAR CHART
SHOWING COMPARISON OF U. S. AND WORLD PRICE
RAW SUGAR-96°-CENTS PER POUND
Monthly Averages-1950-1975

YEARLY AVERAGES
(IN CENTS PER POUND)

Calendar Year	U. S. Price (a)	World Price (b)	U. S. Price Over World Price
1975*	33.5600	33.0033	.5567
1974	27.4868	29.5976	—2.1108
1973	8.9089	9.5930	—.6841
1972	7.9803	7.4053	.5750
1971	7.3912	4.5219	2.8693
1970	6.9404	3.7542	3.1862
1969	6.7492	3.3708	3.3784
1968	6.5394	1.9790	4.5604
1967	6.3179	1.9920	4.3259
1966	6.0297	1.8579	4.1718
1965	5.7951	2.1177	3.6774
1964	5.9780	5.8631	.1149
1963	7.2818	8.4815	—1.1997
1962	5.5630	2.9671	2.5959
1961	5.3556	2.9129	2.4427
1960	5.3502	3.1407	2.2095
1959	5.3485	2.9671	2.3814
1958	5.4131	3.4980	1.9151
1957	5.3062	5.1589	.1473
1956	5.0945	3.4666	1.6279
1955	4.9963	3.2384	1.7579
1954	5.2072	3.2602	1.9470
1953	5.4237	3.4098	2.0139
1952	5.3532	4.1658	1.1874
1951	5.0699	5.6733	—.6034
1950	5.0878	4.9751	.1127

(a) For 1971-1975 F.O.B. stowed Greater Caribbean (including Brazil) *bulk* basis.
1961-1970 F.O.B. stowed Greater Caribbean (including Brazil) bagged basis.
1950-1960 F.A.S. Cuban bagged basis.

(b) For 1971-1975, based on No. 11 Contract — F.O.B. stowed Greater Caribbean (including Brazil) bulk basis.
1961-1970 based on No. 8 Contract — F.O.B. stowed Greater Caribbean (including Brazil) bagged basis.
1950-1960, based on No. 4 Contract — F.A.S. Cuban bagged basis.

premium prices that prevailed in the U.S. market, countries preferred supplying U.S. quotas rather than the free market. In the few periods when U.S. prices were below free-market prices, member exporting countries were generally willing to fill their quotas in the U.S. market to insure continued participation in the U.S. sugar quota program.

The U.S. Sugar Act was virtually an international arrangement legislated by the U.S. Congress and actively supported by foreign sugar interests participating in the quotas. Because of the U.S. price premium, the U.S. sugar program was notably effective in achieving one of its goals, access to sugar supplies. U.S. quota operations to achieve price goals resulted in greater instability of the free market, but efforts of the International Sugar Organization to achieve free-market price goals had little effect on U.S. sugar price stability. Figure 2 shows the price discount and relative instability for free-market (world) sugar prices compared with U.S. sugar prices.

When supply and demand were in balance within the objective price range of the ICA, it was more a result of happenstance than supply controls under the ICA. This balance was frequently upset by U.S. quota actions under the Sugar Act as well as by supply manipulations in other protected markets outside the agreements. U.S. sugar quota legislation, in providing a relatively stable price at a considerable premium above the free market, tended to maintain domestic production and make the United States less dependent on foreign supplies than it would otherwise have been. Interestingly, U.S. sugar legislation was also a determinative factor in encouraging growth of sugar production among foreign countries having quotas in the U.S. preferential market. Without assurance of access to the U.S. premium market or other premium markets, exporting countries were generally unwilling to invest in increased sugar production. The free-market price goals in the international sugar agreements provided less incentive for investment in sugar production than the premium-market arrangements in the United States and other preferential markets.

Another consequence of U.S sugar legislation was the encouragement of government-sponsored sugar-export monopolies in participating exporting countries. These monopolies were necessary to assure that foreign exporters rather than U.S. importers received the price premium available to participants in U.S. sugar quotas. However, they may also have been helpful to the International Sugar Organization, since they provided a basis for administering export controls of the members.

Current status of the sugar agreement

The International Sugar Agreement currently has no effective economic provisions, although the International Sugar Organization is still functioning to provide a framework for operation of any new agreement. Failure to renew or extend the economic provisions of the 1968 agreement in 1974 was largely due to failure of importers and exporters to agree on prices for quota operations. Even if such agreement had been achieved, the question of quota allocation would still have been a problem because of changing patterns of world sugar production.

In the near future the achievement of any agreement on prices between importers and exporters is doubtful in view of the sugar price instability of 1974 and 1975. The International Sugar Council has scheduled a decision, to be made in November 1975, as to whether to attempt to renegotiate the agreement or to extend the current agreement in outline form.

On December 31, 1974, U.S. sugar quota legislation lapsed, and currently U.S. sugar imports are subject only to a global annual import quota of 7,000,000 short tons, raw value, proclaimed by the President pursuant to authority in headnote 3 of part 10A, schedule 1, of the Tariff Schedules of the United States. Since this quota is much larger than anticipated U.S. annual imports, if it is not modified, the price of U.S. sugar imports should vary from world prices by little other than the duty and cost of freight and insurance. However, the President could modify this quota to make it restrictive, in which event it would have essentially the same effect as restrictive sugar quota legislation by the Congress.

With the United States in the world market for its imported sugar supplies, the prospect of full U.S. participation would seem to be an encouragement to new negotiations. Certainly stabilization of the free market would be much easier to achieve with full U.S. participation. The market would have a broader base, and the pressures against stabilization of world prices caused by the U.S. Sugar Act would be gone. In addition, the United Kingdom has joined the European Community. As a result, there has been considerable revision in the enlarged European Community sugar policy, which will further broaden the world sugar market.

In hearings before the House Agriculture Committee in July 1975, some witnesses advocated negotiating a new international sugar agreement. However, many witnesses, including representatives of foreign countries, also advocated U.S. sugar quota legislation with supply control features similar to those in past sugar acts.

Other current world sugar developments include meetings by Latin American sugar-producing countries where agreement was achieved in principle to attempt to increase the influence of producers on world sugar marketing. This does not appear to be a threat to form a sugar cartel. A sugar cartel, in contrast to cartels in commodities with physically limited supplies, could have only moderate short-term gains, since in the long run most importing nations could become much more self-sufficient in sugar production through sugar beet planting.

Another new development affecting the current sugar situation is the rapid expansion of productive capacity for high-fructose corn sirup, which is a directly competitive substitute for sugar in many industrial uses. Current anticipation is that this high-fructose corn sirup may not only absorb any growth in total sweetener consumption, but may substitute for existing sugar consumption. Currently most production is in the United States. Not as much sugar is being produced as is demanded at current prices, so sales are rationed to users. However, several plants for high-fructose corn sirup production are being constructed. Foreign countries are also beginning to view this product as a threat to world sugar markets.

V. INTERNATIONAL ORGANIZATIONS

The recent decline in commodity prices after a prolonged period of excess demand and high prices is of economic importance to all countries. Both producers and consumers are actively seeking solutions to achieve some degree of stability in commodity markets. Current discussions in various international organizations reflect this concern with problems of commodity trade; unilateral actions by some groups of producers and exporters have already taken place. The accomplishments of the Organization of Petroleum Exporting Countries to date have provided additional impetus to these activities.

The United States has been involved at all levels, whether actively negotiating or merely experiencing the economic effects of sanctions by producer groups. The traditional resistance to commodity agreements and any artificial restriction of commodity trade has been tempered by concern for continued access to supplies at reasonable prices, for the development problems of many nations, and for the maintenance of adequate productive capacity through new investment. This new attitude has resulted in a number of proposals in international forums concerning continued development of an unrestricted access to supplies and in an indicated readiness to discuss arrangements for individual commodities on a case-by-case basis. These international organizations provide the forums for new development of ICA's, the possible basis of organization for new cartels, and the means to achieve solutions for specific problems of commodity trade.

General Agreement on Tariffs and Trade

Within certain constraints, participation in or institution of commodity agreements are permissible under GATT. Under the original agreement, members may adopt or enforce measures in pursuance of obligations under intergovernmental commodity agreements, so long as there is no disapproval by the contracting parties. Under part IV, which was added to the agreement in 1965 to deal with problems of trade and development, contracting parties may act through international arrangements to improve access to world markets for primary products of particular interest to developing contracting parties and to devise measures to stabilize and improve conditions in these markets, including measures to attain stable, equitable, and remunerative prices. GATT efforts relating to trade and development were, however, intended to be made in collaboration with the United Nations and its agencies, including institutions created by UNCTAD, and with international organizations having competence in the field of financial assistance for economic development.

During the last decade, commodity trade problems, including commodities subject to existing international commodity agreements, have been discussed intensively within the GATT. Discussions on commodity matters are currently concentrated in groups and subgroups of the GATT Trade Negotiations Committee. The Multilateral Trade Negotiations Groups on Agriculture and on Tropical Products are the two subsidiary groups of the GATT Trade Negotiations Committee most directly concerned with the commodities which could be included in the UNCTAD integrated program for commodities or on which other international action may be proposed.

The Agriculture Group considers that it has made a good beginning in sorting out countries' approaches and priorities for three main subgroupings of products--dairy products, grains, and meat--for which it has set up specialized subgroups. The most active of these subgroups have been those on dairy products and grains. The Agriculture Group has yet, however, to isolate problems and come to grips with the U.S. position that the objectives of the Tokyo Declaration can best be achieved through seeking common rules for industry and agriculture, although it has agreed that tariff and nontariff measures affecting agriculture would be taken up in the overall context of the negotiations and not just in agricultural negotiations.

The dairy products subgroup has agreed that it should first consider the most widely traded dairy products--butter, anhydrous milk fat, principal cheeses, dried milk, and casein. This is in line with the European Community (EC) proposal for international arrangements that would provide for minimum and maximum prices on dairy products beyond those covered in the existing GATT arrangement, which covers only skimmed milk powder and milk fats, and the so-called gentlemen's agreement on whole milk powder concluded within the Organization for Economic Cooperation and Development. The United States, which participates in those agreements only as an observer, holds the consistent position with respect to all agricultural commodities that trade liberalization should be the principal objective of the MTN and that export subsidies and countervailing duties (in both industry and agriculture) should be a major concern. The dairy subgroup met in June and is not expected to reconvene until October 1975.

The grains subgroup has discussed but has not reached any conclusions with respect to market and price stabilization and assistance for developing nations. It last met in June and is to reconvene in October 1975, at which time it may also discuss variable levies, minimum import prices, and export subsidies. In view of the discussions that have been taking place in the Wheat Council in London, the matter of grains reserves may also become an issue in the trade negotiations.

The MTN Group on Tropical Products has initiated negotiations with respect to the definition of tropical products. Tropical products include cocoa, coffee, vegetable oils, tea, bananas, pepper, tropical fruits, shellac, and many others, some of which may also be produced in temperate zones, such as rice, sugar, and tobacco. The MTN group met in June and reviewed lists of products on which exporting countries wish to request concessions; the lists already received by the United States cover both agricultural products and important industrial raw materials. The group agreed that multilateral consultations on specific products should proceed promptly; the Tokyo Declaration called for special and priority treatment of tropical products. Possibilities for multilateral action are to be considered in the group's next meetings, which are to take place in October.

The Secretary General of UNCTAD has been invited to attend all meetings of GATT MTN groups and subgroups held thus far, and a special unit has been set up in the GATT Secretariat to assist developing countries in preparing for the negotiations. In all aspects of the negotiations great attention is to be paid to the needs of developing countries, particularly to the problems of the most seriously affected participants, so as to move toward achieving for them a substantial increase in foreign exchange earnings and diversification of exports. These issues and their relation to ICA's remain to be resolved.

United Nations Conference on Trade and Development

Action on the so-called integrated program for commodities of interest to developing countries, on which UNCTAD has been working since 1974, has yet to be taken. The effort to formulate such a program has, however, reached an advanced stage. Studies on various elements of the program have been completed or are in progress, and the UNCTAD Secretariat is currently planning to present a completed proposal at the final meetings of the 1975 (eighth) session of the Committee on Commodities of UNCTAD's Trade and Development Board (the executive organ of the Conference), scheduled to be held in December 1975. The developing countries hope for a commitment at that time which will lead to ratification of some form of integrated commodity plan early in 1976 during UNCTAD IV.

This multidimensional program for commodities is considered a principal component of the "new international economic order" instituted by the U.N. General Assembly (of which UNCTAD is now a permanent part) at the sixth special session in 1974. Such a commodity program would--

(1) Provide for movement from consultation to negotiation;

(2) Set wider objectives for international commodity arrangements than the traditional objectives of stable and remunerative prices; and

(3) Incorporate new principles and techniques, such as
Price indexation,
Cooperative action among producers,
Wider use of buffer stocks,
Wider use of compensatory payments.

The commodity program that is now being prepared has been characterized as a package for a "comprehensive range of commodities." As currently envisaged, it will provide for overall negotiating arrangements with the common objectives of price stabilization at levels adequate to insure export earnings, more secure market outlets for producing countries, and more secure supplies for consuming countries of individual commodities or groups of commodities, particularly those suitable for stocking. As means to these ends, the program will include proposals for--

(1) Arrangements for international stocking (international buffer stocks);

(2) A central fund for financing stocks (a central buffer stock fund);

(3) A system of multilateral purchase and supply commitments (long-term multilateral contracts);

(4) Arrangements for compensatory financing of shortfalls in export earnings; and

(5) Measures for international assistance in export diversification (including processing of primary commodities and more liberal access to developed country markets).

In the context of this integrated program to stabilize prices of commodities exported and to relate them to the prices of imported goods, the concept of price indexation has been introduced.

Price indexation, the use of index numbers to compare relative prices, is under study for possible inclusion in UNCTAD's integrated commodity program. Developing countries are concerned about the relationship between the prices of the commodities they export and the prices of the goods they import--their barter terms of trade. They want to propose a mechanism for preventing or compensating for the decline in the real prices of their commodity exports. Such a device would be incorporated in all commodity agreements, so that nominal (money) prices of primary commodities could be linked to the rate of increase in prices of manufactured goods.

Whether or not indexation would be a desirable instrument to help primary producers was not decided by a group of economic experts recently consulted by the Secretary General of UNCTAD. 1/ On the basis of the statistical data with which it was provided, the group

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1/ The Expert Group on Indexation was chaired by Professor Hendrick Houthakker and participated in by nine other members. Observers included representatives of the U.N. Industrial Development Organization, the International Labor Organization, the Food and Agriculture Organization, the International Monetary Fund, the International Cocoa Organization, the International Coffee Organization, the International Sugar Council, the International Tin Council, and the International Wheat Council.

found that they could not make a determination with respect to deterioration of developing countries' net barter terms of trade in the long run, but it did agree that in the short run such terms of trade fluctuate substantially.

Among the problems associated with indexation are objections that (1) indexation would benefit industrial countries most and would have an adverse effect on countries which are net importers of raw materials, particularly foodstuffs, (2) such a scheme would cause misallocation of resources, distortion of investment patterns, and introduce increased rigidity in the world economy, and (3) there are serious technical difficulties, such as which commodities to use in a price index, in implementing an indexation scheme.

United Nations Study Groups

The Food and Agriculture Organization of the United Nations (FAO) is one of the major international forums where intergovernmental discusssions are currently being held concerning problems of international trade in agricultural commodities. Since 1955, 11 intergovernmental groups have been established by the FAO Committee on Commodity Problems to study the production and consumption of, and trade in, the following agricultural commodities: Rice, cocoa, grains, citrus fruit, jute/kenaf and allied fibers, oilseeds/oils and fats, bananas, hard fibers, wine and vine products, tea, and meat. These groups embrace both producers and consumers; the United States is a member of all 11 bodies.

The Intergovernmental Group on Cocoa has for all practical purposes ceased to function, since its activities have been successfully transferred to the International Cocoa Organization. Of the other 10 groups, the United States is a net exporter of the products studied by 4, i.e., rice, grains, citrus fruit, and oilseeds/oils and fats. Moreover, although the United States is a net importer of wine and meat, it is also a major producer, and the ratio of imports to consumption is relatively low. Thus, only 4 of the commodities covered by the 10 study groups are products for which the United States is dependent upon imports to any appreciable degree and regarding which the United States could be potentially adversely affected by exporter activity. These four products--bananas, tea, jute/kenaf and allied fibers, and hard fibers--are all tropical products produced almost entirely by developing countries. Whereas most of the other study groups are concerned primarily with problems of market access, exchange of information, research, promotion, grading, and market evaluations, these four groups have also taken, or recommended, concerted action to effect international arrangements concerning commodity prices. The groups studying two of these commodities, bananas and tea, have each established a Sub-Group of Exporters to explore methods of dealing with their major problem, a longrun decline in real prices. The groups that discuss jute/kenaf and allied fibers, as well as hard fibers, have established informal price or export arrangements to counteract their fundamental problem, the instability of their markets. These four commodities are discussed below.

Bananas

At the most recent meeting of the Intergovernmental Group on Bananas (IGB) in April 1975, at Abidjan, Ivory Coast, a working party consisting of representatives from 11 countries (including the United States), both exporters and importers, was created to draft an international banana agreement. This action was taken after the IGB's Sub-Group of Exporters expressed concern over the continued deterioration in the terms of trade of producing countries in Latin America, the Caribbean, Africa, and the Philippines. The sub-group recommended that the IGB negotiate an international agreement in consultation with the banana-importing countries to improve banana prices by regulation of supplies to importing countries. The difficulties faced by prospective market-sharing and quota arrangements include the nature of the fruit, which is perishable and subject to the vagaries of the weather, the required support of the multinational companies which handle the bulk of world trade in bananas, differences in price and quality among various suppliers, and the need to take account of potential new suppliers.

The Association of Banana Exporting Countries (UPEB) was formed by Colombia, Costa Rica, Guatemala, Honduras, and Panama in 1974, but membership in UPEB remains open to all other exporting nations. This organization has been empowered to act on pricing, marketing, and other policies. It has met strong opposition from the multinational corporations that dominate the banana trade and has endured retaliatory action and other pressure from these firms. Although the arrangement called for producing countries to implement export taxes or minimum prices, only Panama, Honduras, and Costa Rica have instituted this tax. Significantly, the price provisions have not yet been linked with any control over export quantities, although this was one of the original aims of UPEB.

Tea

An international tea agreement was established as early as April 1933 on the initiative of India, Ceylon, and the Netherlands East Indies, after a prolonged period of rising production, depressed demand, and falling prices. No importing countries participated, and it expired in 1955. The agreement proposed regulation of exports by quotas (no limitation on output) and cessation of most new plantings. It was generally successful in reducing yearly fluctuations in prices and preventing the price of tea from falling precipitously during the 1930's. In the postwar years the export quotas were too large to have any effect on output, trade, or prices. Since the end of the tea agreement, tea producers (mainly India, the People's Republic of China, Sri Lanka, east Africa, and Indonesia) have faced the long-term problem of price declines caused by production increasing more rapidly than demand. In 1969 the current FAO Intergovernmental Group on Tea (IGT) was formed, and since 1970 its Sub-Group of Exporters has met each year to fix informal export quotas, although with no real effect on prices because the quotas have been very large.

The IGT's Sub-Group of Exporters, at its meeting in June 1974, directed the convening of a working party to examine the feasibility and advantages for the tea-exporting countries of a multidimensional international agreement. This working party was convened at Rome in April 1975, but the delegates were unable to agree on the key issue of instituting a minimum export price arrangement or an export quota scheme to support prices, and the working party was unable to make any concrete recommendations to its parent body. On the issue of a minimum export price arrangement, the major difficulties were the diversity in prices and qualities of tea and the reluctance of some governments to set up machinery for the requisite export licensing and price control. The proposal for an export quota scheme was also attacked on the grounds that the informal quota arrangements of the past few years had been ineffective and that difficulties would be encountered in regions where tea growing was expanding, especially east Africa.

Jute

Jute and its close substitute kenaf (hereafter "jute" refers to both items) are commodities for which a partially successful informal price agreement to stabilize prices has operated. The major producers of jute are India, Bangladesh, the People's Republic of China, and Thailand. The economics of the jute trade revolve around three major factors. First, the unpredictable weather conditions of the Indo-Bangladesh jute belt create supply instability from year to year. Second, jute as a cash crop must compete for acreage with the rice crop.

Third, the availability of synthetic substitutes for jute, primarily polyolefin fabrics, sets a limit on the price which jute can command and still retain its market. These conditions appear to indicate the need for a maximum-minimum price arrangement to stabilize jute prices while preserving jute as a viable traded commodity.

India and Bangladesh have attempted to stabilize domestic markets by supporting growers' prices with raw jute purchases. In order to stabilize jute prices on the world market, an informal price arrangement has been operated since September 1965 by the Intergovernmental Group on Jute, Kenaf, and Allied Fibres, in which producing and consuming countries in the group have recommended an indicative, or target, price range. The agreement has contributed to some stability in world markets even though it is entirely dependent on the policy of the main jute-exporting countries and without any international mechanism to provide physical support for the recommended price. However, in 1974 the group was unable to recommend indicative prices for jute, and Bangladesh raised export prices on eight occasions. Suggestions voiced in FAO proceedings concerning possible international participation in the financing of national buffer stocks include private or governmental loans, foreign aid funds, and World Bank/International Monetary Fund assistance.

Hard fibers

The term "hard fibers" as used herein includes sisal, henequen, abaca, and coir, sisal being by far the most important of the four in

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terms of value of exports. Sisal is produced mostly in southern and eastern Africa, Brazil, and Haiti. Henequen is produced primarily in Mexico; abaca, in the Philippines; and coir fiber, in Sri Lanka and India. All of these fibers are threatened with severe competition by synthetics, which was only partially mitigated by the recent oil crisis.

In 1967, a year after the FAO Intergovernmental Group on Hard Fibers was established, with sisal prices falling, the exporting countries agreed informally on national export quotas for raw fibers and manufactures of sisal and henequen calculated to meet the level of world requirements estimated by importers, within an indicative price range agreed upon with the importing countries. Despite the high degree of price stability achieved, the main objective of raising market prices to the indicative range was not achieved because of continued overproduction and quotas which proved too high. In 1970 a free market prevailed, and prices returned to low levels; in 1971 the arrangements were reinstated, and the declining price trend was halted. However, with a shortage of supplies occurring from the end of 1971 through 1974 and resulting high prices, the quota arrangements became virtually inoperative. Despite this situation, the intergovernmental group has preserved the informal arrangements in principle by continuing to recommend both export quotas and indicative prices appropriate to normal supply conditions.

At an exporters' meeting in 1973, the possibility was raised of negotiating a formal international agreement on sisal and henequen to contain both quota and price provisions. However, the intergovernmental group felt that the time was not appropriate, and the proposal was deferred.

Low prices for abaca resulted in an informal arrangement in 1968, with an indicative price agreed to by buyers but without any other support mechanism. This arrangement had little effect on prices, and in 1971 the group decided to discontinue its price recommendations.

In the market for coir, no formal or informal international price arrangements have been attempted in the past. However, in 1974 a document prepared for the group suggested future informal agreements for abaca and coir similar to the jute arrangement, since one or two countries virtually control the world export supply of each and there is a pressing need to stabilize price within a range preserving the long-run competitiveness of the commodity.

Producer/Exporter Groups

Among the critical raw materials that the United States requires to maintain its industrial production and of which it is a net importer, seven are currently the subjects of formal international associations of producer/exporters, viz, petroleum, bauxite, copper, natural rubber, iron ore, mercury, and tungsten. These organizations range in scope from the effective, fully functioning petroleum cartel to the fledgling consultative group of iron ore exporters. In addition, the Lead and Zinc Study Group, an intergovernmental organization under U.N. auspices, meets regularly to consider technical and trade matters, but does not intervene in the market or fix prices. Although an Intergovernmental Consultation on Manganese Ore was held under UNCTAD auspices in April 1974, no concerted action has yet been taken on this strategic mineral, for which the United States is almost completely dependent upon imports. The seven "organized" commodities are described below.

Organization of Petroleum Exporting Countries

The Organization of Petroleum Exporting Countries is the inspiration and model for many of the current attempts to organize effective producers' organizations for various commodities. Established in 1960, OPEC presently consists of 13 oil-exporting countries, representing over 50 percent of world production. In the fall of 1973, OPEC unilaterally quadrupled the posted (tax reference) prices of crude oil. During the winter of 1973-74, in the aftermath of the Arab-Israeli war, the Arab members of OPEC attempted to convert their economic power into political leverage with an embargo on shipments to the United States and the Netherlands. Although the political embargo was short-lived, the sharp rise in prices has been maintained and appears to be supportable for at least several years to come.

The success of OPEC can be attributed to several factors. First, a handful of developing countries (most of which have strong political ties) control the bulk of world exports, making collusion practicable. Second, demand for petroleum is relatively inelastic, i.e., not very responsive to price changes in the short and medium term. Third, the petroleum industry is dominated by a small number of vertically integrated multinational firms, making it administratively simple to increase revenue by merely taxing these companies. Fourth, the huge capital requirements and long lead time required to increase petroleum production capacity make OPEC's hold formidable in all but the long run. Fifth, there are adequate substitutes available, at least in the short run. Sixth, production of petroleum is not labor intensive, thus production can be reduced without causing unemployment problems. Although the markets for other commodities may resemble OPEC's situation in one or another aspect, it is unlikely that the factors that have made this cartel so uniquely successful exist for any other commodity.

International Bauxite Association

In 1974 the International Bauxite Association (IBA), an intergovernmental association of bauxite-producing countries, was formed to coordinate information on bauxite production and to increase revenues from bauxite operations in member countries. It currently has 10 members, which produce over 65 percent of the world's bauxite and account for 80 percent of bauxite/alumina trade, viz, Australia, Guinea, Guyana, Jamaica, Sierra Leone, Surinam, Yugoslavia, Dominican Republic, Ghana, and Haiti. Soon after the IBA's formation, Jamaica, from which the United States imports 54 percent of its bauxite and 27 percent of its alumina, doubled the cost of bauxite by legislating a sevenfold increase in its revenue by means of a production tax. Following this lead, Surinam, Haiti, and the Dominican Republic instituted similar taxes on their production. At the IBA's next ministerial meeting, scheduled for November 1975, attempts will probably be made to arrive at a common pricing formula for all members of the association.

Sustained unilateral or cartel action to raise prices may be thwarted by the desire of some producers to expand production, by the fact that a developed country, Australia, is the largest single producer of bauxite, and by the availability of substitutes such as steel, plastic, and copper. Moreover, although the United States imports approximately 90 percent of its bauxite and has reserves sufficient for only 2 years' needs, it does possess virtually unlimited sources of alumina contained in other materials such as kaolin, laterites, dawsonite, and anorthosite sands. A doubling of bauxite prices may make these alternative sources economically feasible. However, achievement of self-sufficiency has been estimated to require 10 to 15 years and $2 billion in new investment.

Intergovernmental Council of Copper Exporting Countries

In 1968 the Intergovernmental Council of Copper Exporting Countries (CIPEC) was formed by Chile, Zambia, Zaire, and Peru, which together accounted for about one-third of global production and two-thirds of world exports between 1968 and 1972. One of this organization's main goals is to establish and maintain a minimum price for copper. In November 1974, because of depressed prices, a 10-percent reduction in copper exports was agreed upon. In April 1975 this reduction was increased to 15 percent. The success of a proposed concomitant reduction in production levels, however, is in doubt. CIPEC has at times also considered the idea of establishing an International Monetary Fund-financed buffer stock scheme, although this has never materialized. Any sustained cartel action would probably be thwarted by CIPEC's lack of sufficient control over the world's copper resources (especially without Canada's participation); the availability of many substitutes for copper in its major uses, including aluminum, steel, plastics, and zinc; the increasing use of recycled copper; the difficulty of curtailing production without causing major unemployment; and the existence of huge stocks throughout the world.

The United States is virtually impervious to cartel-like action. As the world's largest copper producer, the United States is almost self-sufficient in the metal, producing over 90 percent of its copper needs. Moreover, U.S. reserves are sufficient for approximately 40 years' consumption at the 1974 rate. In contrast, Japan and Western Europe import over 90 and 80 percent, respectively, of their copper requirements.

Association of Natural Rubber Producing Countries

The Association of Natural Rubber Producing Countries was formed in 1971 and consists of Malaysia, Indonesia, Sri Lanka, Singapore, Thailand, and Vietnam. In contrast, the International Rubber Study Group is composed of producers and consumers of both natural and synthetic rubber, including the United States. In November 1974, as a result of natural rubber prices plunging to a 25-year low, Malaysia, as the major producer, moved to establish a price stabilization buffer stock and since then has purchased rubber in the market. Following this action, the six association members agreed in May 1975 to limit natural rubber exports. The difference between actual production and stock, on the one hand, and exports, on the other, would be channeled into an international buffer stock under a supply rationalization scheme. The members are hoping for International Monetary Fund backing to finance this project.

Natural rubber constituted only 22 percent of U.S. new rubber consumption in 1972; synthetic varieties accounted for the rest. The United States is completely dependent upon imports for natural rubber, and the U.S. Government stockpile contains no more than several months' supply. Any prolonged cartel-like action that curtailed production would have to contend with widespread rural unemployment and hardship for small family-owned plantations in producing countries. The availability of synthetic substitutes also tends to forestall cartel action.

Association of Iron Ore Exporting Countries

Although an informal group of countries producing iron ore had met in the past, an agreement to form an Association of Iron Ore Exporting Countries was approved at a ministerial meeting only in April 1975. To date, Mauritania, Algeria, Chile, India, Venezuela, and Australia have already signed, with Tunisia, Peru, Sweden, Brazil, and Sierra Leone expected to sign shortly. Australia, as the world's leading iron ore exporter, has been an important moderating force in this group, guiding the association away from the precepts of a producers' cartel. Instead, the association is primarily a loose grouping of countries with no authority to establish prices or production levels and committed to consultation with consuming nations in matters affecting their interests.

The United States imports only about 30 percent of its primary consumption of iron ore, mostly from Canada and Venezuela. Canada's nonmembership is thus significant regarding the viability of actions by the association, particularly from the U.S. point of view. Should the United States be forced to rely on its own resources, domestic reserves which amount to over 60 years' consumption at the 1973-74 rate are available, although significant costs in mining increasingly lower grade ore would be entailed. There is no Government stockpile of iron ore. Other strategies that the United States could employ include the substitution of wood, plastic, and aluminum in some limited uses and the increased use of scrap iron.

International Association of Mercury Producers

The five major producers of mercury are Spain, the U.S.S.R., Italy, the People's Republic of China, and Mexico. Spain possesses almost 40 percent of total known world reserves. In 1974 Algeria, Italy, Mexico, Spain, Turkey, and Yugoslavia (with Canada as an observer) formed the International Association of Mercury Producers and set a minimum sales price. Although this resulted in a rapid 20-percent rise in New York prices to about the floor price, prices fell to less than half of the established price by August 1975. Efforts in the past by Spain and Italy to raise prices by stockpiling have been judged similarly unsuccessful.

U.S. consumption of mercury has fallen in recent years owing primarily to environmental factors. Because of low prices during the first part of this decade, U.S. production declined from almost 45 percent of consumption in 1970 to less than 3 percent in 1974, although a domestic facility capable of supplying one-third of U.S. requirements opened in 1975. If higher prices were sustained, U.S. mine production would probably be increased (U.S. reserves equal over 7 years' consumption at the 1974 rate), and substitution would occur in battery applications, e.g., nickel-cadmium, and in the chemical industry. To meet any short-term disruption, the U.S. stockpile excess is sufficient to cover approximately 2½ years' needs.

Primary Tungsten Association

The Primary Tungsten Association was organized in April 1975 in an attempt to formulate a united approach by producers to stabilize tungsten prices. Participants include producing companies from Australia, Bolivia, Korea, France, Mexico, Peru, Portugal, and Thailand, with companies from Canada, Brazil, and the People's Republic of China as observers. One of the world's largest producers, the U.S.S.R., is not represented. The organization supplements UNCTAD's Committee on Tungsten, which functions with representatives of both producers and consumers, including the United States. This committee also has recently called for a study of the feasibility of taking measures to stabilize tungsten prices, possibly including a system of maximum and minimum prices agreed on between producers and consumers.

In recent years the United States has produced just under half of its tungsten requirements. Any possible cartel action against the United States would have to contend with a large U.S. Government stockpile excess, sufficient for at least several years' consumption. Moreover, U.S. reserves are sufficient for another 15 years' requirements. Although molybdenum could be substituted for tungsten in specialty steels, and titanium and tantalum carbide could be used in wear-resistant applications, these substitutes would likely be more expensive and less satisfactory.

International Monetary Fund

Compensatory finance

The compensatory finance facility of the International Monetary Fund (IMF), established in February 1963, is available to those member countries experiencing balance-of-payments difficulties produced by temporary export revenue shortfalls. This facility is limited to primary commodities and is particularly aimed at those countries whose exports depend upon a single raw material.

In 1966 the limits of the facility were revised upward from 25 to 50 percent of a member's quota, and greater significance was given to qualitative estimates in determining the amount to be drawn. An annual interest rate of 4 percent is levied on all drawings for the first 5 years, and then the rate is increased to 6 percent. Members are expected to repurchase drawings within 3 to 5 years. Outstanding purchases in August 1975 totaled special drawing rights (SDR) 519.2 million (approximately $619 million). Total purchases under this facility have been SDR 1,000 million (approximately $1,193 million).

Compensatory funds to stabilize export revenues are an alternative to ICA's. In some aspects they are superior because compensatory schemes do not interfere directly with market prices or production. Constraints on the market mechanism do not inhibit its roles as an indicator of scarcities and a regulator between supply and demand pressures. Export revenue shortfalls of specific countries are compensated for directly rather than by the indirect means of market restrictions which affect groups of countries.

Buffer stock finance

The buffer stock financing facility helps IMF members meet the costs of contributions to an approved buffer stock incorporated in an ICA if this obligation to contribute would result in balance-of-payments difficulties. Purchase limits are 50 percent of the member's quota, but total purchases under both facilities may not exceed 75 percent. Repurchases are to be made within 3 to 5 years of the drawing. Outstanding purchases in August 1975 totaled SDR 7.6 million (approximately $9.1 million). Total purchases, all for the tin buffer stock, have been SDR 25.4 million (approximately $30.3 million). Members of the International Cocoa Council are eligible for drawings, but none have been made to date.

Studies and proposals

In January 1975 the IMF Interim Committee called for consideration of possible improvement in both compensatory and buffer stock finance facilities. On September 1, 1975, at the Seventh Special Session of the United Nations General Assembly the United States specifically proposed that (1) a new development security facility be set up to stabilize overall export revenues; (2) the facility would provide loans up to $2.5 billion in a single year with a potential total of $10 billion in outstanding loans; (3) the assistance would be available to all developing countries; (4) the poorest countries could convert their loans into grants, financed by the sale of IMF gold through the proposed $2 billion trust fund now under negotiation; (5) eligible countries could draw most or sometimes all of their IMF quotas in addition to their normal drawing rights; (6) the formula for calculating shortfalls would be geared to future growth as well as current and past exports; and (7) this facility would replace the current IMF compensatory finance facility, and not be available to industrial countries. This is a new, more comprehensive approach because the facility would be available to exporters of manufactured goods as well as primary commodities.

European Community Compensatory Program

STABEX is the code name for a system of stabilizing export earnings from commodity trade between an organization of African, Caribbean, and Pacific countries 1/ and the EC. The convention creating STABEX was was signed in Lomé on February 28, 1975, and must be ratified by the member States of the EC and by at least two-thirds of the ACP States.

1/ Members in the ACP States include 18 African States and Madagascar as signatories to the Yaoundé Convention, 21 commonwealth States in Africa, the Caribbean, and the Pacific, and 6 other African nations.

The earliest expected date for the convention to become effective is early 1976.

Commodities

A number of commodities are individually covered--12 principal commodities 1/ and 17 subproducts incorporating initial processing. The only commodity which is not agricultural is iron ore. Two sets of criteria determine the selection:

(1) The importance of the commodity to domestic employment, the individual terms of trade, and the level of development of the various ACP States;

(2) Unstable export revenues owing to price or quantity fluctuations and the degree of dependence of the ACP States on these products.

In order to qualify under the program, the commodity must originate in the ACP State and be exported by it to the European Community. The product may be for consumption within the European Community or brought in under inward processing arrangements.

Mechanism

An ACP State may request a financial transfer if its earnings from the export of one of these commodities to the EC are at least 7.5 percent below reference level earnings, calculated on the basis of an average of the 4 preceding years. In the year preceding the year of application, its earnings from the export of one of these commodities must represent

1/ The 12 commodities are hides and skins, coffee, cotton, cocoa, wood, bananas, tea, sisal, copra, groundnuts and oils, palm products, and iron ore.

at least 7.5 percent of its total earnings. 1/

STABEX will be funded by the EC in annual installments of 75 million units of account for 5 years--approximately $93 million per year. Repayment provisions are limited in that countries are only encouraged to replenish the fund; the least developed countries will not have to contribute. No interest will be charged.

This system of compensatory payments for export shortfalls for individual commodities is limited in scope. The annual installments constitute a very small percentage of the trade in these commodities--approximately 4 percent of $2.4 billion. Given the small size of the fund and the limited repayment of transfers, significant instability of export revenues will result in total claims in excess of funds available.

1/ For the 34 least developed, landlocked or island ACP States, the above threshold of 7.5 percent is reduced to 2.5 percent. For Burundi, Ethiopia, Guinea Bissau, Rwanda, and Swaziland, the financial program will apply to exports of the products irrespective of destination.

APPENDIX B

HAVANA CHARTER--CHAPTER VI, INTER-GOVERNMENTAL COMMODITY AGREEMENTS

CHAPTER VI—INTER-GOVERNMENTAL COMMODITY AGREEMENTS

Section A—Introductory Considerations

Article 55. Difficulties Relating to Primary Commodities

The Members recognize that the conditions under which some primary commodities are produced, exchanged and consumed are such that international trade in these commodities may be affected by special difficulties such as the tendency towards persistent disequilibrium between production and consumption, the accumulation of burdensome stocks and pronounced fluctuations in prices. These special difficulties may have serious adverse effects on the interests of producers and consumers, as well as widespread repercussions jeopardizing the general policy of economic expansion. The Members recognize that such difficulties may, at times, necessitate special treatment of the international trade in such commodities through inter-governmental agreement.

ARTICLE 56. PRIMARY AND RELATED COMMODITIES

1. For the purposes of this Charter, the term "primary commodity" means any product of farm, forest or fishery or any mineral, in its natural form or which has undergone such processing as is customarily required to prepare it for marketing in substantial volume in international trade.

2. The term shall also, for the purposes of this Chapter, cover a group of commodities, of which one is a primary commodity as defined in paragraph 1 and the others are commodities, which are so closely related, as regards conditions of production or utilization, to the other commodities in the group, that it is appropriate to deal with them in a single agreement.

3. If, in exceptional circumstances, the Organization finds that the conditions set forth in Article 62 exist in the case of a commodity which does not fall precisely under paragraphs 1 or 2 of this Article, the Organization may decide that the provisions of this Chapter, together with any other requirements it may establish, shall apply to inter-governmental agreements regarding that commodity.

ARTICLE 57. OBJECTIVES OF INTER-GOVERNMENTAL COMMODITY AGREEMENTS

The Members recognize that inter-governmental commodity agreements are appropriate for the achievement of the following objectives:

(a) to prevent or alleviate the serious economic difficulties which may arise when adjustments between production and consumption cannot be effected by normal market forces alone as rapidly as the circumstances require:

(b) to provide, during the period which may be necessary, a framework for the consideration and development of measures which have as their purpose economic adjustments designed to promote the expansion of consumption or a shift of resources and man-power out of over-expanded industries into new and productive occupations, including as far as possible in appropriate cases, the development of secondary industries based upon domestic production of primary commodities;

(c) to prevent or moderate pronounced fluctuations in the price of a primary commodity with a view to achieving a reasonable degree of stability on a basis of such prices as are fair to consumers and provide a reasonable return to producers, having regard to the desirability of securing long-term equilibrium between the forces of supply and demand;

(d) to maintain and develop the natural resources of the world and protect them from unnecessary exhaustion;

(e) to provide for the expansion of the production of a primary commodity where this can be accomplished with advantage to consumers and producers, including in appropriate cases the distribution of basic foods at special prices;

(f) to assure the equitable distribution of a primary commodity in short supply.

SECTION B—INTER-GOVERNMENTAL COMMODITY AGREEMENTS IN GENERAL

ARTICLE 58. COMMODITY STUDIES

1. Any Member which considers itself substantially interested in the production or consumption of, or trade in, a particular primary commodity, and which considers that international trade in that commodity is, or is likely to be, affected by special difficulties, shall be entitled to ask that a study of the commodity be made.

2. Unless the Organization decides that the case put forward in support of the request does not warrant such action, it shall promptly invite each Member to appoint representatives to a study group for the commodity, if the Member considers itself substantially interested in the production or consumption of, or trade in, the commodity. Non-Members may also be invited.

3. The study group shall promptly investigate the production, consumption and trade situation in regard to the commodity, and shall report to the participating governments and to the Organization its findings and its recommendations as to how best to deal with any special difficulties which exist or may be expected to arise. The Organization shall promptly transmit to the Members these findings and recommendations.

ARTICLE 59. COMMODITY CONFERENCES

1. The Organization shall promptly convene an inter-governmental conference to discuss measures designed to meet the special difficulties which exist or are expected to arise concerning a particular primary commodity:

(a) on the basis of the recommendations of a study group, or

(b) at the request of Members whose interests represent a significant part of world production or consumption of, or trade in, that commodity, or

(c) at the request of Members which consider that their economies are dependent so an important extent on that commodity, unless the Organization considers that no useful purpose could be achieved by convening the conference, or

(d) on its own initiative, on the basis of information agreed to be adequate by the Members substantially interested in the production or consumption of, or trade in, that commodity.

2. Each Member which considers itself substantially interested in the production or consumption of, or trade in, the commodity concerned, shall be invited to participate in such a conference. Non-Members may also be invited to participate.

ARTICLE 60. GENERAL PRINCIPLES GOVERNING COMMODITY AGREEMENTS

1. The Members shall observe the following principles in the conclusion and operation of all types of inter-governmental commodity agreements:

(a) Such agreements shall be open to participation, initially by any Member on terms no less favourable than those accorded to any other country, and thereafter in accordance with such procedure and upon such terms as may be established in the agreement, subject to approval by the Organization.

(b) Non-Members may be invited by the Organization to participate in such agreements and the provisions of sub-paragraph (a) applying to Members shall also apply to any non-Member so invited.

(c) Under such agreements there shall be equitable treatment as between participating countries and non-participating Members, and the treatment accorded by participating countries to non-participating Members shall be no less favourable than that accorded to any non-participating non-Member, due consideration being given in each case to policies adopted by non-participants in relation to obligations assumed and advantages conferred under the agreement.

(d) Such agreements shall include provision for adequate participation of countries substantially interested in the importation or consumption of the commodity as well as those substantially interested in its exportation or production.

(e) Full publicity shall be given to any inter-governmental commodity agreement proposed or concluded, to the statements of considerations and objectives advanced by the proposing Members, to the nature and development of measures adopted to correct the underlying situation which gave rise to the agreement and, periodically, to the operation of the agreement.

2. The Members, including Members not parties to a particular commodity agreement, shall give favourable consideration to any recommendation made under the agreement for expanding consumption of the commodity in question.

ARTICLE 61. TYPES OF AGREEMENTS

1. For the purposes of this Chapter, there are two types of inter-governmental commodity agreements:

(a) commodity control agreements as defined in this Article; and

(b) other inter-governmental commodity agreements.

2. Subject to the provisions of paragraph 5, a commodity control agreement is an inter-governmental agreement which involves:

(a) the regulation of production or the quantitative control of exports or imports of a primary commodity and which has the purpose or might have the effect of reducing, or preventing an increase in, the production of, or trade in, that commodity; or

(b) the regulation of prices.

3. The Organization shall, at the request of a Member, a study group or a commodity conference, decide whether an existing or proposed inter-governmental agreement is a commodity control agreement within the meaning of paragraph 2.

4. (a) Commodity control agreements shal lbe subject to all the provisions of this Chapter.

(*b*) Other inter-governmental commodity agreements shall be subject to the provisions of this Chapter other than those of Section C. If, however, the Organization decide sthat an agreement which involves the regulation of production or the quantitative control of exports or imports is not a commodity control agreement within the meaning of paragraph 2, it shall prescribe the provisions of Section C, if any, to which that agreement shall conform.

5. An existing or proposed inter-governmental agreement the purpose of which is to secure the co-ordinated expansion of aggregate world production and consumption of a primary commodity may be treated by the Organization as not being a commodity control agreement, even though the agreement provides for the future application of price provisions, provided that

(*a*) at the time the agreement is entered into, a commodity conference finds that the conditions contemplated are in accordance with the provisions of Article 62, and

(*b*) from the date on which the price provisions become operative, the agreement shall conform to all the provisions of Section C, except that no further finding will be required under Article 62.

6. Members shall enter into any new commodity control agreement only through a conference called in accordance with the provisions of Article 59 and after an appropriate finding has been made under Article 62. If, in an exceptional case, there has been unreasonable delay in the convening or in the proceedings of the study group or of the commodity conference, Members which consider themselves substantially interested in the production or consumption of, or trade in, a particular primary commodity, may proceed by direct negotiation to the conclusion of an agreement, provided that the situation is one contemplated in Article 62 (*a*) or (*b*) and that the agreement conforms to the other provisions of this Chapter.

SECTION C—INTER-GOVERNMENTAL COMMODITY CONTROL AGREEMENTS

ARTICLE 62. CIRCUMSTANCES GOVERNING THE USE OF COMMODITY CONTROL AGREEMENTS

The Members agree that commodity control agreements may be entered into only when a finding has been made through a commodity conference or through the Organization by consultation and general agreement among Members substantially interested in the commodity, that:

(*a*) a burdensome surplus of a primary commodity has developed or is expected to develop, which, in the absence of specific governmental action, would cause serious hardship to producers among whom are small producers who account for a substantial portion of the total output, and that these conditions could not be corrected by normal market forces in time to prevent such hardship, because, characteristically in the case of the primary commodity concerned, a substantial reduction in price does not readily lead to a significant increase in consumption or to a significant decrease in production; or

(*b*) widespread unemployment or under-employment in connection with a primary commodity, arising out of difficulties of the kind referred to in Article 55, has developed or is expected to develop, which, in the absence of specific governmental action, would not be corrected by normal market forces in time to prevent widespread and undue hardship to workers because, characteristically in the case of the industry concerned, a substantial reduction in price does not readily lead to a significant increase in consumption but to a reduction of employment, and because areas in which the commodity is produced in substantial quantity do not afford alternative employment opportunities for the workers involved.

ARTICLE 63. ADDITIONAL PRINCIPLES GOVERNING COMMODITY CONTROL AGREEMENTS

The Members shall observe the following principles governing the conclusion and operation of commodity control agreements, in addition to those stated in Article 60:

(*a*) Such agreements shall be designed to assure the availability of supplies adequate at all times for world demand at prices which are in keeping with the provisions of Article 57 (*c*), and, when practicable, shall provide for measures designed to expand world consumption of the commodity.

(*b*) Under such agreements, participating countries which are mainly interested in imports of the commodity concerned shall, in decisions on substantive matters, have together a number of votes equal to that of those mainly interested in obtaining export markets for the commodity. Any participating country, which is interested in the commodity but which does not fall precisely under either of the above classes, shall have an appropriate voice within such classes.

(c) Such agreements shall make appropriate provision to afford increasing opportunities for satisfying national consumption and world market requirements from sources, from which such requirements can be supplied in the most effective and economic manner, due regard being had to the need for preventing serious economic and social dislocation and to the position of producing areas suffering from abnormal disabilities.

(d) Participating countries shall formulate and adopt programmes of internal economic adjustment believed to be adequate to ensure as much progress as practicable within the duration of the agreement towards solution of the commodity problem involved.

ARTICLE 64. ADMINISTRATION OF COMMODITY CONTROL AGREEMENTS

1. Each commodity control agreement shall provide for the establishment of a governing body, herein referred to as a Commodity Council, which shall operate in conformity with the provisions of this Article.
2. Each participating country shall be entitled to have one representative on the Commodity Council. The voting power of the representatives shall be determined in conformity with the provisions of Article 63 (b).
3. The Organization shall be entitled to appoint a non-voting representative to each Commodity Council and may invite any competent inter-governmental organization to nominate a non-voting representative for appointment to a Commodity Council.
4. Each Commodity Council shall appoint a non-voting chairman who, if the Council so requests, may be nominated by the Organization.
5. The Secretariat of each Commodity Council shall be appointed by the Council after consultation with the Organization.
6. Each Commodity Council shall adopt appropriate rules of procedure and regulations regarding its activities. The Organization may at any time require their amendment if it considers that they are inconsistent with the provisions of this Chapter.
7. Each Commodity Council shall make periodic reports to the Organization on the operation of the agreement which it administers. It shall also make such special reports as the Organization may require or as the Council itself considers to be of value to the Organization.
8. The expenses of a Commodity Council shall be borne by the participating countries.
9. When an agreement is terminated, the Organization shall take charge of the archives and statistical material of the Commodity Council.

ARTICLE 65. INITIAL TERM, RENEWAL AND REVIEW OF COMMODITY CONTROL AGREEMENTS

1. Commodity control agreements shall be concluded for a period of not more than five years. Any renewal of a commodity control agreement, including agreements referred to in paragraph 1 of Article 68, shall be for a period not exceeding five years. The provisions of such renewed agreements shall conform to the provisions of this Chapter.
2. The Organization shall prepare and publish periodically, at intervals not greater than three years, a review of the operation of each agreement in the light of the principles set forth in this Chapter.
3. Each commodity control agreement shall provide that, if the Organization finds that its operation has failed substantially to conform to the principles laid down in this Chapter, participating countries shall either revise the agreement to conform to the principles or terminate it.
4. Commodity control agreements shall include provisions relating to withdrawal of any party.

ARTICLE 66. SETTLEMENT OF DISPUTES

Each commodity control agreement shall provide that:

(a) any question or difference concerning the interpretation of the provisions of the agreement or arising out of its operation shall be discussed originally by the Commodity Council; and (*b*) if the question or difference cannot be resolved by the Council in accordance with the terms of the agreement, it shall be referred by the Council to the Organization, which shall apply the procedure set forth in Chapter VIII with appropriate adjustments to cover the case of non-Members.

Section D—Miscellaneous Provisions

ARTICLE 67. RELATIONS WITH INTER-GOVERNMENTAL ORGANIZATIONS

With the object of ensuring appropriate cooperation in matters relating to inter-governmental commodity agreements, any inter-governmental organization which is deemed to be competent by the Organization, such as the Food and Agriculture Organization, shall be entitled:

(*a*) to attend any study group or commodity conference;

(*b*) to ask that a study of a primary commodity be made;

(*c*) to submit to the Organization any relevant study of a primary commodity, and to recommend to the Organization that further study of the commodity be made or that a commodity conference be convened.

ARTICLE 68. OBLIGATIONS OF MEMBERS REGARDING EXISTING AND PROPOSED COMMODITY AGREEMENTS

1. Members shall transmit to the Organization the full text of each inter-governmental commodity agreement in which they are participating at the time they become Members of the Organization, together with appropriate information regarding the formulation, provisions and operation of any such agreement. If, after review, the Organization finds that any such agreement is inconsistent with the provisions of this Chapter, it shall communicate such finding to the Members concerned in order to secure promptly the adjustment of the agreement to bring it into conformity with the provisions of this Chapter.

2. Members shall transmit to the Organization appropriate information regarding any negotiations for the conclusion of an inter-governmental commodity agreement in which they are participating at the time they become Members of the Organization. If, after review, the Organization finds that any such negotiations are inconsistent with the provisions of this Chapter, it shall communicate such finding to the Members concerned in order to secure prompt action with regard to their participation in such negotiations. The Organization may waive the requirement of a study group or a commodity conference, if it finds it unnecessary in the light of the negotiations.

ARTICLE 69. TERRITORIAL APPLICATION

For the purposes of this Chapter, the terms "Member" and "non-Member" shall include the dependent territories of a Member and non-Member of the Organization respectively. If a Member or non-Member and its dependent territories form a group, of which one or more units are mainly interested in the export of a commodity and one or more in the import of the commodity, there may be either joint representation for all the territories within the group or, where the Member or non-Member so wishes, separate representation for the territories mainly interested in exportation and separate representation for the territories mainly interested in importation.

ARTICLE 70. EXCEPTIONS TO CHAPTER VI

1. The provisions of this Chapter shall not apply:

(*a*) to any bilateral inter-governmental agreement relating to the purchase and sale of a commodity falling under Section D of Chapter IV;

(*b*) to any inter-governmental commodity agreement involving no more than one exporting country and no more than one importing country and not covered by sub-paragraph (*a*) above; *Provided* that if, upon complaint by a non-participating Member, the Organization finds that the interests of that Member are seriously prejudiced by the agreement, the agreement shall become subject to such provisions of this Chapter as the Organization may prescribe;

(*c*) to those provisions of any inter-governmental commodity agreement which are necessary for the protection of public morals or of human, animal or plant life or health, provided that such agreement is not used to accomplish results inconsistent with the objectives of Chapter V or Chapter VI;

(*d*) to any inter-governmental agreement relating solely to the conservation of fisheries resources, migratory birds or wild animals, provided that such agreement is not used to accomplish results inconsistent with the objectives of this Chapter or the purpose and objectives set forth in Article 1 and is given full publicity in accordance with the provisions of paragraph 1 (*e*) of Article 60; if the Organization finds, upon complaint by a non-participating Member, that the interests of that Member are seriously prejudiced by the agreement, the agreement shall become subject to such provisions of this Chapter as the Organization may prescribe.

2. The provisions of Articles 58 and 59 and of Section C of this Chapter shall not apply to inter-governmental commodity agreements found by the Organization to relate solely to the equitable distribution of commodities in short supply.

3. The provisions of Section C of this Chapter shall not apply to commodity control agreements found by the Organization to relate solely to the conservation of exhaustible natural resources.

APPENDIX C

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APPENDIX D

BRIEFS AND STATEMENTS SUBMITTED IN CONNECTION WITH THE INVESTIGATION

American Farm Bureau Federation
Submitted by Roger Fleming

The American Farm Bureau Federation opposes international commodity agreements which attempt to control prices, share markets, or engage in international supply management. Such agreements are inconsistent with the competitive enterprise system. International agreements can serve a useful purpose only if they reduce the barriers to trade and provide timely market information so that producers can compete on the basis of comparative advantage.

American Iron and Steel Institute (AISI)

The American Iron and Steel Institute indicated that, in the past, they have recommended that the United States not become a member of the International Tin Agreement because it "operated virtually exclusively in the interest of tin producing countries." In the view of AISI, progress toward achieving the objectives of the agreement has not occurred. The buffer stock and export controls have been ineffective in protecting consumer interests. The AISI concludes that "the issue of price intervention and stabilization in international commodity agreements still persists and is apparently no further advanced" and that until it is, reliance upon the strategic stockpile is the most prudent alternative for the United States.

It is noted that the AISI does not categorically state that it will oppose the United States' joining the fifth agreement, although it appears that the basis for its past opposition has remained unchanged. It is known that the Department of State favors such U.S. action and is in the process of meeting with steel industry officials in an attempt to obtain their support for U.S. participation.

Billiton Trading Company
Submitted by David Kwiat

Billiton Trading Company, a major tin-trading firm, indicated that it would be in the economic interest of the United States to join the tin agreement, but that domestic control of the strategic stockpile should be maintained. Such participation would ". . . show our good will and friendship to part of the Third World . . ." and would encourage ". . . other consuming nations to contribute to the funds available to the Buffer Stock Manager, enabling him to better control the wide swings in the market. . . ."

Chicago Board of Trade
Submitted by Warren W. Lebeck

The Chicago Board of Trade feels the United States must continue to develop new markets and expand, or at least maintain participation in present markets and do everything feasible to keep other nations from curtailing U.S. exports by erecting high tariff and nontariff barriers. Moreover, the United States must avoid the strangulation effects of international commodity agreements containing maximum and minimum prices.

Debovise, Clinton, Lyons, Gates

A brief indicating that an international agreement on copper was unnecessary was filed on behalf of copper companies which account for some 60 percent of total U.S. primary copper production. Reference was made to the International Tin Agreement, asserting that it has failed to stabilize tin prices.

Godfrey Associates, Inc., representing continental cane sugar producers
Submitted by Horace D. Godfrey

It is assumed that Congress will continue to establish policies with respect to sugar. If serious negotiations should be undertaken with respect to an international commodity agreement for sugar, the continental cane sugar producers would like to participate in the discussion.

Great Plains Wheat, Inc.
Submitted by Joseph Halow

Great Plains Wheat, Inc., feels that either a successor to or extension of the current International Wheat Agreement (IWA) should continue to be the domain of the International Wheat Council. An IWA should not be negotiated in the most-favored-nation negotiations, since wheat interests could be negotiated away for some other questionable gains in other areas.

Hawaiian Sugar Planters Association
Submitted by Roger H. Sullivan

The United States should take part in any negotiations for a new international sugar agreement. Any international discussions should be carried on with the expectation that Congress will act in the field of sugar policy, and any conflict, actual or potential, should be avoided.

Malayan Tin Bureau

The Malayan Tin Bureau indicated that the International Tin Agreement is a matter of proper concern to the Malaysian Government, not the Bureau, and thus did not request to appear at the hearing or file a brief.

Millers' National Federation

The Millers' National Federation concludes and recommends the following:

(1) The International Wheat Council has been a useful forum for discussion of world supply and demand problems;

(2) The experience with specific minimum and maximum prices and guaranteed export and import quotas under the IWA's during the 1949-71 period has not been favorable;

(3) It seems likely that the period of surplus wheat crops and excessive stocks is over. Consequently, future emphasis in any wheat agreement should include how wheat can be most effectively produced and distributed to meet the increasing world food needs.

National Association of Wheat Growers
Submitted by Carl F. Schwensen

The National Association of Wheat Growers firmly believes that the United States should continue as a signatory to the Wheat Trade Convention, and the Food Aid Convention and continue to be a full party and strong supporter of the International Wheat Agreement.

National Farmers Union
Submitted by Robert G. Lewis

The National Farmers Union favors international commodity agreements on agricultural products. The National Farmers Union submitted three papers for Commission use:

1. Competition and Cooperation in the Pricing of U.S. Wheat in Export Markets, paper submitted by Robert G. Lewis at the U.S. Department of Agriculture, Third National Wheat Utilization Research Conference, Kansas State University, Manhattan, Kansas, November 5, 1964.

2. Report of the Working Group on Grains, International Federation of Agricultural Producers, December 15, 1972.

3. Impact on Agriculture of Future International Trade Agreements, statement of Robert G. Lewis, National Farmers Union, public hearings of the U.S. International Trade Commission, April 9, 1975.

National Grain Trade Council
Submitted by William F. Brooks

The National Grain Trade Council requests that no international commodity agreements or treaties covering the use, sale, purchase, or retention of grains and oilseeds be discussed by the U.S. representatives at the forthcoming GATT discussions.

National Grange
Submitted by John W. Scott

International commodity agreements have a place in agricultural trade policies. This is especially true of those commodities which tend to be in oversupply on the world's market. Although there is a difference of opinion on the desirability of trying to allocate markets, there is little argument against attempts to develop international agreements to prevent the total collapse of international markets for strategic food needs and supplies. The most promising approach will be to examine the position on a commodity-by-commodity basis and to devise commodity arrangements or agreements, only as appropriate, for individual commodities or groups of commodities.

National Sugarbeet Growers Federation
Submitted by Richard W. Blake

The most effective U.S. sugar policy would be one which would protect domestic production at reasonable prices through new sugar legislation and at the same time allow cooperation and active participation in the development of an international agreement on sugar.

Poultry and Egg Institute of America
Submitted by Lee Campbell

The Poultry and Egg Institute of America favors expansion of international trade based on fair and equitable competition. The Institute questions the allocation of international markets through the use of politically determined international commodity agreements.

Tea Association of the United States of America, Inc.
Submitted by N. F. H. Fleming

The Tea Association of the United States of America, Inc., emphasizes the following complications regarding the concept of an international tea agreement:

1. Tea cannot be stockpiled because it is a perishable commodity.
2. Access to supplies has been achieved by a time-tested process of world buyers operating at open auctions. Any interference by formal commodity agreements could lead to a chronic breakdown in the entire machinery governing tea disposal.
3. There is an infinite variety of tea by grade, type, and origin.

United States Beet Sugar Association
Submitted by David C. Carter

The United States should be a participant in future international sugar agreement negotiations. However, it seems prudent for the United States to determine its own sugar policy in advance of such international negotiations. It appears that the Congress will move toward establishing a definite sugar policy in the not-too-distant future.

United States Cane Sugar Refiners Association
Submitted by Gregg R. Potvin

The United States should actively participate in the development of a new international sugar agreement.

Kennecott Copper Corporation
Submitted by Franklin R. Milliken

The Kennecott Copper Corporation is in agreement with the brief filed by Debovise, Clinton, Lyons, Gates on behalf of a group of copper companies. The brief indicated that an international agreement on copper was unnecessary and made reference to the International Tin Agreement, asserting that it has failed to stabilize tin prices.

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