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## Report

drawn up on behalf of the External Trade Committee

on the problem of stabilizing world primary-commodity  
markets viewed in the light of the United Nations  
Conference on Trade and Development

Rapporteur: Mr. P. J. Kapteyn

ENGLISH EDITION\*

\* This translation must not be treated as an official text. Readers are reminded that the official texts exist only in the Dutch, French, German and Italian languages.

It was on 25 March 1964 that the European Parliament first returned an Opinion on the problems connected with the United Nations Conference on Trade and Development; it did so on the basis of an interim report by Mr. Pedini (Doc. 6/1964-65); the resolution passed was published in the Official Gazette of the European Communities No. 60/1964, p. 949. On 19 October 1964 the Parliament re-examined these problems on the basis of a report drawn up by Mr. Pedini (Doc. 83/1964-65); the resolution relating thereto was published in the Official Gazette No. 177/1964, p. 2308.

The present report is based on the paragraph in the latter resolution in which the Parliament called upon the Committees concerned to follow developments in connexion with these problems. It is also based on the special mandate which the Parliament gave at its meeting of 18 June 1964 to the External Trade Committee, as the one mainly concerned and to the Agricultural Committee and to the Committee for Co-operation with Developing Countries, as Committees also competent to return Opinions on the matter, to draw up a report on the problem of stabilizing world primary-commodity markets seen against the background of the first United Nations Conference on Trade and Development which was held in Geneva from 23 March to 16 June 1964.

On 6 November 1964 the External Trade Committee appointed Mr. P. J. Kapteyn as Rapporteur for the proposed report.

With a view to preparing this report, the three responsible Committees each set up a Sub-Committee comprising five members, the External Trade Committee on 9 June 1964, the Agricultural Committee on 8 July 1964 and the Committee for Co-operation with Developing Countries on 23 September 1964.

At a first joint meeting held on 21 October 1964 the three Sub-Committees decided to proceed jointly with their deliberations while preserving their independence, in pursuance of a decision taken by Mr. Blaisse. Mr. Boscardy-Monsservin and Mr. Margulies, the respective Chairmen of the three responsible Committees.

On 2 March 1966 the three Sub-Committees submitted the result of their deliberations to their Committees in the form of a working paper; these summed up the joint deliberations of eight meetings at which Mr. Kapteyn, Rapporteur for the External Trade Committee took the chair.

On the basis of this working paper, the Agricultural Committee returned an Opinion drawn up by Mr. Lückner on 25 March 1966 and the Committee for Co-operation with Developing Countries returned an Opinion drawn up by Mr. Armengaud on 22 April 1966. The two Opinions are appended to this report.

The External Trade Committee deliberated on the working paper and on the two Opinions at its meetings of 18 April and 2 June 1966.

At the latter meeting the report was passed unanimously with two abstentions, and the resolution relating thereto was passed unanimously.

The following were present: Mr. M. Pedini, Chairman, Mr. H. Kriedemann and Mr. A. Mauk, Vice-Chairmen, Mr. P. J. Kapteyn, Rapporteur, Mr. H. Aigner, deputizing for Mr. Loehr, Mr. L. Briot, Mr. W. Faller, Mr. A. Fanton, Mr. H. J. Klinker, Mr. Chr. de la Malène, Mr. P. Micara, Mr. A. Rossi.

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## INTRODUCTION

Mr. President,

### I — Recasting the world's economy

1. A radical new approach, to regulating the world primary-commodity markets is essential; without it the political and economic consequences could be disastrous.

For decades now world trade has been in a state of transition and its functions have been changing both for the primary-commodity exporting countries and the industrialized States. These changes have not been brought about by new trading methods but they are the result of a radical transformation of the political and economic structures of the world—a process stimulated by two world wars.

The most obvious outcome of this transformation has been the emergence of a new world economic factor: development policy. Its aim is to speed up the changes in the structure of the world's economy and to give the primary exporting countries a broader production basis and hence a more secure position in the world's trade.

2. Not every type of trade policy assistance or primary-commodity market stabilization measure will achieve this end. They may even have the opposite effect, that is of consolidating obsolete production structures and hindering development. This possibility should not be overlooked when measures, specifically directed at stabilizing primary-commodity markets are taken.

The market problem facing the developing countries is less important than the problem of structures.

3. The world's economy has changed as a result of a radical transformation of the world's

political structure. The main feature—from a structural viewpoint—of former world trade conditions was the fact that the powers which were politically and economically preponderant, i. e. the industrialized countries of Europe, were dependent on world trade. The dependence of former world powers on imports of foodstuffs and raw materials was a constant stimulus to world trade; this indeed was the origin of world trade and the fact that it was these countries that established the rules of world trade. Neither the raw materials for their industries nor the foodstuffs for their people were to be found in sufficient quantity within their own frontiers and they naturally had no tropical produce. Indeed, world trade was geared to the needs of the Northern Hemisphere, a situation consolidated by the colonial system.

4. The new world powers—the USA and the USSR—play quite a different part in terms of world trade to-day. Both are of continental size and stretch from the extreme North down into the sub-tropical latitudes. The USA has sufficient raw materials to last her until at least the year 2000 and produces certain major tropical products within her own frontiers. The USSR differs only in respect of its degree of economic development.

The function of foreign trade as far as the former world powers, i. e. the European States, were concerned has been established. For the USA and the USSR, however, it is made to serve a different purpose. Half the USA's imports come from the American continent and over one third of the USA's exports go back to the American continent. Three-quarters of the USSR's foreign trade is with Communist states. As a result of the division of work entailed by the continental-like size of these two world powers, their volume of foreign trade is no more than 3 to 5 % of the gross national product and is well below the foreign trade to G.N.P. ratio of the

major European States which is still between 10 and 20 %. Hence the USA and the USSR to-day are more interested in trade with the highly industrialized States than the European countries were or are. Structurally, they are less dependent on the North-South trade stream; they even compete in respect of some products with the primary exporting countries.

The decolonization process has no doubt been accelerated by the positions that the USA and the USSR have assumed in world affairs since 1945 and by the fact that unlike the European countries, they are economically independent of the Southern Hemisphere. The dominant positions of the USA and the USSR and the decolonization process have introduced two important new factors into the structure of the world's economy:

(a) The primary exporting countries no longer play a passive part in world trade. Economic and political subordination to the interests of former colonial powers is no longer the ruling factor. It is rather their own political autonomy which is the main concern and this pre-supposes a minimum of economic autonomy.

(b) Decolonization has made European economies more self-centred; they are beginning to unite in order to adjust themselves to the size of the USA and the USSR and pursue an independent policy. Western Europe which has the economic dimensions of a continent, has also, thanks to technical progress (more efficient use of raw materials, development of substitute products, better farming techniques), been able to effect a division of work within an internal market that (subject to limitations) has been nearly as far-reaching as that of the USA.

5. The new situation resulting from the existence of two economic world powers that are almost wholly independent of primary-commodity imports and able to effect the best possible division of work, and a third power in embryo, which is still dependent on raw material imports, has affected the former primary exporting colonies in two ways:

(a) positively, in that because the Northern Hemisphere is less dependent economically on the Southern Hemisphere, conditions have been favourable to the latter's political independence;

(b) negatively, because the increased political independence of the countries of the Northern Hemisphere has aggravated the trade policy situation of the Southern Hemisphere.

6. For a long time yet the dominant feature of world trade is going to be the extensive or increasing self-sufficiency of the major trading

powers. The process of regional integration, under way since 1945 in Europe as well as in the Southern Hemisphere, is evidence of this new development.

## II — Stabilizing primary-commodity markets

7. A policy directed at stabilizing the commodity markets must take all these facts into account. Its primary aim should be to diversify the production structures of present primary exporting countries in order to promote greater trade between these countries themselves, for this is a prerequisite of their economic and political stability. This is the end towards which any sound development policy should be directed.

All measures to stabilize the existing markets must be subject to certain limitations: their purpose must not be to consolidate existing trade structures and trends but, in fact, to transform them, they must promote the economic development of the countries in the Southern Hemisphere.

8. The EEC has a special responsibility—as will the united Europe of the future—for European integration imposes a new responsibility on the EEC in regard to world trade. Moreover, the economic and political stability of primary exporting countries is still far closer to the European interest than to that of the world powers. The question of stabilizing primary-commodity prices illustrates to what extent the issue involved is a political one.

9. Attempts to stabilize prices are not inconsistent with current practice in world trade and they can take the shape of domestic or, alternatively, of international measures. Governments can intervene on their domestic markets to sustain or stimulate uncompetitive production (e. g. agriculture or coal); they can also intervene on the international tin, wheat, sugar and coffee markets and, in another form, on the oil market. In both cases, action flows from political decisions and reflects political and economic interests and power. Prices may be stabilized where there is sufficient economic power to bear the costs, and sufficient political power to impose the relevant decisions—that is in prosperous and politically powerful countries and on world markets when the influence of any country or economic group is strong enough and when it has sufficient economic and political resources to carry through the stabilization of prices.

The point at issue is not the principle itself but the possibility of its implementation. Economic weakness invariably attracts support action when it is in the general interest, or to assist

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major European States which is still between 10 and 20 %. Hence the USA and the USSR today are more interested in trade with the highly industrialized States than the European countries were or are. Structurally, they are less dependent on the North-South trade stream; they even compete in respect of some products with the primary exporting countries.

The decolonization process has no doubt been accelerated by the positions that the USA and the USSR have assumed in world affairs since 1945 and by the fact that unlike the European countries, they are economically independent of the Southern Hemisphere. The dominant positions of the USA and the USSR and the decolonization process have introduced two important new factors into the structure of the world's economy:

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(b) Decolonization has made European economies more self-centred; they are beginning to unite in order to adjust themselves to the size of the USA and the USSR and pursue an independent policy. Western Europe which has the economic dimensions of a continent, has also, thanks to technical progress (more efficient use of raw materials, development of substitute products, better farming techniques), been able to effect a division of work within an internal market that (subject to limitations) has been nearly as far-reaching as that of the USA.

5. The new situation resulting from the existence of two economic world powers that are almost wholly independent of primary-commodity imports and able to effect the best possible division of work, and a third power in embryo, which is still dependent on raw material imports, has affected the former primary exporting colonies in two ways:

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(b) negatively, because the increased political independence of the countries of the Northern Hemisphere has aggravated the trade policy situation of the Southern Hemisphere.

6. For a long time yet the dominant feature of world trade is going to be the extensive or increasing self-sufficiency of the major trading

powers. The process of regional integration, under way since 1945 in Europe as well as in the Southern Hemisphere, is evidence of this new development.

## II — Stabilizing primary-commodity markets

7. A policy directed at stabilizing the commodity markets must take all these facts into account. Its primary aim should be to diversify the production structures of present primary exporting countries in order to promote greater trade between these countries themselves, for this is a prerequisite of their economic and political stability. This is the end towards which any sound development policy should be directed.

All measures to stabilize the existing markets must be subject to certain limitations: their purpose must not be to consolidate existing trade structures and trends but, in fact, to transform them, they must promote the economic development of the countries in the Southern Hemisphere.

8. The EEC has a special responsibility—as will the united Europe of the future—for European integration imposes a new responsibility on the EEC in regard to world trade. Moreover, the economic and political stability of primary exporting countries is still far closer to the European interest than to that of the world powers. The question of stabilizing primary-commodity prices illustrates to what extent the issue involved is a political one.

9. Attempts to stabilize prices are not inconsistent with current practice in world trade and they can take the shape of domestic or, alternatively, of international measures. Governments can intervene on their domestic markets to sustain or stimulate uncompetitive production (e. g. agriculture or coal); they can also intervene on the international tin, wheat, sugar and coffee markets and, in another form, on the oil market. In both cases, action flows from political decisions and reflects political and economic interests and power. Prices may be stabilized where there is sufficient economic power to bear the costs, and sufficient political power to impose the relevant decisions—that is in prosperous and politically powerful countries and on world markets when the influence of any country or economic group is strong enough and when it has sufficient economic and political resources to carry through the stabilization of prices.

The point at issue is not the principle itself but the possibility of its implementation. Economic weakness invariably attracts support action when it is in the general interest, or to assist

or re-introduce certain productions at certain economic sectors, that is where it is, or can be, argued that it is politically or economically desirable to stabilize the market.

10. Hence the question arises as to whether, and if so where, stabilizing the primary-commodity markets is in the general interest, in other words whether this is generally recognized and whether any consequent action is possible.

In whose interest is it—apart from the countries liable to be adversely affected—to support the primary-commodity markets?

The USA, which has the political stability of the world at heart, has political reasons for doing so (admittedly, however, her strategic reserve policy has often had side-effects that have seriously shaken world trade); but, economically, her interests do not coincide completely, if at all. If certain Southern Hemisphere competitors were given backing and support, various American sectors (fats, sundry minerals) might suffer. The USA is, to a large extent, independent of raw materials imports. Europe, on the other hand, could not, if the need arose, cover some of its own primary-commodity requirements from domestic sources. It is no accident that it is in Europe that world trade is at its briskest, for Europe is, to a much larger extent, structurally dependent on world trade. It is this dependence on supplies that accounts for the basic difference between the Community and the USA in terms of trade policy.

For oil, for example, Europe is wholly dependent on imports, and oil is a vital raw material. The practical implications of this are significant, for the colonia era is now over and Europe will never again either want or be able to secure its imports through a political hold on the States concerned, i. e. through an imperialist policy.

11. This has produced a fundamental change in the aims of European policy. The USA and the USSR could, if necessary, withdraw again into economic isolation—Europe can not. In so far as Europe depends on imports of key primary commodities and cannot, or will not, protect its external trade interests by an imperial policy, it will have political and economic motives for securing the stability of the States with which it is so closely bound; and it can only contribute to such stability through a comprehensive and concentrated external trade and development policy.

### III — Commercial policy and development policy

12. Structural policy is even more important for the developing countries than market and

price policy. The crux of the problem is how to change their production structures since these are no longer adjusted to the new world political and economic situation.

How can such an adjustment best be achieved? GATT is, and will remain, a valuable tool for freeing world trade from unnecessary restrictions. However, sight must not be lost of the fact that this agreement was entered into by countries that were able to compete with each other economically and experience has shown that only prosperous nations profit by the freeing of world trade.

As long as there is a marked disparity between the degree of economic progress of the developing countries and that attained by the developed countries, the former will be unsuitable for a liberalization of the traditional type. Indeed, the contracting parties to GATT being industrialized countries, they conceded each other rules and regulations that provide for exemptions in those branches of production where their competitive capability is unequal (e. g. in agriculture).

13. GATT's new Chapter 4 is designed to bring the agreement closer into line with the special needs of the developing countries and as such is a definite step in the right direction. However, one should ensure from the very start that the regulations providing for exemptions do not lead to restrictions such as those introduced in connexion with agriculture. It should also be pointed out that undue emphasis has been put on commercial policy measures under GATT. The real answer to the problem of primary-commodity markets lies in an expansion of the economic bases of the producer countries.

To achieve this, commercial policy measures, whatever their extent, would be inadequate: the developing countries must change their production structures and develop trade among themselves. As for the developed countries, they must help speed up this process by adjusting to it their industries and agriculture and providing the necessary financial resources; the Yaoundé Convention is certainly the first step towards this end.

14. GATT, regional groupings and the specialized agencies of the United Nations—in particular the World Conference on Trade and Development—must be complementary to one another for this purpose, each having its specific task. Whether this would produce world-wide action over the long term would depend on the prosperous countries rather than on the developing countries. It is for the Community to take the initiative, for it is particularly in its interest that the nations of the Southern Hemisphere should continue to develop since the Community has heavier obligations in this respect.

The problem of the primary-commodity markets has been tackled far too often from a trade policy angle. The report that follows endeavours to describe the political factors which are often at the root of trade policy and to indicate a number of important action possibilities in the political sphere; in no way does it claim to be a complete analysis.

It is based on the principle that political rather than purely economic decisions must determine the action taken by the industrialized countries. The aim of this report is therefore to stimulate a Community policy that meets these requirements.

## CHAPTER I

### The effects of the 1914-18 war on world trade and how these effects were absorbed

15. Commerce between nations in the 19th Century grew up on the principle of free trade, a principle eclipsed by the 1914-18 War. This eclipse led in turn to the world's economy going off the gold standard. Attempts were made after the war to re-establish the pre-war pattern; but they soon proved in vain. Relations between the nations had changed too radically to permit any return either to free trade or to the gold standard.

16. Before the 1914-18 war, London was the world's political, economic and financial centre; it was largely able to dictate the pattern of world trade. As the 19th century progressed, more and more countries turned their backs on the economic independence that was within their grasp simply because world trade was so unrestricted. They gradually began to obtain their supplies from abroad. The 1914-18 war and its aftermath, especially the economic crisis that rocked the world in the thirties, forced these countries to find new sources of supply, either at home or in regions where they had a solid footing; their motives were strategic, fearing that their sources of supply might be cut off, or economic, where currency difficulties were the operative factor. The industrialized countries began encouraging domestic agriculture while their former suppliers of agricultural products and raw materials began to industrialize.

17. The latter sought, where they could, to meet their own needs in terms of industrial products and, whereas the way work had once been divided in the world had led them to export primary commodities, they now began to process these at home before exporting them as finished products. At the same time, the industrialized countries sought to produce their own food-stuffs and to find the raw materials they needed

within their own frontiers, as well as continuing to export manufactured goods.

18. Sweden and Finland, for example, had exported wood; now they began processing wood and exporting it as semi-finished and finished products like cellulose and paper. Linen production in Central Europe developed to the stage where there was a surplus over domestic needs that could be exported in the form of linen textiles; the motive behind this development was a desire to avoid importing linen goods from Eastern Europe.

In both cases, however, the measures taken led to crises elsewhere. There was unemployment in the British paper industry and Russian linen producers had difficulty in marketing their wares.

It is worth noting how the ratio of imports to gross national product has fallen in terms of value since 1913. (1)

#### CIF value on importation

(as a percentage of the gross national product)

	1913	1938	1960
United Kingdom	24.9	18.7	17.5
Germany	18.1	5.9	14.8 *)
France		10.5	10.8
Italy	16.5	13.1	14.7

\*) West Germany

19. Employment opportunities had diminished and there were fewer industrial and agricultural markets, even before 1914; this was traceable to two factors: (a) the sudden change in the pattern of world trade after the 1914-18 war and (b) the headway made in terms of mechanization and rationalization.

The following table shows the share of the major producing countries in the industrial output of the world and illustrates the changes that had already taken place before the 1914-18 war:

(as a percentage of world production)

	U.S.A.	Germany	U.K.	France	Russia
1870	23.3	13.2	31.8	10.3	1.0
1913	35.8	15.7	14.0	6.4	2.3
1936-38	32.3	10.7	9.2	4.5	2.0

(1) Source: "Provokation Europa" by Heinz Kuby. Published by Kiepenheuer Witsch/Cologne, Berlin, p. 270.



20. Social developments and a fear of political extremism led the Western Governments of the thirties to be much more active in the economic and social fields. To achieve or maintain full employment at home they took an increasing number of protectionist measures, the rider to which was a trend towards self-sufficiency.

These measures often brought rapid relief to the national economies. At the same time, they aggravated the upheavals in world trade. Taking the long view these measures did not provide the correct answer.

21. In conclusion, it will be seen that after the 1914-18 war, political and social developments made Western Governments more alert to the economic prosperity and social well-being of their electorates. Although the way they dealt with the crisis in the thirties gave them a breathing space, its ultimate effect was to make matters worse; for every measure was cast in a purely national mould and without regard for the repercussions it might have elsewhere in the world.

## CHAPTER II

### The effects of the 1939-45 war on world trade and how these effects were absorbed

#### A — Attempts to organize world trade

##### *Plans made during the 1939-45 war*

22. Before the 1939-45 war ended, the Allied Governments were already thinking about how the 1929 sort of crisis was to be avoided once peace had been restored. A whole series of schemes for international organizations was worked out with a view to economic co-operation. Such schemes formed a useful weapon in the psychological warfare against the Axis powers.<sup>(1)</sup> Indeed, the emergence of national-socialism was to some extent due to the major economic crisis of the thirties.

The United States Government played a particularly important part in drawing up and introducing these schemes which included the Atlantic Charter, the International Bank for Reconstruction and Development and the International Monetary Fund. Their main aim was to remove discrimination in world trade. It cannot be denied that these efforts were also designed to put an end to the privileged position of the then colonial powers.

##### *Rôle of the United Nations*

23. At the first session of the Economic and Social Council of the United Nations held in February 1946, there was a general wish to continue the talks on world economic problems that had begun between the Allies during the war.

In 1945 the American Government published its "Proposals for Expansion of World Trade and Employment" which, in this connexion, acted as a stimulus. These proposals were based on the principle that upheavals in world economic conditions could have serious international political implications and that the normal operation of world trade was therefore a factor for political stability.

24. The American view was that the cause of international economic upheavals lay in customs duties and quantitative restrictions. Hence the main emphasis in the American Government's proposals was on removing such trade restrictions as soon as possible and on giving the widest possible application to the "most-favoured nation" clause.

Other countries, such as those in the British Commonwealth, on the other hand put the emphasis on employment and were opposed to any hasty rescission of protection measures.

25. The outcome of the discussions held by the United Nations Economic and Social Council was a decision to call a special conference on world economic problems. After the two preliminary conferences held, respectively in London and Geneva, the International Conference on Trade and Employment was held in Havana at the end of 1947. This produced the Havana Charter which provided for the creation of an international trade organization to which member countries would transfer far-reaching prerogatives. According to its charter, the organization was to have responsibilities in the field of full employment, international cartels and primary-commodity agreements.

##### *The Havana Charter fails to win acceptance*

26. Although the Havana Charter was mooted by the United States Government, it foundered principally on the opposition of the American Congress, which was hostile to anything that smacked of planned economy and reluctant to surrender any trade policy powers.

It should not be forgotten that the willingness to co-operate that had existed between the Allies during the war diminished once victory had been won.

<sup>(1)</sup> "Beyond the Welfare State" by Gunnar Myrdal, Chapter VI, Duckworth, London, 1960.

## *The General Agreement on Tariffs and Trade*

27. At the session it held in February, 1946, the United Nations Economic and Social Council had drawn up a number of points of the working programme for the Committee that was to prepare the World Trade Conference. One of these points was an international agreement on restrictions and discrimination affecting world trade.

28. The American Government invited the countries represented on the Preparatory Committee to negotiations on the reduction of customs duties and the elimination of other obstacles to trade. The countries concerned accepted and the Preparatory Committee recommended, at its first meeting held in the autumn of 1946, that tariff negotiations be conducted at its next meeting; the Committee felt that this would pave the way for an outline charter on world trade.

The negotiations took place in Geneva in the Spring of 1947 at the second meeting of the Preparatory Committee. As far as the United States were concerned, the basis for these negotiations was the Trade Agreements Act of 1934 which had been prorogued until June 1948 and empowered the President to negotiate a 50% reduction in the 1945 customs duties without consulting the Congress.

29. As a result of these negotiations the United States Government concluded bilateral agreements with several countries. It was agreed that all the countries concerned would apply the "most-favoured nations" clause; this made it possible to embody all the bilateral agreements concluded in Geneva in an *ad hoc* agreement which was called the General Agreement on Tariffs and Trade (GATT). On 30 October 1947, 23 countries signed this Agreement and it came into force on 1 March 1948.

Although theoretically GATT was intended to serve as the basis for the "Trade" section of the Charter still to be established, it was already practically certain that this Charter would never get off the ground.

30. Since then no full scale trade organization, of the sort envisaged when the International Trade Organization (I.T.O.) was created, has emerged. Its advocates made another attempt in this direction in 1954/55. Certain members of GATT had decided to create a permanent trade organization to be known as the Organization for Trade Co-operation (O.T.C.) This, however, suffered the same fate as the I.T.O. Not only did the United States refuse to co-operate but

so did many other countries. The relevant plans lie to-day in the archives of Geneva.<sup>(1)</sup>

## *B — World trade developments*

### *The changing pattern of world trade*

31. As stated in Chapter I, one of the effects of World War I was to lead again certain industrial countries to encourage agriculture at home; other countries which had been suppliers of agricultural and primary products for the industrialized States sought to promote their own industrialization. It was also seen that the thirties' crisis induced the western countries to adopt protection measures tending towards national self-sufficiency.

During World War II, when the supply and marketing machinery of world trade became clogged up for the second time, the trend that had emerged so clearly in Germany in the thirties, now developed in other countries. They began to introduce production methods that enabled them to economize on primary commodities, to resort to substitutes and to create new industries. In 1946, for instance, there were 600 man-made fibre manufacturers who, that year, produced a total of 1.7 m. tons—equivalent to the amount of wool obtained from one thousand million sheep. The production of natural wool in 1946 was 1.5 m. tons.

At the same time they encouraged a higher domestic output of basic and agricultural products which had hitherto been imported from traditional producer countries; this was a new departure also. The American Government, for example, encouraged a large-scale domestic production of soya-beans for use in vegetable fats.

32. This trend did not end with the war. Whereas in the thirties protectionism was almost the universal rule, the post-war trend among western countries was towards free trade as is borne out by the conclusion of GATT and the establishment of the OEEC, the EEC and EFTA.

In section 22 of this report, it was seen that even before the end of World War II, the Allied Governments were directing their thoughts to how they could forestall any post-war recurrence of the 1929 sort of depression; the negotiations that later led to the Benelux Charter are one example of this.

<sup>(1)</sup> Sources: Keesing's Historical Archives, 1964, p. 195; Dr. F. K. Liebich, *Das GATT* (Schriftenreihe zum Handbuch für Europäische Wirtschaft — August Lutzeyer (Bonn), 1961. Dr. R. Zinzer, *Das GATT und die Meistbegünstigung* (same series and publisher) 1961.

33. There were various reasons why countries were more willing to co-operate after the 1939-45 war. Economically, the industrial potential was assuming increasing importance; it became necessary to think in terms of larger economic and political entities. In view of the substantial increase in productivity in the United States and in the USSR, Europe was afraid of being left behind. Similarly, tension between East and West predisposed western countries to closer economic co-operation.

Decolonization subsequently increased this tendency and as political instability often followed in the newly independent States of Africa and Asia, the former colonial powers began to focus greater attention on Europe. This led to a substantial increase of trade between the industrialized countries while the share of world trade of the less-developed countries fell from approximately 32% to around 25%<sup>(1)</sup> between 1950 and 1962.

The industrialized countries' production today accounts for 75% of the world's total and this includes two thirds of all primary commodities i. e. including agricultural products.<sup>(2)</sup>

#### *Changes in British and French foreign trade*

34. Against this background, the foreign trade of the United Kingdom and France is worth analyzing because, as former colonial powers, their development has been so typical in relation to the changing pattern of world trade.<sup>(3)</sup>

#### *Britain's foreign trade*

35. In the course of time, the position and status of Britain in Europe enabled her to build up a vast network of overseas connexions. In the 19th century, she was the first industrial country in the world to have established a division of work whereby the home country looked after industrial production while its dependencies overseas looked after raw materials and agricultural produce. At the same time, Britain was the leading naval power in the world; hence there was no danger of her being cut off from her sources of supply.

36. Consequently she neglected her agriculture in the 19th century, preferring to import cheap foodstuffs from her overseas dependencies. It was the first world war that brought a change of government policy. As Lloyd George pointed out in his Memoirs, the German submarines very

nearly cut Britain's supply lines. British agricultural and especially cereal and sugar beet production has increased fairly substantially, thanks to government support since then.

37. It must be remembered that even before the first world war, Britain did not espouse without some misgivings the principle of complete free trade officially embodied in British policy by the Cobden Charter of 1860.

38. Speaking in 1872, Disraeli argued that when the colonies became independent a customs union should be established, a military agreement reached and a Commonwealth Council set up in London. The view was that as more rapid means of transport became available, it would be possible to turn overseas territories into parts of the United Kingdom in the same way as Ireland and Scotland. The Concept of a "Greater Britain" embodied the opposition to the free trade system advocated by Cobden, who set little store by the possession of colonies; far more by the benefits likely to derive from free international competition. Economically, the idea underlying this imperialistic trend was to meet British industry's growing need for raw materials, and where possible corner new markets for manufactured products.

This was a far cry from the general view voiced by Disraeli in 1852 when he spoke of: "These wretched colonies, which will be independent in a few years, and are millstones round our necks."

In the meantime countries like Germany and the United States were beginning to emerge as industrial powers. France, defeated by Germany in 1870, had returned to her traditional, protectionist policy. In Germany, too, protectionism was steadily gaining support; the American Government had already erected a high external tariff to protect its own industry.

39. Yet the United Kingdom did not officially abandon free trade until 1931-32. In 1931, the pound was devalued; in 1932, the Ottawa Conference brought in Imperial Preference, a reciprocal, preferential tariff between the home country and the Commonwealth.

40. It was within this preference area that Britain subsequently began to do the bulk of her trade. Within the Commonwealth, of course, she sought to promote free trade but this "internal" market was protected by tariffs against third countries. At the same time, a sterling area came into being whose financial centre was London. To be successful, this system presupposed that (a) Britain had a credit balance with the other countries in the sterling area, (b) these countries had a credit balance with third countries, and (c) **third countries had a credit balance with Britain.**

(1) These figures are taken from the report of the Jeaneney Committee on French policy with regard to co-operation with the less-developed countries, 18 July 1963.

(2) Source: Mr. Hans Apel, "Europas Neue Grenzen", p. 180; Klepenheuer & Witsch, Cologne/Berlin, 1964.

(3) See "Provokation Europa" (Chapter IV, p. 266-281).

41. Since the fifties this system has become increasingly inefficient; the sterling area countries no longer have a credit balance with third countries; instead they have debit balance both with the United Kingdom and with third countries.

42. The United Kingdom's share in the trade between the sterling area and the rest of the world has also fallen. In the late twenties it was 60 %; by 1960 it was no more than 40 %. During this period, the shares of Germany and Japan increased from 12 to 21 % and that of the United States from 5 to 23 %. The following table illustrates the changing pattern of the United Kingdom's external trade:

**Exports to sterling area countries in million pounds**

	UK	EEC	USA	Japan
1953	1208	357	410	157
1959	1340	602	618	261

43. The value of Britain's imports furthermore has been steadily decreasing in relation to the gross national product; between 1913 and 1960 it fell from 24.9 to 17.5 %.

The volume of Britain's imports has only risen slightly. Between 1950 and 1960 French imports increased by 6.8 %, Italian imports by 12.1 %, Western German imports by 14.8 %; those of the United Kingdom increased by only 4.7 %.

44. The drop in Britain's share in the export market is equally noteworthy. Between 1956 and 1960 British exports of finished products fell from 19 to 16 % while those of West Germany rose from 16 to 19 % and of the EEC from 38 to 44 %.

Britain's weaker position as an exporting country has been the more critical because this was the basis of the division of work in the Commonwealth.

45. Between 1959 and 1963, the Commonwealth's share of British exports fell from 36.1 to 28 %. As the Commonwealth has diminished in importance as a market for the United Kingdom so that of the EEC has increased. Between 1959 and 1962, British exports to the European Community increased from 14.8 to 19.8 %.

On average, trade between sterling area countries and third countries has increased as follows (1953 = 100):

	Imports		Exports	
	1951	1960	1951	1960
Into the United Kingdom	116	165	97	143
Into sterling area countries	122	198	97	156

*France's foreign trade*

46. With France, the position is quite the reverse: she is traditionally autarchic in tendency. Even now, France is still less dependent on world trade than any other western country of comparable size: she spends a lower percentage of her national income on imports than any country in Western Europe.

What limits France's foreign trade still further is the fact that a substantial proportion of her imports come from the Franc area which covers a large part of Africa. Even today, the French Mercantile Marine carries 70 % of the tonnage between France and Africa and between the various African countries, which gives additional emphasis to her autarchic tendencies.

47. The African countries of the Franc area are France's main trading partners next after the EEC. In 1962, 34 % of French imports were from the EEC, 21 % from the Franc area, 10 % from the United States and 11 % from the EFTA countries.

Her exports show a similar pattern: 37 % to the EEC, 20 % to the Franc area, 16 % to the EFTA countries and only 6 % to the United States.

48. If the EEC and Franc area markets were considered as one, it could be said that in 1962 more than 50 % of French imports and almost 60 % of French exports were effected within an enlarged domestic market. This further reduces the "true" volume of France's foreign trade: the "true" import figure would be no more than 5.2 % instead of 10.5 % and her "true" exports would be 5 % instead of 10.3 %.

49. Since the creation of the EEC, however, the pattern of French foreign trade has been changing all the time as will be observed from the following table:

in thousand million French Francs

	Imports			Exports		
	1962	1963	%	1962	1963	%
Franc area	7,708	7,565	— 2 %	7,306	7,621	+ 4 %
Other areas	29,427	35,536	+ 22 %	29,050	32,295	+ 11 %
EEC	12,460	15,435	+ 25 %	13,392	15,267	+ 14 %
West Germany	6,536	7,760	+ 19 %	6,278	6,622	+ 5 %

50. This shows that France's trade with the Franc area countries has been going through a period of stagnation whereas her trade with other countries has tended to increase. Her imports from the latter increased by 22 % and her exports to them, by 11 %.

In this respect the EEC is in a special position. Between 1962 and 1963 French imports from the Member States increased by 14 % and her exports to these countries increased by 25 %.

51. Between 1958 and 1963, the share in French foreign trade of the EEC and the Franc area underwent a considerable change: exports to the Franc area fell from 36 to 18 % and exports to the Member States increased from 22 to 38.2 %.

52. The French five-year economic development plan provides for an increase in foreign trade of about 60 % between 1966 and 1970. The autarchic trend is seen to have become less pronounced when this figure is compared with that for the period 1950-60.

#### Russia's trade with developing countries

53. As regards trade relations between the Soviet Union and the less-developed countries as a whole, it will be observed from the following table that the trend of her exports shows a steady surplus:

Year	Imports	Exports	Trade balance \$(1,000)
1958	434,889	346,385	— 88,504
1959	484,555	305,269	— 179,286
1960	629,444	366,409	— 263,035
1961	866,667	744,988	— 121,679
1962	809,930	901,328	— 91,398
1963	798,041	1,100,288	+ 302,247

Source: Vnesiaia torgovlia SSSR

Nine-tenths of Russian imports are primary commodities. EEC imports of primary commodities are seven times as much.

54. At the same time, it should not be forgotten that the exports of the less-developed countries to States behind the Iron Curtain suffer from the fact that there the main emphasis has from the beginning been on the creation of the means of production. Although in recent years the standard of living of these countries has risen, their increased prosperity has led principally to the purchase of industrial products of local manufacture. Hence this hardly helps the marketing of the primary commodities of the less-developed countries; the prices of coffee, cocoa and their by-products are so high that this considerably reduces their consumption.

If Russia were to pursue a trade policy similar to that of the West with regard to coffee, cocoa and bananas, these products would no longer raise any marketing problems. In 1960, the total EEC imports of these products was thirty times as high as the volume of Russian imports.

#### Primary-commodity price trends

55. Between 1945 and 1953 commodity price trends were on the whole favourable from the point of view of the producers, for three reasons:

- (a) there was a considerable demand for primary commodities essential to the recovery of the European countries after the 1939-45 war;
- (b) the Korean War (1950-1953);
- (c) the stock-piling of substantial strategic reserves by the United States.

56. After the Korean War, however, primary-commodity prices began to sag. Delivery delays had affected countries cut off from their sources of supply during the war; there were no more of these; similarly American strategic reserves reached their peak level. At the same time, high prices led to an increase in primary commodity production. A good many of these products, such as rubber and cocoa, do not yield a marketable crop until several years have elapsed, a fact which seriously weakened the position of the producers.

57. In itself this development need not have had serious implications in view of the fact that the high price level obtaining in 1945 was not due to exceptional circumstances and could have been maintained. If, in fact, it did have serious consequences, this was because of the changes in the structure of world trade which demonstrates that the essence of the commodity price problem is structural.

*Deterioration of the terms of trade of the developing countries*

58. Apart from the fall in price of the primary commodities exported, the considerable increase in the price of imported goods has helped to make the position of the less-developed countries even more precarious.

59. A recent study has revealed that since 1957 the fall in the prices paid for primary products by the importing industrial countries has saved them \$7,000 m. a year. Over the same period their income has increased annually by \$3,000 m. to 4,000 m. by virtue of the increase in the prices they have obtained for their exports.<sup>(1)</sup>

In this way the industrialized countries have obtained an advantage of \$10,000 m. to 11,000 m. a year to the detriment of the rest of the world.

60. The amounts that the industrialized countries make available to the less-developed countries in the form (a) official bilateral aid, (b) multilateral aid through international organizations, and (c) private investment, total approximately \$10,000 m. a year. Thus the deterioration of the terms of trade of the less-developed countries completely negates the effect of the aid dispensed to them.

61. To set the situation in its proper perspective, however, there are two factors to bear in mind in evaluating these figures:

- (i) the fall in price of imports into the industrial States has also been due to a fall in international freight rates;
- (ii) the increase in the prices of finished products, especially capital goods, has been partly due to an improvement in quality.

62. The fact remains that the deterioration of the terms of trade is a serious handicap to the less-developed countries. Primary commodities account for 90% of their exports and represent almost their only source of income<sup>(2)</sup> and the prices they have fetched have been falling for a decade. Thus, bearing in mind the increased

prices of industrial products, the position of the less-developed countries to-day could hardly be described as rosy.

*Conclusions*

63. To sum up it can be said that following the 1939-45 war the focal point in international trade discussions was a concern to free trade as much as possible. It cannot be denied that the outcome was to enhance the prosperity of countries whose economies were already highly developed. The elimination of protectionism led, as the Americans predicted, to an expansion of trade and hence to an increase in employment opportunities.

64. At the same time, economic trends including the growing importance of industrial potential have revealed the need for larger political and economic groupings. The substantial increase in productivity in the USA and the USSR aroused Europe's fear of being left behind economically. The tension between East and West furthermore increased the willingness of western countries to co-operate more closely both politically and economically.

65. Subsequently the move towards co-operation was consolidated by the decolonization process which often went hand in hand with political instability in the newly independent States. As a result, many former colonial powers began increasingly to focus their attention on Europe.

66. Yet the less-developed countries gained little from these developments; their share of world trade fell steadily and the deterioration of their terms of trade became an increasingly critical problem.

67. This imbalance in the development on world trade may be attributed, *inter alia*, to the failure of the Havana Charter to win acceptance. Indeed, only its "Trade" Section found expression in the General Agreement; the "Employment" Section which provided for instance for extensive international commodity agreements came to nothing.

68. The most-favoured nation clause thus prevailed, and this consolidated the position of the industrialized countries. This system brought no corresponding benefit to the less-developed countries because they needed protection rather than free trade. Hence these countries are in no position to open up their markets and yet they are obliged to ask for the widest possible access to the markets of the developed countries.

69. The conclusion one must draw is that a balanced development of world trade predicates

<sup>(1)</sup> Source: "The Financial Times", 19 July 1965, p. 7.

<sup>(2)</sup> See: United Nations, Commodity Survey 1962, table 2, p. 7.

special conditions for the less-developed countries. International agreements based on traditional free-trade principles and the most-favoured nation clause will remain meaningless until their economies are more highly developed.

### CHAPTER III

#### **Political reactions of the developing countries and the position adopted by GATT**

##### *A — Political reactions of the developing countries*

70. Understandably, the position of the less-developed countries outlined above prompted them to political action in order to protect their vital interests. In 1964, this culminated in the United Nations Conference on Trade and Development (UNCTAD).

##### *Political background to the United Nations Conference on Trade and Development*

71. Apart from the many speeches made on behalf of the less-developed countries and in support of re-organizing world trade, it is worth noting that the USSR had for many years been the advocate in the General Assembly of the United Nations of a world trade conference.

72. At the time, the Russian efforts brought no response from the West where the view was that Russia was far less concerned with the fate of the less-developed countries than with sowing discord between them and the West and with ending what Russia regarded as western trade discrimination against the Communist countries. The West considered that the resolutions tabled by the Soviet Union were directed against GATT and against the creation of economic groupings like the EEC. For a long time the West, supported by the less-developed countries, succeeded in forestalling these resolutions with the result that they failed to win majority support in the General Assembly of the United Nations.

73. In 1962, however, a Russian-inspired proposal obtained a majority in the U.N. General Assembly and it was decided to hold a conference on trade and development. The majority in favour included the votes of the less-developed countries. In fact, the number of these countries that were members of the United Nations would have sufficed to carry such a decision in previous years. The support given to the Russian proposal in 1962 by a substantial majority of these countries may be read as a reaction against the growing degree of political and economic rapproche-

ment between the Western countries. In 1961, the United Kingdom applied for membership of the EEC. A year later, President Kennedy announced his "Great Design" which led, *inter alia*, to the passing of the Trade Expansion Act by the American Congress in September 1962. On the assumption that the United Kingdom would join the EEC he proposed an Atlantic partnership. The United States would be able to negotiate substantial, two-way customs duty reductions with an enlarged ECC through the medium of GATT, all of whose members would be able to participate in what has come to be known as the Kennedy Round and take advantage of the most-favoured-nation clause.

74. Understandably these developments attracted a good deal of attention among the less-developed countries especially those in the Commonwealth; they feared prejudice to their trade relations with Western countries.

##### *The Conference*

75. The United Nations Conference on Trade and Development decided upon by the United Nations in 1962 took place in 1964. If Russia's intention was to make a bid for recognition as the defender of less-developed countries' interests against the bad will of the West, then she was probably disappointed at the way the Conference developed.

One of the salient events of this Conference was that the less-developed countries took a common stand on a great many issues. In a joint statement they described "the unity of the 75 countries concerned" as "the dominant feature of the Conference" and as being "full of momentous implications".

76. Whereas previously East had been juxtaposed with West, it was not long before this juxtaposition became one between North and South. The developing countries appealed for action not only on the part of the West but also on the part of countries behind the Iron Curtain. Consequently the latter tended to side with the West to resist the demands of the less-developed countries.

77. In view of this, the West was bound to be more constructive in its approach to the UN Trade and Development Conference. Unfortunately, the EEC did not take part in the Conference as an integrated unit. The "Brasseur Plan", however, had been submitted to the GATT Ministerial Conference in May 1963, while on UNCTAD, representatives of the Six took part in talks on the general question of customs preferences, both of which events give cause for satisfaction. A detailed account of this is to be found in the interesting reports that Mr. Pedini drew up for the External Trade Committee on

the problems of the World Trade Conference (Docs. 6 and 83/1964-65).

78. As a result of these developments the West withdrew its opposition to a new world trade organization. Thus UNCTAD (United Nations Conference on Trade and Development) came into being alongside GATT, which many of the less-developed countries distrusted because of the preponderance there of the western countries.

B — *The position adopted by GATT in regard to the less-developed countries*

*Protocol amending the General Agreement*

79. A protocol amending the GATT to introduce a Part IV on trade and development with the less-developed countries was opened for signature in Geneva on 8 February 1965.

It was to come into force as soon as it had been signed by two-thirds of the contracting parties (to wit 45 countries). Most of the Contracting Parties also adopted on 8 February 1965 a Declaration providing for the *de facto* implementation of the new provisions until they entered into force *de jure*.

80. With the exception of France, all the EEC countries signed the protocol. France considered that it provided for too few practical measures on behalf of the less-developed countries, especially with regard to the organization of markets and the granting of preferential tariffs to these countries.

81. Part IV is based on a resolution adopted at a ministerial meeting of the Contracting Parties in May 1963. This resolution stressed the need for a legal and institutional framework for the efforts of GATT to promote the exports of the less-developed countries. It cannot be denied that this result stemmed partly from what happened during and after the 1964 UN Trade and Development Conference in Geneva.

82. Part IV comprises three new Articles. In the first of these (Article XXXVI), paragraph 5 reads as follows:

"5. The rapid expansion of the economies of the less-developed contracting parties will be facilitated by a diversification of the structure of their economies and the avoidance of an excessive dependence on the export of primary products. *There is, therefore, need for increased access in the largest possible measure to markets under favourable conditions for processed and manufactured products currently or*

*potentially of particular export interest to less-developed contracting parties.*"<sup>(1)</sup>

Paragraph 8 of this article reads:

"8. *The developed contracting parties do not expect reciprocity for commitments made by them in trade negotiations to reduce or remove tariffs and other barriers to the trade of less-developed contracting parties.*"

83. In the second article (XXXVII, 1) the following obligations are enumerated:

"1. The developed contracting parties shall to the fullest extent possible—that is, except when compelling reasons, which may include legal reasons, make it impossible—give effect to the following provisions:

(a) *accord high priority to the reduction and elimination of barriers to products currently or potentially of particular export interest to less-developed contracting parties, including customs duties and other restrictions which differentiate unreasonably between such products in their primary and in their processed forms;*

(b) *refrain from introducing, or increasing the incidence of, customs duties or non-tariff import barriers on products currently or potentially of particular export interest to less-developed contracting parties; and*

(c) (i) *refrain from imposing new fiscal measures, and*

(ii) *in any adjustments of fiscal policy accord high priority to the reduction and elimination of fiscal measures, which would hamper, or which hamper, significantly the growth of consumption of primary products, in raw or processed form, wholly or mainly produced in the territories of less-developed contracting parties, and which are applied specifically to those products.*"

84. The third article (XXXVIII) provides, *inter alia*, for co-operation between the Contracting Parties on measures to improve world primary-commodity markets; paragraph 2a specifies:

...*"including measures designed to attain stable, equitable and remunerative prices for exports of such products."*

<sup>(1)</sup> Editor's italics.



85. Part IV of the General Agreement contains several important provisions. Of particular importance is the priority accorded to reducing or removing barriers which differentiate unreasonably between primary and processed products exported by the less-developed contracting parties. The common customs tariffs of course is no bar to the import of primary products but processed products come up against a degree of protection that varies according to the degree of processing. This difference of treatment, which other industrialized States also practise, reflects a concern to protect Community processing industries. Obviously this is flagrantly inconsistent with the way the less-developed countries are urged to industrialize and diversify their economies.

86. An analysis of the common customs tariff reveals that comparatively high duties are charged on some goods which the less-developed countries could easily produce, viz: 32 per cent for woollen carpets, 18 per cent for cotton textiles, 23 per cent for jute carpets and 23 per cent for coconut matting. On the other hand, where similar products are traded between industrialized countries and where their manufacture involves more sophisticated processing, the duties are not as high; for example, watches attract 13 per cent, cameras 18 per cent, domestic appliances 19 per cent and computers 11 per cent.<sup>(1)</sup>

87. The intention of the Contracting Parties to put this right is most gratifying. In this respect the other provisions of Part IV are also very welcome.

*Problems that trade policy cannot solve*

88. It cannot be denied that GATT's present approach is still unduly directed at the sort of solutions trade policy can provide. It has already been seen that the low level of primary-commodity prices has become a structural problem for the less-developed countries as a result of the changing pattern of world trade. The deterioration of the terms of international trade has made it impossible for these countries to invest in order to broaden the basis of their economies. It is therefore reasonable to ask whether the new section (i. e. Part IV) on trade and development in the General Agreement will bring a solution to this problem through a liberalization of trade. These countries will never be able to compete in world trade and they will never be able to obtain any real benefit from freer trade until their economic rate of growth improves considerably.

It has been seen that during the first World War, and especially during the second one, industrialization was promoted in those countries that had previously done little more than export primary commodities. It would be erroneous to suppose that this process stemmed solely from war considerations for it had already begun and could be traced back to normal economic considerations; the war merely quickened the process.

Today structural change is needed more than ever before. This means, for instance, that processing industries must be established in the less-developed countries that produce primary commodities. They should not, for example, continue to export cane sugar to be refined in the industrialized countries; they must refine it at home and market it domestically or in neighbouring countries instead of leaving it to the industrialized countries to do the exporting for them. The same applies to commodities such as cocoa and jute.

The foreign trade policy of the industrialized countries must be so re-fashioned so as to carry this development through in gradual stages.

## CHAPTER IV

### Attempts to stabilize primary-commodity prices

#### *A — International primary-commodity agreements*

89. Attempts were being made even before the 1914-18 war to stabilize primary-commodity markets through international agreements. The efforts in this direction were further stimulated by the economic crisis of the thirties and continued after the 1939-45 war.

The relevant developments were:

- (a) the creation of cartels between individual producers;
- (b) an increasing measure of Government intervention with respect to these cartels and the subsequent creation of cartels at inter-governmental level during and after the economic crises of the thirties;
- (c) after the 1939-45 war, the conclusion of primary-commodity agreements at inter-governmental level, at which, for the first time, producing and consuming countries were represented on an equal footing.

90. The distinction between producer and consumer countries results from political changes that took place since 1945. Before that date, the practice had been for the industrialized countries to be both consumers and producers—the latter by virtue of their status as colonial powers.

<sup>(1)</sup> See Note 2 to paragraph 33.

Thus, pre-war trade arrangements were entered into between industrialized countries only. The accession to independence of former colonies entailed the creation of two new categories, viz: the producer countries (in the main developing countries) and the consumer countries (mostly industrialized).

#### *Experience gained*

91. Only four international primary-commodity agreements, covering tin, coffee, sugar and wheat,<sup>(1)</sup> have been concluded since the war. This shows how difficult they are to achieve. The many attempts made to arrange similar international agreements for other products have failed because of major differences of opinion.

92. The most frequent disagreement has been between producer and consumer countries as to the level at which prices should be set. Where neither dominates the market and where there is no overriding political motivation, there is no possibility of agreement.

93. Although in most cases it is the producer countries that have taken the initiative with regard to primary-commodity agreements, they do not always see eye to eye with each other. This is because there are always a certain number of producers who wish to take advantage of a high price level but who are unwilling to set a ceiling on their output or submit to international control.

94. A certain number of international agreements for agricultural products are envisaged as part of the Kennedy Round. A working party in Geneva is already engaged in drawing up an international agreement on cereals.

95. Experience has shown, however, that nations fight shy of giving up any part of their national sovereignty and this is what stands in the way of such an agreement. This diffidence stems from the following considerations:

- (i) the social component in national agricultural policy; farm incomes have to be adequate and an attempt made to reduce the disparity between the incomes of those who work on the land and those of comparable occupational groups in other sectors;
- (ii) if a country has balance-of-payments difficulties it may be forced to restrict its imports and increase its domestic production;
- (iii) a country may, for defence policy reasons, wish to keep its domestic agricultural pro-

duction out of any discussions (Switzerland for instance would not wish, because of its neutralist policy, to be dependent on imported foodstuffs in the event of war);

- (iv) agricultural surpluses may constitute a form of aid to countries where it is desired to create a favourable political climate (as is the case with America's aid to Yugoslavia and India).

### *B — Stabilization funds<sup>(1)</sup>*

#### *Background*

96. During the Second World War "support funds" (caisses de soutien) were introduced in French Equatorial Africa for cotton and cocoa. A lack of legal provisions regulating their financial resources impaired their efficiency. After the war, several attempts were made to create independent stabilization funds. These attempts came to nothing, however, because of the fierce opposition of producers and dealers, which in turn was due to the steady rise in price of tropical foodstuffs at that time.

97. When cocoa, coffee and cotton prices began to fall in the fifties in the former French colonies, this constituted a serious threat to their economies. In 1954, the French Government decided to regulate primary-commodity prices by setting up stabilization funds, a score of which are still in operation within the Franc area.

#### *Aims*

98. The main purpose of the stabilization funds, while not overlooking world-market price trends, is to guarantee a minimum price to the producer. They are not intended to eliminate private enterprise. Furthermore they are designed to improve product quality and promote economic development in so far as the means available allow.

99. There is a separate fund for each product and for each area. Each is run by a tripartite committee comprising representatives of producers, exporters and public authorities. Its decisions have the force of law, barring the veto of the Government representative.

#### *Operation*

100. The stabilization funds do not have any marketing monopoly; they simply have a supervising brief over the activities of private dealers in the product concerned. Each year the Government sets a reference export price which is re-

<sup>(1)</sup> In view of the special nature of the product concerned, no agreement on olive oil was finalized: the producer countries consume 95 per cent of all the oil they produce.

<sup>(1)</sup> Source: EEC Commission.

lated to the production price set. This guaranteed export price reflects world prices and prices on the French market.

101. If the exporter obtains a market price lower than the reference price, the fund must wholly or partly compensate him for the difference. The amount of compensation varies from product to product and from country to country but as a general rule it covers the difference between reference and export prices completely. For his part the exporter is legally bound to pay a guaranteed minimum price to the producer.

If the export price is higher than the reference price, then the exporter must pay part or all of this surplus into the fund. This becomes a kind of export tax which increases in proportion to the difference between the two prices.

#### *Financial resources*

102. Most of the decrees setting up stabilization funds provide that the reserves held must be fairly substantial. The income of the funds comes from the producer who contributes a certain percentage of the average value of his harvest. This is how the coffee and cocoa funds for example have been able to build up reserves. At present, however, it is estimated that most of the reserves held in these funds will be used up before the end of the year because of the fall in cocoa and coffee prices. It should be noted in this connexion that the Yaoundé Convention lays down that the stabilization funds may attract development fund advances (not exceeding 50 million units of account).

103. To sum up, it may be said that the independent incomes of these funds derive from (a) contributions (in particular from the "National Fund" referred to below), (b) repayments (from exporters) and (c) dues paid by the producer in proportion to the export value of his produce.

104. To enable the stabilization funds to provide adequate financial help, France set up a "National Fund to regulate the prices of overseas products" in 1955.

The stabilization funds may place deposits in this National Fund, whose function, in turn, is to make direct loans to the various funds or to the countries and territories where such funds exist. The loans guarantee the operation of the funds during the most critical periods.

#### *Results*

105. The stabilization funds began operating at a time when prices were low; hence their resources had to be appropriated for the direct stabilization of these prices.

The reserve funds are simply a first line defence; when prices fluctuated seriously, they would not have sufficed on their own to keep the system in operation. If the National Fund (referred to in paragraph 103) had not existed, the funds would not have been able to prevent an even greater fluctuation in production and guaranteed export prices in response to world price movements. Of late, certain funds have tended to become export monopolies because, since independence, certain states have begun to exercise an increasingly stringent control over the different stages in product marketing.

### *C — Marketing Boards*

#### *Background*

106. During the Second World War, the British Government thought fit to assume control of trade with overseas territories and to set up government monopolies to market tropical products. There were two reasons why it did this: the United Kingdom's need for steady supplies of primary commodities and foodstuffs and the need to protect producers, unable to export, against price falls on the local markets.

After the war the British Government established a permanent system for organizing the agricultural markets, to wit, the Marketing Boards.

#### *Aims*

107. Like the stabilization funds, the Marketing Boards were intended to provide a buffer between producers and the international market by insuring the producer against sudden price fluctuations. The Boards also serve to improve production and promote economic growth generally.

#### *Organization*

108. Each Board is responsible for marketing the main export products in its own region. The local authority appoints officials to run it and they in turn are accountable to the local authority.

The Acts of Parliament creating the Marketing Boards empowered them to take all relevant decisions concerning the purchase, quality improvement, export and sale of products within their jurisdiction.

109. Although private individuals as well as officials sometimes serve on these Boards, the latter operate mainly as governmental bodies with regard to all major issues such as sales policy and the level at which production and selling prices shall be set.

In many areas, the Boards are required to take the advice of a Consultative Committee on which the producers are also represented.

#### *Operation*

110. The Boards operate in a way that is very similar to that of the stabilization funds. If the Board sells a product at a price higher than the established purchase price (including taxes due and expense of sales) the profit is paid into the Board's reserve fund.

If the selling price is lower than the higher purchase price arrived at the Board makes good the difference by appropriating from its reserve fund.

111. The reserves accrued may serve to finance improved farming methods or development; their main function, however, is to cover any deficit resulting from price stabilization measures.

#### *Financial Resources*

112. The Marketing Boards were set up after the war, and were able to take advantage of the favourable prices then ruling (in contrast to the stabilization funds, created at a time of unfavourable prices). The Boards have sought to keep prices low and this has enabled them to accumulate quite substantial reserves over the years. These reserves are deposited in London in Commonwealth bonds, the income from which serves partly to improve the economies of the overseas territories.

#### *Results*

113. Apart from stabilizing prices, the system has the following advantages:

- (a) it precludes inflation in the territories at times when prices are high;
- (b) although stringently applied it has sometimes made possible the appropriation of a significant proportion of the people's income for the purposes of economic development; this was achieved much more easily than by levying taxes.

#### *D — Conclusions*

114. The attempts so far made to stabilize primary-commodity prices have shown that they can be successful under certain circumstances. With regard to the less-developed countries, success depends primarily on whether price stabilization is part of an overall policy, in other words on whether it is directed at broadening the economic basis of the countries concerned.

115. Price stabilization must therefore be achieved and used as a tool for helping the less-developed countries. Its use, however, must be subject to certain conditions particularly concerning the price level set and the quantities to be covered by guarantee. Similarly, stabilization must be directed at diversifying the economies of the less-developed countries.

116. Moreover, price stabilization can only keep price drops within limits; it can offer no solution to the problem of a deterioration in the terms of trade.

### **CHAPTER V**

#### **Stabilizing prices and currencies**

117. Primary-commodity price stabilization also raises a number of monetary problems as will be seen below in connexion with commodity reserve currencies and an evaluation of the effects of strategic stocks on commodity prices.

##### *A — Proposed creation of a Commodity Reserve Currency*

118. In the thirties, Professor J. Goudriaan, a Dutch economist, described how the purchasing power of primary-commodity producing countries could be increased through an international commodity reserve currency.<sup>(1)</sup> The World Trade Conference paid special attention to this problem. A Memorandum was submitted on the creation of a Commodity Reserve Currency.<sup>(2)</sup> Professor Goudriaan has recently advocated the adoption of this system once again. In this connexion, he has analyzed the present international monetary system and expressed the view that the main threat to the expansion of world trade was not so much a shortage of international liquidities as a fall in price of the primary commodities exported by the less-developed countries which bore witness to their severely reduced purchasing power. What he advocated to stabilize primary-commodity prices was the creation of an International Commodity Corporation. This would be financially independent and come solely and directly under the International Monetary Fund.

119. The point he emphasized was the increasingly disquieting similarity between monetary trends in recent years and those that foreshadowed the major crisis of the thirties.

(1) Regarding Professor Goudriaan's theory, see "Econometrisch-Statistische Berichten", 21. 7. 1965, 28. 7. 1965, 4. 8. 1965, 11. 8. 1965.

(2) The memorandum was drawn up for the UN Conference on Trade and Development by A.G. Hart, N. Kaldor and J. Tinbergen.

Indeed, the ratio between fiduciary issues and gold stocks has been growing increasingly unfavourable. Attention today focuses on whether international liquidities are sufficient but no attention is paid to the real problem of what these international liquidities are really worth. One reason for concern is that the US contribution to the IMF's gold reserves is much smaller than it should be. This has produced undue tension in the field of international credit. International circulation of fiduciary issues is quite different from fiduciary circulation at the national level. In the latter case, the State supports the central bank and makes bank notes legal tender; there is no similar authority at the international level.

#### *Commodities and currency stability*

120. In the opinion of Professor Goudriaan, a sound international monetary system should provide the wherewithal for guaranteeing currency stability—if it is to play its threefold part in respect of payments, savings and as a standard of value, it must comprise a third component in addition to gold and paper currency.

According to that theory, no monetary system can guarantee currency stability efficiently while the possibility of a collapse in primary-commodity prices remains. This possibility will not be ruled out until direct and systematic arbitration between currencies and commodities is introduced by intervention on a series of commodity markets.

121. Mr. Goudriaan has drawn attention to the fact that the efforts made by the United Kingdom and the United States to restore their balances of payments has led to a British refusal to lend money to India and to Ghana and to an increase, in the United States, in the number of people demanding that American aid for the less-developed countries be reduced. Mr. Goudriaan felt that credit restrictions applied throughout the world have a special impact on wholesale trade in that they inevitably lead to a reduction in stocks held.

122. Mr. Goudriaan estimates the annual income from 12 or 14 tropical or sub-tropical products exported by the less-developed countries at roughly \$9,000m. a year; the corresponding figure for world exports as a whole is not even as high as \$12,000m. It would therefore be financially possible to valorize a proportion of these exports.

123. A collective valorization of primary commodities would not only cure commodity price instability, but would provide an appropriate way of curing the instability of international liquidities represented by paper currencies; it would thus make it possible to stabilize the gold standard.

124. In this connexion, Mr. Goudriaan draws attention to the fact that most of the industrialized countries pursue an agricultural policy which secures them against any collapse of agricultural product prices. The United States have a Commodities Credit Corporation, the EEC, the Agricultural Guidance and Guarantee Fund and the United Kingdom has its Marketing Boards.

125. For a long time, periodic price collapses held back the development of agricultural productivity. Indeed, it was not until prices were stabilized that the industrialized countries were able to rationalize their agriculture. At the same time, increased prosperity on the farms had a favourable effect on the whole economy.

#### *B — The significance of strategic stocks*

126. The United States Government recently decided to sell 200,000 tons of copper and 1.4 million tons of aluminium from its strategic stocks.<sup>(1)</sup> It did not do this because it had a surplus of reserve stocks but, presumably, in order to bring pressure to bear on prices. These stocks were originally intended to provide a ready supply of essential raw materials in the event of war. Today these stocks also serve the purposes of economic strategy.

127. In fact the United States has attained to a highly influential position with respect to setting prices for products that are of particular importance to the economies of the less-developed countries.

128. Towards the middle of 1965, the cash value of American strategic stocks was \$ 8,200 m., that is \$4,300 m. more than the amount originally expected. (In this connexion, it may be worth mentioning that the value of American strategic stocks is well over half the gold reserves of the United States.) It is because these stocks are well in excess of strategic needs—as originally estimated—that they can be used to serve specific economic ends on national and international markets with regard to commodity prices.

129. The dollar is a key currency, and this has enabled the USA to pursue a policy which, without raising the price of gold, has produced inflation in some countries. In recent years, this has led to a considerable drop in gold reserves, and attempts are now being made to find new ways in which a deliberately inflationist policy may be prevented from leading to an increase in the price of gold, i.e. to devaluation. The fact remains that because of its vast gold reserves, the American Government has been able to control the value of gold in relation to that of other

<sup>(1)</sup> Source: "Nieuwe Rotterdamse Courant", 4 December 1965, p. 13.

goods. This policy has led to a fall in the value of gold (in terms of goods) as great as the fall in the value of the dollar expressed in terms of goods (i. e. in the purchasing power of the dollar). This is the rider to a fixed price for gold.

130. What the American Government can do by virtue of its vast gold reserves, it can also do to some extent by virtue of its strategic stocks which, as we have seen, are considerable. It will be remembered that these are commodities of importance to the prosperity of less-developed countries.

131. Strategic stocks can also play a considerable part from another point of view. When we speak of the position of the dollar we usually refer principally to the size of US gold reserves. Bearing in mind the high value of US strategic stocks, however, we could consider these as a second reserve of gold converted into goods.

132. Under certain conditions these stocks can be used to consolidate the position of the dollar in so far as they exceed the level originally intended.

### C — Comment

133. Professor Goudriaan's theory on stabilizing primary-commodity prices contains a number of interesting points. It shows, in particular, that price stabilization could not only be profitable to the less-developed countries in the short term but also have a positive effect on the world's economy.

It must, however, be pointed out that:

- (a) the primary-commodity price problem is not only a short-term economic problem but also and above all a structural one (see paragraphs 31 and 32);
- (b) the proportion of primary commodities in international trade (including those exported by the industrialized countries) is falling steadily in relation to the proportion of processed products;
- (c) price stabilization may lead to an unwelcome increase in production, as well as keeping alive unprofitable concerns and holding back the expansion of sound businesses; hence production restrictions are also desirable;
- (d) price increases are not the only way of increasing the producers' income. They may achieve a better return by selling more at lower prices, provided they can cut production costs and provided that a market analysis shows that a price cut will increase demand;

- (e) technological progress has created the possibility of using substitute products. If the price of a given commodity is set at an artificial level, there is the danger that the consumer may opt for a substitute product.

## CHAPTER VI

### Assistance available to the less-developed countries

134. In previous chapters, the difficulties arising in a changing world in connexion with international trade and as regards the economic position of the less-developed countries have been described. In some cases, possible remedies have been indicated. The aim of this chapter is to sum up these conclusions and define a new approach to the problem of strengthening the economies of the less-developed countries.

#### *Stabilizing primary-commodity prices*

135. In Chapter IV of this working paper, the attempts so far made to stabilize primary-commodity prices were described. On examination, it emerges that the chances of success are greater when price stabilization is one of the components of an overall policy and less where it hinges on miscellaneous piecemeal measures. Indeed, where success has been achieved this has to a large extent been due to an agreement by an industrialized country or a group of such countries to make price stabilization an integral part of their national economic policies. It has been contingent on the willingness of such countries to take—on behalf of the less-developed countries—similar measures to those taken on behalf of national producers. The willingness to regard overseas States not simply as "foreign" countries, even in the economic sense, has been, to a large extent, due to long-standing political and cultural ties or specific interests. Examples of this are the stabilization funds and the Marketing Boards. Also worth noting in this connexion is the guarantee given by the United States to the Philippines and to some South American countries to purchase given quantities of sugar (i. e. quantities not purchased from domestic producers).

#### *Need to organize world markets*

136. There is, however, the danger that a policy which, because of special relations, gives a preferential position on the domestic market to a series of overseas producers, may lead to a similar situation on the world market to that resulting from measures taken by the developed countries on behalf of national producers in the thirties. It is necessary to bear in mind—however paradoxical this may appear—that where price

levels are favourable to national producers, this may lead to unfavourable prices on the world market which may increasingly tend to become one where supply exceeds demand.

137. International market organizations are therefore necessary for a further reason, in that it is increasingly difficult for a country to carry the cost of price stabilization on behalf of producers in overseas territories.

138. The United Kingdom, for example, with its system of Marketing Boards, has been able to stabilize prices in the interests of overseas producers; this was possible, however, because of special circumstances. What made the success of the Marketing Boards was that they were able to take advantage of a period in which prices were favourable and thus accumulate reserves; this success was also due to the fact that London is a great trading and financial centre. When we speak of the Sterling area, we are referring to a whole complex of inter-dependent political, economic and monetary factors. The success of the Marketing Board system was also due to the fact that it was able to operate within the Commonwealth framework.

139. Yet changes in the international political situation have led to changes in the economic and political position of the United Kingdom and in relations between Commonwealth countries. A weaker pound and the change of emphasis in the traditional pattern of trade were at once the cause and the effect of this change in the United Kingdom's position. One result is that it will be increasingly difficult for that country to guarantee real price stabilization to overseas producers; it will become increasingly difficult for the United Kingdom to integrate the necessary measures within her national policy because of this change in her economic and political position.<sup>(1)</sup>

140. But the United Kingdom is not the only country to be faced with such difficulties. Even a country as economically strong as the United States would no longer alone be able to bear the costs involved in a real primary-commodity price stabilization on behalf of a considerable number of overseas producers.

141. The inescapable conclusion is that if this problem is to be solved, the policy structure of the countries concerned will have to be internationalized. In practice this will mean setting up market organizations on an international scale, to deal first and foremost with tropical foodstuffs. It should not be forgotten that the main aim of price stabilization should be to increase the purchasing power of the less-developed countries. These countries are predomi-

nantly agricultural and most of the people who live there work on the land; hence this problem must attract a high priority.

142. Industry and mining are still largely neglected in the less-developed countries. These sectors employ only a small percentage of the population and the enterprises concerned are often under western management.

143. The classification of primary production drawn up by UNCTAD is as follows:

- (a) tropical products for which there are no immediate substitutes;
- (b) primary products which can be made synthetically or replaced by other products;
- (c) primary products that are produced both in the less-developed and the developed countries.

144. The creation of international market organizations of the sort we have described should be followed by the creation of an International Credit Commodity Corporation whose financing system would ensure a redistribution of income. The activities of that corporation would be co-ordinated with those of the International Bank for Reconstruction and Development and of the International Monetary Fund.

#### *Compensatory financial aid*

145. Apart from price stabilization which is intended primarily to increase the short-term purchasing power of the less-developed countries, other measures are also called for. Although the stabilization of primary-commodity prices is in itself desirable, it can only represent part of the answer for the following reasons:

- (a) it will only affect a small number of major products and will thus give a unilateral advantage to the countries producing them; this becomes even more pronounced when price setting is part of the aid policy pursued on behalf of the countries concerned;
- (b) it keeps primary-commodity price falls within certain limits but does not solve the problem of the deterioration of the terms of trade.<sup>(1)</sup>

146. Your Committee endorses the view that these drawbacks could be overcome if the industrialized States compensated the less-developed countries financially for the loss sustained by them as a result of the deterioration of their terms of trade; this financial compensation should be provided in the form of extra assistance.

<sup>(1)</sup> See paragraphs 25-36.

<sup>(1)</sup> See paragraph 105.

147. It is worth remembering in this connexion that UNCTAD adopted a proposal, tabled by Sweden and the United Kingdom and supported both by the less-developed nations and by the industrialized State-trading countries, to the effect that exceptional financial aid should be extended to the less-developed countries whose export incomes fell below reasonable expectations. In other words, when the development programme of a country, geared to a specific level of export income, did not achieve its objective, then that country might, after an expert examination of the relevant facts, apply for special financial assistance.

Apart from export prices, which must be specifically recognized, import prices would also be considered in this connexion. In order to be able to submit concrete proposals, UNCTAD asked the World Bank to look into the possibilities of putting this plan into effect; in this connexion, it was proposed to set up a special fund that would be administered by the IDA (International Development Association).

148. A positive approach to the primary-commodity problem—e.g. world commodity agreements—must be coupled with the industrial diversification of the less-developed countries. Diversification (which involves the opportunity for developing countries to create new industries or to redevelop existing ones) would have an effect on the trade policies and domestic markets of the industrialized countries.

To give one example: the jute bag industries in the less-developed countries could be expanded through the gradual removal by the industrialized countries of their protection measures (quotas and high import duties); in view of the necessary reconversion of capital and labour in the developed countries, the measures would have to be spread out over a certain time. The existence of the EEC and the fact that a unified trade policy—for which provision is made in the Treaty of Rome—will have to be introduced at the end of the transition period, call for special attention to be paid to this problem. Free trade in goods which is scheduled to be finalized between the Member States by the end of the transitional period, also calls for standardization. To return to the example of jute: how can a liberalization policy for jute bag imports, as applied in certain Member States, be reconciled with the import quota regulations in force in other Member States?

#### *Results achieved so far*

149. It should also be remembered that two detailed proposals for the introduction of a system of compensatory financing were submitted some time ago. The first was made in 1961 by a UN group of experts, while the second was

made in 1962 by the Organization of American States (OAS).

Both proposals advocated the creation of a fund which would make financial assistance available to the countries concerned almost automatically whenever they sustained a fall in their export income.

150. As a result of these proposals, the International Monetary Fund was empowered in 1963 to extend to the Member States a special drawing right amounting to 25% of their quota when their export income fell. The country concerned had to be ready in such an event to co-operate with the IMF with a view to restoring its balance of payments. The IMF, moreover, had the option in such cases to increase the drawing right of the primary-commodity producing countries.

151. Although these provisions are in themselves a step forward, it does not mean that the long-term problems have thereby been solved. Indeed, it would mean an increase in the indebtedness of the unsuspecting less-developed countries.

152. It does, however, call for satisfaction that this solution should be technically and politically possible for the IMF. The fact that objective criteria have been established for such financial aid can indeed be regarded as a major success. In practice it is hard to lay down appropriate rules and establish methods whereby the application of such rules can be controlled. Once this problem is solved however, a conversion of loans into non-refundable loans, will simply be a matter for a political decision. If the borrowing country were obliged to repay the loan only if its exports increased over a period of from three to five years, this would be one solution.

153. The granting of such assistance should above all be geared to a deterioration in the terms of trade. By placing too much emphasis on the fall in export receipts, the snags already referred to would be liable to recur.

154. The compensatory payments should be made available to the public authorities and be earmarked, first and foremost, for the economic diversification of the less-developed countries. The apportionment system used for calculating contributions to the International Monetary Fund might possibly be used in financing this compensation; it might be adjusted to allow for the fact that the deterioration of the terms of trade of the less-developed countries worked to the advantage of other countries.

155. It is also felt that to guarantee the continuity of development aid, the contributing countries ought also to be able to obtain short-term credit under an international arrange-



ment.<sup>(1)</sup> Such contributing countries would then not be in a position of having suddenly to suspend their aid when confronted with balance of payments difficulties.

156. To be effective, development aid must flow steadily and continually and this will only be possible if it is instituted and applied as a joint undertaking.

#### *Regional co-operation*

157. Today the West European countries have, thanks originally to the Marshall Plan, reached the stage of economic and financial co-operation at the regional level. The OECD and the European Payments Union made a significant contribution to the recovery and development of Western Europe. Such regional co-operation would also prove valuable in the less-developed countries. If there were regional payments unions and financing bodies this would quicken the pace of economic growth. When industries are created or enlarged in the less-developed countries to produce goods for export, this should be done with an eye not only to the markets of the developed countries, but also to those of neighbouring States.

158. It should be recalled that the Marshall Plan itself linked financial aid with freer trade between the countries of Western Europe. In the developing countries, too, close economic co-operation would reduce the risks of structural distortions and unsound investments.

159. Regional co-operation must therefore go a stage further than that of regional payments unions and financing bodies. It should also embrace economic co-operation, especially in the form of customs unions as defined in Article XXIV of the GATT. If this were not possible, regional tariff preference and the reciprocal liberalization of trade could help to promote the development of these countries.

#### *Other ways of accelerating development*

160. In seeking ways of helping the less-developed countries, it is worth considering to what extent the investments of industrialized countries could be transferred to the less-developed countries, especially where the labour markets in the former are subject to undue tension. At present, several industrialized countries attract a great many foreign workers (from countries economically less-developed) in order to keep up the pace of their economic expansion. Would it not be more logical to transfer these investments,

especially the "comprehensive" investments, to the countries whence these workers come? This would promote the economic development of these countries and remove the disadvantages that are inherent in any large-scale immigration (housing and integration difficulties).

161. Re-exports of processed products also need to be borne in mind. Israel, for example, exports finished products to the EEC that are made from primary commodities imported from the Community. The EEC's customs duties are worked out on the total value of the finished product and hence, too, on the value of the primary commodity originally exported by the Member States. In other words, these duties are being levied not only on the primary commodity (originating in a Member State) used in manufacture and processing.<sup>(1)</sup> Fundamentally this problem also arises for other less-developed countries that want to industrialize.

## CHAPTER VII

### **The position adopted by the European Economic Community**

162. The EEC is one of the biggest importers in the world and could therefore exercise a significant influence on world trade if it were to succeed in developing a common trade policy.

It has been seen in this report that a common policy is a necessity. It will only be possible to solve the problem of the less-developed countries if action is taken on a really large scale in pursuit of clearly defined objectives.

163. The first instance of such a united attitude should be for all the countries in the EEC to sign the Part IV on Trade and Development introduced in the General Agreement on Tariffs and Trade. Subsequently, the EEC should give effect to its provisions by giving the less-developed countries access to the EEC markets for their finished products and so enable them to diversify their economies.

164. It was seen in the previous Chapter that GATT has been unduly preoccupied with the solutions that trade policy has to offer. Such measures as are taken should be coupled with moves to help the countries concerned to do what they can to promote their own development.

165. In Chapter VI of this working paper, the need to set up international market organizations was stressed. In this connexion, the EEC can play

<sup>(1)</sup> See: "Dialogue des Continents", Chapter IV, (Plon, Paris 1963) by Pierre Uri in co-operation with the Atlantic Institute.

<sup>(1)</sup> See Mr. Moro's report on relations between the European Community and the State of Israel (Doc. No. 8, 1965-66, paragraph 38).

an important part. At the Kennedy Round it had already submitted important proposals with a view to a world agreement on cereals. These proposals will provide a useful basis for world agreements on other products. A new approach to the problems of world trade is beginning to emerge.

166. In Chapter VI, compensatory financing was also advocated. This should be made through the International Monetary Fund. Given the position of the EEC countries on the "Group of Ten" (which includes all Member States except Luxembourg), the attitude taken by the Community with regard to this question could act as a powerful stimulus.

The United Kingdom and Sweden furthermore (who are also members of the "Group of Ten") submitted and won acceptance for a proposal to this effect at the United Nations Conference on Trade and Development. An appeal now has to be made to other countries, i.e. to the United States, Canada and Japan, to give their support to this compensatory financing scheme.

167. With regard to the preferences accorded to States associated with the EEC, the latter is bound by the Yaoundé Convention. One important development is to be noted in this connexion. All the less-developed countries which took part in the UNCTAD, including those associated with the EEC, were agreed in regarding the present special preferences as temporary and to be phased out as effective measures are taken at the international level to confer equivalent benefits of the countries concerned. This attitude was endorsed in the official records of the UN Conference on Trade and Development.

168. In conclusion, it should be emphasized that the European Communities already make a valuable contribution to political and economic stability throughout the world. This contribution could be even greater if they continued to develop according to the letter and the spirit of the Rome and Paris Treaties. This is the only way to achieve a common world policy which is a prerequisite of such development. The accession of the United Kingdom and of other European countries would undoubtedly contribute further to the action possibilities of the European Communities in that field.

#### **Proposal for a Resolution**

#### **relating to the problem of stabilizing world primary-commodity markets in the light of the United Nations Conference on Trade and Development**

*The European Parliament,*

- having examined the Report of its External Trade Committee and the Opinions submitted by the Agricultural Committee and the Committee for Co-operation with Developing Countries (Doc. 76);
- directing attention to the views already expressed by it in its Resolutions of 19 October 1964 and 23 November 1965; <sup>(1)</sup>

1. notes that trends in world trade continue to work to the disadvantage of the developing countries because of the constant worsening of their terms of trade and their shrinking share of total world trade;

2. holds that so long as the economies of the developing countries do not lend themselves to measures based on classical liberalization principles and on the most-favoured nation clause, the industrialized countries must accord them a preferential position on a non-reciprocal basis;

3. considers that the newly-added Part IV of GATT represents an important step in the right direction;

4. considers that the first essential is to adapt the pattern of production in these countries to the new international economic and political situation, for which purpose their economies must be diversified and regionally readjusted;

5. believes it to be the duty of the developing countries to gear their industrial and agricultural policies to this situation, and champions the principle of compensatory financing for developing countries should the modernization of their economies be threatened by a widening disparity between the prices of primary commodities and those of industrial products;

6. stresses, however, that such diversification and regional readjustment cannot be achieved over a short period, and that steps must therefore be taken forthwith to stabilize world primary-commodity markets, particularly by setting up international market organizations for tropical agricultural products;

7. draws attention to the Community's special responsibility in this sphere as the world's

<sup>(1)</sup> Resolution on the results of the United Nations Conference on Trade and Development (J. O. No. 117/1964) and Resolution on the expansion of trade between the EEC and the Associated African and Malagasy States (J.O. No. 209/1965).

largest importer of tropical products and signatory to the Yaoundé Convention;

8. regards it as highly desirable that the EEC should lay down a common policy with respect to the new international institutions for trade and development;

9. stresses that the development of the European Community along Community lines is essential if it is to make an increasing contribution to international political and economic stability, as only in this way will it be possible to set up an effective world-wide common policy;

10. considers that the accession of the United Kingdom and of other European countries would substantially increase the European Community's contribution, and that the latter should take the necessary political action, in close collaboration with the United States, with a view to finding a solution consonant with changed world conditions;

11. instructs the Parliamentary Committees concerned to continue to keep track of these problems;

12. invites its President to transmit this proposal for a Resolution and the relevant report to the EEC Commission and the Council.

**Opinion  
of the Agricultural Committee  
Drafter: Mr. H. A. Lückner**

In a letter dated 19 June 1964 the Agricultural Committee was instructed to prepare an Opinion on behalf of the External Trade Committee on the report to be submitted by that Committee on the problem of stabilizing world primary-commodity markets in the light of the United Nations Conference on Trade and Development.

Mr. Lückner was appointed Drafter of the Opinion by the Agricultural Committee.

At its meeting of 17 March 1966 the Committee examined the Working Document drawn up by Mr. Kapteyn for the Working Party of the External Trade Committee, Agricultural Committee and Committee for Co-operation with Developing Countries.

At a meeting held on 25 March 1966 the Agricultural Committee approved the Opinion reproduced in the following pages.

The following were present: Mr. Boscary-Monsservin, Chairman; Mr. Sabatini, Vice-Chairman; Mr. Vredeling, Vice-Chairman; Mr. Lückner, Drafter; Messrs. Baas, Bading, Battaglia (deputizing for Mr. Rossi), Berthoin, Blondelle, Breyne, Carboni, Charpentier, Dröschner (deputizing for Mrs. Strobel), De Gryse (deputizing for Mr. Klinker), Kriedemann, Lardinois, Miss Lulling (deputizing for Mr. Loustau), and Messrs. Marengi, Mauk, Moro, Müller and Richarts.

*Draft Opinion*

1. The Agricultural Committee has noted with interest the Working Document relating to the problem of stabilizing world primary-commodity markets.<sup>(1)</sup>

It approves the contents of this document and notes that the views underlying it are in agreement with those expressed in the Opinions previously prepared by the Agricultural Committee on the United Nations Conference on Trade and Development.

2. It is pointed out in the Working Document that the UNCTAD Committee on primary commodities has broken down these products as follows:

- (a) tropical products for which substitutes of a kindred nature do not exist;
- (b) primary commodities for which synthetic or other substitutes are available;
- (c) primary commodities produced both in the developing and in the developed countries.

3. If agricultural products are treated as a class on their own, they can in turn be subdivided as follows:

- (a) *Agricultural products produced exclusively in tropical areas*

These include coffee, tea and cocoa. Negotiations on world-wide agreements have so far been conducted at *ad hoc* conferences.

- (b) *Agricultural products from the temperate zones*

These include cereals, milk products and meat. Nearly all major producer areas are in the developed countries. Preliminary negotiations on world-wide agreements for these products are being conducted within GATT.

- (c) *Agricultural products from tropical areas equivalent to, and competing with, products from the temperate zones*

These include rice, sugar, vegetable fats and tobacco. This group of products will present the greatest obstacles to an international solution. In this respect the Community is bound by the Yaoundé Convention, under Article 11 of which the Community must take

<sup>(1)</sup> See Working Document prepared by Mr. Kapteyn (PE 14.973) on the problem of stabilizing world primary-commodity markets in the light of the United Nations Conference on Trade and Development.

into account the interests of the Associated States in determining its common agricultural policy.

As to the way this problem should be dealt with, the Agricultural Committee would make the following comments:

4. As regards the products falling under 3 (a), it does not regard it as its task to deal with the problems involved, and does not therefore propose to express its views on the subject.

5. As regards the products falling under 3 (b), as mentioned above, negotiations on international agreements are being conducted in GATT. These are either already in progress (for example, in the case of cereals) or due to be started up some time this year.

By a Decision of the Bureau of the European Parliament of 11 March 1966 the Agricultural Committee is responsible for international agreements on these products. As the Committee intends to submit reports on this subject to the European Parliament in the course of the year, it sees no point in going further into this question in the following pages.

6. As regards the products falling under 3 (c), the Agricultural Committee considers that the EEC has already taken up a fundamental position on the subject. The obligation to take into account the interests of the Associated States and of the Overseas countries and territories was already partially discharged, following the entry into force of the Yaoundé Convention, through Regulation No. 121/64 concerning the system to be applied to rice and broken rice.

7. The Agricultural Committee emphasizes the fundamental need to provide a stimulus to the processing industry in the producer countries. It has therefore welcomed the fact that the EEC Commission has followed the same line in its proposal concerning oil-seeds.

8. As already pointed out in the European Parliament's Resolution on rice and broken rice from the Associated African States, this problem must finally be settled within the context of a world-wide agreement, particularly as the EEC Regulation does nothing to solve the problem of the price level for sales in the EEC.<sup>(1)</sup>

9. According to the Bureau's decision referred to in paragraph 4 above, the Agricultural Committee is also responsible for dealing with problems arising from a world-wide agreement on sugar and vegetable fats.

10. As regards the common agricultural policy it appears logical to the Agricultural Committee that in due course it should take over the main responsibility for dealing with the other products covered by 3 (c). It does not therefore intend to go deeply into these problems in these pages.

11. A comparison between the breakdown of agricultural products with UNCTAD's classification of primary commodities shows that a number of agricultural products from the temperate zone (cereals, milk products, meat) do not fall under the latter. As mentioned in paragraph 5 above, the Agricultural Committee does not intend to deal in detail with this class of agricultural products. Nevertheless it feels it is advisable to offer the External Trade Committee, as the body mainly concerned, the following suggestions for solving the problem of stabilizing world primary-commodity prices.

12. In its Opinion the Agricultural Committee would like to confine itself to requesting the External Trade Committee to include the following items in the Resolution on the problem of stabilizing world primary-commodity prices:

*The European Parliament,*

.....  
.....

— having regard to the fact that economic progress in a large number of developing countries depends, at least for the foreseeable future, on their exports of agricultural products, and that these exports are clearly at a disadvantage, both as to volume in comparison with world standards, and as to terms of trade;

— in view of the fact that these countries are therefore caught up in a vicious circle since their position can only be improved by broadening the basis of their economy, a remedy which their lack of funds, due to inadequate revenue from agricultural exports, renders impracticable;

considers that stabilization of international agricultural markets on the basis of world-wide agreements can make a valuable contribution towards improving the position of the developing countries;

considers that world agreements can only be effective in the presence of facilities for balancing supply and demand and of common responsibility in the financial sector;

attaches special importance to a measure of compensatory financing to offset a deterioration in export trade relations;

realizes that it will be in the interests of these countries if stabilization of world agricultural

<sup>(1)</sup> See Journal Officiel des Communautés Européennes, No. 147 of 29 September 1964, Regulation No. 121/64.

markets covers first and foremost tropical products and those produced both in the tropics and in the temperate zone (e.g. sugar and oil-seeds);

points out however that world agreements on agricultural products from the temperate zone are of importance for the developing countries for the following reasons:

(a) deliveries of foodstuffs to the developing countries at present depend unduly on the chance existence of surpluses, which are made available under special programmes. World agreements could exclude this element of chance since they provide a means of bringing production of agricultural products into line with the actual needs of the developing countries;

(b) the fact that such agreements provide for joint responsibility in the financial sector will make it possible to introduce a storage system so as to ensure regular supplies both from the commercial and the foodstuffs point of view;

(c) regular and more plentiful supplies are above all necessary because economic development in these countries, and the parallel advance of urbanization, will long continue to make heavy demands on agriculture in these countries;

believes that the Community will prove of material help, through its common agricultural policy and its market organizations, in improving the economic situation throughout the world.

**Opinion**  
**of the Committee for Co-operation with Developing Countries**

**Drafter: Mr. A. Armengaud**

On 18 June 1964 the European Parliament decided to invite the Committee for Co-operation with Developing Countries to submit an Opinion on the stabilization of world primary-commodity markets in the light of the findings of the United Nations Conference on Trade and Development of which the External Trade Committee, as the body mainly concerned, had been duly apprised.

In the course of 1965 a Sub-Committee composed of five members studied this problem jointly with Sub-Committees appointed by the External Trade Committee and the Agricultural Committee.

These Sub-Committees drew up a Working Document which on 2 March 1966 was passed on to the three Committees concerned.

The Committee for Co-operation with Developing Countries, which on 24 November 1964 had instructed Mr. Armengaud to prepare a draft Opinion on the subject, examined the working paper at its meeting of 22 April 1966.

At this meeting the draft Opinion prepared by Mr. Armengaud was perused and unanimously adopted.

The following were present: Mr. Thorn, Chairman; Mr. Carcassonne, Vice-Chairman; Mr. Armengaud, Drafter; Messrs. Battaglia, Bernasconi, Charpentier, Dupont, de Lipkowski, Metzger, Pêtre, Scarascia-Mugnozza and Wohlfart.

*I. Introduction*

1. On 18 June 1964 the European Parliament decided to make a searching study of the problem of stabilizing world primary-commodity markets. This decision reflected the importance it attaches to defining a Community policy for assisting economically less-developed countries with a view to counteracting the instability of prices of tropical agricultural products and the persistent fall of primary-commodity prices.

A few months later the Parliament for the first time set forth its view on the problems posed for the European Community by the World Conference on Trade and Development held at Geneva between 23 March and 16 June 1964. On 19 October 1964, in the light of a report submitted by Mr. Pedini, <sup>(1)</sup> the Parliament adopted a resolution in which it deplored the fact that the standpoints of the EEC Member States had not been properly co-ordinated, and warned that the lack of a common approach by the Six could seriously impair the smooth development of world trade.

The Parliament also stressed the urgent need to lay down principles for a common trade

policy to guide the Community in the sphere of international economic co-operation, and to pursue a Community policy towards developing countries.

2. Moreover, in a resolution adopted on 23 November 1965 following the report submitted by Mr. Spenale, <sup>(1)</sup> the European Parliament again expressed its views on the subject, stating that:

"It is the duty of the Community, as the biggest importer of tropical products in the world and as a signatory to the Convention of Association, to take steps with a view to planning and co-ordinating trade in primary-commodities on a world scale."

3. The significance of these first pronouncements by the European Parliament must be emphasized from the outset. It would be impossible to tackle the problems involved in carrying out the Geneva recommendations without taking account of the views the Parliament has already expressed on this subject.

<sup>(1)</sup> Doc. 83 of 16 October 1964.

<sup>(1)</sup> Report on the expansion of trade between the EEC and the Associated African and Malagasy States, Doc. 100 of 22 November 1965.

## II. Primary commodities at the Geneva Conference

4. The problems attendant on the production and marketing of primary commodities were thrashed out at the Geneva Conference. Nine of the fifty-nine recommendations adopted by the Conference related to these problems, covering:

- (i) the initiation of studies on the situation of the markets and on trends in trade in primary commodities;
- (ii) the adoption of measures for long- and short-term price stabilization, with special emphasis on the problem of the terms of trade;
- (iii) the preparation of a draft general agreement on primary commodities.

5. During the debates the Conference established that the major problem was that of deciding between the removal of obstacles and the organization of markets.

The developing countries had submitted a detailed liberalization programme intended for rapid implementation. The industrialized countries were divided over the best course to adopt: the English-speaking countries and EFTA favoured liberalization while the EEC Member States supported—though in varying degrees—the organization of markets. The Conference finally agreed on a compromise under which the problem would be examined separately for each product and suitable solutions sought from case to case.

6. In accordance with the decisions taken by the Conference, a number of institutions were set up and put into operation in 1965 for the purpose of pursuing the objectives it had laid down. Of these institutions, the "Trade and Development Council", a permanent organ of the Conference with its seat in Geneva, deserves special mention.

Urged on by the permanent Secretariat, headed by Mr. Prebisch, Secretary-General of the 1964 Conference, these institutions have already done much to pave the way for the next meeting of the Conference which, as an organ of the UN General Assembly, has already been established as a permanent institution.

7. Before looking further into the current position, a word should be said about the attitude adopted by the Community at Geneva.

The problem of co-ordinating the standpoints of Member States was dealt with in special debates of the EEC Council during its sessions of 9-10 March 1964 and 1-2 June 1964.

The Council had decided that Member States should bring their attitudes into line throughout

the Conference so as to ensure a common approach or at least co-ordinated viewpoints. The general lines of approach laid down at the time by the Council included "*basic agreement on the need to stabilize primary commodity prices at a level remunerative for the producer countries*".<sup>(1)</sup>

The Community's attitude to these questions was outlined at Geneva by Mr. Brasseur, Belgian Minister for External Trade and President in office of the EEC Council, speaking on behalf of the six Member States:

"The Community is aware of the fact that the developing countries have not always derived full benefit from increases in tonnages exported, owing to price movements. This is why the Community—as it has already pointed out in other quarters—is in favour, as a matter of principle, of stabilizing primary commodity prices at a level that is sufficiently remunerative for the producer countries. If all the countries attending the Conference could agree to this, a decisive step would have been taken in the right direction.

Certain limits are of course set to stabilization. The first essential is to prevent over-production from nullifying any support it may be desired to provide. Secondly, we must not lose sight of the essential problem of diversifying production which is of far greater importance for many developing countries. Finally, we must refrain from encouraging the use of substitutes, although technical progress and its inevitable consequences call for a realistic approach to this problem.

In the light of these considerations the Community is ready to take an active part in the search for suitable measures to bring about the stabilization of primary commodity prices desired by the developing countries."

8. The importance of the position taken up by the Community is not to be underrated. It shows that the Six have accepted the need for rational organization of world markets with a view to stabilizing the prices of primary commodities. This agreement must serve as the basis for any attempts to lay down the policy which the Community and its Member States should pursue in this sphere within the new international institutions for trade and development.

## III. The problem of primary commodities within the context of the Yaoundé Convention

9. The provisions of Title I of the Yaoundé Convention set a limit to the customs protection

<sup>(1)</sup> See press release of 10 March 1964, Councils Doc. 381/64 (AG 105).



received by the Associated States within the range of the common external tariff, since prices higher than those ruling in world markets cannot be accorded them. Annex III of the Convention lays down that during the five years it remains in force the marketing of tropical products must be progressively adapted to world prices in accordance with a specific timetable.

The protection afforded by the EEC's common external tariff to products of the associated countries is fairly limited. It varies from product to product and was fixed as follows for the main ones:

— coffee . . . . .	9.6 %
— cocoa . . . . .	5.4 %
— fresh pineapples . . . . .	9 %
— cloves . . . . .	15 %
— coconuts (desiccated) . . . . .	4 %
— nutmeg . . . . .	15 %
— pepper . . . . .	17 %
— vanilla . . . . .	11.5 %
— tea <sup>(1)</sup> . . . . .	10.8 %
— palm oil . . . . .	8 to 14 %
— groundnut oil, copra, palm kernels . . . . .	5 to 15 %

On the other hand no preference exists for a whole series of products for which the EEC tariff provides for a nil-duty tariff. These include ores (tin, copper, nickel) rubber, cotton and oilseeds. For other products, such as rice and manioc, the preference granted under the common external tariff will be nullified by the introduction by the Community of a levy system which is intended to replace all other protective measures at the frontier.

As a result of the custom that has grown up among exporters in most of the Associated States of selling on a privileged market that guarantees both outlets and selling prices of their products, these countries are now faced with a host of difficulties which tend to reduce their competitiveness. They are thus obliged to resort to a number of measures such as reducing selling prices, improving the general appearance of their goods, and penetrating into the markets of Member States. The Community should back these efforts to become more competitive. Only thus can the Associated States (i) reap the benefit of their tariff advantages and (ii) enhance their chances of competing with those developing countries which, never having enjoyed a system of guaranteed prices, have had to sell at world prices, which are often subject to fluctuations in demand, and have therefore been exposed to the consequences—stimulating at times, but more often disastrous—of competition on the world market.

(1) Customs duty on this product was suspended from 1 January 1964 by agreement with the Associated States and in conjunction with a similar measure in the United Kingdom.

10. The EEC's purchases of tropical primary commodities originating in the associated countries vary widely from one Member State to the other; however, since the Association has come into operation all Member States, and not only France, have gradually opened up their markets to their exports.

The studies carried out by the European Parliament and the Parliamentary Conference of the Association have established that: <sup>(1)</sup>

- the share of the Associated States in the world market for raw minerals is a small one;
- there is a discrepancy between the increase in the output of tropical primary commodities and the revenue derived from their export to industrialized countries;
- certain products of the Associated States are exposed to competition from similar products of countries of the temperate zone, particularly North America (e.g. American soya-bean oil which competes with tropical oils).

11. The relationship between exports of primary commodities and the revenue of the AASM is shown in the tables below.

12. The figures for trade between the EEC and the Associated States show that the tariff preferences granted since the Yaoundé Convention came into force have stimulated exports of the products of the Associated States into the EEC. France clearly remains, however, the major market for these countries, since the other EEC States obtain the bulk of their requirements of tropical primary commodities from non-associated African countries or from Latin America.

The volume of trade between the EEC and the Associated States was reduced as a result of the fall in prices of primary commodities. Thus, the value of imports from some important supplier countries of the EEC fell during the first half of 1965 below that for the same period in 1964. World cocoa prices fell from \$500 to \$300 per ton during the first half of 1965, after rising from \$520 to \$550 per ton during the first half of 1964. <sup>(2)</sup>

(1) See report by Mr. van der Goes van Naters on the co-ordination of bilateral aid between the Member States of the EEC and the AASM (Doc. 77 of 9. 11. 1964) and note by Messrs. Peyrefitte and Armengaud on the stabilization of the prices of primary commodities from overseas—PE 8437 of October 1960).

(2) More recent figures show that cocoa prices have fallen as follows:

(French francs per 500 g)

1958	1959	1960	1961	1962	1963	1964	1965
2.14	1.77	1.37	1.09	1.02	1.22	1.13	0.77

**Exports of primary commodities from the Associated States 1958/1963 (metric tons)**

*Ground Nuts (kernels and oil)*

	Senegal	Ivory Coast	Upper Volta	Dahomey	Niger	Gabon	Congo (Brazzaville)	Central Africa	Chad	Madagascar	Cameroon	Togo	Congo (Leopoldville)	Revenue (\$ 1000)
1958	436,888	588	3,286	15,617	88,342	477	1,731	2,135	1,768	562	14,681	3,444	6,516	138,238
1959	401,902	120	2,074	3,621	57,673	259	1,251	2,066	1,093	—	6,635	224	6,398	106,510
1960	367,384	104	479	15,407	55,574	96	2,220	1,773	976	—	3,598	1,571	5,267	100,866
1961	453,433	248	564	12,522	68,198	279	1,039	1,268	304	78	9,924	3,371	76	115,190
1962	395,269	—	1,112	4,303	71,488	134	310	891	414	—	7,809	1,840	—	108,772
1963	306,746	2,579	3,196	6,593	88,293	148	208	639	1,779	143	17,719	2,809	—	97,874

*Palm Kernels*

	Senegal	Ivory Coast	Dahomey	Congo (Brazzaville)	Central Africa	Cameroon	Togo	Congo (Leopoldville)	Revenue (\$ 1000)
1958	2,297	17,255	60,044	7,116	804	12,966	12,057	39,145	18,836
1959	2,975	14,611	43,801	6,229	818	22,568	8,077	39,294	20,208
1960	4,181	16,354	61,274	6,514	1,185	15,301	14,182	20,399	20,588
1961	5,339	12,487	48,482	6,102	969	14,564	11,140	12,764	12,697
1962	5,587	10,696	43,901	7,717	912	11,995	10,400	18,851	11,879
1963	4,000	10,441	50,558	9,656	1,230	14,572	12,748	2,996	13,430

*Coffee*

	Ivory Coast	Dahomey	Gabon	Congo (Brazzaville)	Central Africa	Madagascar	Cameroon	Togo	Congo (Leopoldville)	Rwanda	Revenue (\$ 1000)
1958	112,525	461	171	82	5,143	47,821	26,485	4,560	71,130	—	215,846
1959	104,784	1,269	142	132	5,869	37,932	29,491	11,558	91,774	—	182,781
1960	147,596	850	263	302	5,920	40,220	30,512	4,393	60,568	—	156,296
1961	154,706	2,050	467	678	7,269	39,811	35,498	10,230	33,925	—	149,494
1962	144,764	1,728	625	1,069	7,887	56,035	38,118	11,541	32,378	—	155,121
1963	182,788	1,002	647	643	5,778	44,395	40,099	6,223	46,403	5,700	181,436

*Cocoa*

	Ivory Coast	Gabon	Congo (Brazzaville)	Madagascar	Cameroon	Togo	Congo (Leopoldville)	Revenue (\$ 1000)
1958	46,333	2,366	289	322	54,403	6,917	4,924	88,960
1959	63,263	2,513	392	229	53,357	8,362	3,775	91,990
1960	62,896	3,325	521	344	58,898	9,414	5,156	79,080
1961	88,467	3,186	738	435	58,302	11,534	4,984	74,463
1962	101,018	3,361	829	338	59,938	11,079	5,907	77,406
1963	99,728	2,946	897	407	71,236	10,263	5,966	93,163

*Manioc Flour*

	Congo (Leopoldville)	Togo	Cameroon	Ivory Coast	Dahomey	Central Africa	Madagascar	Revenue (\$ 1000)
1958	41,117	—	—	—	—	—	—	—
1959	49,865	1,772	—	—	—	—	—	—
1960	26,411	5,349	—	—	10	—	—	463
1961	—	3,326	—	—	23	—	—	511
1962	2,010	562	20	—	168	12	31	234
1963	120	357	12	150	123	—	—	107

received by the Associated States within the range of the common external tariff, since prices higher than those ruling in world markets cannot be accorded them. Annex III of the Convention lays down that during the five years it remains in force the marketing of tropical products must be progressively adapted to world prices in accordance with a specific timetable.

The protection afforded by the EEC's common external tariff to products of the associated countries is fairly limited. It varies from product to product and was fixed as follows for the main ones:

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On the other hand no preference exists for a whole series of products for which the EEC tariff provides for a nil-duty tariff. These include ores (tin, copper, nickel) rubber, cotton and oilseeds. For other products, such as rice and manioc, the preference granted under the common external tariff will be nullified by the introduction by the Community of a levy system which is intended to replace all other protective measures at the frontier.

As a result of the custom that has grown up among exporters in most of the Associated States of selling on a privileged market that guarantees both outlets and selling prices of their products, these countries are now faced with a host of difficulties which tend to reduce their competitiveness. They are thus obliged to resort to a number of measures such as reducing selling prices, improving the general appearance of their goods, and penetrating into the markets of Member States. The Community should back these efforts to become more competitive. Only thus can the Associated States (i) reap the benefit of their tariff advantages and (ii) enhance their chances of competing with those developing countries which, never having enjoyed a system of guaranteed prices, have had to sell at world prices, which are often subject to fluctuations in demand, and have therefore been exposed to the consequences—stimulating at times, but more often disastrous—of competition on the world market.

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*Ground Nuts (kernels and oil)*

	Senegal	Ivory Coast	Upper Volta	Dahomey	Niger	Gabon	Congo (Brazzaville)	Central Africa	Chad	Madagascar	Cameroon	Togo	Congo (Leopoldville)	Revenue (\$ 1000)
1958	436,888	588	3,286	15,617	88,342	477	1,731	2,135	1,768	562	14,681	3,444	6,516	138,238
1959	401,902	120	2,074	3,621	57,673	259	1,251	2,066	1,093	—	6,635	224	6,398	106,510
1960	367,384	104	479	15,407	55,574	96	2,220	1,773	976	—	3,598	1,571	5,267	100,866
1961	453,433	248	564	12,522	68,198	279	1,039	1,268	304	78	9,924	3,371	76	115,190
1962	395,269	—	1,112	4,303	71,488	134	310	891	414	—	7,809	1,840	—	108,772
1963	306,746	2,579	3,196	6,593	88,293	148	208	639	1,779	143	17,719	2,809	—	97,874

*Palm Kernels*

	Senegal	Ivory Coast	Dahomey	Congo (Brazzaville)	Central Africa	Cameroon	Togo	Congo (Leopoldville)	Revenue (\$ 1000)
1958	2,297	17,255	60,044	7,116	804	12,966	12,057	39,145	18,836
1959	2,975	14,611	43,801	6,229	818	22,568	8,077	39,294	20,208
1960	4,181	16,354	61,274	6,514	1,185	15,301	14,182	20,399	20,588
1961	5,339	12,487	48,482	6,102	969	14,564	11,140	12,764	12,697
1962	5,587	10,696	43,901	7,717	912	11,995	10,400	18,851	11,879
1963	4,000	10,441	50,558	9,656	1,230	14,572	12,748	2,996	13,430

*Coffee*

	Ivory Coast	Dahomey	Gabon	Congo (Brazzaville)	Central Africa	Madagascar	Cameroon	Togo	Congo (Leopoldville)	Rwanda	Revenue (\$ 1000)
1958	112,525	461	171	82	5,143	47,821	26,485	4,560	71,130	—	215,846
1959	104,784	1,269	142	132	5,869	37,932	29,491	11,558	91,774	—	182,781
1960	147,596	850	263	302	5,920	40,220	30,512	4,393	60,568	—	156,296
1961	154,706	2,050	467	678	7,269	39,811	35,498	10,230	33,925	—	149,494
1962	144,764	1,728	625	1,069	7,887	56,035	38,118	11,541	32,378	—	155,121
1963	182,788	1,002	647	643	5,778	44,395	40,099	6,223	46,403	5,700	181,436

*Cocoa*

	Ivory Coast	Gabon	Congo (Brazzaville)	Madagascar	Cameroon	Togo	Congo (Leopoldville)	Revenue (\$ 1000)
1958	46,333	2,366	289	322	54,403	6,917	4,924	88,960
1959	63,263	2,513	392	229	53,357	8,362	3,775	91,990
1960	62,896	3,325	521	344	58,898	9,414	5,156	79,080
1961	88,467	3,186	738	435	58,302	11,534	4,984	74,463
1962	101,018	3,361	829	338	59,938	11,079	5,907	77,406
1963	99,728	2,946	897	407	71,236	10,263	5,966	93,163

*Manioc Flour*

	Congo (Leopoldville)	Togo	Cameroon	Ivory Coast	Dahomey	Central Africa	Madagascar	Revenue (\$ 1000)
1958	41,117	—	—	—	—	—	—	—
1959	49,865	1,772	—	—	—	—	—	—
1960	26,411	5,349	—	—	10	—	—	463
1961	—	3,326	—	—	23	—	—	511
1962	2,010	562	20	—	168	12	31	234
1963	120	357	12	150	123	—	—	107

*Cotton*

	Mali	Ivory Coast	Upper Volta	Dahomey	Congo (Brazzaville)	Central Africa	Chad	Madagascar	Cameroon	Togo	Congo (Leopoldville)	Somalia	Revenue (\$ 1000)
1958	—	75	916	778	—	11,174	26,047	311	6,954	1,748	34,442	1,073	57,082
1959	—	—	872	764	—	16,108	24,413	446	7,819	1,918	49,971	843	55,153
1960	—	18	840	874	—	10,797	14,402	679	7,349	3,178	41,504	984	41,952
1961	—	71	3	1,330	—	10,440	30,409	950	10,308	2,433	15,221	950	40,813
1962	2,929	—	707	655	—	8,107	20,122	762	12,510	1,912	9,400	864	30,940
1963	8,294	1,040	1,189	1,425	12	9,769	31,161	318	14,891	2,751	8,809	247	40,520

*Iron Ore*

1963: Mauritania 1,315,000 tons

*Manganese Ore*

	Gabon	Congo (Brazzaville)	Congo (Leopoldville)	Ivory Coast	Madagascar
1958	—	—	318,754	—	—
1959	73	—	302,397	22,724	200
1960	14	—	—	109,414	378
1961	—	—	—	97,559	—
1962	21,020	15,000	294,996	105,301	—
1963	603,673	—	221,872	—	—

*Petroleum (crude and refined)*

	Gabon	Congo (Brazzaville)	Congo (Leopoldville)
1958	—	—	—
1959	780,778	—	13
1960	775,110	33,653	—
1961	737,808	93,425	—
1962	817,672	135,007	—
1963	943,777	101,060	—

*Timber (in the rough and processed)*

	Ivory Coast	Gabon	Congo (Brazzaville)	Central Africa	Cameroon	Congo (Leopoldville)	Revenue (\$ 1000)
1958	402,269	632,172	188,880	3,524	152,348	118,116	64,371
1959	444,134	652,522	209,850	6,442	139,974	116,432	59,237
1960	654,478	742,531	266,105	8,152	139,285	111,144	74,850
1961	766,997	759,250	265,188	6,036	148,310	97,664	85,314
1962	601,563	694,388	296,174	15,333	152,862	84,339	77,141
1963	839,453	715,765	315,542	10,010	190,541	122,779	94,266

The average price of Robusta coffee during the same period in 1965 was \$ 600 per ton, 30 % less than in the first half of 1964. These falling prices considerably reduce the revenue of producer countries.

13. Under the Yaoundé Convention the EEC must provide financial compensation to the

Associated States in respect of inadequate revenue from their exports to the Community and of the obligation laid upon them gradually to line up the prices of their products to those ruling on the world market.

Such compensation is however limited both in volume (730 million units of account, made

up of 620 million u. a. in the form of non-repayable aid and 110 million in the form of loans) and in duration (five years from 1 June 1964). The amount involved is negligible in comparison with the revenue that would be derived by the Associated States from regular purchases of their primary commodities at remunerative prices.

As a result of this situation, certain Associated States are making a great effort to overhaul their economic structure in the hope of making a swift passage from a subsistence economy to a market economy. If, however, the drive for productivity and quality producers are expected to make does not lead to an increase in their revenue—owing to competition from other producer countries to which their products are then constantly exposed—the African farmer will soon desist from making the extra effort to earn more money and revert to the customs of his forefathers. Any deterioration in the terms of trade will thus tend to hamper the structural changes needed if the Associated States are to move steadily forward and extricate themselves from a state of financial insecurity.

The Associated States have never made a secret of the fact that they wish to finance their expansion with revenue earned from sales of their products on the EEC market. As early as 1961 the African parliamentarians, meeting at Ouagadougou prior to the Parliamentary Conference at Strasbourg, stressed the importance of planned development based on the widening of outlets for products of the Associated States produced in larger quantities and with enhanced quality. They also underlined the need to find suitable means of stabilizing prices of tropical products at a reasonable level so that the revenue of the Associated States was not subjected to unduly wide fluctuations liable to upset the balance of their economy.

During their first meeting within the institutional framework of the Association parliamentarians from Europe, Africa and Madagascar again expressed their views clearly on this question. The Parliamentary Conference at Dakar (December 1964) recommended:

“that the EEC Member States should introduce a common policy aimed at increasing purchases of primary commodities from the Associated States and thus raising their revenue;

that they should not allow the pricing of commodities whose prices are subject to wide fluctuations to be determined purely by the interplay of supply and demand;

that the Associated States should try to introduce a form of regional planning, ensuring rational division of effort and of commodi-

ties produced, in the light of the natural resources of each country.”

In other words, the Parliamentary Conference called for a policy of economic co-operation between the Associated States and the EEC Member States—at least in respect of products of the Associated States imported into the EEC—with a view to planning and co-ordinating production and avoiding confusion on their markets.

14. So far the EEC Member States have not given the impression of considering themselves jointly bound by the wish thus expressed by the parliamentarians. They ought not to forget, however, the formal commitment entered into by them on 20 July 1963 at Yaoundé with the signing of Protocol No. 4 to the Convention of Association.

Under this Protocol the members of the Association have agreed to take account of their mutual interests at international level, and to this end to consult each other “in particular with a view to initiating appropriate action by common accord at international level to resolve the problems raised by the marketing and disposal of tropical products”.

There is no doubt as to how this text should be interpreted. It imposes a clear obligation which is binding on all EEC Member States and enables us to declare, for example, that the reservations recently made by certain Member States regarding the proposals of the United Nations Conference on Trade and Development (UNCTAD) concerning the conclusion of an international agreement on cocoa are incompatible with the commitments entered into at Yaoundé.<sup>(1)</sup>

We should not however lose sight of the importance in certain areas of substitutes that compete with the primary commodities of the AASM. Mr. Brasseur was speaking on behalf of the Community as a whole when he remarked at the Geneva Conference in March 1964 that:

“We should refrain from encouraging the use of substitutes, although technical progress and its inevitable consequences call for a realistic approach to this problem.”

What precise significance does the Community attach to this declaration of intent? How far are the Six prepared to go towards honouring the recommendation made by the President in office of the Council of Ministers before the representatives of all the developing countries? To what extent do the Six consider it desirable to limit production of synthetic products or substitutes

(1) On 18 March those Associated States which are cocoa producers asked the EEC, within the Association Committee, to back them in the current negotiations in UNCTAD for an international agreement on cocoa.

that compete with cotton or rubber? Does not the fact that technical progress is here to stay favour the development of synthetic products? In the light of these present-day circumstances, this problem should be tackled within the Association before it is referred to international institutions, so as to avoid pursuing a policy for the cultivation of products which the industrialized countries are increasingly reluctant to buy. This appears to be all the more urgent in view of the fact that various Associated States, in the light of the diversification of production provided for in the Yaoundé Convention, have worked out programmes for the cultivation of new crops, or for the expansion of existing cotton and, more particularly, rubber plantations.<sup>(1)</sup>

It is highly desirable that production—particularly of cotton and rubber—should be properly planned so as to take future demand into account. Estimates should be drawn up right away so that the efforts made by producer countries to diversify their crops will not lead to results as disappointingly unremunerative as those achieved in the cultivation of their traditional primary commodities.

15. All these problems should be carefully investigated within the Association itself.

It is worth noting in this connexion that at the Geneva Conference the French Delegation showed that the competition which the products of the developing countries met from the industrialized countries led to the rich countries becoming richer, and the poor countries poorer. The whole point of development aid, on the other hand, lay in the poor countries' sharing in the prosperity of the more fortunate ones. The delegation therefore felt that the industrialized countries should enter into formal obligations vis-à-vis the poorer countries.

All the more regrettable, therefore, are the terms of the Geneva Conference resolution, the unanimous adoption of which did little to conceal its ineffectiveness.

#### IV. Proposed solutions

16. The working document prepared by the External Trade Committee rightly stresses the need for the EEC to define and put into effect

a common trade policy through which it could exercise considerable influence on world trade.

The urgency of such a step is borne out by the mounting trade policy problems connected with development which are now being systematically studied in new institutions in which the European Community is to be represented. While, therefore, a common trade policy is essential, it is a matter of even greater urgency to define those aspects of such a policy that have a direct bearing on the developing countries.

Greater efforts must therefore be made at Community level to lay down the basis for a co-ordinated approach by Member States in the new international institutions for trade and development which have been set up in Geneva and on which the Community, too, should be represented.

17. As regards the content of such a trade policy for aid and development, the Six formally decided in the EEC Council on 10 March 1964 in favour of stabilizing primary commodity prices at a remunerative level.

The question raised by the External Trade Committee has therefore already met with a reply: the Six are fully alive to the need to adopt a common approach to the problems that are being studied at Geneva. They have already accepted the principle of stabilization, realizing that the aid given by rich countries to those badly off, whatever its nature and extent, can never take the place—from the political, let alone the psychological point of view—of the revenue the developing countries could earn by selling the produce of their soil at remunerative prices.

This decision, it must be emphasized, must now be put into effect.

18. The Six, which together are the world's largest importer of tropical products, have a special responsibility in this respect, not least because of the obligation they have assumed under Protocol No. 4 to the Yaoundé Convention. They have already accepted in principle the need for organizing primary commodity markets. It now only remains for them to take the appropriate action, and in particular to hammer out, jointly with the EEC Commission, ways and means of putting these policy aims into effect.

In this way the Six Member States would emerge from the present state of uncertainty and share constructively in the work of UNCTAD, thus disposing of the criticisms—often justified—at present levelled at them by many developing countries.

19. The document submitted by the External Trade Committee puts forward the following measures as a first step towards a solution:

<sup>(1)</sup> Particularly in Cameroon, a large cotton producer which intends shortly to produce more than 60,000 metric tons of seed-cotton a year. Cotton is North Cameroon's chief source of revenue and its most important trading product. This country is also expanding production of rubber and intends in the next few years to invest 3,000m. CFA francs (= 60m. French francs) on the cultivation of 6,000 hectares (about 15,000 acres) of rubber trees.

The Ivory Coast is also expanding its rubber plantations and intends to produce 7 to 8,000 tons of latex in the next few years. Similarly, Mali increased its production of seed-cotton between 1961 and 1962 by 68%. Finally, cotton is Chad's only industrial crop, production being about 100,000 tons of seed-cotton a year, a figure it is proposed to increase still further.

- (a) compensatory payments to offset losses of revenue resulting from reduced purchases by the industrialized countries, or from a fall in prices;
- (b) the application of the newly-added Chapter IV of GATT on the removal of obstacles of all kinds that hamper imports into industrialized countries of primary commodities and processed products from the developing countries.

The signing by all the Member States of such an amendment to the GATT provisions would of course ensure the adoption of a common approach throughout the Community. Certain doubts may however be expressed as to the soundness of the proposals concerned.

The free trade at which GATT is aiming is hardly compatible with the behaviour of the countries that advocate it. On the domestic market the United States pursues a rigidly protectionist policy and supports farmers by means of financing organizations, such as the Commodity Credit Corporation, which have considerable funds at their disposal. These are used to guarantee prices and to finance in advance, or even store, crops for which the producers have received payment. To harp on the virtues of GATT thus appears to be either a naïve or somewhat suspect proceeding.

This impression becomes all the stronger when it is remembered that the European States themselves have for years constantly protected certain branches of agriculture, at times to excess, and in doing so have violated—though on socially justifiable grounds—the precepts of a liberal market economy which they set up as a model for world trade. The protection given to cereals in France and Germany is a case in point.

20. It is of course inconsistent to advocate trade on equal terms simultaneously with measures intended to expand the economies of less favoured countries.

In this sector of customs tariffs it is impracticable to demand equality for all with a view to favouring the weakest. The only bodies that are doing a useful job here are indeed the regional organizations with their mutual preferences.

The answer to the criticisms levelled by certain third countries at the regional system of the Yaoundé Convention is that the real contradiction lies in maintaining that there should be equality of preference and that the developing countries will benefit if all are treated alike. For the developing countries unrestricted free trade has always spelt the weakening of their economies since it exposes them to competition from which the industrialized purchasing countries benefit.

If one declines to take these considerations into account there is a risk that the African countries, discouraged by the inability of the West to grasp the real nature of their problems, or to apply to these countries the policy it pursues regarding its own suitably protected products, may acquire a taste for other forms of civilization and thus be drawn into other political ambitions. At Geneva these countries declared they were willing to adjust their production by stages to normal world market conditions, which are still far removed from the level of surplus prices or of excessive support prices. This gap can never be closed, however, unless prices of tropical primary commodities cease to decline. In short, countries that are enjoying preferences will find it very difficult to surrender them unless other equivalent advantages are accorded them.

21. Under the existing system of preferences between the signatories to the Yaoundé Convention, the EEC must expand trade with its African and Malagasy partners in accordance with Article 1 and Annex VIII of the Convention.

Moreover the Association could form an effective means of ensuring more stable prices for certain products of the associated countries.

In the present state of the Treaties it would doubtless be difficult to extend to the Six as a whole the system of stabilization funds and guaranteed sales existing under the bilateral relations between France and the States of the French franc area. It would perhaps be easier to set up African marketing boards for each product on the lines of those operating in English-speaking Africa. Although these are not mentioned in the Yaoundé Convention, they are not in principle excluded. Such boards are mainly financed by the producers, who pay a levy in respect of prices above the reference level and receive a compensatory payment when market prices are below.

Agreements for individual products, such as those in force for tin and coffee, could be considered for major African products subject to wide fluctuations in price, i.e. cocoa, groundnuts and palm kernels, to ensure that production does not unduly exceed demand.

On the other hand the preference accorded to the Associated States' products—at present so slight that the price for soya bean surpluses can reduce it to nil for fats—could be increased so as to enable a fund to be formed to aid African producers when there is a fall in the price of their products. This presupposes that the provisions regarding the levy on imports of cereals into the EEC should be extended to the products of the Associated States and to their domestic substitutes (e.g. soya beans instead of groundnuts), or that a specific Community tax should be levied at the consumer's expense before the



processing or marketing stage. This would ensure that competition arising from prices due to dumping or liquidation of stocks would not reduce the earnings of producer countries.

In determining the amount of the levy, three requirements must be taken into account: (i) the prices resulting from the levy must be accepted by the consumer; (ii) a ceiling must be fixed for African products so as to rule out the accumulation of unsaleable stocks over and above emergency reserves; (iii) products must be of unvarying quality. The money accumulated in this way could be administered by a central fund managed by the producer countries themselves, part of the levy being of course used for the diversification of their economies.

22. In this connexion it is interesting to see that twelve Associated States belonging to the French franc area have recently asked the EEC to collaborate in setting up a common organization for the sugar market.

CAMO (Common African and Malagasy Organization) is planning to organize the sugar market between its members, of which some—e.g. Madagascar and Congo (Brazzaville)—are producers and others consumers. Price equalization will ensure stable earnings at a reasonable level for producers and attractive prices for consumers. The Council of CAMO will each year fix a guaranteed price independent of that ruling on the world market so as to ensure an adequate return to the African sugar industry. Imports from third countries will be aligned to this price through the levy system, and the processing industry will be free to develop without being exposed to fluctuations in world prices, domestic output being insufficient to cover overall demand.

These countries have up till now belonged to a market organized within the French franc area. (1) They do not want to be excluded from the organized EEC market as they fear exposure to the hazards of the world market.

This goes to show what an important part the EEC can play, within the regional context of the Association, in tackling the problems arising from the marketing and disposal of primary commodities.

23. A start in this direction was made in the EEC Commission's proposal for a regulation governing oils and fats originating in the Associated States. (2) Under this important proposal which, despite its urgency for those concerned, has unfortunately not yet been put into effect, financial aid will be given in respect of certain

oils and fats imported from the Associated countries when the price on the world market falls below the reference price. This aid will be financed by the EAGGF (European Agricultural Guidance and Guarantee Fund) from a levy on edible fats and oils.

In this case, therefore, the EEC has realized that it can hardly set up a levy system to protect its own agricultural products while withholding the resulting benefits from producers in the Associated States.

These provisions, however, have only a limited effect. They by no means reduce the risk of imports of soya beans from the United States; this continues to prevail because of the uniform quality of the product, the massive publicity campaign waged by organized producers, (1) and the tendency of the latter to set no limit on output.

At the most these imports can be held in check by stepping up publicity of African oils (as France has done in the case of groundnuts). Something more than conventional commercial advertising is needed. The attention of consumers should be drawn to all the advantages offered by the products of the associated countries, among them security of supply, unvarying high quality, and the vastness of the distribution network. This calls for an effort both by African producers and by European and African processors, who should meet the cost of the campaign, if necessary with the help of the European Development Fund.

The solution outlined above should be supplemented by commercial agreements between the European importers, framed in such a way as to ensure that the products of the associated countries receive contractual preference. (2) These agreements could cover sources of supply of specified quantities, purchase prices for African producers, and the creation of a fund jointly administered by importers and producers with a view to smoothing out fluctuations in prices.

For their part, the Associated States would be well advised to replace the State collecting centres for certain primary commodities by joint companies or trading co-operatives which, particularly because of their contractual links with European importers, could lay their hands on funds for the advance financing—and perhaps the storage—of crops.

(1) In 1966 exports of U.S. agricultural products were over \$6,200m., the EEC providing the major outlet. Exports of oils and fats to France rose from \$71m. in 1959 to \$222m. in 1964. In 1965 the soya harvest in the USA yielded 23 million tons of beans, equivalent to about 4 million tons of oil. EEC imports of soya oil-cakes from the United-States in 1965 were about double those for 1964.

(2) This presupposes a generous interpretation of the rules of competition of the Treaty of Rome and of the regulations implementing them.

(1) Only 10% of the sugar produced is at present marketed at world prices, the bulk being disposed of within organized markets.

(2) See report by Mr. Aigner, Doc. 62 of 14 June 1965.

24. In its conclusions the working document of the External Trade Committee rightly insists on the need to establish international market organizations whose tasks should include co-ordinating the national policies of the various countries. Such a solution would be warmly welcomed by the Committee for Co-operation with Developing Countries, especially in view of the attitude already taken by the European Parliament and referred to in Chapter I of this Opinion.

The text prepared by the External Trade Committee appears however to refer mainly to agreements that could be concluded in the Kennedy Round and that relate, therefore, to agricultural products of the temperate zones. An effective aid policy for third countries calls however for special measures to expand trade in agricultural products from tropical regions. The Geneva Conference concerned itself mainly with primary commodities produced in the developing countries, with a view to increasing their consumption and import in the developed countries.

The steps taken by the Community with a view to concluding international agreements for primary commodities should therefore cover not only agricultural products from the temperate zones which might have a bearing on its common agricultural policy, but also primary commodities exported by the developing countries.

Such action should therefore be taken primarily within the new UNCTAD institutions, set up after the Geneva Conference, which have already, for example, put forward highly interesting proposals for the conclusion of a new international agreement on cocoa.

In line with the common approach to be adopted in the Geneva institutions, Member States should seize this first opportunity offered by the draft agreement on cocoa to show they are willing to take an active and constructive part in the work of UNCTAD.

25. The Committee for Co-operation with Developing Countries welcomes the suggestion concerning compensatory financing contained in paragraph 157 of the document of the External Trade Committee.

The system of "compensatory financing" for countries hit by the deterioration in the terms of trade—first proposed in 1954 in the United Nations<sup>(1)</sup>—was in 1961 made the subject of a searching study which provided for a sort of international mutual insurance under which the contributions of economically strong countries would go to benefit less developed ones.<sup>(2)</sup>

(1) See "Commerce des produits de base et développement économique", United Nations, 1954.

(2) See "Mesures internationales destinées à compenser les fluctuations du commerce des produits de base", United Nations, 1961.

It is difficult to assess the possibility of putting this proposal into effect. It should however receive careful attention from the EEC and Member States in the course of subsequent activities in UNCTAD.

The External Trade Committee rightly points out that the European Community's attitude to this question can prove to be of considerable importance. However, compensatory aid must be planned in such a way as to fit into a system operating on lines similar to that of the agricultural levy in the EEC.

26. In its conclusions, the document of the External Trade Committee points out that the EEC is bound by the system of preferences set up under the Yaoundé Convention. Moreover, it is emphasized that the Yaoundé Association—like the Community itself—is outward-looking, so that it is open to all developing countries to accept the advantages and obligations of the Association.

The Community and the eighteen Associated African and Malagasy States have agreed to pool their efforts to solve the problem of trade in tropical products. This group of twenty-four countries can therefore play a major rôle in solving international economic problems.

27. It would be idle however to discuss the outward-looking character of the Association if its present members—whether European or African—fail to agree on a common policy and common means to enable them to stabilize the prices of tropical primary commodities and ensure outlets for AASM producers. The Association would then not only fail to attract new members but fade away or collapse altogether, leaving behind it a trail of recrimination.

It is therefore essential, without delay, to have a frank discussion with African members of the Association on the likely outlets for their products and the prospects for stabilizing prices therefor, with all the consequences this would entail.

28. Finally, the Committee for Co-operation with Developing Countries expresses its concern regarding the instability of prices of tropical agricultural products and the continuous fall of primary commodity prices, and draws attention to the views expressed by the European Parliament on the subject in its resolutions of 19 October 1964 (report by Mr. Pedini) and 23 November 1965 (report by Mr. Spenale).

On the strength of the arguments outlined in this Opinion, it feels that in the resolution it adopts after studying the report of the External Trade Committee, the Parliament should:

- (a) renew its backing for the decision taken by the EEC Council at its session of 9-10 March

1964 to adopt, in principle, an approach favouring the stabilization of primary commodity prices at a level remunerative to producer countries, rejecting once and for all the sole play of supply and demand;

- (b) demand greater efforts at Community level to define a co-ordinated approach on the part of Member States in the new international institutions for trade and development, on the basis of regional preferences and financial compensation for fluctuations in prices;
- (c) demand that, as part of this co-ordinated approach, the Community should take steps to organize markets for agricultural primary products of tropical origin, with a view to improving at least the terms of trade for these products as against industrial products;
- (d) stress the special responsibility that falls in this sphere on the Community as the major importer of tropical products on the world market and as signatory to the Convention of Association with the African and Malagasy States;
- (e) recommend Member States to support every effort already being made at world level to

organize the market for certain products, and particularly to adopt a positive attitude to the international agreement on cocoa;

- (f) draw attention to the significance of the moral obligations assumed by the Community in this respect in Protocol No. 4 to the Convention, and
- (g) stress that, pending the results of the efforts undertaken within the context of the relations existing between the signatories to the Yaoundé Convention—results which will also depend on the machinery set up by the EEC partners to deal with agricultural products—the Community should forthwith promote co-ordinated expansion of trade with its African and Malagasy partners in accordance with the letter and spirit of the Yaoundé Convention;
- (h) arrange for inclusion on the agenda of the next Parliamentary Conference of the Association of a searching discussion of the stabilization of prices and outlets for the primary commodities of the Associated States.

