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RECOMMENDATION FOR A COUNCIL DECISION ON THE NEGOTIATION OF A THIRD INTERNATIONAL COCOA AGREEMENT

(Presented by the Commission to the Council)

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Introduction

On 10 July 1980 the Commission transmitted a communication to the Council with regard to the consultation meeting convened by the UNCTAD/Secretary-General in Geneva from 28 July to 1 August on international cooperation in the cocoa sector. At its meeting on 22 July, the Council basing itself on this communication :

- (i) recognized the political importance of safeguarding international cooperation between producer and consumer countries; especially as regards such an important primary commodity as cocoa;
- (ii) agreed that the Community should declare itself ready to resume the negotiations which were interrupted at the end of March, since the International Cocoa Council had been unable either to extend the validity of the second Agreement or to recommend a further negotiating conference after the series of failures in 1979 ;
- (iii) would wait to continue the discussions, particularly on prices, in the light of the results of the Geneva consultations.

The Geneva meeting

The producer countries

- (a) wanted to reach an agreement containing economic provisions, particularly a buffer stock, financed as before by a levy on trade in the product,

- (b) confirmed their intention of transferring the buffer stock's assets from the second Agreement to a third agreement, which was consistent with the desire expressed by the consumer countries, in particular the Community, for the negotiations to be resumed ;
- (c) agreed to resume negotiation of the lower intervention price for the buffer stock on the basis of the proposal made by the consumer countries in March -i.e. 110 cts/lb- while at the same time pointing out that they would like to see prices reviewed and revised annually by the Council (under a three-year agreement).

In view of the content of the Council decisions, the EEC was not in a position to express an opinion on the crucial question of the level of intervention prices for the buffer stock under a future agreement, despite the fact that in order for the negotiations to be resumed with a good chance of success, it was important for its position to be sufficiently clear for the UNCTAD Secretary-General to have a reasonable idea of where the main parties stood. The EEC did, however, confirm that it would like the agreement to include a semi-automatic price revision clause, which could operate both upwards or downwards.

The United States, which is the world's second largest consumer after the Community, raised a number of outstanding issues on which there would have to be a final compromise with the question of prices, and were particularly insistent that the future agreement should be linked to the Common Fund. It supported the Community's wish for the agreement to contain, along with periodic price revision by Council decision, a semi-automatic revision system related to market conditions and buffer stock operations.(1)

(1) While they have not refused to consider this point, the producer countries demand that world inflation should also be taken into account.

With regard to the lower intervention price level, the United States considered that it had to be negotiated at between 100 and 110 cts, taking into account current and predictable market trends.

The other consumer countries which expressed an opinion (Japan, Sweden, Switzerland etc.) agreed to resume negotiations on a price in the 110-120 cts bracket ; the USSR expressed no opinion on this question, nor on any other for that matter.

The producer countries expressed disappointment at the position adopted by the United States, and at the lack of a Community position on prices. The latter was not criticized too heavily however, since the Council had reiterated its political resolve in this field and expressed its intention of quickly concluding its discussions. The contacts the four ACP Ministers present in Geneva had had with the President of the Council had given a clearer idea of the situation within the Community.

The producer countries were particularly reluctant to accept a semi-automatic price variation clause, and made it clear that their acceptance, on terms to be negotiated, would depend upon the consumer countries adopting a reasonable stance on the level of prices to which the clause would be linked.

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In view of the failure to reach agreed conclusion at the consultation meeting, the conference chairman compiled his own conclusions which the Council will find annexed to this communication. His main point is to request the UNCTAD Secretary-General to carry on his consultations immediately so that a new conference can be convened in October 1980.

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Commission proposal

The Commission recalled in its communication to the Council of 10th July 1980 and during the discussions that were held during the Council of 22nd July 1980, the utmost political importance of the subject itself - a failure of the cocoa agreement would be primarily a failure between the EEC and the ACP. It also recalled that the stakes were more important than the cocoa field alone because there was a clear risk of initiating a negative evolution of the general Community policy on primary commodities in its relationship with its aid policy to the developing countries.

Therefore, the Commission deems it essential that, during its next session, the Council gives the Commission the necessary directives that will allow it to express a constructive view point which will meet the mutual long term interests, of both the consumers and the producers.

In this prospect, the Commission considers that a number of the negotiating directives issued in 1979 should be reviewed given the prospect of a future conference, in order to take account of the way the situation has developed since the end of the last conference (November 1979).

To update the Community's position, the experts may use as a basis the elements of the compromise arrived at on 20 March (see Annex to Document 8085/Proba 24 of 23 July) and incorporated by the consumer countries in their proposal to the International Cocoa Council at the end of March 1980.

With regard to the vital question of prices (level and revision system), the Commission recommends that the Council modify the decision of 6th February 1979 and take the following complementary negotiation directives :

- (i) the negotiation of the level of the lower intervention price to be laid down in the agreement should be confined to a span of a few cents between the extremes quoted during the consultations ; (1)
- (ii) the Community will make an effort to reduce as far as possible the proposed 40 cts difference between the lower and higher intervention prices. From the point of view of developing industrial cocoa consumption, the level of the higher price is extremely important since the buffer stock releases its cocoa on the market when this is exceeded; it is equally so from the point of view of the profitability of buffer stock operations, since for technical, economic and financial reasons, cocoa must not be stockpiled for too great a length of time ;

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(1) The Commission will communicate the exact figures orally to Council bodies.

- (iii) the Community will have to have a certain amount of room for manoeuvre in negotiating the price revision system, which is linked to the level of prices;
- (iv) in view of the producer countries difficulties in accepting the concept of semi-automatic price revision and the actual form this would take, the Community will initially have to make an effort to negotiate such a system in the agreement linking it to the level of prices and to the number of revisions made by Council decision ; then, should the success of the negotiations be at risk because of this issue alone, it would have to try to ensure that the principle at least was recognized in the agreement and that the agreement council was obliged to study how such a system could be put into operation and possibly implemented before the end of the first year of the agreement ;
- (v) at a more general level, the Community will have to look into all possible satisfactory compromises in order to arrive at an agreement limited to three years, which ought to enter into force as soon as possible, given that the producer countries - particularly the ACP ones - attach major political and economic importance to continuing cooperation with the Community in this field, the United States not having participated in the first two international agreements.

Statement by the Chairman

As Chairman of the Meeting on Cocoa, held under the auspices of UNCTAD's Integrated Programme for Commodities, my perception of the results of the discussions can be summed up as follows:

1. There is a common desire among cocoa producing and cocoa consuming countries to continue their co-operation in the world cocoa economy, and to this end to work towards arriving at a third agreement on cocoa as soon as possible.
2. A new cocoa agreement should, to the greatest extent possible, build on the provisional agreements reached at the previous cocoa conference as they are contained in document TD/COCOA.5/R.3.
3. The Secretary-General of UNCTAD is requested to urgently pursue his consultations with a view to convening a negotiating conference in the first half of October 1980.
4. All Governments are urged to focus their attention on outstanding issues, particularly the following:
 - (a) the level and structure of the price range; and
 - (b) the mechanism for price revision.