Chapter - IX

THE EFFECTIVENESS OF COMMODITY AGREEMENTS: A SELECTIVE REVIEW
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I. INTRODUCTION

International multilateral agreements, along with the institutions and organisational processes they give birth to, represent some of the most potent instruments of international cooperation. International economic agreements are no exceptions to this understanding. However, generally speaking, these agreements, more often than not, tend to be judged by their economic achievements alone i.e. solely by the empirical yardstick. While there is no gainsaying the fact that any agreement must attempt to achieve its set objectives, it would perhaps represent the worst kind of pragmatism, if cooperative ventures in the international sphere are dubbed a success or failure on the basis of narrow empiricism, overlooking the significance of the institutions and the organisational processes which they establish. The latter create a channel for informed communication so essential to the amicable resolution of economic conflicts. In other words, it is submitted that the success or failure of commodity agreements needs to be assessed after a wholesome analysis in which the twin elements of institutions and organisational process, and economic achievement are given due consideration.
The preceding few chapters have detailed out the complex legal and institutional structure which commodity agreements establish whose significance in promoting cooperation in the field of primary commodities is often ignored. In this chapter, a selective review of commodity agreements is undertaken to show (i) that ICAs have not been entirely unsuccessful in terms of economic achievement, and (ii) that they can be rendered more effective through strengthening them with more appropriate mechanisms and increased financial resources.

A report on the "Effectiveness of commodity agreements" submitted by the UNCTAD Secretary-General in 1972 concluded:

Although improvements can, and probably will, be made in some of the existing commodity agreements, the results show that the control agreements, have been generally effective in bringing remunerative prices and in reducing fluctuations. They have generally improved the position of developing countries by eliminating the disastrously low returns that often occurred in times of surplus. They are undoubtedly an instrument which can be used to give some special help to developing producing countries. They have also provided benefits for consuming countries in times of shortage, sometimes, for example, they have resulted in the commodity being available to contracting parties at less than current market prices and sometimes, through buffer stock arrangements, they have provided supplies to meet such shortages.¹

¹ TD/129, 16 February 1972; Effectiveness of Commodity Agreements - Report by the Secretary-General of UNCTAD, p. 37.
In keeping with this understanding the Integrated Programme for Commodities envisaged the establishment of commodity agreements in all the specified eighteen commodities. The underlying assumption has been that commodity agreements can not only successfully stabilise prices and export earnings so critical to the development effort of the developing countries, but also prove beneficial in the manifold activities relating to the industry and trade of primary commodities.

The sanguine assumptions of the UNCTAD secretariat, as well as the record of commodity agreements in the post-1945 period, like all aspects of the stability issue, have not gone unchallenged. Reviewing the experience with commodity agreements in 1975, Alton Law, for instance, concluded that “results of past and present control efforts have not been encouraging”. Behman in his significant study of 1977 has affirmed Law’s observation and concluded that “past efforts at price stabilisation have not been very successful”. While these studies do not entirely dismiss the concept of commodity agreements, they are generally skeptical of their potentiality to stabilise


prices and achieve their other avowed objectives. The validity of these conclusions can perhaps be considered in the background of a discussion of the performance of commodity agreements.

The first part of the ensuing review will examine the operation and performance of the tin, coffee, and cocoa agreements in the post-1945 period, but not the record of the contemporary agreements. The second will seek to analyse the experience of some of the contemporary agreements with price regulation mechanisms in the 1980-92 commodity crisis. The final part contains a broad appraisal. It may be noted, however, that the review does not pretend to be a comprehensive analysis of the performance of commodity agreements in the post-1945 period, a task outside the scope of this study. In particular, the evidence with regard to objectives other than price stabilisation is fragmented and therefore difficult to collate and assess. In the case of the IAJJP and ITTA which have long-term development of the commodity as their chief objective, sufficient time has to elapse before any reasonable evaluation can be made. However, in view of this fact the achievements and activities of IOOA are outlined at the end of the first part. Finally, it may be mentioned that the performance of commodity agreements, even for the same commodity, vary from agreement to agreement, depending on
the nature and adequacy of the agreement, the market circumstances etc. Therefore it is perhaps impractical to look for facile conclusions with respect to their success or failure. What is possible is a general evaluation of their effectiveness and problems of operation.

II. A REVIEW OF INTERNATIONAL TIN AGREEMENTS 1956-82

The tin mining industry has been under some form of international control for the past sixty years and the first International Tin Agreement of 1956-61 has been followed by five more five-year agreements. They have been described as "a microcosm of UNCTAD". Therefore, any attempt to assess the success or failure of ICAs in achieving their objectives must necessarily begin with an evaluation of the tin agreements in the post-War period.

The major objectives of the tin agreements are: (a) to prevent maladjustment between the world production and consumption of tin; (b) to prevent excessive price fluctuations; (c) to increase the export earnings of producers; (d) to ensure adequate supplies for consumers. The primary


objective of the agreements undoubtedly is the stabilisation of prices without supplanting market forces and it is the tin agreement's record in achieving this objective which will be examined first. A review of the literature which attempts to make an assessment in this regard reveals a range of opinion, though most of the studies display a favourable attitude towards the agreements.

An UNCTAD secretariat document, reviewing policy issues before the negotiation of the current agreement, evaluated the past five agreements thus; "The five successive international tin agreements so far concluded... have achieved a large measure of success, though they have been much less effective in the face of steeply rising prices than in defending the floor price. Whereas market prices have exceeded the ceiling price for significant periods, the floor price has been successfully defended except on one occasion of about two weeks (in 1958), during the whole period of nearly 24 years since the entry into force in 1956 of the First International Tin Agreement. The asymmetrical nature of the success which saw for 50 months out of 222 between 1956 and 1974 the average monthly

6. TD/TIN.6/4, 26 March 1980; Preparation of a Sixth International Tin Agreement, some policy issues - Note by the UNCTAD secretariat.

7. Ibid., p. 4.
price exceeding the relevant buffer stock ceiling is traced, inter alia, to two factors: (i) the limited quantities of tin which were available in practice for release on the market at times of excessive upward pressure on prices. The Tin Council, that is to say, lacked the necessary financial resources to build up a large buffer stock; and (ii) excessive caution on the part of consumers in revising the price range at which the buffer stock could operate and thus defend the ceiling.  

William Fox, who was the secretary of the International Tin Council during 1956-71, generally endorses this assessment of the UNCTAD secretariat. Reviewing the price details till the year 1974, Fox concludes that "In general, except where, as in 1964-65 outside forces (the fears and facts of U.S. sales) had overwhelmed the market, it can be properly claimed that the post-war agreements have substantially smoothed down short-term fluctuations."

8. For details see TD/TIN.6/3, 28 January 1980; The International Tin Agreements in Operation 1956-1979 — Note by the UNCTAD secretariat.

9. TD/B/C.1/267, 25 January 1985; The role of the International Tin Council (ITC) in attaining the objectives of the Integrated Programme for Commodities (IPC) — Contributed by the International Tin Council, p. 10. For detailed analysis and other contributory factors see pp. 10-2; also see TD/TIN.6/4, n.8.
fluctuations", 10 As far as long-term fluctuations were concerned, he found that "in general, and naturally when the Tin Council was strongest, the year-by-year range was smaller", and though "the movements in these agreement years do not suggest long-term stability in price, but we may be asking for the moon in expecting such stability", 11 The performance, according to Fox, would have been even better if the buffer stock had been provided with adequate quantities of money and metal enabling it to operate effectively.

Kerstin Barkman in her study published in 1975 examines three indicators of price fluctuations: percentage deviations from a trendline (five-year moving average), year to year price fluctuations in percentage terms, and average price fluctuations within the years and concludes that "the three measures of price fluctuations showed that tin price instability was much higher in the interwar period than in the post-War period". 12 But this, she suggests, could be also because the demand in the post-War period was more stable than in the inter-War period and therefore no conclusive statement could be made with

11. Ibid., pp. 391 and 393.
regard to the effectiveness of the agreements. 13

Barkman's results show that during 1956-71 percentage annual deviations from the trend (using a five-year moving average) were lower than in the years 1923-37. In fact, except for the period 1963-65 when the average annual deviation went up to 13 per cent as compared to 3 per cent during 1957-62 and 5 per cent during 1966-71, the contrast was patent. These results were supported by the measurement of average within-year fluctuations around the average yearly price as well. Barkman sought to assess the stability of tin prices by comparing tin prices with those of other non-ferrous metals, and concludes that "the tin agreements have had some stabilising effect on tin prices". 14 Summing up, Barkman observes that the tin producers of the successive tin agreements have reaped the following advantages: (i) tin price fluctuations have been kept within a given range; (ii) tin producers have had a guaranteed minimum floor price in planning their investment decisions; and (iii) tin agreements have meant a certain amount of control over the tin market in favour of the producers by means of the buffer stock. 15

13. Ibid.
15. Ibid., p. 522.
The oft-quoted negative assessment of Smith and Schink made in 1976 was that (with respect to the first four agreements) (i) the tin agreement has only marginal reduced the instability of prices and producer incomes, and that of far greater importance in this respect have been the US governmental stockpile transactions of tin made outside the agreement; (ii) the fact it has endured while other agreements have failed, in part can be attributed to its lack of effective power – in the shadow of the US strategic stockpile, to make critical price decisions which otherwise would have intensified producer-consumer conflicts; and (iii) if the agreement had been designed to perform the role of an effective market stabilisers, as currently envisaged for commodity agreements, there is a good chance that it would have fallen apart.16

The Smith-Schink analysis runs as follows: the international tin agreements have operated in the ‘shadow of the US strategic stockpile which in 1952-73 exceeded the Western world’s total annual consumption of tin. Since the late fifties, the United States has used the

stockpile as a market stabiliser. In contrast to the size of the US stockpile, the authorised size of the buffer stock had ranged between one or two months consumption over the four tin agreements. Consequently, the buffer stock of the International Tin Council was not a "particularly potent market force". And so "in toto it seems that except in the late 1950s, when export quotas helped to cut the non-communist world's tin output by one-third, the combined buffer stock operations and export controls have been relatively minor factors in the tin market". 17

Smith and Schink, therefore, seem to be in variance with the UNCTAD assessment that the tin agreements enjoyed "a large measure of success". Even the success in defending floor prices is attributed by them largely to the operation of the US tin stockpile.

Rangarajan has also argued that the tin agreements were not particularly successful keeping in view the fact that there was always "a supporting US stockpile", despite which the tin prices were often above the ceiling. Alton Law has observed that the tin agreements were unable to prevent the surge of prices in 1964-65 and again in 1973-74. 18 These negative assessments of the operation of

17. Ibid., pp. 720-1 (Italics in the original).
the tin agreements need to be viewed in light of the fact that the buffer stock possessed inadequate resources of metal and money. In this context, Engel has correctly noted that "because of the lack of funds when the price has been low, the secondary weapon of restrictions has had to be invoked at too early a stage in the downturn....

The resultant withdrawal of supplies from what has, in the past twenty years, always proved to be a temporarily over-supplied market, compounds the long-term deficit in production and contributes in no small measures to the impetus of the upswing in prices when the eventual turn around takes place.... The ceiling has then been broken whenever the buffer stock has run out of tin - tin which had not been purchased when prices were low because of lack of money, and the fact is that the majority of the consuming nations have not made contributions to the funds at the Buffer stock Manager's disposal".¹⁹ Secondly, US sales in the early sixties were necessitated by political turmoil in Indonesia, Zaire and Bolivia. According to Robertson, "a large amount of tin was inevitably lost in these countries, which had collectively accounted for 44 per cent of world production in 1956. It would be unrealistic to

¹⁹. Engel, n. 5, pp. 91-2. Compulsory contributions by both producing and consuming members to the buffer stock was introduced only in the ITA.
expect an ordinary buffer stock to cope with prolonged difficulties of this kind affecting nearly half the world industry". 20

Have the tin agreements been successful in preventing an imbalance between world production and consumption. According to Gilbert, "it is the maintenance of adequate price levels in situations of prolonged and severe excess supply which is the most important function of commodity agreements, not price stabilisation over the cycle". 21 If this is so, then the agreement is "an unqualified success" as it has defended the floor price since 1958. It has thereby enabled a large number of marginal mines to keep in operation, which would have been otherwise closed. It has also perhaps attracted new investment. 22 Fox, however, doubts the validity of the latter argument and wonders if the floor price has actually attracted the general flow of new capital which might have been expected. Secondly, the other non-ferrous metals have not had much difficulty in raising capital to maintain or expand production. 23 One possible reason why production has not

20. Robertson, n. 4, pp. 154-5.
22. TD/B/C.1/267, n.9, p. 12; Robertson, ibid.
increased to the desirable levels could be the existence of the American stockpile overhanging the market. Finally, as far as consumption is concerned, it is difficult to contradict Fox's statement that "the agreements in themselves have not seriously pretended to be able to do anything to stimulate the consumption of tin". 24

The tin agreements have, however, helped raise the export earnings of the producing countries. The Tin Council, for example, can be credited with the increase in export earnings by maintaining the 1956-60 earnings on a high level and also for its rise between 1966-71. In comparative terms, to quote Engels, "it can be shown that tin, in constant currency terms, has increased in value and maintained a better upward trend line than copper over the past twenty years, compared with falling trend lines, again in constant currency terms, of lead and zinc". 25 In fact, tin shows a rising trend in real value in the past sixty years as compared to other metals. As far as the objective of adequate supplies of tin to consumers is concerned, the tin agreements, it has been seen, have not been particularly successful in defending the ceiling prices. The

24. Ibid., p. 393.
production has also not kept pace with demand. But, as Engel notes, "there is, of course, a chicken and egg syndrome here; has production been too low because the stockpile was there, depressing prices, or has the stockpile had to seale because of the low production?"26

In so far as the other objectives of tin agreements go, the International Tin Council in a recent review noted that enough has not been done. It has not devoted "effort or resources to questions of market access, or to the expansion of processing".27 But these aspects, it notes, "have not been particular problems in relation to tin". Further, it has not devoted effort or resources "to expansion in the use of tin or to the improvement of marketing, distribution and transport systems".28 However, in these respects it points out that "this does not mean that no work has been done in this area. The International Tin Research Institute, an international organisation whose membership includes most of the major tin producing countries, conducts research and development work aimed at discovering and developing new industrial applications of tin, improving the existing products and the processes and assisting tin consumers in overcoming technical difficulties.

26. Ibid.
27. TD/B/C.1/267, n.9, p. 14.
28. Ibid.
and problems relating to tin. The Association of Tin Producing Countries has also been recently established and it is understood one of its main tasks will be to look into questions of marketing and promotion of tin".\(^{29}\) Despite the existence of these alternative organisations the Tin Council appears to tend to the view that greater effort and resources can be devoted towards these ends.

The experience of the tin agreements is best summed up in the words of Fox:

So far as the use of buffer stock in tin has eased... wide short-term and long-term fluctuations in prices, great depressions in production and consumption, excessive dependence on the upswings and downswings of industrial activity in the developed countries... or the use of export control (as in 1958-60) has preserved part of the world tin mining industry from extinction the weapons of the tin agreement have been justified. The other non-ferrous metals - in particular tungsten, zinc, lead and copper - would do well to examine whether their own special problems are open to the same solution.\(^{30}\)

III. INTERNATIONAL COFFEE AGREEMENTS 1962-80

The first International Coffee Agreement, 1962 has been followed by three other agreements - those of

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29. Ibid.
1968, 1976 and 1983. The chief objectives of these agreements have been: (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 to the detriment of the interests of both producers and consumers; and (3) to encourage the consumption of coffee. All the coffee agreements are based on the export quota mechanism.

The first Agreement was negotiated in response to the perennial problem of surplus production and a sharp decline in prices. The political context which facilitated the successful negotiation of the treaty has been previously noted. The Agreement invited serious criticism. Apart from artificially raising the price of coffee, it was said that the Agreement would freeze the entire structure of the industry: "Little or nothing is done to bring about the elimination of obsolescent high-cost capacity, and the expansion of new low-cost industries, such as the African industry in Kenya, is virtually prevented". 31 While not denying a degree of validity in

these criticisms, it may be recalled that the adoption of the partial selectivity system, after the selective quota dispute in 1965, did attempt to grapple with the problem of the African producers and resolved it within the framework of the Agreement.

The coming into force of the Agreement saw prices rise sharply in 1963 and 1964. The prices arose because of a combination of natural disasters in Brazil and the result of the operation of the Agreement. What is of greater importance, however, was the manner in which the Coffee Council dealt with this sharp price rise to bring it down to more reasonable levels by the end of 1966. Fisher has concluded from the experience that "export quota commodity agreements can be effective in limiting price rises on the world market". Furthermore, he has correctly pointed out that prices would have risen much higher in the absence of the Agreement: "The 1963/64 experience compares favourably to the 1954 price rise (also caused by natural disasters in Brazil) when, with no agreement, prices were almost double the maximum of the

32. The general problem of 'freezing production patterns' has been discussed in Chapter 3 under the sub-heading "Export quotas".

1964 ceiling. The performance of the ICA was especially remarkable in view of the fact that Brazil retained its price defense policy, under-selling its basic quota by 2.2 million bags, or about 12 per cent, in 1963/64, and by 4.3 million bags, or 25 per cent, in 1964/65. Between late 1965 and September 1968 when the first Agreement ended, prices moved in a small range from 37 to 45 cents.

Under the 1968 Coffee Agreement, prices fluctuated much more than they did under the first Agreement. Yet it did help limit the sharp price rise which was sparked off in July 1969 by frost and droughts in Brazil. Action under the Agreement saw the price of Brazil's Santos reduced from 53.9 cents per pound in April 1970, to 44.5 cents per pound in April 1971. Fisher, after examining the operation of the two agreements, has observed that "the ICA has been a useful mechanism for price stabilisation on the coffee market". Galloway endorses this view and concludes that "one can probably conclude with some degree of safety that prices have been substantially more stable under the Agreement then they would have been had there been no Agreement".

34. Ibid., p. 78.
As against these conclusions, Law has asserted that price instability under the first two agreements showed 50 per cent greater instability than in the period 1950-63 when there was no agreement. Law's observations are, in a sense, misleading. Though prices may have fluctuated more in the period of agreements than in the years of non-agreement, it does not mean that the prices in the period of agreements would not have fluctuated even more in their absence; indeed Law's argument assumes a total absence of other factors which normally condition commodity prices. Two further observations may be ventured here. Firstly, commodity agreements cannot eliminate price fluctuations entirely, but only seek to limit them. Secondly, they are not equipped to deal with completely abnormal market situations. In other words, their effectiveness should be evaluated by examining whether they are able to minimise the damage which would have resulted otherwise.

The 1968 Agreement, in the absence of a new agreement because of the lack of US support in the wake of the Soluble Coffee problem, was extended nominally until 1975. Towards the end, the basis of control shifted to the Geneva Arrangement, a producer's body formed by Brazil, Colombia, the Ivory Coast, and Portugal acting for Angola.

38. Law, n. 2, p. 46.
It was supported by Central American producers as well as the Inter-African Coffee Organisation. However, a third agreement was negotiated in this period and the ICFA entered into force in October 1976 for a period of six years. The regulatory provisions were not tested in practice till the crisis towards the end of 1980. It was only in the period 1980-81 that export quotas were introduced for the first time since 1972-73, in order to check the decline in prices. Thereafter, the Agreement somewhat succeeded in holding prices within the set target and conducted "a successful salvage operation". Finally, the coffee agreements, it is well known, have raised the export earnings of coffee exporting countries.

Coffee, a classic example of a boom-bust commodity, has been, as noted earlier, constantly plagued by the problem of over-production. The 1962 Agreement failed to address this problem and came in for severe criticism for not dealing with the more fundamental structural problems.

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[39] Between 1976 and 1980, the producers and consumers could not agree on the indicator price ranges which the 1976 Agreement for the first time provided. While when the prices rose the producers were unwilling to arrive at an agreed range the importers led by US resisted when prices were falling since the producers had formed the Bogota Group which eventually led to the founding of Pan Cafe a called arrangement in the form of a company. It was only after it was agreed to disband Pan Cafe that agreement was reached on a price range. See for details Fiona Gordon-Ashworth, *International Commodity Control: A Contemporary History and Appraisal* (Groom Helm, London, 1984), p. 216.
Though the eleventh chapter of the Agreement did deal with production controls, it was said to do "little more than lip service" to this vital issue.\(^4\) In the wake of this, towards the end of 1966, the concept of a diversification fund was endorsed in principle by the Coffee Council. And the 1968 Agreement introduced the Diversification Fund which represented a "unique innovation", a new organisational device in coffee agreements. It was set up with the explicit objective of "limiting the production of coffee in order to bring supply into reasonable balance with world demand". Even scholars like Pincus, who were critical of commodity agreements, remarked that "\(\ldots\) in embryo at least, it foreshadows a principle of international control of the proceeds of monopoly pricing in the interest of economic development".\(^4\) The Fund was, however, liquidated in 1973. A brief review of its fate may be undertaken to identify the problems such measures generally run into.

The Diversification Fund was to be used to divert resources from the production of coffee to other crops by encouraging production either of commodities which could

\(^4\) Rowe, n. 31, p. 181.

fetch an equivalent sum in export revenue or of commodities which were currently imported. In this manner, it would help overcome the global structural problem of over-production and over-supply in coffee. Article 54 made participation in the Fund compulsory for all members whose export entitlements exceeded 100,000 bags annually. Members had to contribute an amount equal to US $ 0.60 per bag of coffee exported in excess of 100,000 bags of which 20 per cent was required to be in convertible currency. 78 per cent of a country's assessment was earmarked to finance projects in the country itself, while 20 per cent (the convertible currency portion) could be utilised to finance projects in a member state. Between 1968 and 1973, the Fund approved for financing 39 projects in 26 member states representing a total value of about US $ 140 million. 42 The Fund was liquidated in June 1973, three months before its original termination date. Among the causes which led to its liquidation, were disagreements over the disposition of the foreign exchange portion of the assessments and the fact that the International Coffee Organisation was not

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able to cope with the requests of members to apprise projects for financing. However, "a more fundamental reason" was "the failure of consuming interests to participate; not only did the lack of voluntary contributions reduce the amount of foreign exchange available, but the absence of disinterested parties in the decision making structure made it impossible to reach agreement on how to allocate available resources. Thus, while the International Coffee Organisation tried to establish a global framework for undertaking horizontal diversification measures, practical constraints reduced its role to overseeing a number of national coffee development plans".43

No study seems to have been made of the projects which were financed. It may, however, be said that several projects were designed to encourage expansion of banana, tea and oil palm production which were already in excess supply and would have meant losses to other developing countries.44

IV. INTERNATIONAL COCOA AGREEMENTS

The first International Cocoa Agreement was negotiated in 1972 and came into force at the end of June 1973. It took nearly 17 years to negotiate and ratify the

43. Ibid., p. 3.
agreement which has been described by Short as "a minor epic in the diplomatic history" of the post-War world. It was also the first commodity agreement to be negotiated under the auspices of the United Nations. It contained two control mechanisms to regulate the market and help stabilise prices: export quotas and a buffer stock of 250,000 tons. However, its economic provisions never actually came into operation, since cocoa prices remained well above the ceiling throughout the life of the Agreement. Therefore, "in terms of the impact of its regulatory instruments on the market, the 1972 scheme was clearly a failure". The principal reason for its failure, as revealed in earlier discussions, was its unrealistic price range. Secondly, as Kofi has noted, the Buffer Stock Authority had not accumulated stocks and, therefore, could not enter the market. The Agreement was, in other words, destined to failure and it would be wrong to attach too much significance to this fact. After all, how does one expect an ICA to stabilise the market when its price range


46. Ibid., p. 403.

of 23-32 cents/lb was bulldozed by a market which saw the price of cocoa stand at 71 cents/lb in 1974. Negotiations for a new agreement went under way in 1975 since the first Agreement was due to expire on 30 September 1976. The second Agreement was also non-functional as the prices continued to remain high: "the average price shot up to US $1.72/lb in 1977, almost double the year before, and stayed a little below this figure in 1978 and 1979". 48

However, despite the fact that the price stabilisation mechanisms of the 1972 and 1975 agreements were never put into operation, it was not as if they were completely futile in their impact. In its review of these agreements, the Secretariat of the International Cocoa Organisation has noted the following beneficial results:

Firstly, the mere existence of the Agreement, by providing what was in effect an insurance cover against unacceptably low prices, contributed to the creation of a more favourable climate in producing countries for increased investments in production capacity. The resulting increased production has been a major factor in lowering prices from the historically high levels attained in the second half of the 1970's.

Secondly, the existence of the International Cocoa Agreements was also a key element among the factors which encouraged favourable attitudes by international financial institutions, such as the World Bank, to the provision of finance for the expansion of cocoa production and rehabilitation in member countries such as Nigeria, Togo, the United Republic of Cameroon, the Ivory Coast and Ghana in the 1970's.

Thirdly, the agreements also facilitated the establishment of an effective levy system for cocoa exports and imports which helped to build up the financial resources of the buffer stock, thus preparing the Cocoa Organisation for an active price-support role under the ICCA. The funds accumulated under the 1972 and 1975 agreements were used under the ICCA to restrain the decline in prices as cocoa surpluses persisted.

Finally, the agreements, through the secretariat, provided a useful forum for the collection and dissemination of information on the world cocoa economy and for serious and neutral assessments of the future development of cocoa production and consumption, the use of substitutes and other subjects which would have been available to member countries when they formulated their policies and plans on cocoa.49

The experience of the two agreements may be best summed up in the words of Finlayson and Zacher:

The unhappy history of cocoa market regulation highlights the inability of most producer-consumer agreements to stabilise prices in the face of major market shifts that force prices to move steadily and strongly in either direction. While temporary fluctuations may be remediable through the operation of carefully drafted and generally supported commodity agreements, major medium - to long-term prices declines and increases tend to overwhelm the modest regulatory instruments normally available under such agreement.50

Further:

With respect to the effectiveness of an ICA, one factor which has a decisive influence is the magnitude of price fluctuations. Given the resources which states are willing to invest in buffer stocks and other mechanisms to keep the price within a prescribed range, dramatic swings in the market cannot usually be curtailed by an ICA. The governing bodies for ICAs (e.g., the Cocoa Council) are usually given the power to alter price ranges in response to market forces, but to expect that their members are going to agree on frequent and significant adjustments is unrealistic.51

50. Finlayson and Zacher, n. 45, p. 412.
51. Ibid., p. 414 (Emphasis in Original)
V. INTERNATIONAL OLIVE OIL AGREEMENT, 1979

The 1979 IOOA, which is the third International Olive Oil Agreement, is a coordinating rather than a regulatory instrument. Unlike several of the other commodity agreements it does not resort to measures which may lead to international trade quotas and/or price regulation. Its major objectives are (i) to foster research and development relevant to the problems facing olive oil and the olive oil sector in the fields of production and processing; (ii) to facilitate the study and application of measures for expanding the international olive oil trade; (iii) to facilitate the study and application of measures for balancing production and consumption through the introduction of appropriate arrangements, including arrangements to expand consumption; (iv) to forestall and, where appropriate, combat any practices of unfair competition in the international olive oil trade; (v) to foster the coordination of production policies and marketing policies for olive oil and the organisation of the olive oil market; and (vi) to improve market access and reliability of supply, market structure, and marketing, distribution and transport system. In brief, the IOOA seeks to foster international cooperation on problems relating to the world olive oil economy in general.
A recent review of the achievements of the Agreement by the International Olive Oil Council reveals that the operation of the Agreement has proved extremely useful for its members. According to the review:

The most salient features of these achievements lie, without a doubt, in the moral authority that the International Olive Oil Council has been able to acquire over the years in the eyes of its Members, of a good many non-Member states, of scientific, economic and technical circles, of the media and others, as well as in the opinion of many governmental and non-governmental institutions and organisations. They similarly lie in the habit of jointly studying the problems raised, of jointly searching for solutions, and more generally, in the consideration of the resolutions adopted.52

The review proceeds to list out the achievements and activities in the economic, technical and promotional fields. These may be briefly indicated. In the economic field, its major activities lie in the elaboration and implementation of international trade standards, the institutionalisation and moralisation of trade practices, defence of product quality, the regulation of the international market and the coordination of domestic policies. In the technical field, it sought to improve olive and

52. TD/B/C.1/269, 13 February 1985; Preparation of the new International Olive Oil Agreement - Contributed by the International Olive Oil Council, p. 3.
olive oil productivity through a Regional Project for the Improvement of Olive Production. Two noteworthy ventures were in Algiers and Tunis. In the promotional field, world publicity played a far-reaching role in the following areas: the expansion of international trade in all the products of the olive tree; the expansion of consumption, which is the driving force behind the promotion of production; and the defence of these products and their quality and the control of unfair competition.

This mere listing of the activities of the International Olive Oil Council does not do full justice to the useful nature of work done by it. Therefore, its activities in the area of standardisation and institutionalisation of trading practices may briefly be elaborated. The standardisation activities of the Council affect a number of areas: the designation and definitions of olive oils and olive-residue oils, the indications of source and appellations of origin, standardisation of analyses and controls, international standardisation of the sampling of olive oil and olive-residue oils, the preparation of these samples and their dispatch to laboratories and standardisation of table olives.53

53. Ibid., pp. 5-8.
In order to ensure that international transactions are concluded in the best spirit and under the most favourable conditions, the Council offers market operators the means of preventing and solving any disputes. These means are: the international standard contract for transactions in olive oils and olive-residue oils and that for the transactions in table olives, the creation of a Reconciliation and Arbitration Board for disputes concerning transactions in olive oils, olive-residue oils and table olives, and the international accreditation of national laboratories. The standard contracts were "devised to regularise clauses considered essential to guarantee the respective interests of vendors and buyers and to allow trading to take place in all legal security, offer the guarantee of a fair and equitable settlement of any disputes presented by anyone using them". The Reconciliation and Arbitration Board are a corollary to the standard contracts and provide a structure for the impartial settlement of trade disputes.

In summary the Council appears to have done good work in a number of areas which facilitate the smooth functioning of trade in olive oils and promote international cooperation.

54. Ibid., p. 8.
55. Ibid., p. 9.
VI. RESPONSE OF CONTEMPORARY ICAs TO 1980-82 COMMODITY CRISIS

Largely as a consequence of the synchronised recession in the developed countries commodity prices declined steeply in the period between 1980-82. It may be recalled that the steepest declines were witnessed in sugar (-71 per cent), cocoa (-33 per cent) and natural rubber (-41 per cent). However, few commodities escaped the declining trend in prices in this period. An analysis of the performance of contemporary commodity agreements with price regulating mechanisms in the crisis reveals serious weaknesses. Their performance appears to confirm the experience of commodity control schemes during the Great Depression that commodity agreements are unable to cope up with abnormal market situations. The ISA and the ICCA were helpless the face of the collapse, whereas the INRA, the ICPA and the ITA enjoyed a relatively small measure of success.56 The principal reasons for the poor response, apart from the abnormal market situation, were the incorporation of inadequate mechanisms and financial resources, and the absence of large exporters and importers.

56. For a review see TD/B/C.1/240, 20 January 1983: A review of recent intergovernmental activities outside UNCTAD with respect to individual commodities, Note by the UNCTAD secretariat; See also L.N. Rangarajan, "Commodity Conflict Revisited: From Nairobi to Belgrade", Third World Quarterly Vol. 5, No. 3 (1983), pp. 589-90.
from the agreements. In other words, if the agreements had been better equipped and the major exporters and importers had participated in the agreements the performance could have been better. Each of these reasons calls for some comment if only to highlight the ways and means through which the agreements can be made more effective.

A. Inadequate mechanisms and financial resources

As in the past, a significant reason for the unsuccessful efforts of ICAs was the lack of adequate regulatory mechanisms and resources. For instance, the sole use of buffer stocks, provided with limited financial resource, rendered it impossible for the ICCA to achieve its objective. The ICCA is based on a buffer stock (and not export quotas as the 1975 Agreement was) of up to 250,000 tons to hold prices within an agreed range of 100-160 US cents/lb. A purchase by the buffer stock of 100,000 tons in the third quarter of 1981 could not help raise the indicator price to within the range of buffer stock intervention point of 110 US cents/lb. As a consequence, and as provided for in the Agreement, prices were scaled down by 4 US cents/lb. However, at this point, the exhaustion of the buffer stock's financial resources, stopped it from intervening in the market.57 Meanwhile, prices saw a further downturn.

57. TD/B/C.1/240, ibid., p. 2.
and fell to around 70-75 US cents/lb; remaining at that level throughout 1982. The International Cocoa Organisation sought loans in the market, but this would have enabled it to lift only a small quantity of the market. The necessity of buffer stocks being supported by the mechanisms of export quotas was increasingly felt; which, coupled with other measures like assured finance for the buffer stock, production restraint and wider participation, would have enabled the ICCO to achieve its set objectives. The experience of the International Cocoa Organisation has been summed up as follows:

In retrospect, it would appear that inadequate finance was the major factor which weakened the effectiveness of the 1980 Agreement. At the outset, the buffer stock was equipped with only US $230 million against a financial requirement of around $580 million needed for the purchase of the initial buffer stock capacity of 250,000 tonnes at prevailing market prices. The potential for borrowing the additional funds was severely limited. Without governmental guarantees, banks were not prepared to accept as collateral for a loan more than 60 per cent of the value of the ICCO buffer stock cocoa, particularly in view of the large tonnages involved. Apart from the limited collateral value of the warrants, banks were reluctant to offer substantial loans to an Organisation whose revenue (by way

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58. Ibid.
of levy) was considered not only insufficient but also dependent, in large measure, on developing countries with international debt problems.59

B. Absence of large exporters and importers

It is well known that in three of the contemporary ICAs (ISA, ICCA and ITA) some large exporters and importers have refused to become members. The EEC did not ratify the ISA, the Ivory Coast and the United States the ICCA, and the United States and Bolivia the ITA. The non-participation of these large exporters/importers has meant serious implications for these agreements. Some of the broader implications can conveniently be elaborated here with reference to the ISA. In doing so the effect of domestic policies on international regimes is also highlighted.

Sugar witnessed in the current crisis the most catastrophic decline in price, yet the ISA was paralysed in the face of it. A significant contributory factor to the failure of the ISA in stopping the collapse in prices was the non-participation of the EEC in the Agreement.

The EEC, it may be noted in this context, is currently the world's largest producer of sugar. It accounts for about 16 per cent of world output. It is also the world's second largest consumer accounting for approximately 12 per cent of world output and the second largest exporter accounting for about 12 per cent of world export. 60 It is responsible for about 70 per cent of world's refined sugar exports and around 20 per cent of the free market in sugar. 61 Therefore, its absence from the ISA naturally had serious consequences for the implementation of the agreement. As a recent review of the ISA by the Executive Director of the International Sugar Organisation states: "...the most serious problem, was the non-participation by the EEC, which moved from a net importer as recently as 1976 to the largest net exporter to the free market in 1980 and for remaining years of the Agreement". 62

60. TD/B/C.1/PSC/29: Marketing and processing of sugar: Areas for international cooperation (UN, N.Y., 1982), p.4.
61. Ibid.
The production, consumption and trade of sugar in the entire Community is regulated under the Common Agricultural Policy (CAP). A chief regulatory device concerns trade with third countries and is succinctly summed up by Ian Smith thus:

The sugar regime supports Community producers by means of variable import levies and export subsidies. It sets an internal price which is generally well above that ruling on the free world market and reserves the domestic market for Community producers by variable import levies calculated to cover the difference between world prices and Community import or threshold prices. Conversely, export subsidies equal to the difference between the internal price and the world market price are granted to the extent necessary to dispose of surplus production.63

Two GATT panels have affirmed the conclusion that the Community sugar policy depresses prices and obstructs the smooth functioning of the ISA.64 These panels were set up on two complaints made by Australia and Brazil in 1978. Among their noteworthy conclusions, two need to be highlighted for the present purposes. First, the quantity of Community sugar made available for export with maximum refunds and the unlimited funds available to finance export


64. GATT, Basic Instruments and Selected Documents 26th
refunds meant that the Community system of granting export refunds on sugar had been applied in a manner which in the particular market situation prevailing in 1978 and 1979 contributed to depress sugar prices in the world market. Secondly, increased Community exports of sugar through the use of subsidies in the particular market situation in 1978 and 1979, and where developing contracting parties had taken steps within the framework of the ISA to improve the conditions in the world sugar market, inevitably reduced the effects of the efforts made by these countries. 65

It is clear from this brief discussion that the impact of the EEC's sugar policy under the CAP has been to "undermine the price objectives of the International Sugar Agreement", through a contraction of the market, increased competition between the developed and the developing countries for the shrunken market, and the unrestrained export of surplus sugar to the world market. 66 Also, it obstructs the operation of the Agreement by making member countries reluctant to impose an effective export quota system since EEC could offset these cuts by increasing its

contd...


65. Ibid.

exports to the world market as it has done several times in the past. In other words, the ISA was paralysed by a congenital defect - non-participation by a major exporter - a factor which has proved in the history of commodity control schemes a consistent obstacle to be overcome.

VII. APPRAISAL

This brief and selective review of the effectiveness of commodity agreements in the post-1945 period reveals a mixed success. Yet, certain conclusions can readily be drawn. These, however, need to be preceded by certain general observations. The UNCTAD secretariat, and the developing countries have placed immense faith in commodity agreements not only for stabilising the prices of commodities but also to stabilise export earnings, improve the structure of commodity markets, and promote the long-term development of the commodity. This faith presumably rests on the assumption that an ideally structured agreement, which incorporates all appropriate mechanisms and provisions, is adopted to achieve the set out objectives. However, in view of the diverse conflicts, both between exporters and importers and intra exporters,

67. According to Rangarajan, the essence of E.E.C.'s CAP policy is to "first produce massive surpluses by high levels of protection and then use the surplus to punish other competing commodities", no. 18, p. 137.
which need to be accommodated the chances of establishment
of such an agreement containing an ideal set of conditions
are few and far between. And given the compromise charac-
ter of these agreements they run into operational
problems.

Those who are skeptical of commodity agreements,
generally speaking, rely upon the optimistic hopes -
there is of course nothing wrong in setting goals - of the
UNCTAD secretariat, and the developing countries, to eva-
luate them in a negative light. In the process, they do
not care to pose the question whether the exporting and
importing countries would be better off in the absence
of an agreement, that is *vis-a-vis* the accepted community
objectives. Commodity agreements, in practice, have to
take account of such a complex mix of factors that any
attempt to test them against idealised community goals can
only justify cynicism; they need to be viewed as embodying
a minimum commonality of interests to work towards object-
ives realistically obtainable in the short run. Such a
perspective helps focus more on the ways and means to
strengthen the operation of commodity agreements as opposed
to the tendency to oppose them.

From this perspective a conclusion may readily be
drawn. It can be safely asserted that both the exporting
and the importing countries would have been worse off in
the absence of commodity agreements. In the post-1945 period this is particularly true of the developing primary commodity exporting countries. For instance, even in the period between 1980 and 1982 the contemporary agreements—despite their inadequate response—brought significant benefits to the producer countries:

A substantial proportion of world export supply has been held off the market as a result of buffer stock intervention or the operation of export quotas under the agreements. By September 1982, this proportion was as high as one third for coffee (with a further one sixth envisaged for 1982/83), over one quarter for tin, about 10 per cent for cocoa, and 4 per cent or 5 per cent for rubber and sugar. Had these amounts entered the world market in the absence of the agreements, the producing country's export earnings from these commodities in 1982 would have been—on an approximate estimate some $6-7 billion (one quarter) the amount they will actually obtain. 68

The record of the first five international tin agreements revealed that the floor price had been effectively defended. The buffer stock, aided by export controls, had eased wide short-term fluctuations in prices, occasionally helped raise the export earnings of developing producer countries, and provided a base on which the mining industry could take decisions. While the US

The International Tin Council enabled it to consult, and carry out negotiations, with authorities in the United States for the orderly disposal of the stockpile. The 1966 agreement with the US authorities was a landmark in this regard.

The international coffee agreements have also helped stabilise the price of coffee, raise the export earnings of developing producing countries, and initiate some action to promote consumption and encourage diversification. The experience of the 1972 and 1975 cocoa agreements showed that the very existence of a commodity agreement, even if it is largely inoperative, can bring some beneficial results. The ILOA has played a positive and useful role in diverse aspects of trade in olive oil. Among other things, it has helped standardise the quality of the product, improved its labelling, and generally contributed to the improvement in its marketability. The International Olive Oil Council has also devised means to prevent and solve disputes in international transactions. Besides, it has done work in the technical and promotional fields.

It is because of some of these benefits which commodity agreements entail that the more realistic critics
do not seek their discontinuance. As Michael Hager puts it, "the ICA may not 'solve' the commodity trade problems facing the developing world, it does offer potentially important contributions in a second-best situation." 69 Rowe, who was a pioneer in studying commodity control schemes in the pre- and post-1945 periods, concluded in the last page of his famous work, thus:

Excessive price fluctuations are a running sore in the world’s economy. They are like an illness of the human body which does not kill but greatly impairs its efficiency. Commodity control is like a drug which can largely neutralise such ills if administered correctly, but which can prove extremely dangerous results if the right dosage is exceeded, or if administered in wrong ways. ... /But/ to give up experimenting with such a drug is a counsel of despair. There is enough, if only just enough, experience of how it should, and should not, be used to support a prima-facie case that it can be a most efficacious remedy. 70

At another place Rowe notes more positively that:

Commodity control... has a definite part to play in the solution of the problems of underdeveloped countries... the role of commodity control in helping the development of primary producing countries, should not be


70. Rowe, n. 28, p. 220.
underestimated. Fluctuations in the foreign earnings of a primary commodity which forms a large proportion of an underdeveloped country's total exports are a real evil.\textsuperscript{71}

In the same vein Jacobsen has aptly pointed out that "development is so adversely affected by the commodity problem that the search for effective agreements must go on".\textsuperscript{72}

The review of international tin and cocoa agreements provide considerable experience in this regard. There is little doubt that commodity agreements would perform better, if they were equipped with more effective regulatory mechanisms. As the fate of the ICCA revealed in the recent crisis, exclusive reliance cannot be placed on the buffer stock to stabilise the market. Export quotas need to be used as a supportive mechanism. And where the buffer stock is the only mechanism, it must be provided with enough resources - and the ICCA was not - to influence the market. In this respect, Jacobsen has perceptively noted that "buffer stock is only as useful as the funds it has..."\textsuperscript{73} The operation of the tin agreements also

\textsuperscript{71} Ibid., p. 217.
\textsuperscript{73} Ibid., p. 12.
testify to the wisdom of this truism. If the tin buffer stock had had enough resources it could have attempted to defend the ceiling price relatively more effectively. Its task would have been further facilitated if the consumers had been more sensitive to the need to adjust the price range. Elsewhere the problems faced by INRA in adjusting price range was examined. 74 In this respect the history of the 1972 and 1975 cocoa agreements showed that agreements must, to begin with, incorporate a realistic price range.

In so far as other measures, including long-term commodity development measures are concerned, there is an urgent need to support them with adequate financial resources and corresponding regulatory measures which have teeth. The experience with the Diversification Fund under the 1968 Coffee Agreement supports this conclusion. At this point attention needs to be drawn to the discussion in the previous chapters where it was emphasised that the objectives of improving market access, promotion of consumption, increasing processing of raw commodities in developing producing countries etc., are not backed up by precise, effective and binding measures and adequate financial resources. 75

74. See Chapter IV under the sub-heading "Adjusting the price range".
75. See Chapter VI under the heading "Industry and Trade Obligations".
The problems of "diversification" also alludes to the issue of production controls. At present commodity agreements, it may be recalled, do not contemplate any serious measures in this regard. Commodities like coffee and sugar, which are often plagued by the problem of over-production would need to consider greater intervention in the production of the commodity. The ICPA and the ISA have also drawn attention to the problems of reallocation of quotas as a factor inhibiting effective operation.

Relating the experience of the ISA in the recent crisis, and UNCTAD review notes:

Notwithstanding export controls being brought into force during the present price recession, by the end of 1982 the ISO (i.e. International Sugar Organisation) price was over 6 US cents/lb below the floor of the price range (13 US cents/lb). There are several reasons for this failure. One was that the formula used to calculate export tonnages since 1980 has prevented the imposition of effective export restrictions. In 1980, the basic export tonnages stood at 15.7 million tons; by 1982 they had reached 19.4 million tons. Since the global quota cannot be less than 85 per cent of this total the quotas have had a negligible impact on the market. Member exporting countries have been reluctant to impose a more effective export quota system because of the non-membership of the EEC, the exports of which have increased substantially (3.4 million tons in 1979 and 5.3 million tons in 1981).%}

76. TD/B/C.1/240, n. 56, p. 5.
Finally, it is extremely important, if a commodity agreement is to be effective, that all major producing and consumer countries are members of the agreement. The history of commodity control schemes has repeatedly endorsed this lesson.77

Thus, the problems which beset the operation of commodity agreements are the following: (i) exclusive reliance in recent agreements on the buffer stock mechanism; (ii) non-participation of major producer and consumer countries; (iii) problems relating to adjusting the price range and export quotas; (iv) the lack of production controls; (v) lack of corresponding regulatory measures in the context of other objectives, including the objective of the long-term development of the commodity; and (vi) inadequate financial resources, both to meet the need of the buffer stock and support commodity development measures.

The general problem of inadequate stabilisation mechanism needs to be resolved in future negotiation of agreements or the renegotiation of the existing ones. Those countries which object to the use of export quotas to stabilise prices must be persuaded on two counts:

77. See in this regard Chapter II.
that the use of export quotas does not result always in
the misallocation of the world's resources and even if it
were true for pure export quota agreements, it is not true
when it is merely incorporated as a support measure for
the chief mechanism of buffer stocks. It also needs to be
pointed out that with the introduction of export quotas
in a supporting role, the funds necessary to run an
efficient buffer stock are considerably reduced.\textsuperscript{78}

The problem of non-participation of major producers
and consumers requires the application of both persuasive
and coercive measures. The manner in which the coffee
agreements attempt to enforce their regime is instructive
in this regard. That is to say, the agreement should be
so framed as to make non-participation a costly proposi-
tion. In the ongoing negotiations for a new cocoa agree-
ment, the UNCTAD secretariat has made this point and
suggested some possible ways through which non-participation
can be made expensive, in particular for the producer
countries:

It may be appropriate for governments
to review the possibility of re-
introducing certain provisions of the
1972 and 1975 Agreements which had
rendered non-participation unattrac-
tive and which were left out of the

\textsuperscript{78.} See Chapter III.
1980 Agreement. The provisions in question imposed limits on exports to non-members during periods of shortage of cocoa, and on imports from non-members during periods of surplus. One possibility would be for importing countries to undertake to limit on a continuing basis the volume of imports of cocoa from non-member exporters as a group to the average level of imports in a recent period (say the previous three years) during periods when the buffer stock; and to prohibit such imports immediately if the minimum price is breached. 79

In so far as the problems of adjusting the price range and export quotas, as well as the problem of production controls go, greater cooperation between the exporter and importer countries as also between the exporter countries needs to be fostered. Member countries will have to forego short-term advantages in order to establish a more effective regime to regulate trade in primary commodities. With respect to commodity development measures necessary corresponding regulatory measures, which are precise and binding in nature, need to be incorporated.

Finally, the lack of inadequate financial resources, which is among the most serious impediments in improving the effectiveness of commodity agreements, has to be tackled.

on a urgent basis. The international community has taken an important step in this direction through adopting the Agreement Establishing the Common Fund for Commodities. The Agreement promises, through setting up a multilateral financial institution, to go a long way towards arranging finance for buffer stocks and commodity development measures. This significant international institution which is to be solely devoted to the resolution of commodity problems, is the subject of the next chapter. Of course, this is not to say that other financial institutions like the IMF and World Bank do not need to play a greater role than they are presently doing. However, the discussion will be confined to the Common Fund for Commodities.