Chapter - II

INTERNATIONAL COMMODITY AGREEMENTS:
A HISTORICAL REVIEW
Chapter II

INTERNATIONAL COMMODITY AGREEMENTS: A HISTORICAL REVIEW

The inquiry in the present chapter has seven broad objectives: (1) To trace in the field of primary commodities the movement towards international organisation and legal regulation of trade since the beginning of this century. This is done with particular reference to commodity agreements and other commodity control schemes. Since the constitutive process reflects international economic and political developments as dramatically manifested in the two World Wars and the Great Depression the survey is grounded in the then historical circumstances which determined to a great degree the success or failure of the commodity control schemes. (2) To relate in the matrix of the constitutive process the inter-War pronouncements, and pronouncements in the course of the War, of authoritative international conferences or committees of an international character which attempted to formulate, inter alia, "principles of policy concerning inter-governmental commodity control schemes". Between 1933 and 1943, four major pronouncements were recorded: by the London Monetary and Economic Conference of 1933, by the Committee for the Study of the problem of Raw Materials appointed by the League Council in 1937, by the second Inter-American Conference of Agriculture of 1942, and by the United Nations Conference on Food and Agriculture in 1943. (3) To critically,
albeit briefly, examine the provisions of the aborted Havana Charter under whose shadow commodity agreements were negotiated in the post-1945 period. (4) To draw attention to the several reports submitted on the commodity issue to the United Nations General Assembly and the Economic and Social Council which attempted to take into account the plight of the developing countries. (5) To briefly indicate the developments which occurred within the forum of UNCTAD in order to emphasise the changing concept of commodity agreements. (6) To enumerate the commodity agreements which have been signed in the post-1945 period. (7) To examine the historical experience of the commodity control schemes with a view to identifying the limitations as well as potentialities of commodity agreements, and the internal conditions which promote their success.

I. FROM WAR TO GREAT DEPRESSION

The roots of contemporary commodity agreements can perhaps be traced to commodity control schemes established in the first three decades of this century although a large number of these were essentially cartel arrangements.¹ Commodity agreements became common only in the 1930s. However, in the pre-1945 period "the dividing line between

---

¹ See generally the League of Nations study, *International Cartels* (U.N., N.Y., 1947)
international commodity agreements and cartels was an extremely fine one". Consumer participation was uncommon in both forms of commodity control schemes. On the other hand, cartel arrangements often envisaged various "kinds and degrees of governmental participation". A brief look at these early schemes is also necessary in as much as the lessons derived from their operation influenced the evolution of principles of policy governing commodity agreements.

With the exception of the Brazilian coffee valorisation scheme of 1907, which sought to influence the world market through regulating exports, commodity control schemes did not develop until after World War I. It is in the early post-war years which witnessed sharp fluctuations in the prices of primary products (the boom of 1920 followed by a slump in 1922), that a number of cartel arrangements


4. Even the valorisation scheme was "an incomplete national cartel". The scheme was not introduced by the federal Government of Brazil but by the government of Sao Paulo (the chief coffee producing state) in response to a downward trend in prices and rising coffee stocks. J.W.F. Rowe, *Primary Commodities in International Trade* (C.U.P., Cambridge, 1965), p. 122.
for the producer regulation of output in tin, rubber and other commodities sprung up. The war time experience had made such schemes appear more practical. Producer groups had learnt that they could, through such arrangements, control or influence markets. Governmental intervention became more feasible in the wake of expanded governmental activities during the course of the war. And where necessary, it was willing to come to the aid of the industry.

In 1921, the Bandoeng Pool was formed in response to the falling price of tin. It was established by the governments of the Federated Malay States and the Dutch East Indies. This represented the first intergovernmental arrangement in the tin industry. Its objective was to hold accumulated stocks off the market until the price recovered to an acceptable level. It thereby anticipated, and reflected "part of the essential thinking of a buffer stock." Helped by the rise in consumption in the year 1922,

5. "At the end of 1918 the U.K. wholesale prices index, which was a fair indication of the world price level of primary products in this period, stood at around 230 as compared with a 1913 base of 100. By the middle of 1920 it was around 300". However, shortly, "the average level of U.K. wholesale prices in 1921 was well under 200, and in 1922 about 150-160". Rowe, ibid., p. 78.


7. William Fox, Tin: The Working of a Commodity Agree-
it raised the export earnings of all producing countries. To the advocates of the scheme, "the pool had proved conclusively that a degree of control over stocks meant a degree of control over price".

In 1922, in the background of a crisis resulting from excessive production, a compulsory restriction scheme was introduced in the rubber industry, better known as the Stevenson Plan. The scheme used export quotas, so common to subsequent commodity arrangements, as a means for raising prices of rubber in the Federated Malay States. The Stevenson Plan devised and approved by United Kingdom, is a classic illustration of the fact that in the colonial era the target beneficiaries of commodity control schemes -

---

8. "The value of tin exports from Malaya, for example, had fallen in 1922 to $M 48 millions, the lowest level in twenty years. It was brought back to $M 64 millions for 1923 and $M 92 millions for 1924". Fox, ibid., p. 116.

9. Ibid., p. 117. This assessment was not entirely valid if viewed in the light of the long term implications of the scheme. As Klaus Knorr has pointed out, "the operations of the Pool contributed materially towards the building of surplus output capacity". The operations concealed the fact that the growing tin consumption was running ahead of the existing capacity to produce, and by the time tin producers realised this (1925-26), tin prices soared, overstimulating prices in the bargain. The experience foresaw the need for the buffer stock to act in both directions i.e., buying and selling instead of merely selling as in the present case. Klaus E. Knorr, Tin Under Control (Food Research Institute, Stanford, 1945), p. 79.
established in commodities produced in the colonies - were the colonial Powers. These arrangements were entered into in order to provide increased and stable revenues, and to safeguard their national industry and public interest. In the present instance, the colonial government of the Federated Malay States relied heavily for its revenue on rubber, and British planters and investors had a substantial interest in the commodity. While these interests exercised political influence at home the government in the United Kingdom itself wanted to maximise its foreign exchange earnings from colonial products. The Stevenson Plan was, therefore, promptly approved by the British Cabinet. The scheme helped to artificially raise prices in 1925 and 1926.

In coffee, the first Brazilian valorisation scheme was followed by a second in 1917-18, and third was introduced in 1921-22, this time with the participation of the Brazilian Federal Government. By 1925, in the face of


11. Winston Churchill declared that rubber "was of vital concern in as much as it was one of our only remaining methods of paying the debt which we had promised to repay to the United States.... We were not under obligation to supply our American friends with rubber at a loss...." Cited in Khan, ibid.
demand outpacing supplies, coffee prices rose substantially. However, the credit in this regard was attributed to the valorisation scheme.

The apparent success of these control schemes, coupled with the general tendency between 1925 and 1929 for the supply of primary products to outstrip demand, and a resultant "general steady price decline" saw the "first widespread development of the commodity control schemes". 12

In 1926 Cuba, the largest exporter of sugar operated a scheme for the restriction of output. It continued till 1931 when it merged with the international sugar control scheme (the Chadbourne Scheme). In the same year an international copper cartel known as the Copper Exporters Inc. was established. 13

---

12. Rowe, n. 4, p. 79. As far as the demand-supply situation was concerned, it of course varied from industry to industry. According to Rowe, there seemed to have been "an apparently satisfactory situation of steady expansion in meat and dairy products, cereals other than wheat, tea and cocoa and, among raw materials, wool, cotton, zinc, though with some qualifications for the last two... there were certain industries in which by 1929 production was definitely threatening to become excessive in the near future, for example, wheat, rubber and tin. A third group consisted of industries in which supply was by 1929 running right away from demand, even though that was expanding quite reasonably well: coffee, sugar, petroleum and lead". Ibid.

13. It was a private cartel seeking monopolistic profits for American capital which controlled nearly 75 per cent of the world mine production. It succeeded in raising the prices high through rationing the European markets as well as restricting output, but broke up in April 1930.
While new control schemes were being brought into operation, an old scheme - the Stevenson Plan - underscored the difficulties confronting the existing schemes. This scheme was terminated in 1928 when, despite successive reduction of exports from Malaysia and Ceylon, prices of rubber continued to decline. The scheme failed for at least two principal reasons: First, “the Dutch East Indies, who were not party to the Agreement, emerged as the major producer in this period. Indeed the Dutch East Indies benefited from the better prices resulting from the voluntary control operating in Ceylon and Malaysia”. Secondly, the British rubber cartel was faced with considerably consumer resistance, in particular the formation of a centralised buying pool by the large American consumers.

It was not rubber alone which was faced with these problems. Copper and coffee also faced similar difficulties. Whereas copper exporters encountered a buyer’s strike in 1929, the coffee valorisation scheme was faced with (apart from growing production within Brazil through over planting, increased production in other coffee producing countries. In sum, the control schemes of the 1920s

highlighted, even at this early stage, two factors on which hinge even today the success or failure of international commodity control schemes: the participation of producers controlling a large percentage of production, and producer-consumer cooperation.

Notwithstanding the failure of the rubber and other arrangements, control schemes continued to proliferate. Attempts were made in 1927 and 1928 to operate restriction schemes of a limited character in petroleum, lead and zinc. In 1928 came the Canadian wheat pools which were constituted on the lines of the Brazilian valorisation scheme, which itself had entered the first phase of the period of permanent defence since 1925. In June 1929, the Tin Producers Association was established. In the beginning, membership was confined to British capital interests in Malaya, Nigeria and Burma, covering about 20 per cent of world production. Later they were joined by the producers of the Dutch East Indies and Bolivia. The voluntary restriction of output scheme which the Association finally operated was unsuccessful in restricting output, and prices continued to decline.

16. "Under this plan, stocks were stored in the interior of the country, and their movement to port was controlled on a permanent basis." Fisher, Ibid.

17. By the end of 1930 world production was down by less than one-tenth. According to Fox even this cut in output could not be attributed to the scheme as probably to the shutting of uneconomic mines in Australia, Bolivia and the UK. Fox, n.7, p. 125.
sharply, when in March 1931 the first international tin agreement came into force. The experience of the Association during 1930, according to Fox, taught, a number of lessons. In the first plan, a voluntary scheme of restriction of limited members, might merely leave the market for tin in any one country open to non-Association companies. Secondly, the voluntary system resulted in great inequalities of sacrifice between different countries. Thirdly, the voluntary system needed to be replaced by compulsory inter-governmental restriction, taking in the great bulk of world production on a national basis. Fourthly, restriction of output in itself alone was not a cure for the ever growing mass of visible stocks which had so depressing an effect on prices. Finally, the big financial groupings in the industry, however, influential, were not strong enough to control a world industry where the operation of medium and small miners were still important factors.\textsuperscript{18} That is, the experience of the Tin Producers Association also pointed to the need for international cooperation between major producers as well as stressed the need for effective mechanisms to control the external market.\textsuperscript{19} Furthermore, it

\textsuperscript{18.} Ibid., pp. 125-6.

\textsuperscript{19.} As Gordon-Ashworth aptly sums up, "The failure of the Association to meet its objectives attracted interest in controls which were more international in nature and gamut", n.2, p. 108.
indicated the need for the increasing involvement of governments if control schemes were to be successfully operated.

II. FROM DEPRESSION TO WAR

The Great Depression which affected all aspects of the international economy, had a destabilizing impact on international primary commodity trade. The market demand for primary commodities "virtually ceased" and the result was a catastrophic decline in the prices of many primary products. In one year, between 1929 and 1930, the export price of wheat fell by over 50 per cent, the price of rubber by nearly 50 per cent, the prices of cotton and jute by about 40 per cent and those of wool, copper, tin and lead by well over 30 per cent. The average price fall in a period of one year was about 23 per cent.\(^{20}\) In the next three years, the prices continued to 'bump along the bottom'. World production of raw materials declined during 1930, and more rapidly in 1931 and 1932, when the index was only about 80 compared to 110 in 1929 and 100 for the average of 1925-29. The price slump cracked the existing control schemes since no restriction of output could create

\(^{20}\) Rowe, n.4, p. 85.
a demand which had ceased to exist, and no scheme for the holding of stocks could be initiated when no one would lend money for the purpose. In other words, commodity control schemes cannot effectively deal with extreme market conditions as represented by the Great Depression. They are essentially measures which can respond to, and correct the impact of, limited deviations in demand and supply.

The first attempts to intervene in the situation came not from the industry but from governments which showed grave concern over the impact of declining prices on revenues and the consequent adverse effect on the balance of payments and economic growth; the fate of some commodities like coffee, wheat and cotton threatened the economic and political stability of the producer country. Thus "the Canadian federal government came to the rescue of the wheat pools in November 1930 and the Brazilian federal government took over the valorisation scheme from the coffee-producing states, because the whole economic stability of these countries was in peril. The US government took essentially similar steps to organise and finance stockholding schemes for wheat and cotton. Otherwise, large and important sections of the country would have been ruined to an extent which the government did not contemplate".

21. Ibid., p. 129.
22. Ibid., p. 89.
However, the governments did not take any initiative to promote control schemes till the industries themselves raised the demand, as they did in 1931. Soon new control schemes emerged for tin (March 1931), sugar (May 1931), tea (April 1933), wheat (August 1933), rubber (June 1934), and copper (January 1936). The period of 'permanent defence' continued in coffee, entering its second phase in 1931. These new schemes were established, with the exception of coffee, within the framework of commodity agreements. This significant development can perhaps be attributed to attempts to overcome some of the problems faced in the operation of earlier commodity control schemes.

In March 1931, the first international tin agreement of the pre-1945 phase came into force for two years "to secure a fair and reasonable equilibrium between production and consumption with a view to preventing rapid and severe oscillations of price". The general principles of operation which it established - the regulation of production through export quotas and their enforcement through governmental action - have been retained till today. The governments of Bolivia, Malaya and Nigeria which were

23. Article 1 of Agreement on the International Tin Control Scheme, 1931. For the text of the agreement see Intergovernmental Commodity Control Agreements (ILO, Montreal, 1943), p. 73.
parties to the agreement agreed to pass legislation to enable them to exercise control over production and export. Though the tin agreement was signed by major producing countries, the export quota mechanism had eventually to be supported by a private international tin pool formed by British and Dutch syndicates. Together they were able to raise the price of tin in the agreement years. The success of the agreement underscored the greater effectiveness of the export quota and the buffer stock mechanism when used in conjunction; "The hybrid organisation of export quota and the pool had demonstrated its usefulness and established need of two instruments. That the maintenance of stocks was a necessary corollary to the quotas was no longer in doubt".

In the context of the agreement it is worth reiterating that such schemes were initiated to safeguard the interests of the colonial Powers. When the question of a commodity agreement in tin came up, Lord Passfield, the British Secretary of State for Colonies, supported the

---

24. The private pool operated with the cognisance and approval of the signatory states. In legal terms they formed a sort of a 'hybrid organisation'. "Formally, the pool arrangement was distinct from the intergovernmental; in practice the two were closely aligned. Their intertwining extended to legal, institutional and functional areas". Khan, ibid., p. 160.

25. Ibid., p. 162.
economic regulation of tin on the following lines. "Tin mining was a major industry in Malaya and Nigeria whose collapse would lead to economic and social disruption in those countries; a healthy and profitable tin mining industry was essential to Great Britain, particularly to enable her to discharge international financial obligations to the United States; and that with a view to ensure effective operation and to safeguard the interest of domestic consumers, governmental control of the scheme was necessary". 26

A second international tin agreement with the added objective of ensuring the absorption of surplus stocks was signed in 1933 and entered into force on 1 January 1934. 27 The agreement, like its predecessor, was to be administered by an International Tin Committee. It was under this agreement that the International Tin Committee itself operated a buffer stock scheme as an adjunct to export quotas. A separate agreement was signed in July 1934 for operating the tin buffer stock scheme. 28 It set up a Buffer Stock Committee of four members to operate the buffer


27. Article 1. Agreement for the International Tin Control Scheme 1933. For the text of the agreement see Intergovernmental Commodity Control Agreements, n. 23, p. 75.

28. For the text of the Agreement for the Tin Buffer Stock Scheme, 1934 see Intergovernmental Commodity Control Agreements, ibid., p. 80.
stock under the general guidance of the Tin Committee, with each signatory state nominating one delegate to the Committee. The buffer stock was to be of 8,282 tons of metal which was to be apportioned between the signatory governments in proportion to their standard tonnages. The buffer stock agreement which expired on 31 December 1935 was not renewed. In brief, it proved short lived and unsuccessful.

Both the tin agreements provided no representation for consumers and were accused of being a producer's cartel which did not take into account the interest of the former countries. Another significant feature of the agreements were that they did not allocate votes to signatory states, adopting instead the principle of unanimity with respect to change in quotas. Finally, an important feature of the agreements, as already noted, was that most of the member states agreed to pass domestic legislation to enable it to exercise the necessary control over production and quotas.

The international sugar agreement (the Chadbourne Scheme) was adopted in May 1931, in response to the problem of excessive stocks and low prices in the years 1930 and 1931. The agreement was signed between producer associations, although the respective governments - Cuba, Java and others - agreed to pass any legislation necessary to implement the scheme. The scheme, whose chief objective
was the liquidation of surplus stocks through export quotas, failed on a familiar ground, increased production in non-participant countries: the scheme, which was terminated in 1935, failed, despite the fact that from 1932-33 onwards the production of participant countries was half of that in 1929-30. 29 The agreement seems to have fallen 'between two poles': "While not a commercial treaty among national governments, neither was it a strictly private cartel among private producers". 30 It thereby endorsed the general belief that commodity agreements must be international in nature and scope, fully backed by the concerned governments.

The first international tea agreement was established in February 1933, and was launched in April of the same year. 31 It was evolved as a response to accumulating stocks and a longterm downward trend in prices accentuated by the Depression. The year 1932 saw the average price of all tea

29. The burden of sacrifice "fell on those producers adhering to the terms of the Agreement: whereas the Chadbourne Group's output fell from 12.5 million tons in 1929-30 to 6.4 million in 1934-35, world production fell only slightly as countries outside the Agreement, such as those in the British Empire, Japan, Taiwan and the USSR, increased their output", Gordon-Ashworth, n. 2, p. 170.


31. For the text of the agreement see Intergovernmental Commodity Control Agreements, n. 23, p. 47.
sold in London came down to 9½ pence compared with an 
average of over 18 pence from 1926 to 1928 and the London 
stocks represented over six months supply for the British 
market. Next year the representatives of the tea industries of India, Ceylon and Indonesia (the Dutch East 
Indies) signed the agreement. The respective governments 
undertook to back the scheme and special governmental 
machinery for the licensing and registration of exports 
was set up to allocate quotas among producers and enforce 
the same. In India, for instance, the Indian Tea Control 
Act, 1933 set up an Indian Tea Licensing Committee to issue 
and observe compliances of the licensing for exports. Apart from quotas, the exporting countries agreed to adopt 
domestic measures to prevent total production from being 
in excess of the combined domestic and export requirements 
at a desirable level. Consequently, it was provided that 
the existing areas under tea cultivation should not be 
increased during the period of scheme, except in special 
cases, and in no case more than half per cent of the exist-
ing total planted area in each country. The tea agreement 
was to be administered by an International Tea Committee in 
which votes were distributed roughly in proportion to

32. Rowe, n. 4, p. 149.
standard or basic export quotas: India had 38 votes, Ceylon 25 and Indonesia 17. Yet, decisions on all important issues required a unanimous vote. The first tea agreement was fairly successful. In 1933 itself, the annual average prices of all teas realised at London auctions rose much above the previous year's prices. The prices somewhat declined in 1934, but recovered to three-fourths of the 1926-29 average prices and remained around that level till 1939.34 Among the primary reasons for the success of the agreement was the significant fact that India, Ceylon and Java accounted for 96 per cent of world production.

It was in 1933, the year that the first tea agreement was signed, that the London Monetary and Economic Conference was held in the wake of the Great Depression. A Conference Sub-Commission on Co-ordination of Production and Marketing submitted a report which defined in some detail the policy principles which should govern commodity agreements.35 The report which was adopted by the Conference, emphasised at the outset that in order to restore

34. Ibid., pp. 165-6.

world prosperity, it was essential to increase the purchasing power of the primary commodity producers by raising the wholesale prices of such products to a reasonable level. In this context, it found it desirable that plans be adopted for the 'co-ordination of production and marketing' of certain commodities. In recommending the adoption of international commodity agreements the Conference recognised the need for international action and cooperation, as opposed to cartel agreements between producer associations which did not take into account global considerations, and did not incorporate measures which were truly international in scope.

The report laid down certain policy principles pertaining to the organisation of commodity agreements: the prerequisites for establishing an agreement, their scope, practicability, duration etc. These principles were as follows:

(a) The commodity must be one of great importance for international trade in which there is such an excess of production or stocks as to call for special concerted action.

36. Ibid., p. 19.
(b) The agreement should be comprehensive as regards the commodities to be regulated, that is, it should not be so narrowly drawn as to exclude related or substitute products, if their inclusion is necessary or desirable to ensure the success of the plan.

(c) It should be comprehensive as regards producers, that is: (i) it should in the first instance command a general measure of assent amongst exporting countries, and within these countries a substantial majority of the producers themselves; (ii) where necessary or desirable for the success of the plan, it should provide for the co-operation of non-exporting countries whose production is considerable.

(d) It should be fair to all parties, both producers and consumers, it should be designed to secure and maintain a fair and remunerative price level, it should not aim at discriminating against a particular country, and it should as far as possible be worked with the willing co-operation of consuming interests in importing countries who are equally concerned with producers in the maintenance of regular supplies at fair and stable prices.

(e) It should be administratively practicable, that is, the machinery established for its administration must
be workable, and the individual Governments must have the power and the will to enforce it in their respective territories.

(f) It should be of adequate duration, that is, it should contain provisions for its continuance for such a period as to give assurance to all concerned that its objects can be achieved.

(g) It should be flexible, that is, the plan should be such as to permit of and provide for the prompt and orderly expansion of supply to meet improvement in demand.

(h) Due regard should be had in each country to the desirability of encouraging efficient production.37

The sub-Commission recognised that the details of an agreement would have to be worked out by the concerned countries. All it had done was to facilitate the conclusion of such agreements by "unanimously" approving the principles on which they should be based. Evidently, these principles attempted to take account of the hitherto experience in commodity control schemes and further, sought to defend the interest of the consumers. Its recommendations were,

37. Ibid., pp. 19-20.
by and large, followed in subsequent agreements. These recommendations, it may be added, were, in their essentials, the forerunners of the Havana Charter.

In August 1933 an international wheat agreement was adopted. In April 1934, an international rubber agreement was signed between the governments of Britain, the Netherlands, Siam, India and France. The objective of the agreement was to regulate the production and export of rubber in order to stabilise prices at levels which were reasonably remunerative to efficient producers. The agreement was to be administered by an International Rubber Regulation Committee which included three representatives of rubber.

38. Intergovernmental Commodity Control Agreements, n. 23, p. xix. See also Khan, n. 10, pp. 60-1.

39. For the text of the agreement see Intergovernmental Commodity Control Agreements, ibid., p. 1.

40. Article 10 of the agreement which defines the 'parties' is an interesting example of the colonial context. It states, "The obligations under this Agreement of the Government of the French Republic apply to French Indo-China; those of the Government of the United Kingdom to Ceylon, the Federated Malay States, the Unfederated Malay States, the Straits Settlements, the state of North Borneo, Brunei and Sarawak; those of the Government of India to India (including Burma), those of the Government of the Kingdom of the Netherlands to the Netherlands Indies; and those of the Government of the Kingdom of Siam to Siam. For the text of the agreement see Intergovernmental Commodity Control Agreements, ibid., p. 104."
manufacturers. These representatives were to form a panel and "tender advice from time to time to the International Rubber Regulation Committee as to world stocks, the fixing and varying of the permissible exportable percentage of the basic quotas, and cognate matters affecting the interests of rubber manufacturers". 41 Though these representatives did not possess any votes, this was a significant new development. Another important feature of the agreement was that decisions were to be taken by a majority vote, i.e., apart from those exceptional cases specified in the agreement. Finally, the contracting parties undertook to take necessary measures to maintain and enforce in their respective territories the regulation and control of the production, export and import of rubber in accordance with the agreement. The agreement, in fact, laid down that these regulations must come into force by 1 June 1934. 42 The Governments were, as in the case of tin and tea, now willing to participate more effectively by undertaking an obligation that they would enforce the agreements within their territorial jurisdiction. These obligations went a long way in improving the effectiveness of the control schemes. A second tea agreement was signed in 1936, 43 with only minor modifications to the first. The scheme was extended for a period of

41. See article 18, ibid., p. 113.
42. See article 3(a), ibid., p. 105. For details see pp. 115-8.
43. For the text of the agreement see Intergovernmental Commodity Control Agreements, n. 23, p. 52.
five years from April 1938 to March 1943.

In May 1937 the second international sugar agreement opened for signature. The preamble to the agreement noted an important recommendation of the World Monetary and Economic Conference: namely, that an international agreement for the regulation of production and marketing should be equitable both to producers and consumers. To implement the recommendation, the agreement provided that the Executive Committee of the International Sugar Council would include three representatives of the governments of importing countries with permanent representation for United Kingdom and the United States of America. Even in the case of the General Council — the supreme decision-making body — the importing countries were represented. More significant, however, was the fact that the importing nations had voting rights as well: while the exporting countries had 55 per cent of the votes, the importing countries had 45 per cent. This represented a radical first step towards an equality of treatment of both producers and consumers, despite the fact that it related only to privileges.

44. For the text of the agreement see, ibid., p. 26.
45. See article 39, ibid., p. 39.
46. See article 31, ibid., p. 36.
47. See article 37(c), ibid., p. 38.
Four years after the London Monetary and Economic Conference, the League Council appointed a committee for the study of the Problem of Raw Materials, which in its report devoted a section to international regulation schemes relating to the supply of raw materials. The committee drew a 'clear distinction' between private control schemes and schemes concluded and carried out by governments or operated under government control. Endorsing schemes under government control, it aptly noted that "consumers (persons and countries) feel a confidence in the administration of schemes under government control which they do not feel in the administration of schemes of a purely private character". Its general conclusions with regard to commodity agreements were:

while it would not wish to state that all regulation schemes in the past have been well conceived or beneficial to all the interests concerned, it considers that the Governmental regulation schemes relating to raw materials now in operation have, generally speaking, been an important factor in the improvement in economic conditions experienced in producing countries during the depression, as well as in the


49. Ibid., p. 17.
development of international trade. But it feels that it is very important that consuming countries should be given every assurance that the schemes will be operated in a reasonable manner. With this end in view, it considers that every such scheme should make adequate provision for effective representation of consumers and for publicity, should be subject to the greatest degree of Governmental supervision which the circumstances admit, and should be so framed that the controlling body is placed in a position to take immediate and effective action in the event of an unreasonable rise of prices or other effects prejudicial to the consumers.50

The Committee also gave considerable attention to the need for constituting buffer stocks of regulated commodities to secure effective control through established schemes. The suggestion for raising buffer stocks was premised on the conclusion that control based purely on regulation of output was inadequate to ensure stability of prices, because "what can reasonably be regarded as an adequate stock in times of moderate industrial activity is insufficient when industrial activity rises to a higher level; furthermore, because a delay inevitably occurs between the decision to increase production and the resultant actual increase in production".51 In a memorandum (prepared by two members of the Committee) entitled 'The

50. Ibid., pp. 20-1.
51. Ibid., p. 20.
improvement of regulation schemes' which is attached to the report, the Committee indicated the essential features of the buffer stock scheme:

The essential features of any such scheme would probably be that control should rest in a small body, possibly with an independent chairman, on which equal representation was given to producers and consumers, that the finance should be provided principally or entirely by the consumers, that the ownership of the stock on the dissolution of the arrangement should vest in them, and that the obligation to make supplies available as required should be upon the producer's representatives.52

The lines emphasised in the above recommendation, are of immense significance because the Committee had, way back in 1937, endorsed the contemporary argument of developing countries that the consumers were beneficiaries of buffer stock schemes and were, therefore, under "every obligation" to provide finance for their operation. The idea had to wait for more than four decades before mandatory contribution on the part of the consumer states was written into the International Natural Rubber Agreement, 1979. The producers, as already seen, were more responsive and the Committee was able to note with satisfaction that consumers

were associated in the operation of the schemes either in advisory capacity (tin and rubber) or constituted part of the management body (sugar). 53

A third international tin agreement entered into force on 1 January 1937 and expired on 21 December 1941. 54 The agreement intended to regulate through export quotas the production in and export from producing territories with the "object of adjusting production to consumption, preventing rapid and severe oscillations of price, and maintaining reasonable stocks". In contrast to the first two agreements it invited the representatives of the two largest tin consuming countries i.e. the United States and the United Kingdom to attend the meetings of the International Tin Committee to tender advice regarding world stocks and consumption.

In 1938 it established a buffer stock through a separate agreement signed by the members of the Tin Committee with the objective to "reduce the large price ranges that have occurred in the past to the narrowest limits". 55 In setting up the buffer stock, they were "encouraged perhaps by the more favourable tone of references to buffer

53. Ibid., p. 18.
54. For the text of the agreement see Intergovernmental Commodity Control Agreements, n. 23, p. 81.
55. For the text of the agreement see ibid., p. 90.
stocks at the meeting of the League of Nations Committee for the Study of Problems of Raw Materials. 56 That is, besides the fact that the sharp fall in tin prices in the last quarter of 1937 required the institution of a buffer stock. The buffer stock which was established was largely successful in stabilising prices which would have hit the ceiling because of the war. 57

During the life time of the third agreement, an Agreement on a Tin Research Scheme was signed with the object of recording and disseminating knowledge of the physical and chemical properties of tin; to promote its consumption and to discover new uses through scientific research; and to increase tin consumption by development. 58 The scheme was administered by a General Council of Control in which each of the member states was represented. The Council appointed a Chairman and a Vice-Chairman. The Council set up executive committees as well as appointed directors of research, development and statistics. The annual contributions towards running the scheme were shared out and stipulated in the agreement itself. The Tin Research Institute has continued its existence for the last 44 years,

56. Fox, n. 7, p. 178.
57. Ibid., pp. 192-4.
58. For the text of the agreement see Intergovernmental Commodity Control agreements, n. 23, p. 87. Article 1 states the objectives of the agreement.
although according to Fox it has "not been as successful as the other non-ferrous organisations in translating its very interesting and advanced scientific research work into development expressed in actual terms of more metal consumed". 59

The second tea agreement (1936) was extended for a period of five years in April 1938. 60 The outbreak of the war necessitated the raising of quotas to counteract rising prices and to assure supplies. The Japanese occupation of Java in 1942 terminated the need for such measures and thereafter the Tea Committee ceased to play a substantial role in controlling exports. The agreement which was to terminate in 1943 was retained during the war years on the recommendation of the Tea Committee. However, certain countries did not renew their control legislation and ceased to be members of the scheme.

The Brazilian valorisation scheme, which had entered its second phase of permanent defence in 1931, continued the destruction of coffee stocks unabated till 1943, by which time over 70 million bags of coffee were burnt nearly five years average Brazilian exports or two years

59. Fox, n. 10, p. 20.
60. For the text of the agreement see Intergovernmental Commodity Control Agreements, n. 23, p. 52.
world consumption of all coffees. This wanton destruction did not solve the problem of over production. By 1962 Brazil had over 50 million bags of coffee in stock. The Brazilian valorisation scheme taught several important lessons some of which endorsed the experience of the other control schemes. First, "while the real costs of intervention were being borne within Brazil, other coffee-producing countries were benefiting from the Brazilian policies without having to bear any of those costs of those policies" suggesting the conclusion that "any really effective policies of intervention would require international co-operation". Second, setting price objectives too high without adequate provision for the regulation of additional productive capacity meant surpluses in the long-run which finally led to the breakdown of the control schemes since coffee had a relatively inelastic short-term demand. Third, consumer interests often got ignored in control schemes leading to domestic and international friction.

61. Fisher notes that by the time the International Coffee Agreement, 1962 was negotiated a surplus of 80 million bags of green coffee — or enough for world consumption for two years — was looming. Fisher, n. 15, p. 10.

Finally, holding large stabilisation stocks can prove extremely costly.  

The outbreak of World War II put an end to the commodity control schemes, though the tin and rubber schemes continued in operation till the end of 1941:

"The war altered the commodity situation so completely that none of these arrangements (i.e. the post 1930 schemes) was continued. A number of the international bodies that had been created in the nineteen-thirties continued to operate, however; though the stabilisation problem turned into one of administering a rationing system, the quotas being applied to consumers rather than producers and the stimulus being given to production, with as small a rise in price as possible".  

It is in this period, in November 1940, that the Inter-American Coffee Agreement was signed. Its significance lay in the fact that it was the "first truly international cooperative scheme for the regulation of the coffee trade and support of coffee prices". The initia-

63. For details see V.D. Wickizer, The World Coffee Economy, With Special Reference to Control Schemes (Food Research Institute, Stanford, 1943), pp.164-6.


tive came from the United States for the sharing of the American market by fourteen exporting countries including Brazil and Colombia. Cheryl Payer explains the American initiative thus: "The outbreak of war in Europe in 1939 closed off that market, second only in importance to North America, to Latin American exports and prices dropped even lower than those of the depression years. The US government, alarmed by the flirtation of various Latin American governments with the Axis powers, decided that commodity price supports were an essential part of an economic package intended to keep those countries in the American camp." Here is an instance of politics dominating economics in arriving at a commodity control agreement. The United States was to pursue a similar policy again in 1962, though for different reasons, leading to the conclusion of the first International Coffee Agreement.

During the course of the World War II the Inter-American Conference of Agriculture held its Second Session in Mexico in July 1942. It endorsed the solution of surplus commodity problems through commodity agreements which provided for adjustment of production or market supply in

66. For the details of the process which ended with the agreement see Paul Daniels, "The Inter-American Coffee Agreement", Law and Contemporary Problems, Vol. 8 (1941), pp. 708-21.


68. For details see Chapter IV under the sub-heading "Strategic-Power relationship".
the individual exporting countries; assured individual exporting countries of fair shares of the available market at prices reasonably remunerative to efficient producers, giving appropriate consideration to the historical position of the producing and exporting countries; and assured importing countries of adequate supplies at prices fair to consumers. It urged that for the solution of disequilibrium problems what was required was not merely regional but international action.

The entire subject was reviewed in the United Nations Conference on Food and Agriculture in May-June 1943. The Conference adopted a report on the 'facilitation and improvement of distribution' of food and other agricultural and marine products. It contained a discussion of "functional disorders of international commodity distribution and their remedies". The report spoke of three classes of functional disorders: short period fluctuations of prices, disorders which were concomitant of general cyclical depression, and disorders which were the outcome of structural modifications in relations between existing

69. For the text of the resolution see Intergovernmental Commodity Control Agreements, n. 23, Appendix A, p. 145.

70. Ibid., p. 146.

71. For extracts from the Section Reports and Final Act of the United Nations' Conference on Food and Agriculture see Intergovernmental Commodity Control Agreements, ibid., p. 146.
productive capacity and the need of society for certain commodities or groups of commodities. Though there was general agreement that "during the transition period there will be no urgent need for either buffer stocks or quantitative control", it also recognised that need for international arrangements in a number of commodities. Opinions, however, differed on the nature of the regulation which such arrangements should adopt, that is, whether they should adopt the buffer stock mechanism or retain, as in the past, quantitative controls.

Those delegates who advocated the establishment and management of buffer stocks, raised a number of arguments in support of their view. First, past experience with the operation of quantitative controls revealed that bodies administering the controls showed an inherent tendency to keep production at a low level in order to ensure high prices. Second, quantitative controls were 'unnecessary' for short-term fluctuations which could be adequately dealt with through buffer stocks. Third, the system of quantitative controls could not meet the eventuality of actual or threatening general depression as it would only resort to cutting production which could only cause 'contraction' as opposed to the official creed of 'expansion'.

72. Ibid., pp. 146-7.
73. Ibid., p. 147.
Finally, it would be unable to meet the third class of functional disorder i.e. structural modifications, for it tended to perpetuate the status quo. On the other hand was a group of delegates which supported the use of quantitative controls. They argued that the controls established in more recent years had, on the whole, served their purpose not too unsatisfactorily in that they had brought about relative stability of prices and helped to dispose of oppressive world stocks, at the same time maintaining adequate supplies. Further, they argued, if controls were established at a time when circumstances were favourable i.e. when there were, for instance, no excessive stocks it would not necessitate a policy of contraction. Finally, their contention was that the operation of buffer stocks, without the backing of control arrangements, would not be very effective. This is an extremely important debate which continues till today. The experience of past commodity control schemes support of the validity of the view which recommended that the two mechanisms of export quotas and buffer stocks be used in combination. This conclusion is also endorsed by the operation of contemporary commodity agreements.

---

74. Ibid., p. 147. The delegates, it may be noted, are not identified in the report.
75. Ibid., p. 148.
76. See for details regarding the issue and contemporary experience Chapter III under the sub-heading "Export quotas"; Chapter IV under the sub-heading "Role of ideology"; and Chapter XI.
The Final Act of the Conference devoted Resolution XXV to "international commodity arrangements". It recommended that "international commodity arrangements should be designed so as to promote the expansion of an orderly world economy". And such arrangements should include assurances of effective representation of consumers as well as producers; increasing opportunities for supplying consumption needs from the most efficient sources of production at prices fair to both consumers and producers; adequate reserves to be maintained to meet all consumption needs; and provision to be made, when applicable, for the orderly disposal of surpluses. It concluded with the recommendation of establishing an international organisation which would deal with the several aspects of the negotiation and operation of commodity agreements.

III. HAVANA CHARTER AND AFTER

The immediate aftermath of the War witnessed the re-emergence of the debate on how best to tackle primary commodity problems. The initial policy stress was on stability of prices, which was an underlying objective in almost all the inter-War commodity control schemes. These schemes had, however, incurred the hostility of the United States which wanted to curb international cartels seeking

to control industrial raw materials. Moreover, economists of the stature of John Maynard Keynes took the view that the inter-War schemes, rely as they did on quantitative controls, were essentially restrictionist in nature; and were preferred by producers since it carried the suggestion of high prices. However, it is important to stress that Keynes recognised that "restriction may be, sometimes, a necessary accompaniment of stabilisation". What he advocated was the use of buffer stocks as the chief vehicle for stabilising primary commodity prices, with export quotas in support. It is in this general background that commodity issues were reviewed at the Havana Conference in 1947.

The structure and content of Chapter VI of the Final Act which was devoted to "intergovernmental commodity agreements" was heavily influenced by the perception of the United States. The objectives of an intergovernmental commodity agreement were defined in the Charter as follows:

(a) to prevent or alleviate the serious economic difficulties which may arise when adjustments between production and consumption cannot


79. Ibid.

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.81

The Charter also defined the circumstances in which members could enter into an intergovernmental commodity arrangement. It essentially viewed such an arrangement as an emergency measure, when either a "burdensome surplus" had developed or was expected to develop, or when "widespread unemployment of underemployment had developed or was expected to develop" and when such a situation "could not be corrected by normal market forces."82 Furthermore, these agreements were required to observe certain additional principles under Article 63: control schemes were required to "assure the availability of supplies adequate at all times for world demand" and participating countries, which were mainly interested in imports, were to have "in decisions on substantive matters" a "number of votes equal to that of those mainly interested in obtaining export markets for the commodity."


82. Article 62 of the Charter, ibid.
A perusal of the objectives and pre-conditions for the negotiation and conclusion of commodity agreements indicate that free play was to be given to market forces. Commodity control arrangements were envisaged to operate only under exceptional circumstances. Conceptually speaking, these arrangements were to be considered a "necessary evil". Any protests against such an understanding were overlooked. The Indian delegate had pointed out that greater emphasis should have been laid on price stabilisation while the Australian representative underlined the need to stimulate consumption.83 These views went unheeded since "...primarily concerned with avoiding the severity of commodity controls of the past, the Havana principles show remarkable disinterest in the positive aspect of international commodity agreements".84 Where a commodity agreement did come to be negotiated and concluded the Charter principles required equal weightage to be given to consumer states. While the inclusion of consumers in a commodity arrangement would render them more equitable, and ensure that the agreement was translated into practice, the consumer states should have been required to assume joint responsibility as well. This was not to be so.

83. Khan, n. 10, p. 69.
84. Ibid., p. 73.
Though the Havana Charter, in the absence of ratification by the United States, was never brought into force, the principles enunciated in Chapter VI received the blessings of the United Nations Economic and Social Council. In Resolution 30(IV) of 1947, the Council recommended that Chapter VI (Chapter VII of the draft charter) be adopted as a "general guide" in intergovernmental consultations or action with respect to commodity problems. Toward this end, it established an Interim Co-ordinating Committee for International Commodity Arrangements (ICCICA), which was given the responsibility of convening commodity study groups, for making recommendations in regard to the calling of United Nations Conference for negotiating commodity agreements and for co-ordinating the activity of study groups and councils administering commodity agreements. Additionally, the GATT recognised international commodity arrangements as an exception to the MFN clause and other principles. In other words, notwithstanding the non-adoption


86. Ibid.

87. For some details see next Chapter under the sub-heading "Commodity Agreements and GATT".
of the Havana Charter, the views it expressed on commodity issues were, in the words of Fox, "to remain gospel truth to governments for many years." In fact, according to him, "all the recognised intergovernmental study groups or agreements of proposed agreements on commodities over the last 30 years - in tin, wheat, sugar, coffee, cocoa, rice, fats - have been obliged to acknowledge their debt to the Havana Charter subject only to the modifications, interpretations and extensions which have been made by the United Nations Economic and Social Council and by the United Nations Conference on Trade and Development". In other words, despite the fact that the Charter never entered into force, the principles relating to intergovernmental commodity arrangements contained therein governed post-war agreements because it constituted the legal expression of economic values which the developed countries sought to defend.

The first attempts to "modify" the principles laid down in the Havana Charter was made in 1951 in a report entitled Measures for International Economic Stability (the Angell Report). The report was submitted to the United Nations in pursuance of an ECOSOC Resolution which

88. Fox, n.7, p. 206.
89. Ibid.
requested the Group of Experts to make recommendations, *inter alia* "concerning the appropriate national and international measures required to mitigate the vulnerability of the economies of under-developed countries to fluctuations in international markets, including measures to adjust, establish, and maintain appropriate relations between prices of raw materials on the one hand, and essential manufactured goods, on the other, and thus to ensure greater economic stability". The Angell Report paid considerable attention to the problem of avoiding instability, however caused, in primary commodity prices, observing that "as recently as 1948, when the Havana Charter was drafted, such agreements were considered almost wholly in the context of burdensome surpluses. They can now be viewed in quite a different light".

This different emphasis can be traced to the post-war experience which showed that the danger to economic stability could come not merely from 'burdensome surpluses' but from shortages as well. For instance, in the beginning of 1950 there was a fear of surpluses as the supply of many commodities expanded more rapidly than their demand. By 1951, with the outbreak of the Korean war which gave a strong


impetus to rearmament programmes and led to a sharp increase in the demand for primary commodities, the issue became one of shortages. Therefore, early in 1951, an International Materials Conference was held to deal with the question of shortages. The next year, however, saw the situation easing, while the end of the Korean War in 1953 led to an increase in available supplies and a decline in demand. Consequently, there was great instability in prices. An important lesson of this period was that changes in demand for raw materials, particularly in the developed countries, usually led to substantial changes in their prices. In order to attack this problem of instability, the report recommended international commodity arrangements:

We know of no practicable method of reducing the international impact of short-run fluctuations in the prices and terms of trade of primary products, other than a direct and


94. The average price of cocoa dropped about 50 per cent from November 1948 to March 1949, while prices of copper, lead and zinc declined very rapidly in early 1949. In the last few months of the year price of coffee nearly doubled. Tin declined steeply in November 1949 but rose by 50 per cent in one month in 1950. The price of wool declined by 57 per cent in five months of 1951 while tin whose daily cash price touched the level of $ 1620 in February 1951 fell to $805 in August of the same year. U.N. Interim Coordinating Committee on International Commodity Arrangements, Review of International Commodity Problems, 1950 (UN, N.Y., 1951), p.1.
detailed attack on the problem through the negotiation of international commodity agreements... the essential objective should be, not the introduction of restrictions to help remove "burdensome surpluses" but the stabilisation of world commodity markets in the face of the temporary ups and downs of demand and supply. 95

The discussion on the report in the ECOSOC meetings revealed that most governments were in agreement with the experts, "in particular, the objective of stability rather than of action exclusively directed towards the problem of handling burdensome surplus". 96 The "sharp break" with the concepts of the Havana Charter also found support in the Economic Commission for Latin America the Food and Agriculture Organisation (FAO), the ICCICA and the General Assembly. 97

Meanwhile, another significant report entitled Instability in Export Markets of Under Developed Countries was submitted to the ECOSOC. 98 Its essential thesis was


that "there have been marked fluctuations in proceeds from exports during the fifty years under review (i.e. 1901-1950) - whether measured on a cyclical basis or from year to year. While different commodities and countries have been variously affected, practically all showed a substantial degree of instability". It emphasised that instability meant that underdeveloped countries would be hard put to financing imports of essential commodities by means of their export earnings and in general to finance their economic development.99

In December, 1952 the General Assembly adopted a resolution entitled "Financing of Economic Development through the Establishment of Fair and Equitable International Prices for Primary Commodities and through the Execution of National Programmes of Integrated Economic Development".100 The resolution apart from underlining the problem of adverse terms of trade contained recommendations on commodity agreements as well. It exhorted governments to cooperate in establishing multilateral and bilateral international arrangements relating to primary commodities in order to ensure stability of prices and for the purpose of safeguarding the continuity of the economic progress of producer as

99. Asher, n. 97, p. 408.

well as consumer countries. The concept of commodity agreement can thus be said to have evolved a step further; it was now beginning to be seen not merely as a "necessary evil" but as an instrument for attaining more positive objectives.

The December resolution appointed another Group of Experts to report on feasible international measures to achieve stable and equitable price relationships in international trade. The report entitled *Commodity Trade and Economic Development* was submitted in November 1953. Finding the hitherto commodity-by-commodity approach inadequate the report recommended the establishment of an intergovernmental trade stabilisation commission to consider and make recommendations to it on general proposals for stabilisation. At its seventeenth session (April 1954) the ECOSOC considered the report of the Group of Experts which had reviewed the question of instability and its impact on developing countries. After much debate, the Council on 30 April 1954, by a roll-call vote of 12 to 5, with 1 abatement, decided to establish a Permanent Advisory Commission

101. Ibid.

on International Commodity Trade. However, the actual setting up of the Commission was postponed to the next session. In the eighteenth session (August 1954) the Council by 12 votes to 3, with 3 abstentions, adopted the proposal which immediately constituted the Commission on International Commodity Trade (CICT) with eighteen members to be elected by the Council.

The primary task of CICT was to examine measures designed to avoid excessive fluctuations in the prices and the volume of trade in primary commodities, including measures aimed at maintenance of a just and equitable relationship between the prices of primary commodities in international trade, and to make appropriate recommendations. It was also required to keep under constant review the movement of world primary commodity markets by assembling and analysing the appropriate data, and by publishing studies and statistical reports on prices, terms of trade and other matters relating to international trade in primary commodities. The CICT held its first session in 1955 and

103. ECOSOC O.R., Seventeenth Session, April 30, 1954, res. 512A(XVII), p. 234. The five countries which opposed the resolution were Belgium, France, Norway, the United States, and the United Kingdom. Australia abstained.

104. ECOSOC O.R., eighteenth session, Aug. 5, 1954, (res. 557F(XVIII)) USA and UK opposed the resolution. India was among the 8 members to be elected to the Commission.

105. Res. 512A(XVII), n. 103. Also see res. 557F(XVIII), ibid.
decided to issue periodically a *Commodity Market Bulletin* and a memorandum entitled *Recent Commodity Development*. The CICT was reconstituted in 1959 with new terms of reference. Its basic task was "to study and analyse developments and trends in international commodity trade, including excessive fluctuations in the prices and volume of commodity trade and movements in the terms of trade and the effect of such developments on both the international and domestic economic position of countries participating in international commodity trade, especially on the economic development of less developed countries", and then to make recommendations. 106 The CICT continued its good work till 1964, when the General Assembly, acting on the recommendation of UNCTAD I, decided that the functions of the CICT as well as the ICCICA were to be transferred to the Committee on Commodities, a subsidiary body of UNCTAD's Trade and Development Board. 107

106. In addition, it was also mandated (a) to keep constantly under review the movement of world commodity markets by the assembly and analysis of appropriate data; (b) to submit periodic reports to the Council on its work; and (c) to publish studies and statistical reports on prices, terms of trade and other matters relating to international trade in primary commodities. *A ECOSOC O.R., 31 July 1958 (res. 691)*. Also see *Yearbook of the United Nations, 1958* (UN, N.Y., 1959), pp. 128-9.

IV. DEVELOPMENTS IN UNCTAD

The UNCTAD was established by the General Assembly in 1964 to promote international trade, particularly that of developing countries, with a view to accelerating economic development. To that end, it was called upon to formulate principles and policies and to make proposals for putting them into effect. A major endeavour of UNCTAD has been in the field of commodities, an effort which culminated in the adoption of the Integrated Programme for Commodities in 1976. As regards commodity agreements a significant contribution of UNCTAD has been to eventually recognise the positive role of these instruments.

The first session of UNCTAD adopted a number of recommendations to tackle the problems of developing countries in primary commodity trade. The most significant resolution was the one on "International Commodity Arrangements and Removal of Obstacles and Expansion of Trade" which was adopted without dissent.108 It laid down the objectives, principles and scope for facilitating negotiations of future commodity agreements. The basic objective of commodity arrangements was stated to be "in general to stimulate a

dynamic and steady growth and ensure reasonable predictability in the real export earnings of developing countries, so as to provide them with expanding resources for their economic and social development, while taking into account the interests of consumers in importing countries. In order to achieve this objective international commodity arrangements must, the recommendation noted, 

(a) secure remunerative, equitable and stable prices for primary commodities especially those exported by developing countries, having due regard for the import purchasing power of the commodities exported;

(b) aim to increase, particularly in developed countries, the consumption and imports of primary commodities, including those in semi-processed and processed forms, from developing countries;

(c) assure satisfactory access to the markets of the developed countries for the primary products of developing countries as appropriate in the context of commodity arrangements;

(d) co-ordinate commodity production and marketing policies as appropriate for the purpose of:

109. Ibid.
(i) Ensuring a better and more economic adjustment between world consumption and production and mitigating any detrimental effects of residual burdensome surpluses or deficits;

(ii) Preventing excessive fluctuations in prices and price relationships in quantities traded;

(iii) Ensuring that adequate measures for increasing consumption and imports are taken before resorting to measures to restrict production and exports;

(iv) Promoting production and equitable distribution of commodities in short supply;

(v) Ensuring that developed countries do not take measures which would encourage uneconomic production and so deprive developing countries of the opportunity to obtain a fair and reasonable share of their markets and of market growth;

(vi) Facilitating the long-term adjustment of production required by structural changes in world markets.110

This formulation of the objectives and principles by the UNCTAD represented a shift from the Havana Charter which perceived commodity agreements as a "necessary evil". It underscored the fact that market forces alone could not be relied upon to ensure the effective stabilisation and growth of trade in primary commodities. Secondly, stress was laid on not merely stabilising commodity markets but on rectifying the trend of adverse terms of trade faced by developing primary commodity exporting countries. Thirdly, the formulation represented a more comprehensive and dynamic

110. Ibid.
approach than the Havana Charter, in that commodity arrangements are required to take a more holistic view of commodity markets and seek an integrated solution. Finally, and most significantly, the Conference perceived commodity agreements as not merely instruments to rectify short-term problems which afflict commodity markets but as a means to help developing countries achieve their development objectives.

This positive conception of commodity agreements was fully reflected in the number of General and Special principles to govern international trade relations and policies which were adopted in the first session. To the extent these principles had a bearing on the negotiation, conclusion and operation of commodity agreements they injected the formulation on commodity arrangements with a quasi legal content.iii

UNCTAD II broadly endorsed the recommendations adopted at the first session. The discussions in the First Committee of the Conference which dealt with commodity

iii For the text of the General and Special Principles adopted see Proceedings of the UNCTAD, n. 108, pp. 18-26. For the developing countries these principles are of immense importance and "have become central themes in all subsequent development deliberations". Martinus G. Erasmus, The New International Economic Order and International Organisations (Haag and Herschen, Frankfurt, 1979), p. 58.
issues reiterated the need for securing, inter alia, "stable, remunerative and equitable prices" for primary commodities exported by developing countries with a view to increasing the foreign exchange earnings of developing countries. 112 This formulation, it may be noted, had also received its assent in Resolution 73(x) of the Trade and Development Board and in paragraph 24 of the International Development Strategy for the Second United Nations Development Decade. Among the major achievements of UNCTAD II was resolution 16(II) ("International Action on Commodities") which was in the form of a programme of international action to deal with urgent problems facing some twenty agricultural and mineral commodities of export interest to developing countries. 113

The Conference also adopted Resolution 17(II), sponsored by Bulgaria, Czechoslovakia, Hungary, Poland and


113. The chief problems outlined, inter alia, were short-term price instability, structural imbalance between supply and demand, severe competition from synthetic materials and appreciable trade barriers. Individual recommendations regarding remedial measures were also set out. However, the resolution collated these recommendations into a general programme, and established certain guidelines, priorities and procedures to be followed in its implementation. It represented a significant further step forward towards elaborating an integrated international commodity policy. Proceedings of the UNCTAD, ibid., p.34.
the USSR, which related to a 'General agreement on commodity arrangements.' Its background was a study of the same title prepared by the UNCTAD secretariat with a view to drawing up a single document concerning the purposes and principles of international commodity arrangements and the promotion and convening of international commodity conferences. The socialist and developing countries were anxious to formulate and adopt a general agreement embodying an integrated policy as it would facilitate and guide the search for solutions to commodity problems. With reference to commodity agreements, the UNCTAD document dilated on the objectives and types of commodity agreements; the techniques of commodity market regulation; the mode of convening exploratory commodity meetings, commodity study groups and commodity conferences; and the administration of inter-governmental commodity arrangements. Resolution 17(II) had called upon governments to make their comments upon the Secretariat report concerning the substance and forms of a general agreement on commodity arrangements. Though some comments from governments were received the proposal did not eventually materialise.

114. Ibi6., p. 36.
116. For the replies of governments see TD/3/ C.1/49, 8 October 1968 Addendums 1-4, Comments by Governments on document TD/30 concerning the substance and form of a General Agreement on Commodity Arrangements.
At UNCTAD III no serious policy development took place with respect to international commodity arrangements. However, the fourth session at Nairobi saw the adoption of the Integrated Programme for Commodities. Though the Programme was made up of a number of interrelated elements, two of these "constitute the core of the Programme". These two elements were the proposal to establish a range of internationally owned stocks covering a large number of commodities and the proposal to establish the Common Fund. Having already considered aspects of the Integrated Programme in the introduction to this study only two observations may be made at this point. Firstly, the adoption of the Programme firmly established the positive conception of commodity agreements. The commodity agreement was not

117. The session adopted a resolution 49(III) entitled "International Cocoa Agreement" recommending the early conclusion of a cocoa agreement. Besides the Conference passed resolutions on the competitiveness of natural products, synthetics and substitutes, the exploitation of the sea-bed beyond national jurisdiction, the stabilisation of commodity prices, in particular the role of the World Bank, the marketing and distribution of primary commodities and intergovernmental consultations on commodities in connection with access to markets and pricing policy. Proceedings of the UNCTAD: Report and Annexes (UN, N.Y., 1973), pp. 77-81.

118. See Appendix I to this study for the text of res. 93(IV) adopting the Integrated Programme for Commodities.

only to try and stabilise the prices of primary commodities of interest to the developing primary commodity producing countries but would also set itself other objectives including the objective of long-term development of the commodity. These objectives are, *inter alia*, the promotion of consumption, improving market access, improving the competitiveness of natural products vis-à-vis synthetics, increased processing in developing countries. It may be added that contemporary commodity agreements have set themselves these latter objectives although they are not often backed up by appropriate measures.

Secondly, criticism has been voiced against the Programme on the ground that it seeks to raise commodity prices through bringing about commodity agreements. It is important to stress that nowhere does the Programme call for increase in commodity prices. The emphasis is on stabilising prices and on promoting equilibrium between supply and demand. Moreover, the very structure of the agreements, which involves producer-consumer participation, provides a built-in safeguard against the prices raising. After all, the price levels and ranges are to be determined and administered jointly by the producers and consumers.

---

120. See next chapter for a discussion of the objectives of commodity agreements.
There are other constraints as well. Products threatened by competition from synthetics are forced to set a limit to the price levels. Finally, where storing is to be the chief stabilising mechanism it is limited in its operation by the finite resources it possesses and cannot intervene in markets with ease to raise prices.\(^\text{121}\)

Reference may finally be made to the modus of negotiating commodity agreements under the Integrated Programme. The process of negotiating a new agreement is divided into two stages. The first stage envisages preparatory meetings in order to determine and clarify facts and issues as well as formulate proposals for international measures. The second stage involves the convening of an United Nations Commodity Conference by the Secretary-General of UNCTAD. In this stage governmental recognition is given to particular measures and appropriate institutions are established within the framework of an international commodity arrangement. The Conference establishes its own committee structure to organise the work. For instance, the Conference called to conclude the international natural rubber agreement established an Executive Committee, which in turn established three main committees open to all participants in the

Conference; the Economic Committee, the Administrative Committee and the Legal Drafting Committee. Till this time three commodity agreements have been concluded - natural rubber, jute and jute products and tropical timber - under the auspices of the Integrated Programme. As respects other commodities, negotiations are at different stages of progress.

V. POST-WAR AGREEMENTS

The post-War period did not see "a rapid proliferation of commodity agreements" in the first fifteen years after the war only three fully operative control agreements were concluded in wheat (1949), tin (1956) and sugar (1954). Some of the pre-War agreements were not reactivated, while in the case of rubber there was merely a study group; in the case of tea, agreements were negotiated in 1948 and 1950, after which the International Tea Council became a consultative body. The chief reason for the existence of only a few agreements was "the generally more favourable situation in world commodity markets: the real purchasing power of primary products in terms of manufacturers was well above the depressed levels of the nineteen-thirties.


123. Commodity Trade, n. 64, p. 90.
and demand was appreciably more stable. Furthermore, the need to now secure producer-consumer consensus, by increasing the complexity of the negotiations, delayed agreements.

The 1949 International Wheat Agreement was based on a multilateral contract which bound importers as well as exporters to specified quotas within a specified price range. The Agreement provided neither for quantitative controls nor for buffer stocks but concerned itself only with marketing. The Agreement had taken seven years to fructify; negotiations were on since 1942. Yet, the USSR and Argentina did not join the Agreement, as the former was dissatisfied with its quota and latter with the price. The Agreement worked reasonably well as exporters honoured their obligations during the Korean War. The Agreement was renegotiated in 1953, 1956, 1959, and 1962 when the fifth agreement was extended twice, for a year at each time.

124. Ibid.
In 1967, the International Grains Arrangement was negotiated, which broke "new ground by embodying two independent legal instruments linked by a common preamble"¹²⁸ i.e. the Wheat Trade Convention (WTC) and the Food Aid Convention (FAC).¹²⁹ WTC came into force in June 1968. It was soon rendered ineffective and whatever stabilisation was achieved was through consultation among exporting members outside the Agreement.¹³⁰ A new agreement was negotiated in 1971 which was not of the multilateral type i.e. the Agreement was without substantive economic provisions. Since 1971, the Agreement has been extended, while successive conferences have failed to arrive at a new agreement.¹³¹

By the end of the forties, the sugar output was surpassing pre-war levels. The Korean War saw sugar prices rising, which stimulated output leading to some surplus production, and prices dropped in 1953. This led to renewed interest in control agreements, which culminated in the International Sugar Agreement of 1953.¹³²


¹³⁰. Ibid.

¹³¹. For text of the 1971 Wheat Agreement see TD/WHEAT.5/9 For discussion, ibid.

Agreement was renegotiated in December 1958. The 1958 agreement was destroyed by the response of the United States to the Cuban revolution when it first reduced Cuba's preferential import quota and finally halted all imports of Cuban sugar. This led to a crisis in 1961 when Cuba demanded that 4.9 million tons of its contracts with the socialist world should be added to its existing basic quota of 7.3 million tons. It brought home the lesson that a commodity control agreement, however soundly conceived, could not withstand the kind of political changes which occurred with the Cuban revolution. Politics did not allow an agreement to be reached in the mid-sixties, despite huge surpluses. Finally, however, an agreement was reached in 1968 on a third International Sugar Agreement. Even this Agreement was "full of holes": "the United States did not become a member; the E.E.C. decided to stay out and dump sugar on the market; exports to centrally planned countries were outside the agreement and the USSR was allowed to re-export 1.1 million tons of Cuban sugar imported by that country". A new agreement was nego-

133. For the text of the agreement see UN Treaty Series, Vol. 385, 1961, p. 137.
136. Rangarajan, n. 126, p. 216.
tiated in 1973 which entered into force on 1 January 1974.\textsuperscript{137} It did not contain economic provisions for regulating sugar production and trade, but maintained the International Sugar Organisation in existence in order to further international cooperation in matters concerning sugar and to prepare for the negotiation of an international sugar agreement with objectives similar to those of the 1968 agreement. The International Sugar Agreement, 1977, came into force provisionally on 1 January 1978.\textsuperscript{138} A new agreement has now been negotiated without economic provisions.\textsuperscript{139}

The first post-War International Tin Agreement was signed in 1954.\textsuperscript{140} It was the only agreement in metals in that period. It was subsequently renewed in 1961, 1966, 1971, 1975 and 1981.\textsuperscript{141} In other words, the tin mining

\begin{itemize}
\item \textsuperscript{137} For the text of the agreement see TD/SUGAR.8/4 United Nations Sugar Conference, 1973. Sales No. E.74.II.D.16.
\item \textsuperscript{138} TD/SUGAR.9/12, United Nations Sugar Conference (UN, N.Y., 1978).
\item \textsuperscript{139} TD/SUGAR.10/11, International Sugar Agreement, 1984 (UN, 1984).
\item \textsuperscript{140} For the text of the agreement see UN Treaty Series, Vol. 256, 1956, p. 31.
\end{itemize}
industry has been under some form of control for the past sixty years. Since the success and failure of the post-War agreements are discussed elsewhere nothing much needs to be said here.

The first "essentially new control agreement" (others preceding were continuation of earlier schemes) in the post-War period was negotiated in 1962 in coffee.\textsuperscript{142} The valorisation schemes as well as the 1940 Inter-American Coffee Agreement had, however, laid the ground, in the first place followed by the Latin American producers, arrangement in 1957, which was repeated in 1958 and 1959 in cooperation with the African producers. Despite these latter agreements which continued to be renewed annually till 1962, prices fell and stocks accumulated. In 1962 the world exportable production was some 60 million bags as against world exports of 44 million bags and additionally there were accumulated stocks totalling around 60 million bags, of which some 54 were in Brazil and 5 in Colombia. It is in this background, aided by the political decision of the United States, that the 1962 International Coffee Agreement was negotiated. The 1962 Agreement was followed by agreements in 1968, 1976 and 1983.\textsuperscript{143}

\begin{itemize}
\item \textsuperscript{142} International Coffee Agreement, 1962 (US, Department of State, Washington, 1962).
\end{itemize}
An International Olive Oil Agreement was adopted at the United Nations Conference on Olive Oil at Geneva on 20 April 1963.\textsuperscript{144} This agreement continued to develop the work already undertaken within the framework of the 1956 International Agreement on Olive Oil\textsuperscript{145} modified by the Protocol of 3 April 1958.\textsuperscript{146} The 1963 Agreement which was renewed several times has been followed by the 1979 International Olive Oil Agreement.

The search for a cocoa agreement began with the establishment of the cocoa study group under the auspices of FAO in June 1956, after a painful effort of seventeen years including four sessions of the United Nations Cocoa Conference, arrived at an agreement in 1972.\textsuperscript{147} This agreement was renewed in 1975\textsuperscript{148} and a new agreement was signed in 1981 which is currently in operation. A new agreement is under negotiation.

\begin{itemize}
\end{itemize}
In recent years we have seen agreements in natural rubber,\(^\text{149}\) jute and jute products,\(^\text{150}\) and tropical timber.\(^\text{151}\)

VI. APPRAISAL

The international commodity principles and policies which govern commodity agreements have evolved over decades in response to major economic and political developments, and the growing body of experience in the operation of commodity control schemes. The rationale of commodity arrangements has passed through several stages: as a means to provide metropolitan powers with stable revenues and safeguard their national industry and public interest to the contemporary objective of providing the developing primary commodity exporting countries with stable and expanded resources for their economic and social development. The legal form which these commodity control schemes assumed has also undergone transformation: from being essentially private cartels to formal intergovernmental


150. TD/JUTE/II, International Agreement on Jute and Jute Products (UN, N.Y., 1982).

agreements without any consumer participation, to the contemporary commodity agreement in which the principle of equal consumer participation has become the accepted norm. In other words, the cooperative framework which the contemporary commodity agreement embodies is a result of decades of incremental evolution and should be treated as a valuable instrument to promote international cooperation in the field of commodities. If anything it rests on a more just and equitable basis than ever in the past, although there is scope for improvement through asking for more sacrifices from the consumer nations.

Important lessons were learnt in the operation of commodity arrangements which are of continuing relevance. A few of them deserve special notice. Firstly, as the experience of the control schemes during the period of Great Depression revealed, commodity agreements cannot easily cope with abnormal market situations, and can more readily correct limited deviations in demand and supply. Secondly, they highlighted the fact that for the successful operation of a price regulating agreement it was necessary that all the major producers and consumers of the agreement participated in it. Thirdly, they underscored the need for consumer cooperation for the effective implementation of the agreement. Fourthly, the experience of the past schemes revealed that for achieving the objective of price stabilisation it was necessary to incorporate in the agreement
effective regulatory mechanisms. And the most certain way to achieve the objective was to use the mechanisms of export quotas and buffer stocks in conjunction. The validity of these lessons has been, as is discussed elsewhere, confirmed by the experience of commodity agreements in the recent commodity crisis which visited commodity markets between 1980-82.

An important task of the present chapter was to underline the more positive conception of contemporary commodity agreements, in contrast to the concept of "necessary evil" incorporated in the Havana Charter. The positive approach is manifested in, inter alia, the range of objectives which these commodity agreements set themselves. The next chapter, therefore, seeks to analyse in some detail the objectives of contemporary commodity agreements. The discussion of the objectives is, however, preceded by a brief reference to the definition of contemporary commodity agreements, which is an attempt to broadly sum up the principles and policies which govern these agreements.

***