



STATEMENTS AND SPEECHES

INFORMATION DIVISION
DEPARTMENT OF EXTERNAL AFFAIRS
OTTAWA - CANADA

No. 58/34

INTERNATIONAL COMMODITY PROBLEMS

Statement by the Chairman of the Canadian Delegation, Mr. W.B. Nesbitt, Q.C., M.P., at the 26th Session of the United Nations Economic and Social Council on July 15, 1958.

The agenda item which we are considering today deals with one of the most important economic problems facing the world at the present time. Many countries, especially those in the earlier stages of economic development, derive a substantial part -- in some cases the major part -- of their export earnings from the sale of one or more basic foodstuffs or raw materials. Their vulnerability to severe fluctuations in international market conditions is accentuated by a number of features which are peculiar to basic commodities. For example, substantial declines in prices may not lead to any increase in sales because of the relative inelasticity of demand for many commodities. In fact declining prices may even be accompanied by a falling-off in the volume of trade. Moreover, in the case of a number of basic commodities, variations in climate and improvements in technology often result in the production of a greater output than the market can absorb. Surpluses accumulate and hamper efforts to restore prices to previous levels. Another characteristic of the markets for many basic commodities is the development of synthetics and substitute raw materials which aggravates the problems of commodity producers in periods of weakening demand.

Commodity Price Decline

Over the past year there have been some rather disquieting developments in world commodity markets. In the second half of 1957 a decline took place in the prices of a number of raw materials and foodstuffs so that by the end of the year the price index of primary commodities had fallen to the level of 1953. It is true, as the World Economic Survey points out, that by the end of 1957 and the early months of this year prices of a number of commodities were tending to stabilize but in other cases the price declines continued. Thus a good deal of apprehension exists regarding the future and the

place that this important question occupies on our agenda reflects a general feeling that greater efforts should be made to grapple with this problem.

As the Canadian Delegation pointed out in its statement on the world economic situation, the instability in commodity prices during 1957 probably represented in many of the under-developed countries the most serious aspect of the economic adjustment which the world economy has been undergoing and corresponded in its impact to the cut-back of investment and the resulting unemployment in the industrialized countries. Of course, while it may be useful for certain purposes to differentiate between industrialized and underdeveloped countries, the distinction tends to break down when dealing with the instability in commodity markets. Some countries like Canada which have reached a relatively advanced stage of industrial development also rely to an important extent for their prosperity on the production and export of certain raw materials and foodstuffs. During the past year or so our country has been concerned about the declines which have taken place in the prices of a number of commodities of which we are major producers. Canadian wholesale prices of copper and its products declined by an average of almost one half from April 1956 to April 1958, while in the case of both lead and zinc and their products prices fell by more than one quarter. Wholesale prices of grains declined by about ten per cent over the same period.

Even those countries which are not major producers of basic commodities have strong reasons for being concerned about the economic health of those parts of the world which are more directly affected. Apart from any other considerations there is the fact that a decline in the export earnings of commodity producing countries means less purchasing power with which to buy the products of other nations. Moreover, the existence of satisfactory conditions in world commodity markets might be described as a basic prerequisite to the success of the efforts the United Nations are making in other fields to assist the under-developed countries to attain greater rates of economic growth and higher living standards. As the Secretary-General pointed out at the 22nd Session of the Economic and Social Council, a change of only five per cent in average export prices of primary commodities is equivalent roughly to the total annual flow of private and public capital and government grants to under-developed countries. Thus, we all have an interest in dealing with this problem in a realistic and effective way.

Stability in Commodities Market

I have outlined in some detail the nature and complexity of the commodity problems facing the world today. Nevertheless, it is encouraging to realize that we have made some progress in the post-war period in laying the ground-work for action to bring a greater measure of stability into the

markets for basic commodities. The growth of international co-operation in this field is one of the more significant economic developments of the post-war period. The instability of commodity markets was a major problem before the war and the swings in prices frequently far exceeded anything we have experienced in recent years. However, in those days the nations of the world attempted to solve their difficulties by means of restrictions on imports or through bilateral trade arrangements or the formation of producers' marketing agreements. Not only did most of these expedients fail to provide the desired stabilization of prices but they also contributed to a shrinkage in world trade which had disastrous effects on employment and income the world over.

The nations have, in the last decade or so, been trying to apply the lessons which they learned in the hard school of the '30's. It became generally recognized that one of the best antidotes to commodity ills is high and expanding world demand and this lent impetus to efforts through the OEEC, the IMF and the GATT to reduce barriers to world trade and ensure that countries should not try to remedy their own troubles at the expense of their neighbours. At the same time there was much discussion of ways of dealing more specifically with fluctuations in the prices of individual commodities through international action. Even in the period of post-war shortages, when the prices of most foodstuffs and materials were rising, a number of study groups were set up to look into the position of such commodities as wool, tin, rubber, sugar, cotton, wheat and tea.

In 1947 the Economic and Social Council appointed the Interim coordinating Committee on International Commodity Arrangements which has performed a most useful function in convening international study groups, coordinating the activities of the various study groups and other organizations working in this field, and making recommendations to the Secretary-General. What we have been able to achieve in the commodities field during this period has been due in no small part to the skilful and experienced way in which the experts who have served on the Interim Committee have discharged their duties and they deserve our thanks for the services they have rendered to the United Nations.

In 1949 with the signing of the International Wheat Agreement the first success was achieved in bringing into being a practical agreement covering a major commodity and including the principal producers and consumers. Five years later in 1954 the International Sugar Agreement came into force. The third commodity agreement presently in existence, the International Tin Agreement, began to operate in 1956. Meanwhile, as a result of a feeling in the Economic and Social Council that progress in stabilizing the prices of basic commodities could be speeded up by approaching the problems on a broader front as well as on a commodity by commodity basis, the Commission on International

Commodity Trade was established in 1954. At its last session the Commission adopted a practical and worthwhile work programme which takes into account what is being done in this field by other bodies. The Commission's decision to refer its terms of reference to ECOSOC has paved the way for advances into new avenues of usefulness. The most recent report of the Commission and the accompanying review of the international commodities situation both contain much valuable information and will be of considerable assistance to us in working out a constructive approach to commodity problems. GATT and the FAO have also taken a close interest in questions relating to trade in basic commodities and have carried out a great deal of useful work on the subject. At this moment in Geneva a high level committee of experts convened by GATT is carrying out a general study of commodity problems. This panel will report on the development of export earnings of the primary producing or non-industrial countries in relation to their economic growth, the effects of wide fluctuations in prices of primary products and in export proceeds, and the effects of agricultural protection on the development of international trade. FAO has been instrumental in establishing study groups on the great majority of commodities under its jurisdiction and this work has been of great value to the countries primarily concerned. Other study groups are operating under the auspices of the Interim Coordinating Committee. Canada welcomes the steps which have been taken through this body to convene a meeting this fall for the purpose of considering the position in regard to copper, lead and zinc.

Canadian Comments

At present therefore we have a number of international bodies in existence, each looking at commodity problems from a different angle and each playing a role in working towards effective methods of dealing with them. It is quite possible that at this session the Economic and Social Council will find that there is scope for making more and better use of this machinery. Our Delegation has already pointed out in its statement on the world economic situation that Canada shares the interest and concerns of the under-developed countries regarding fluctuations in commodity prices and is willing to consider sympathetically any constructive and practical proposals in this field. Canada belongs to all three commodity agreements presently in existence although we are a major producer of only one of these items. Moreover, our country has participated actively in the work of all the study groups now operating as well as the Commission on International Commodity Trade and the Commodity work of the FAO and the GATT. We therefore feel that we are in a position to offer a few general comments in the light of our own experience regarding the conditions which appear to be conducive to success in dealing effectively with commodity problems.

Much can be learned from a study of international cooperation in the commodities field during the post-war period. Experience with the three International Wheat Agreements, the Tin Agreement and the Sugar Agreement seems to suggest that the results of a commodity agreement are closely related to the proportion of world trade in the commodity concerned which it covers. Consequently, there does not appear to be much point in taking any action to stabilize commodity prices which does not have the support of the principal producing and consuming countries. It is also of considerable significance that each of the three commodity agreements presently in existence is of a different type. The Sugar Agreement operates primarily through the establishment of export quotas and their adjustment in relation to changes in prices. The basis of the International Tin Agreement is the operation of a buffer stock to adjust the supply of metal to the market demand. The International Wheat Agreement is of the multilateral contract type. Any success these three agreements have achieved seems to be due in no small measure to the fact that they were tailored to the peculiar -- one might say unique -- conditions existing in the markets for the commodities concerned. We could see some value in having a study made of the application under different conditions of various methods of stabilizing prices, such as the establishment of a range within which prices may be allowed to fluctuate; the setting up of buffer stocks or the use of export quotas. However, commodity problems are of a highly complex character and can best be dealt with on a commodity by commodity basis. We would certainly not rule out the possibility that better progress might be achieved in dealing with certain aspects of commodity problems which are common to a number of items by discussing them in a wider forum. Nor would we deny that countries benefiting from the existence of one commodity agreement are under some obligation to help in bringing into being other agreements in which they are perhaps not so directly interested.

However, we do not think that there is any single panacea which will cure all our commodity problems. The experience of recent years has demonstrated that patience and a spirit of give and take are necessary if real progress is to be made in this field. Some times it is difficult to display these qualities when dealing with problems which are such importance and urgency to millions of people in so many countries. Our Delegation wishes to pledge itself to devote whatever time and efforts are necessary to explore any promising possibilities for improving international co-operation on commodity matters.