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International Commodity Agreements

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INTERNATIONAL COMMODITY AGREEMENTS*

Distinguishing characteristics

International commodity agreements (ICAs) are essentially (a) multilateral instrumentalities of (b) governmental controls that (c) support the international price of (d) individual primary commodities, (e) especially through such arrangements as export quotas or assured access to markets. Accordingly ICAs are to be distinguished from commodity study groups entirely lacking in operational responsibility; from international cartels of a non-governmental character; and from the Combined Food Board (1942-45) or the International Materials Conference (1951-53), which involved international allocative machinery for a considerable number of primary commodities during periods of war-induced shortage. The proposed definition also excludes the following "near" forms of international undertakings: (i) bilateral bulk-purchase agreements; (ii) multilateral control arrangements governing the market outlets for manufactured products, such as the International Cotton Textile Agreement negotiated in 1961; (iii) arrangements for sectoral integration, in the pattern of the European Coal and Steel Community or the EEC's Common Agricultural Policy; (iv) plans for a commodity-reserve-currency; (v) proposals for international food reserves; and (vi) measures for the reduction of tariffs or non-tariffs restrictions on the international movement of goods or services.

History and forms

ICAs in their modern form may be dated from the Brussels Sugar Convention of 1902, under whose terms major contemporary exporters of beet-sugar undertook to support the international market by abandoning national systems of export subsidies. The predominant ICA of the 1920's was the Stevenson Rubber Restriction Scheme, implemented by the British and Dutch Governments on behalf of their respective colonial territories in Malaya and the Netherlands East Indies. This scheme, which resulted in a sharp though short-lived run-up in price (Knorr), 1/ was frankly exploitative in character, and experience under it was considerably responsible for certain provisions ultimately drafted for Chapter V of the Havana Charter for an International Trade Organization (United Nations).

Since the end of World War II, ICAs have been successfully negotiated for wheat, sugar, tin, coffee, and olive oil. The International Wheat Agreements (IWA) of 1949 and 1953 and the postwar International Sugar Agreements (ISA) are prototypes respectively of the multilateral contract and variable export quota forms of commodity agreement. For sugar, floor and ceiling prices were established and enforced essentially by regulating the permissible exports of member countries; the ISA provided, further, that stocks in exporter hands not exceed nor fall short of stated percentages of export quotas. An entirely different instrumentality was relied on for wheat. Importers agreed to accept specified quantities if price fell to the minimum level specified in the agreement, and exporters agreed to provide

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1/ For works cited, see Selected Bibliography at end.

stated quantities to member countries so long as price held at the contract ceiling. At prices between the floor and the ceiling, the agreement was to be essentially inoperative. In tin (ITA), successively higher price thresh-holds were specified at which a buffer stock agency had to purchase, might purchase, could not purchase or sell without specific authorization, might sell, and was required to sell. The agreement also provided for imposition of export controls after buffer accumulations exceeded specified amounts. The major sanction involved in the ICA for coffee negotiated at a prolonged conference in 1962 was the certificate of origin, to be required by importing countries as a means of limiting their takings from any exporters electing to "go it alone".

Historically, U.S. policy with respect to ICAs has been characterized by a certain degree of ambivalence. Avoiding agreements on industrial raw materials subject to wide fluctuations in industrial demand, it has, until very recently, participated only in ICAs in which the United States has predominantly a producer interest, notably the International Wheat Agreement. Even in the case of sugar (of which the United States remains a net importer), it has acted relatively more in a producer than a consumer capacity: too large a differential between national prices and those prevailing abroad would embarrass the continuation of the domestic sugar control system. From time to time, the United States has toyed with the idea of an ICA for lead and zinc as a means of terminating an existing system of unilaterally-imposed import quotas, the source of considerable irritation to her trading relationship with Mexico, Peru, Australia, and Canada.

Prerequisities for successful negotiation

Empirically, if not in theory, the following would seem to be among the primary conditions to be met if an international commodity conference is to materialize into an ICA:

(a) Inelastic demand. Clearly, if close substitutes are available, supporting the market price of any individual commodity is bound to have immediate and sharply adverse effects. The existence of synthetic rubber explains the complete lack of any postwar ICA for the natural product; restrictive agreements for individual oilseeds are ruled out by the existence of a considerable list of alternative seeds, as well as by competition from butter; but sugar has lent itself to a succession of ICAs continuously since 1937;

(b) Reasonably stable market shares. Since export quotas generally divide up markets pro rata to the national shares prevailing in some base period, difficulties arise whenever there are abrupt or longer-terms shifts in the proportions contributed by various producing countries. The progressive displacement of exports of raw cotton from the United States by those originating elsewhere, compounded by the development of synthetic fibers, precluded the successful negotiation of an international cotton agreement in the postwar period, and the rising volume of exports from African countries seriously complicated the negotiation of the International Coffee Agreement of 1962;

(c) Distress price levels. As is best illustrated by the breakdown in negotiations for a revised sugar agreement in 1951 and for a cocoa agreement in 1963, exporting countries are not prepared to make the necessary compromises or effect the necessary accommodation unless prevailing prices are extremely low.

(d) Mixed producer-consumer interest. The longest-lived ICAs currently in effect involve commodities concerning which major countries have rather mixed motives. Thus, the United Kingdom is interested, as an importing country, in relatively low prices for sugar; but as champion of Commonwealth countries overseas, in the West Indies or Oceania, the United Kingdom does not wish world sugar prices to fall to disastrous levels. The United States in pre-Castro days sought a higher price for Cuba's sugar shipments to non-U.S. destinations than did even the Cubans, who were rather more impressed with the desirability of maintaining a large volume of exports. Even the new ICA for coffee reflects some mutuality of producer and consumer interest within the major importing countries: not that any domestic sources of supply exist but, rather, that the temperate-zone industrial countries are broadly concerned for the well-being of tropical LDCs (especially in Latin America) from which coffee exports originate.

Obsolete principles and commodity realities

Prominent in the chapter of the Havana Charter dealing with intergovernmental commodity-control agreements were provisions purporting to benefit the consumer, especially via (i) equal representation for importing and exporting countries; (ii) participation by all countries "substantially interested" in the particular commodity; (iii) the check-reins of publicity in the form of an annual report; and (iv) the assurance of increasing market outlets for supplies originating in the regions of most economic production.

A wide gulf separates the principles underlying these provisions from the hard realities of ICAs actually negotiated in the postwar period. The U.S.S.R. continues to vote in both the sugar and wheat agreements as an exporting country, although the dynamics of international trade are such that the U.S.S.R. has recently become a heavy net importer of both commodities. Under present circumstances, the United States, while not itself a member of the ITA, in effect imposes a ceiling on international tin prices by regulating the rate at which tin disposals are made out of the nation's strategic stockpiles. Similarly in the case of wheat, the international market has been governed less by the IWA than by oligopolistic pricing practices on the part of the Canadian Wheat Board and the U.S. Commodity Credit Corporation. Membership of a host of nations in present-day ICAs may merely complicate the processes of administration and decision-making, while in at least one instance--the decision of the United Kingdom not to affiliate with the IWA of 1953--the absence of a major importing country may have had a salutary effect in moderating the exercise of oligopolistic power.

The Organization of Petroleum Exporting Countries (OPEC), originally developed in 1960, is a special case: it violates, thus far without challenge, the Havana Charter provisions requiring consumer representation,and involves a process of collective bargaining not with importing countries but with producing and marketing companies largely controlled by citizens of the advanced industrial countries, notably the United States, United Kingdom, Netherlands, and France. Perhaps the time is becoming ripe for a truly international undertaking concerning petroleum. An internal system of pro-rationing in the United States on behalf of domestic producing groups has already--and inevitably--given rise to a system of import controls, and a strong case can be made for having import quotas enforced by a multilateral, rather than by a unilateral, instrumentality. The former Axis powers (Germany, Italy, Japan) have very little access to petroleum supplies under their direct control but are major consumers and importers. The further fact that the petroleum-exporting countries include relatively wealthy members of the less-developed world, while poorer members are heavily dependent on petroleum imports, also calls for a degree of restraint in the exercise of bargaining power by OPEC.

Economic Effects

ICAs suffer from the various limitations that characterize all efforts artificially to support the market position of individual commodities. In particular, price targets tend to be set too high; long-run elasticities in demand as well as in supply tend to be underestimated; and cost structures tend to be built up, so that any favorable effects on producer incomes are at best transitory. Longevity in ICAs, accordingly, is not necessarily a virtue and, in the case of sugar, has been achieved only by making inoperative the key provisions governing export quotas during periods (especially of high prices) when agreement on market shares has proved impossible.

It has been argued that stabilization of the price paid for only a portion of world export sales tends broadly to destabilize the price of the remainder (Johnson). The general case for this highly theoretical position has, however, not been definitively proved. An important consideration is the inelasticity of demand in the stabilized portion of the market relative to that in the unstabilized sector. Thus, the assurance of adequate supplies of sugar to the United States, or of wheat to the United Kingdom, under successive ICAs or national control programs tends to operate on balance in a price-stabilizing direction.

Moreover, while it is generally true that prices in national markets tend to fluctuate considerably less widely than those sold without protection in residual "free" markets, it by no means follows that "free" market prices of traded commodities are necessarily less stable than prices of primary commodities subject to "world-market" conditions (i.e., for which prices throughout the non-Soviet world tend to differ chiefly by transportation costs together with nominal tariffs). Chiefly for reasons of supply inelasticity compounded, in the case of cocoa, by demand inelasticity and, for natural rubber and wool, by rather wide cyclical fluctuations in demand, these three commodities have historically tended to be among those experiencing the widest fluctuations in market price. While sterling-area producers are dominant exporters of all three, and the foreign-exchange reserves of the sterling area accordingly reflect their current market strength, none has been governed by an ICA in the postwar period. Moreover, the fact that these three commodities have by and large experienced reversible price swings has led the major exporting countries to introduce various devices--from national marketing boards through variable export taxes to prepayment of producers' income tax--that do have the effect of "stabilizing" producer income from year to year (though not the nation's total foreign-exchange earnings) and accordingly represent an adjustment toward living with instability (KYKLOS).

Controls over the market price of individual commodities have undesirable side-effects, politically as well as economically. The severity of export quotas imposed under the ITA from December 1957 through September 1960 appears to have had a long-term effect on productive capacity: once export restrictions on tin were relaxed, output failed to revive in step with a strong recovery in consumption and, accordingly, this commodity provides a classic example of the irreversible supply curve. One possible lesson of recent Cuban experience is that there is a relationship, subtle and indirect rather than overt, between economic forms of market control and a degree of political tyranny. Such a philosophy was shared by the sponsors of the Anti-Corn-Law League in 19th century England, who built their case on a presumed linkage between freer trade and world peace.

Current pressures favoring ICAs

Serious disadvantages notwithstanding, the number of ICAs has been proliferating of late and there are good reasons for expecting that tendency to continue. For one thing, the United States has moved by a succession of moderate steps from a position of doctrinaire opposition to ICAs to one where official policy became one of willingness, in the words of late President Kennedy, "to cooperate in serious, case-by-case examinations of commodity market problems." ICAs tend to be strongly favored by the less developed countries themselves, as a means of "stabilizing" (i.e. raising) the foreign-exchange earned by their major exports. In Europe, international market-sharing arrangements have enjoyed the active support of French authorities for more than a decade. The German Federal Republic, as the major importer of agricultural commodities within the EEC, favors ICAs as instrumentalities for maintaining a place for overseas suppliers within the Common Market. On similar grounds, an ICA for grains has also received some scholarly support (Coppock). Moreover, the United Kingdom which has, until recently, relied on a policy of cheap food imports together with a program of direct payments to its domestic agricultural producers, has begun to develop a series of ICAs with major overseas suppliers of grain and meat, in order to reduce the budgetary burden resulting from a combination of direct payments, unrestricted domestic production and unlimited imports. ICAs have considerable attraction to all external suppliers favorably impressed with the short-run advantages, and prepared to overlook the longer-run disadvantages, of having market outlets assured on a quota basis.

Modern financial variants

Various efforts have been made to invent mechanisms, other than ICAs, for coping with the problem of transferring purchasing power to less-developed countries whose earnings have been either cyclically or chronically depressed. Certain of these alternatives, such as proposals for a commodity-reserve currency (Kaldor, Tinbergen, Hart) would serve the end of foreign aid and international financial reform at the expense of sacrificing the role of the price system as the major instrument of economic management in (relatively) free-enterprise societies. Others, operating through overt financial transfers (Meade, Swerling), have the major advantage of leaving the price system largely unaffected as an allocator of economic resources. Finally, the International Monetary Fund--though with considerable reluctance and after some delay (Lovasy and Fleming)--has acted to make one extra tranche (=one quarter of the nation's IMF quota) available for compensating shortfalls in export proceeds of less-developed countries, when those shortfalls arise for reasons not themselves within the control of the individual country experiencing balance-of-payments difficulties (International Monetary Fund). Such an approach has the important virtue of taking into account fluctuations in export volume rather than responding exclusively to variations in commodity prices.

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