Question No.3 Explain various International Commodity Agreements.

Solution:

There have been seven major international commodity agreements. These international commodity agreements are given as follows:

1. International Rubber Agreement

Only this agreement was negotiated under the Integrated Programme of Commodities. It was concluded on 6th October 1979 and came provisionally in force in April 1982. However, the agreement came into operational in November 1981 when the buffer stock manager started buying natural rubber in order to stabilize prolonged decline in natural rubber. This agreement got the support of producers and consumers. Malaysia's share was 41.5 percent, Indonesia's 23.5 per cent and Thailand's 13.8 per cent. There are three countries who together constitute 88 per cent of world exports. The major consumers of natural rubber are: the US -25 per cent, European Community -23 per cent and Japan – 11 per cent. The main concern of all consumers is assured supply. Tyre manufacturers, specially those of radial tyres, needed more rubber. It was estimated that the supply of rubber would grow slowly. Further, consumers were also afraid of inflationary pressures and rise in commodity prices. It was also felt that high prices of petroleum had raised the prices of products based on petro-chemicals. Hence tyre manufacturers were keen on stable prices. The International Natural Rubber Agreement used buffer stock operation to maintain prices at specified level. There was expected to be regular review of prices at every 18 months.

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Sale from buffer stock and purchase by buffer stock agency was made on the basis of stipulated price. This agreement met with mixed success during its operation. It has managed to hold the price within the specified stabilization range despite a very severe recession in rubber demand. It is criticised that it was done at the cost of a continual accumulation of stocks.

2. International Sugar Agreement

There have been four international sugar agreements in post war period. The first one was signed in 1953, second in 1958, with a five year gap, a third agreement was signed in 1968. After a four year gap a fourth agreement was signed. Negotiation under the auspices of UNCTAD through 1983 and 1984 failed to result in any agreement. Sugar agreement operated entirely through export controls. It did not achieve much success. One of the reasons for the agreements failure was that sugar is produced by developed and developing countries. Further, holding stocks was yet another problems.

3. International Tin Agreement

The first year international tin agreement became operational in 1956. These agreements have subsequently renewed and sixth agreement came into force on a provisional basis. Since the US did not become a party under the agreement, the International Tin Council has intervened in the tin market both by negotiated supply restriction and through operation of buffer stock. This intervention has been considered moderately successful.

4. International Cocoa Agreement

Cocoa trade has a long history of attempting to stabilize through buffer stock operations. In 1956, the UN Committee on International Commodity Agreement was asked by the UN to

hold a conference. It passed a resolution requesting Food and Agricultural Organization (FAO) to suggest method of stabilizing prices. The work of FA0 cocoa study group resulted in a draft of an international commodity agreement on which an international conference was called in 1965. Since then three subsequent conferences have been held- in 1966, 1967 and 1972. In 1972 the agreement was ratified. It must be noted that the UNCTAD took over from FAO the work of the cocoa study group although FAO continued to give technical assistance. Although a number of conferences were held, the UN negotiation conference which was held in New York. May to June 1966 failed to reach the agreement. The major disagreement was how to decide the floor price at which the buffer stock authority would intervene in the market. But a series of negotiations could not result in an agreement. In 1972 a draft international cocoa agreement was made.
The agreement included three provisions: (i) Minimum price of 23 US cents and maximum price of 32 US cents per year; (ii) a quota adjustment mechanism; and (iii) a buffer stock of 250,000 tons capacity to be financed through a levy of 1 US cents per pound on exports and imports of cocoa. Third international cocoa agreement was signed in 1980 and came into operation in 1981. The agreements did not succeed because of two major reasons (a) the absence of Ivory Coast was a factor, (b) lack of adequate resources and (c) the buffer stock was completely inactive.

5. International Coffee Agreement

The first agreement became operational in 1963. The first agreement effectively formalized and gave consumer sanction to this arrangement. There was some rise in prices. The second agreement was terminated in 1972, the consumer export quotas was the most important instrument to stabilize prices. The fourth agreement in 1986 had many difficulties in its conclusion.
i) Renegotiation of quotas was expected to be there under which Brazil the main producer would lose its quota to the new comer such as Indonesia and African countries.
ii) US had joined this agreement for a full six years period. Yet it noted funds upto 1986.
iii) The 1985 collapse of the International Tin Agreement, together with the dramatic fall in oil prices through 1985 and 1986, have considerably reduced public confidence that international control of commodity prices is feasible.

6. International Olive Oil Agreement

In 1956 and 1963 there were International Olive Oil Agreements. In 1955, under the auspices of the U.N., 11 members participated of which 9 were exporting countries and 2 were importing countries. In 1963 7 were exporting countries and 4 were importing countries. An International Olive Oil Council was established in 1963. The duration of the agreements of 1959 and 1963 was four years each. The Olive Oil Council was expected to make studies of the olive oil market, production, prices, etc. These agreements had price stabilization objective through price control.

7. International Wheat Agreement

In the early twenties and the thirties wheat was brought under the control of four main producers. The restrictions included those on acreage and export. The operation of the earlier wheat agreement demonstrated the need for some form of sanction to enforce compliance by participants.
There were six international wheat agreements : in 1933, 1942, 1949, 1953, 1956 and 1959. The duration of the agreements varied from failure 1942 of the agreement to 2-4 years. The major instruments of control had been export quotas and acreage restriction in the 1933 agreement. In the 1942 agreement there were more instruments and the International Wheat Council was established. Other agreements included price and buffer stock. Wheat agreement was only one multilateral contract.
To summarize, the international commodity agreements can only be successful provided that they command consensus in their industries. Concensus may emerge when a dominant leader offers leadership. The existing agreements are expected to be poorly drafted. Yet UNCTAD has continued to contribute to commodity agreements through providing information, technical assistance and convening various conferences. For example conference on tungston, olive oil, cocoa, etc. While the UNCTAD was reorganized in 1992 at its WII conference at Castegena meeting, the Committee on commodities was undisturbed. It must also be noted that this is the only international agency studying the subject with a view to stabilize the markets for primary products.