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COMMISSION COMMUNICATION TO THE COUNCIL
ON THE GUIDELINES FOR A COMMUNITY POSITION WITH REGARD
TO THE PREPARATORY WORK OF UNCTAD FOR AN INTERNATIONAL CONFERENCE ON
COPPER

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Commission Communication to the Council on the guidelines for
a Community position with regard to the preparatory work of UNCTAD
for an international conference on copper

1. Introduction

Copper is one of the most important of the 18 commodities covered by the UNCTAD Integrated Programme set out in Nairobi Resolution 93 (IV).

The preparatory meetings for possible agreements on these commodities are currently taking place, while negotiations on a Common Fund for commodities have begun. Within the framework of the Integrated Programme copper will doubtless play a very important role.

The third preparatory meeting on copper will be held in January next year and, according to the timetable laid down by Resolution 93 (IV), will have the task of concluding the preparatory work on this metal. In all probability, it will open the way for the convening of a conference.

Without anticipating future developments, we must bear in mind that it is at this next meeting on copper that the bases for the negotiations on a possible agreement will be established.

It is therefore now time to tackle directly the question of the sort of copper agreement that the Community could participate in.

This Communication tries to formulate the main lines of the Community position on this question prior to the completion of the preparatory work on copper in the context of implementation of the Integrated Programme, without prejudice to detailed proposals which the Commission may be called upon to make subsequently.

It first of all summarizes the main features of the world market in copper and the provisional conclusions to be drawn from the discussions on copper after the second UNCTAD preparatory meeting and the work at expert level.

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2. Characteristics of the world market in copper

2.1. An examination of world trade in copper enables us to distinguish the following four major areas:

The state-trading countries

This area, which is dominated by the USSR, the world's second largest producer (1 400 000 t/year)¹ and consumer (1 200 000 t/year), is characterized by planned production and trade and forms a compartment that is practically isolated from the rest of the world market. The one exception is Poland, which has contractual arrangements with the Federal Republic of Germany involving rigid supply commitments (50 000 t/year) in repayment of the Federal Republic's participation in mining investment. The deliveries themselves are made, it appears, at the market price.

The American area

This area is centred on the United States, the world's largest producer (1 700 000 t/year) and consumer (1 800 000 t/year). The United States is virtually self-sufficient (its net imports of no more than 200 000 t/year are marginal in relation to consumption). The American area is characterized by the use of virtually uniform scale of prices generally known as producer's prices. Until the sixties, United States capital controlled practically the whole of the copper industry on the North and South American continents and a large part of the industry in other Pacific countries.

State take-overs of the copper industry in the Latin American countries and the expansion of the Japanese area have reduced the American area but have perhaps accentuated its position as a distinct compartment of the world market. However, it does still extend well beyond the frontiers of the United States, embracing in particular a large part of the copper industry in Canada (production of 500 000 t/year), and is actively involved in the copper trade in all its forms.

The Japanese area

Japan imports nine-tenths (900 000 t/year) of its mine copper requirements, mostly in the form of concentrates from modest-scale mining operations, in which Japanese investment capital is often involved. These operations are spread over Canada, Latin America, South-East Asia and even Africa.

¹ All these orders of magnitude are given in copper metal equivalent.

The European area

The countries of Western Europe, and first and foremost the Community countries, are almost totally dependent on imports (1 600 000 t/year) to cover their mine copper requirements. Their imports are purchased at the market price and mainly in the form of copper metal (the majority of which is for refining); the main sources of supply are Zaire, Zambia and Chile.

It is this European area that is most directly and intensely concerned by any action affecting the world market.

2.2. This schematic presentation should not, however, make us lose sight of the copper market's extreme complexity due to the very large number of developed and developing countries which are directly involved and to the fact that the degree to which they are involved, the forms of the product concerned and the types of arrangement vary greatly. This creates extremely close interconnections between the areas and especially between the three market-economy areas; however, the vast majority of world trade is accounted for by the European and Japanese areas.

It is also necessary to underline the importance in the consumer countries, and especially in the Community and Japan, of reclaimed metal¹ as a source of supply supplementary to mine copper. Reference must also be made to the scale of the industrialized countries' exports (1 000 000 t/year) and imports (700 000 t/year) of semi-finished products; there is some specialization in the trade in semi-finished products; certain countries (especially Japan and the Community, in particular Belgium, the Federal Republic of Germany and the United Kingdom) figure among the exporters while others, for instance the United States, are importers).

2.3. As far as the producer-exporter countries are concerned, certain developing countries are very highly dependent on their copper exports : Zambia 95% (700 000 t/year), Zaire 67% (500 000 t/year) and Chile 50% (600 000 t/year) and it should be noticed that in the case of copper, price fluctuations are reflected directly (2) in the export earnings of these countries. These countries and a number of others - Peru, Indonesia, Papua and Australia (associate member) - have formed a producers'

¹ Reclaimed copper (or old copper) cannot unfortunately be calculated statistically under present circumstances as a distinct fraction of second-melt metal (second-melt metal accounts for approximately 45% of consumption in Europe); it would certainly be very instructive to fill this gap, since this would probably reveal significant differences between the consumers.

² It must be stressed that there is a lack of detailed data - particularly by exporter or importer country, by type of product traded and for periods of one year or less - on the average effective price of primary copper for comparison with the corresponding average LME prices. Obviously the arguments in favour of market stabilization measures would be more convincing if data were available on average effective prices and consequently on actual export earnings. It would also be useful if an assessment could be made of the effective copper balance of the developing countries concerned and of the net inflow of foreign currency appearing in such a balance sheet.

association, the Intergovernmental Council of Copper Exporting Countries (CIPEC). It should be stated here that there seems to be no threat in the foreseeable future of mine resources drying up. New countries are constantly joining the group of major producers, recent examples being Poland and Papua, soon to be joined by Iran. Australia, Mexico and certain Caribbean countries could appear on the scene in the not too distant future.

For the sake of completeness, reference should be made to the prospects for sea-bed exploitation. In any event, we have been in a period of structural surplus since the end of 1974 with copper production capacity exceeding demand. It is generally estimated that this situation will continue into the eighties. It is generally recognized, however, that in the case of copper this situation is no guarantee against the possibility in the medium term of longer or shorter periods of relative shortage, given the period of up to ten years required for mining investments to become productive.

2.4. As far as price formation is concerned, any attempt to apply a price scale system at world level has become impossible since the more or less complete take-over of control of the copper sector by the developing producer countries and the accompanying reduction at world level of the vertical integration of this sector. In the present situation, an essential cog in the world market is the London Metal Exchange (LME), in which hedging operations affecting a large part of the world trade in copper are carried out (world exports: 4 500 000 t/year). At the same time the LME prices are referred to very widely when the payments for contractual deliveries of virgin copper are fixed. The principle of this system is not generally questioned since it reflects the free market economy system to which most of the countries concerned subscribe. Under the system, however, it is not possible to avoid price fluctuations that are very marked and, in any event, greater than those affecting, for example, the American scale of prices.

The data on production and requirements, of which supply and demand give only a distorted picture at certain times, can only explain the extent of these price fluctuations by taking into account the structure of the copper industry and its production costs in relation to changes in the economic situation.

For the developing countries, the fluctuations during a slump lead to an increased payments deficit and thus to an acceleration in short and medium-term debt and, as from a certain point, to underemployment of production capacity and serious social consequences; even in a boom period, however, these countries are not able to make judicious use of their overabundant liquidity, which leads to wastage and is at the mercy of erosion of the value of currencies. The consumer countries also have to face serious problems: in periods of slump there are the financial consequences of swollen and depreciating stocks, and in boom periods the cost of supplies and the uncertainty of the market possibly involving backwardation; while at all times the fluctuations necessitate larger technical stocks.

One should also examine the generally inflationary effect of fluctuations of price which in the case of copper have a dissuasive effect on investments and therefore have repercussions, as already indicated, over a very long period.

The problems of the world copper market are the result of the fact that, under present conditions, supply adapts to demand with insufficient flexibility to ensure both regularity and security of supplies and sales.

In view of the role that many of those concerned would like to assign to stocks as a means of market stabilization, it should be remembered that stocks, although information on them has never been sufficient, have always played an important role in the economics of the copper sector.

In the present surplus period, which began at the end of 1974 and which doubtless represents a situation in which the level of stocks should reach the maximum possible figure, world stocks have stabilized since 1975 around two million tons representing between one-quarter and one-third of the annual production of mine copper; in this total, the LME warehouses alone account for over 600 000 t and those of COMEX approximately 200 000 t, while other very large quantities are stored in Japan (300 000 t) and the United States (400 000 t).

Conversely, in the very early months of 1974 when backwardation and prices were at their highest point ever, world stocks were reduced to a minimum of approximately 500 000 t. Between these two extremes, world stocks of between 750 000 t and 1 000 000 t appear normal for periods when the market is nearer equilibrium.

If our information as to the level and geographical distribution of stocks is often imprecise and blurred, our information as to their ownership is even less satisfactory. All that can be said is that the recorded stocks seem, during a period of equilibrium, to be shared in very comparable blocks (of approximately one-third) between the warehouses of the terminal markets, the producer industries and the consumer industries; during a period of shortage, the share of the producer industries can approach 60% while that held in the warehouses of the terminal markets declines and can become insignificant. During a period of surplus, the stocks held in the warehouses of the terminal markets increase appreciably (currently in excess of 40%), while the share held by the consumer industries declines (currently less than 20%).



3. Progress and results of the discussions on copper

Before 1976 copper had virtually been left out of the topics discussed at world level, for instance in the United Nations family.

3.1. The discussions on copper began with the consultations organized by UNCTAD in March 1976; these recommended to organize consultations between producers and consumers. After the Nairobi Conference (May 1976) the discussions were resumed in the context of the preparatory work in the framework of the Integrated Programme on the basis of Resolution 93(IV).

In line with the information given above, the main participants in these discussions were the CIPEC countries (developing producers), India and Brazil (developing consumers), Canada, Australia, Poland, Japan, the European Economic Community and its Member States and the United States. The USSR, on the other hand, has been very cautious in spite of the role it could have played in these discussions.

This work continued at two sessions of the preparatory meeting on copper, and between the sessions an intergovernmental group of experts met on three occasions. At the second session, the delegates agreed that the studies supplied to the experts and the conclusions they had drawn on the copper market constituted a sufficient basis on which to tackle the operational aspects of a possible agreement on copper; the group of experts was therefore instructed to undertake, with the support of the UNCTAD Secretariat, a feasibility study on the implications of the implementation of stocking and/or supply management measures involving, inter alia, the use of econometric models.

This result marks an important stage in the preparatory work, since it shows that, of the various means listed in Resolution 93(IV), only the buffer stock and export quotas are considered plausible for the time being. Export controls seems in fact to be the sole means of supply management that can actually be used since direct control over production is not compatible with the legal systems of certain producer countries. It was found, furthermore, that no measure could be applied under rigid arrangements in all circumstances or without the close cooperation of those concerned.

3.2. It is only apparently paradoxical that it should be precisely on the organization of concerted action that the controversy is most intense and persistent, opposing the supporters of a flexible method (that is of an organized concerted approach possibly leading, if the situation demands, to partial, temporary measures resorted to on an autonomous basis by those concerned) and those in favour of laying down rules (in a formal agreement concluded for a fairly long period and establishing binding economic measures to implement the Integrated Programme). The controversy has centred on the question of whether it is desirable, as proposed in particular by the Community and the United States, to organize the concerted approach in parallel to the preparatory work and without awaiting the opening, let alone the completion, of a conference for the negotiation of a copper agreement. This proposal was greeted with scepticism by the developing producers, certain of them even making the conclusion of an agreement a prior condition for organized consultations. At present signs suggest that the early organization of consultations will be at the price of explicit commitments on the holding of a copper agreement negotiating conference.

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4. Guidelines for a Community position

It is clear from the foregoing just how little room for manoeuvre is now left for the Community as the preparatory work on copper - in which the Member States' experts have up to now expressed their own viewpoints - approaches completion.

At this stage, the Commission feels that only a common position will enable the Community to avoid having to accept willy-nilly a solution arrived at without their active participation. The Community should consequently now decide on the main options with regard to the bases for any negotiations on copper. The Commission is therefore now presenting its orientations with a view to the final stage of the preparatory work on copper under the Integrated Programme.

4.1. Organized consultations

Even if one accepts that negotiations for a copper agreement could begin in 1978, a start could be made on organized consultations without awaiting the opening of a negotiating conference, provided that it did not have an adverse effect on the course of the work leading up to the negotiations.

The Community should therefore maintain its position with regard to the launching of organized consultations in the near future, or even link its acceptance of a date in 1978 for the opening of the conference with the fixing of a date (for example from the start of 1978) for the introduction of such a concerted approach.

The Community should at the same time insist that consultations be confined, until the entry into force of any agreement, to:

a) informative exchanges of views on the consumption, production and economic and financial aspects of copper; the futures markets; international trade and the prices actually applied; technology; expected developments in the above areas;

b) the dissemination of quantitative and qualitative data on these subjects;

c) report to the preparatory meeting or the conference on any questions when requested to do so.

The Community would endeavour to win acceptance for the idea that the organization of consultations should, among other things, represent a testing ground and therefore include making arrangements for participation in an appropriate and, if possible, direct fashion by industrial and

trading firms in the copper sector.

The Community should also aim to see to it that organized consultations become in principle an integral part of the agreement.

4.2. The agreement

Realism and foreseeable developments argue against the mere maintenance of the status quo - that is the absence of any measures - in view of the insecurity which, as previously indicated, presently characterises the copper economy.

It therefore seems that the time has come for the Community, the world's largest importer of copper, to try to take the lead and steer the movement in a direction which will ensure (as far as can be foreseen) improved functioning of the copper sector in the medium and long term while avoiding the adoption of arrangements which would, even in the short-term, discriminate against the Community economies. It is in this spirit that the Community should take the following ideas as a basis for a first copper agreement:

- maximum adaptability and short duration;
- minimum amount of measures.

In practice the possible measures for inclusion in a first version of the agreement are limited, as we have seen, to buffer stocking and supply management.

The question therefore arises of choosing an appropriate dosage of these types of measures, and it should be remembered here that the purpose of the study on the implications of stocking and/or supply management measures which the intergovernmental group of experts has been asked to prepare by the preparatory meeting is to supply certain details, particularly on the quantitative aspects of the measures to be envisaged.

The Commission feels, however, that this does not do away with the need to try to establish here and now some guidelines for a common position, the orders of magnitude being specified later as appropriate.

On the other hand, while remaining attached to the principle of the autonomy of product agreements, the Commission feels that it would be premature at this stage to make any pronouncement on the problems connected with carrying the burden of the measures contemplated and, in particular, with their financing.

Adaptability and duration

For the copper market to be in equilibrium, the level of supply must relate to consumption requirements and the price bracket to be upheld must properly reflect all the costs involved in providing users with the quantities of copper equivalent to their requirements.

In practice, one cannot hope to arrive at an exact calculation of the figures for this equilibrium. It will therefore be necessary to adopt a - to some extent experimental - procedure whereby the measures are adjusted at sufficiently close intervals for their effectiveness to be guaranteed.

Without going so far as to see the agreement as a structure for ongoing negotiations, the Community should endeavour to ensure that the agreement includes forums for discussion and appropriate decision-making mechanisms in addition to the management and information structure. The Community would favour, for instance, the establishment of an agency to observe the copper trade and its economics, with the job of collecting data and carrying out surveys on demand, while observing legitimate business confidentiality to the maximum.

The success of an agreement will also depend not only on the application of the measures stipulated by it but also to a very large extent on the fact that more generally the participants will take care to define and implement economic policies which, though distinct and autonomous, come together as far as copper is concerned in the objectives of the agreement. Once an improved climate in relations between producers and consumers has been restored it might also be possible, at the appropriate time, to reexamine the possibility of using types of specific measures so far provisionally, namely in the context of a first agreement, set aside. All this makes a concerted approach essential and the agreement must provide the appropriate framework for it.

Still in terms of an experimental approach, the first agreement should have a duration of no more than three years. At the same time, or as an alternative, the Community could come out in favour of a specific date, for example 31 December 1981, for the expiry of this first agreement, which might provide for renegotiations as from an appropriate date.

Measures

In the present situation of excess production capacity, which is not expected to change in the short term, the Commission considers that regulation and rationalization of the market is inconceivable without supply management measures in the first place, excluding obviously any question of cartels on the part of exporting countries.

On the other hand, it is clear that if there ceased to be surplus production capacity export regulations would no longer be required. More immediately, the size of existing stocks, in the absence of appropriate arrangements, would leave the market exposed to the effect of sudden massive stock liquidation. Lastly, since the aim of an agreement would be to ensure that copper prices remain both equitable and remunerative, following the long-term market trend, it does not seem possible to avoid the explicit fixing of a reference price range with measures to maintain it without their contradicting the purpose of the Agreement.

The Commission is therefore of the opinion that the agreement must also provide means of exerting discipline over stock movements.

This would have the merit of reflecting in the context of the measures the complementarity of producers and consumers.

The Commission quite sees, however, that it is important for the Community and its Member States to preserve their freedom of action as far as possible and to keep administrative complications to a minimum.

On the matter of export regulations, since copper is traded world-wide in four different forms - concentrates and mattes, blister, refined (cathodes and wire-bars) and scrap - the Community would favour export quotas applying to all the participants without distinction and to the four forms of copper on the basis of their copper content; this would avoid discrimination resulting from the different sizes of the various participants' metal manufacturing and refining industries in relation to their exports. Resorting to appropriate measures should be admissible to prevent semi-finished products becoming a way of getting round copper supply rules.

As to stocking and de-stocking operations, agreement management bodies should of course be enabled to take or induce effective action to maintain the reference prices, particularly the floor price. The Community would however favour avoiding, at any rate in the present circumstances, the international financing of stock-piling measures; the necessary discipline of stock movements should be achieved by appropriate coordination of action by the participants in the agreement.

In these general terms, it would however be possible to accept the inclusion in the agreement of a reference to the parameters of trade cycle situations in which it would be agreed at the outset that the constitution of an international stock could be reexamined. This stock should be able, given the total volume of stocks to be disciplined (say 1 500 000 t in a period when the market was returning towards equilibrium), to act as the first line of defence for the reference prices, on the understanding that coordinated action by the participants would in any event still be the principal means of exerting discipline over stock movements.

In relation to both export discipline and stock-piling policy, account will have to be taken of the special situation of certain countries—which are few in number anyway—whose export earnings are mainly derived from copper and who play an important role in the world trade in this product. It will therefore be necessary to seek appropriate solutions with regard to these countries — eventually even outside the agreement — so that the measures to be implemented do not place an excessive burden on their economies.

Lastly, it must be stressed that, in the spirit of these proposals, all the parameters relating to the measures, export quotas, reference prices, volume of stock-piling operations, would be under continuous surveillance, and it should be possible to adjust them at frequent intervals, past experience having shown that an about-turn in the copper market situation can occur in a few months only.

The experience of CIPEC has demonstrated the difficulties that are experienced with an organization that consists only of producers. In seeking ways of arriving at decisions and recommendations it will therefore be necessary to seek to establish a balance between the interests of producers and those of consumers.

5. Conclusion

These proposals cover only the major guidelines for a Community position on a possible international copper agreement. Subsequent proposals from the Commission will supplement them as and when possible and necessary. It should, however, be understood that these proposals already represent in the Commission's view a framework to which the appropriate details should be added, but which cannot be enlarged appreciably without the Community's interests being jeopardized.

