

# **COMMISSION OF THE EUROPEAN COMMUNITIES**

COM(78) 496 final

Brussels, 29 September 1978

## **RESUMPTION OF NEGOTIATIONS ON THE COMMON FUND**

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(Communication from the Commission to the Council)

COM(78) 496 final

I. BACKGROUND TO THE NEGOTIATIONS

1. The purpose of this communication is to set out the lines of a Community position for the Common Fund negotiating conference which seems likely to resume in the late autumn. In the UNCTAD calendar of meetings, the period of 13th to 30th November has been provisionally set aside.

2. North/south dialogue, Integrated Programme for Commodities, Common Fund.

Together with the individual commodities on the UNCTAD list (1), the Common Fund is one of the main pillars of the Integrated Programme and there is a fundamental link between the negotiations concerning each (2). By the same token progress achieved on both sides would be mutually reinforcing. In the same way, the negotiations on the Common Fund as well as on individual commodities are likely to bear directly on the broader north/south debates which are continuing in the United Nations Committee of the Whole, at the 33rd session of the United Nations General Assembly, and at UNCTAD V (Manila, May 1979).

3. Individual commodities. The real but limited progress achieved on these suggests that the economic basis of the Fund is likely to be narrower than originally envisaged in the list of 18 (including 10 key) commodities (1).

→ Of the five existing international commodity agreements (ICAs) (3), there are two (tin, cocoa) which contain stocking provisions, and one (coffee) within which a study concerning an eventual stock has been put in hand.

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(1) Ten "key" commodities deemed by the UNCTAD to be stockable - cocoa, coffee, copper, cotton yarns, hard fibres/products, jute/products, rubber, sugar, tea, tin; plus bananas, bauxite, iron ore, manganese, meat, phosphates, timber, vegetable oils.

(2) See COM(78)22 final, paragraph 3.1).

(3) Tin, cocoa, coffee, sugar, olive oil; i.e. not including wheat, which does not feature on the Integrated Programme.

- Of the remaining 13 commodities on the list, internationally financed stocks might be realised for a few commodities (rubber, jute, hard fibres). Measures other than stocks requiring international finance might be agreed in respect of some more commodities.

On the basis of this hypothesis it seems likely that, in the medium-term future, the maximum financial needs of the Common Fund may be in the region of \$ 1/ $1\frac{1}{2}$  billion (including certain contributions for other measures (1)).

4. Common Fund. In the meantime UNCTAD's Intergovernmental Committee for the Integrated Programme (2) has invited the UNCTAD Secretary-General to decide on the date and duration of the resumption of negotiations on the Common Fund:

- "in the light of his assessment of developments and prospects arising from previous and further consultations ... taking into account the provision made in the calendar of meetings ...".

Further consultations are needed in addition to those conducted so far by the UNCTAD Secretary-General, since these have indicated a certain number of difficulties which it has not so far proved possible to resolve, touching on the functions, modes of operation, and structure of the Fund. If the Conference is resumed with a reasonable chance of success, it is essential that every effort should be made to overcome these difficulties.

4.1 Against this background, the Community should now complete the work of which the Councils of 7th February and 7th March took note (3) directed towards the establishment of a common position: it should be recalled that

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- (1) This hypothesis may be compared with the round \$ 6 billion estimated by the UNCTAD Secretariat for stocks for the 10 "key" commodities and for measures other than stocking required for the 18 commodities (see page 2, footnote (1)).
  - (2) At its sixth session, Geneva, 10th - 15th July, 1978.
  - (3) T/115/78 Extra 1 and R/104/78.

the European Council at Bremen resolved that the Common Fund negotiations should be followed up with a view to bringing them to a positive conclusion (1) and that the Bonn Summit broadly endorsed this call. The Community must therefore now define a common position on all the outstanding major points in a way that will offer a reasonable basis for success in negotiations.

## II. THE MAJOR POINTS AT ISSUE

5. The Commission has already proposed a five-point package (2) on which preliminary discussions have been held (3): the Community must now fix its position on the main elements - functions, financial structure, and management - of the Fund, in the form of an overall package. This overall package might usefully be expressed in terms of a framework agreement which would allow the Fund to evolve progressively over time as new ICAs deciding to associate with it are signed (4).

6. Functions. There is broad agreement between all negotiating parties that the Common Fund should facilitate the establishment of new ICAs particularly those covering commodities of special interest to developing countries (5). The operational functions suggested for it fall under the three heads of stocking, measures other than stocks requiring finance, and actions outside ICAs.

- Stocking: all agree that the Fund's main purpose is to ensure the financing of international buffer stocks.

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- (1) Conclusions of the European Council at Bremen, 6th/7th July, 1978 - Extract:  
"Les négociations actuellement en cours au sujet d'un Fonds commun et de la conclusion de différents accords de produits devront être poursuivies en vue de parvenir à des résultats positifs. Il conviendrait d'examiner dans ce contexte la question de la stabilisation des recettes d'exportation".
  - (2) See COM(78)22 final, Section II.
  - (3) See I/48/78(DIAL 3) and I/98/78(DIAL 11).
  - (4) See COM(77)365 final, Part VIII.
  - (5) Text drawn from the Group B proposal of 7th November, 1977 - TD/IPC/CONF.L.5.

- Other measures: the developing countries have insisted that the Fund should be charged with the financing, within ICAs, of measures other than buffer stocks.
- Extra ICA measures. The developing countries have also proposed that the Fund should - "at the request of developing producer countries" - finance emergency stocking and other measures outside ICAs.

It is important for the Community to take a clear stand on these points.

- 6.1 Stocks. The Community must continue to insist that the Fund's main role should be to facilitate the financing of internationally financed stocks, whether internationally or nationally held, in a reliable economic, equitable and viable manner.
- 6.2 Other measures. On these the Commission would recall the recommendation which it has made that a role for the Fund in this area should be accepted "provided that it is carefully defined with reference to the actual or likely needs of commodities and to the role played by other agencies in meeting them" (1). Bearing in mind the definitions already put forward by the Commission Services (2), the Fund's role should be limited to measures, which are directed towards the objective of market stabilisation, agreed within ICAs (see following point) which enter into an appropriate form of association (e.g. exchange of letters) with the Common Fund.
- 6.3 The concept of the Fund having a role outside ICAs should not be accepted for the following reasons:
  - measures cannot by definition be held to represent the interests of producers and consumers at large unless agreed between them;
  - the Common Fund should not be given a function which would carry with it the serious risk of overlapping facilities already provided or which may in the future be provided by the IMF.

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(1) See COM(78)22 final, Paragraph 5.

(2) See I/98/78(DIAL 11), Annex 1.

The touchstone for Common Fund action must always be that it takes place in the context of the joint agreement of producers and consumers representing the major part of the trade in the commodity concerned: to what extent this agreement could be expressed in less rather than more formal arrangements is a matter for negotiation.

7. Financial structure/modes of financing. Leaving possible earnings on one side, four modes of financing have been suggested by different parties to the negotiations, of which only the last two apply to other measures as well as buffer stocks:

- cash deposits by participating ICAs;
- borrowing on international markets on the basis of appropriate guarantees;
- voluntary contributions;
- assessed capital contributions from Fund members.

Before examining these in turn, it should be underlined that the Fund's overall financial obligations, including its borrowing, must in no circumstances exceed the aggregate of the obligations undertaken by consumers and producers within participating ICAs. On the basis of the hypothesis advanced in paragraph 3, this would indicate a ceiling of \$ 1 $\frac{1}{2}$  billion; such a figure might, however, well increase as further ICAs join.

7.1 First (buffer stocking) window. Here the Commission believes that ICA deposits represent the best way of ensuring the availability of cash pari passu with need (i.e. as ICAs join). It must, however, be recognised that the developing (and some developed countries) attach great importance to the notion of some resources being subscribed directly by the members of the Fund; the Commission takes the view that this demand can and should be accommodated within the broad approach already put forward by the industrialised countries. Its views on the various modes of financing is, therefore, as follows:

- ICA deposits: 33% represent a reasonable contribution to ask ICAs to make. If the demand is pitched as high as the 75% currently proposed, the Fund will find it hard to facilitate new ICAs or even to persuade existing ones to join. Too low a percentage on the other hand would not provide a sufficient cash basis.
- Borrowing: as long as the guarantees provided are sufficiently firm, there is no reason why they should not ensure a borrowing capacity sufficient to cover two-thirds of total needs. Guarantees provided by ICA members through ICAs would be likely to be sounder than the direct guarantees by Fund members proposed by the Group of 77. However an element of direct guarantees might also be required (1).
- Voluntary contributions: any such contributions made to the first window could be used for the same purposes as direct assessed contributions (see below): but they should not carry voting rights (see paragraph 8.2).
- Assessed capital contributions from Fund members. A relatively small element of direct contributions could and should now be envisaged (2). The capital resources so provided could be utilised to make loans to ICAs for buffer stock purchases, especially in the early period of an ICA's participation. The interest earned (whether by loans to ICAs or other investments)

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(1) See COM(78)22 final, Paragraph 4 (iii).

(2) The figure of 10% might be appropriate: on the basis of the hypothesis given in paragraph 3 (i.e. \$ 900 million to \$ 1.4 billion for stocking purposes) this would mean between \$ 90 million and \$ 140 million, divided between all Fund member countries according to a key to be agreed.

might be used to effect a small interest-rate subsidy (1) on loans made to ICAs provided that this can be done on a non-discriminatory basis.

7.2 Second window. The financing of this window should be entirely separate from the financing of the first; its structure and modes of operation should be defined as follows:

- the Fund's activities should normally take the form of loans (on terms adapted to International Bank for Reconstruction and Development (IBRD)/International Development Association (IDA) norms which contribute on a co-financing basis to overall project expenses;
- contributions should be on a voluntary basis. The Community should, in principle, be prepared to contribute and should be prepared to make an announcement to this effect, if it transpires that this would be a significant factor in securing agreement on an overall Common Fund package.

8. Administration/votes. The Fund must be structured in a way that it will provide for professional competence and ensure that it does not become a highly politicised instrument controlled by one group of countries or by countries with no serious interest in commodity trade. The Community should, therefore, now adopt the following guidelines in this area concerning overall structure and voting systems.

8.1 Overall structure. The membership of the Fund should be open to:

- countries members of ICAs participating in the first and/or second windows which should be admitted automatically;

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(1) Of one to two percent.

- all other countries wishing to join which are prepared to contribute to the Fund's assessed capital, according to the key to be agreed;
- the Community, as such, bearing in mind the dispositions already made within ICAs and the importance of all commodity negotiations and institutions, in particular to the Community Common Commercial Policy.

Clear rules should be established within the Fund's Statutes governing the operation of the first and second windows, guaranteeing as far as possible the automaticity of the first and the even-handedness towards its ICA clients of the second. A three-tier structure should be envisaged with an Assembly open to all members (with relevant IFIs as observers), with a relatively small Board of Governors, selected on the basis of "constituencies" ensuring adequate consumer as well as producer representation, and with a small highly professional staff. An Advisory Council through which ICAs as such (see below) and IFIs might make their specialist views known might also be considered.

8.2 Votes. The voting systems applicable to decisions affecting the first and second windows should - mutatis mutandis - reflect the financial basis of each, as qualified by an element of global votes consistent with established international norms.

- Votes in the first window should thus reflect the contributions made by ICAs to the Fund's cash resources and direct assessed contributions finally agreed which should provide the basis for calculating the element of global votes. Voluntary contributions (if any) should not carry voting rights.

- Votes in the second window should be based on the voluntary financial contributions made; the element of global votes allowed to non-contributory members should be compatible with that agreed for the first window and should not be decisive. Appropriate blocking mechanisms should be introduced for the first and for the second window, designed to protect the interests of all groups of countries. In the first window this might take the form of requiring simple or qualified majorities of each of the two main "colleges", (i.e. of consumer and of producer members) or of the overall membership. In the second window a simple or qualified majority of the votes of financially contributing countries would be appropriate.
  - 8.3 On the basis of the guidelines set out above (in paragraphs 8.1 and 8.2) the Common Fund would have a single administrative structure to express its collective personality and separate voting systems to reflect the different structures of its two operational arms (first and second windows). The Community as such should have the right to cast the votes of its Members, where the matters to be decided fall within the Community's competence.
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