

### International Commodity Agreements

The fifth round of negotiations between cocoa producing and consuming countries in Geneva finally concluded successfully after nearly two years of negotiations. The new International Cocoa Agreement, 1986, is due to enter into force from October this year, and will remain in force for 3 years with possibilities of further extensions. After the accord UNCTAD Secretary General Kenneth Dadzie described the Agreement with optimism as the first of a new generation of ICA's (International Commodity Agreements); and he concluded "the adoption today of this new Cocoa Agreement with full economic provisions will undoubtedly give a further impetus to the efforts of producers and consumers of other commodities to work together to find realistic and mutually beneficial solutions to the problems besetting the commodity sector".

Sceptics were of the view, however, that there was mounting evidence that the era of the North South cooperation on commodity pricing may be drawing to a close. Rubber trading nations had failed twice earlier to negotiate a new accord to stabilise the market and a third round of talks was also collapsing with producers and consumers unable to agree on the currency to be used in a new price level trigger support mechanism and also on the procedure for revising its level.

Talks on a new Sugar pact also remained stalled, with an inconclusive meeting held in London in May 1986 between producers and consumers. The International Tin Agreement was one pact that collapsed and is due to be wound up next year. Meanwhile, the chances of a Coffee accord were also uncertain with no final agreement regarding quota shares for producers.

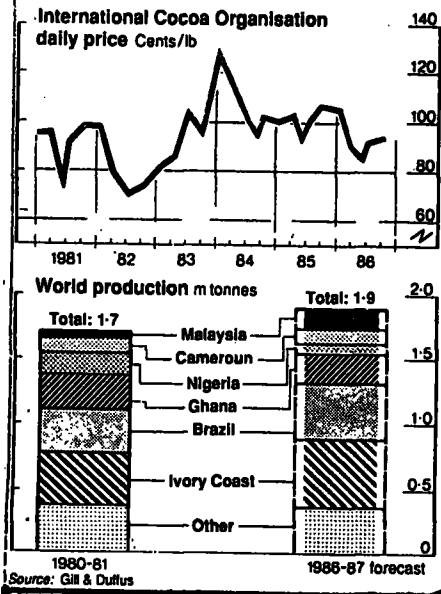
The UNCTAD Secretary General however, hailed the new Cocoa agree-

ment as "an important turning point in the history of producer consumer co-operation within the framework of international commodity agreements".

He stated on this occasion that co-operation between producers and consumers was one of the main pillars of the Intergrated Programme for Commodities established in resolution 93 at UNCTAD IV (in Nairobi in 1968) and that, despite the bleak prospects for international commodity agreements in recent years, the international community had demonstrated its continued commitment to this particular form of international co-operation. The Secretary General regarded the negotiation of a new International Agreement on Wheat; on Olive Oil and Table Olives; and moves for new Nickel and Tropical Timber agreements as positive commitments towards international economic co-operation. The Cocoa Agreement was now expected to give a further impetus in this direction.

The negotiations for the new cocoa accord provides a typical example of the apprehension of commodity producers who are at the mercy of international cartels that wield a major influence over the price mechanism of commodities. At the negotiating sessions on Cocoa in March the Ivory Coast's Minister of Agriculture charged that prices were effectively set in the commodity exchanges of New York, Chicago, London and Paris by anonymous speculators not subject to international control, and refused to join the new agreement on the grounds that it could not guarantee a fair price for producers, taking into account increased costs of production. It was only after Ivory Coast (the world's largest producer) was persuaded to return to the negotiating table that producers and consumers agreed on key issues of price structure, price levels, and price adjustment mechanisms.

**THE ECONOMIST COMMODITY PRICE INDEX** First estimates of the 1986-87 world cocoa crop suggest it will be little changed from last year (around 1.9m tonnes), resulting in a surplus for the third year running. Output in Brazil will be 20% higher, at 440,000 tonnes, and Malaysia will also have a record crop of 150,000 tonnes, double the output five years ago. However, the Ivory Coast's crop will fall by 55,000 tonnes because of dry weather, and Nigerian cocoa production may be only 80,000 tonnes, the lowest for nearly 40 years.



As in the existing Cocoa Agreement, buffer stocking constitutes the main mechanism for price stabilization. The overall size of the buffer stock remains unchanged at 250,000 tonnes, with the possibility of an additional 100,000 tonnes. The Minister of Agriculture of Ivory Coast - (which is not a member of the present Agreement) gave his country's explicit endorsement of the new Agreement. He termed it a "dynamic compromise" and said that, with the increased resources now available to it, its potential effectiveness for stabilizing prices had been greatly enhanced. UNCTAD's Deputy Secretary General, Alistair McIntyre, however, had a far more pessimistic prognosis on possibilities of better prices for primary commodities.

### Malaysia sees grim future for commodity producers

The cocoa Agreement was obvious-

ly timely as this was one of the few primary commodities that has escaped the falling price trend over the past few years. But even here a firm of commodity analysts in London forecast that prices were likely to decline before long as the high price of cocoa butter made it a prime target for biochemists searching for a synthetic substitute. There was also the possibility that suppliers would soon overstep demand as new production areas were harvested. More gloomy, however, were the prospects for certain other commodities. A 'HINDU' correspondent, S.Ramachandran, who was recently in Kuala Lumpur reported that low prices for commodities like rubber, palm oil and metals would persist because of a basic change in the link between the economies of commodity producing countries and the richer industrial nations, according to economists and political circles in Kuala Lumpur.

"Whenever prices dipped to reflect falling demand during a recession over the past 40 years, commodity producers could look forward to an eventual price rise as the industrial world returned to better growth rates". But Alistair McIntyre, Deputy Secretary General of the United Nations Conference on Trade and Development (UNCTAD - which promotes better trade conditions for developing countries) has warned that "the trend will not continue".

"The traditional link between cyclical fluctuations in economic activity and demand for raw materials has been broken", he said in a letter to senior bankers of raw material producing countries.

The price fall has been dramatic in the case of palm oil, the staple Malaysian export which had dropped steeply to MS 440 from MS 1,205 a tonne at the beginning of 1985.

Among Malaysia's other exports, tin had lost half its value in the same period. Rubber had been ruling weak around 180 sen (Malaysian currency) a kg as compared with 330 sen in early 1980.

Malaysian Prime Minister Mohamed Mahathir has said that "a constellation of forces have driven down the prices of virtually all primary commodities produced and exported not only by Malaysia but by the whole world. "He said the recent total collapse of all commodities was a new phenomenon. There seemed little doubt that for some commodities the end was near. Commodity producing countries were expected to be put on the "chopping block".

Economists blame rapid technological change for the lower prices. Better irrigation, seeds and fertilizers had all increased production to the point where today's yield of rubber is ten times that of the original trees found in the Amazon forests.

Technological progress had produced synthetic substitutes for natural materials, according to M.Sakamoto, Chief Economist at Japan's Institute for International Trade. He said copper was being rapidly replaced by cheaper glass fibres in the communications industry. Glass, plastics and aluminium were all replacing tin in food packaging.

To compound the problems, industrial countries, notably the U.S. and Europe, had become large food exporters because agricultural subsidies had led to greater production. As a result, U.S. rice exports now threaten Thailand's lucrative rice trade in Asia. E.E.C. sugar exports had the same depressing effects on the developing country sugar exporters.

UNCTAD's Deputy General Secretary was of the view that developing countries should diversify export products or face a grim future. "Far reaching changes are occurring in patterns of demand and supply for most major primary commodities, which are bound to affect profoundly development prospects in many developing countries", he said. Such countries access to markets in developed countries for their new products but they faced a strong protectionist sentiment.