Virtual Learning Network

V-LRN
VIRTUAL LEARNING NETWORK

International Business Environment

Block-3

Unit – 12

International Commodity Agreements

Topics to be Covered

- Introduction
- Trade in Primary Commodities
- Long-Term Factors Affecting the Demand for Primary Commodities
- International Commodity Agreements
- UNCTAD and Commodities
- A review of Major International Commodity Agreements
- Summary

Introduction

Primary Commodities

These commodities constitute major mass of exports of developing countries.

Thus, developing countries face innumerable problems in the trade of Primary Commodities.

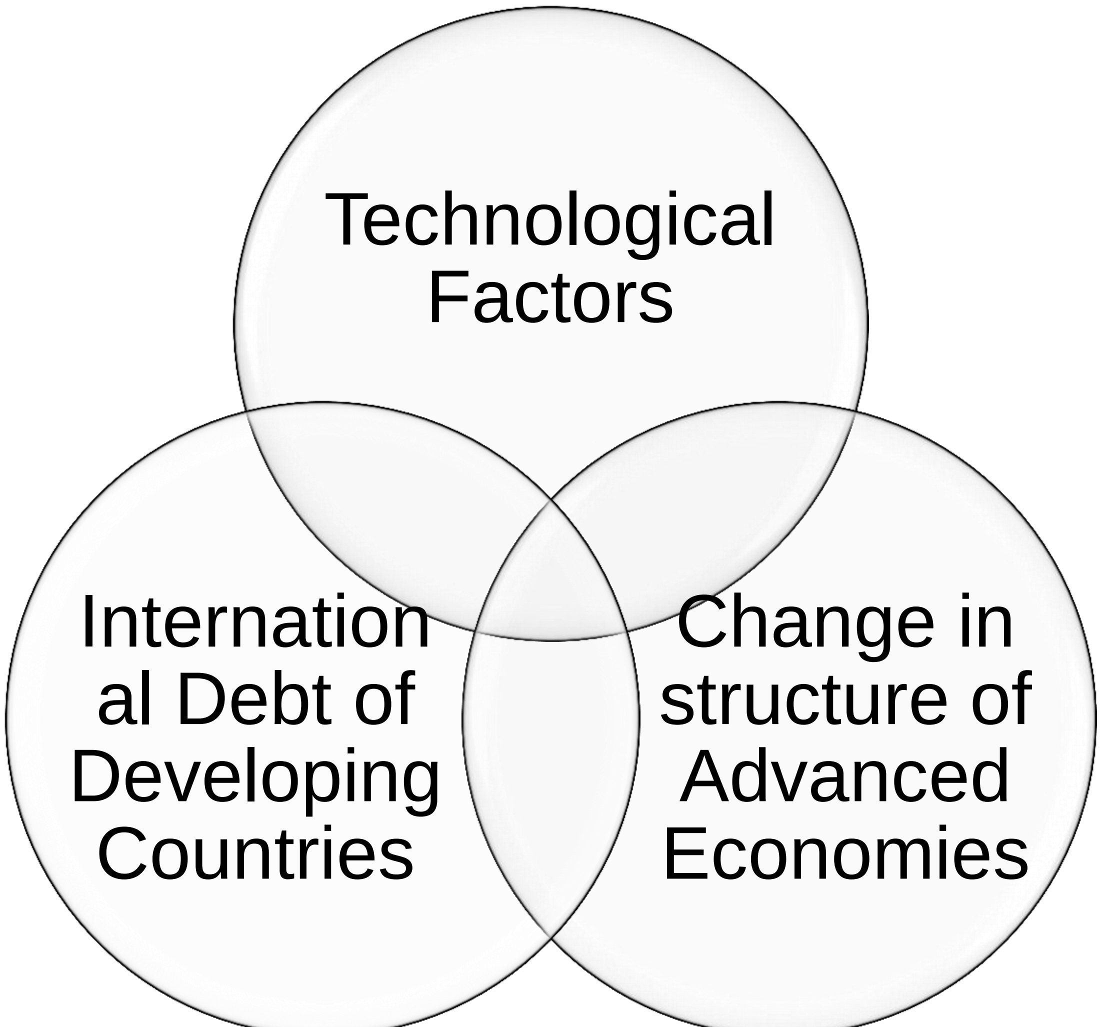
Trade in Primary Commodities

- Commodities play a very significant role in the economies of developing countries.
- Even now only a few developing countries have diversified their export structure.
- The commodities constitute 60 to 70% of exports of developing countries.
- The international trade in commodities has certain distinct problems from that of manufactures.
- The export of developing countries considered unstable in the sense that they show a recession and shortfalls in relation to the trend.

Trade in Primary Commodities (Contd.)

- Terms of Trade of Primary Products with Manufactures
  - Net barter terms of trade
  - Gross Barter Terms of Trade
  - Income terms of trade

Long-Term factors affecting the demand for Primary Commodities



International Commodity Agreement

- In 1947, Economic and Social council (ECOSOC) of the UN established a special branch, the Interim Coordinating Committee on International Commodity Agreements (ICCICA) to deal specifically with commodity agreements.
- In 1965, the UN conference on Trade and Development was set up to deal with the commodity problems of developing countries.

Export Control Agreements

– It operate by attempting to force a balance between supply and demand by controls on supply.

– Supply reduction may be met either by reduction in production, any national stockpiling of excess production or by disposal of excess production.

– Export Control Agreements are considered cheaper because they do not entail foreign exchange costs.

Updating Support Price

- To update the price support range of a product is necessary
- Factors which might be considered for updating are:
  - Changes in exchange rate
  - Changes in the general level of prices
  - Changes in conditions in taste and technology
  - Commodity price
  - Level of the stock held by the buffer stock authority

UNCTAD

- Established in 1964.
- Deal with trade, investment and development issues.
- a permanent intergovernmental body

United Nations Conference on Trade and Development

UNCTAD (Contd.)

- Goals are to
  - "maximize the trade, investment and development opportunities of developing countries and assist them in their efforts to integrate into the world economy on an equitable basis."

- In the 1970s and 1980s, UNCTAD was closely associated with the idea of a New International Economic Order (NIEO).
- UNCTAD has 194 member States and is headquartered in Geneva, Switzerland.
- UNCTAD has 400 staff members

UNCTAD and Commodities

- In UNCTAD
  - Developing countries made commodity problem the centerpiece of discussion with the developed world and fought hard for two things:
  - An integrated programme of Commodities (IPC)
  - Establishment of a Common Fund for financing buffer stock

Major International Commodity Agreements


International Rubber Agreement


International Tin Agreement


International Coffee Agreement


International Sugar Agreement


International Cocoa Agreement


International Olive Oil Agreement


International Wheat Agreement

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.

International Sugar Agreement

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. Sugar agreement operated entirely through export controls. It did not achieve much success.

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 stepped in the tin market both by negotiated supply restriction and through operation of buffer stock. This intervention has been considered moderately successful.

International Cocoa Agreement

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 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.

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.

International Olive Oil Agreement

In 1956 and 1963 there were International Olive Oil Agreements. The Olive Oil Council was expected to make studies of the olive oil market, production, prices, etc. These agreements had price stabilisation objective through price control.

International Wheat Agreement

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 24 years. Wheat agreement was only one multilateral contract.

Summary

- The share of primary products in international trade has steadily declined. Share of developing countries in world exports of primary products has also declined. Primary products of interest to developing countries face instability in export price, export volume and foreign exchange earnings.
- The international commodity agreements are considered to be the effective means of stabilizing prices


Thank you