Folder: Commodity Price Stabilization Study: Irving Friedman Correspondence - Correspondence 03

Folder ID: 1800785

ISAD(G) Reference Code: WB IBRD/IDA 03 EXC-10-4481S

Series: Records of Economic Advisor Irving Friedman

Sub-Fonds: Records of President Robert S. McNamara

Fonds: Records of the Office of the President

Digitized: June 14, 2013

IRVING FRIEDMAN - COMMODITY PRICE STABILIZATION STUDY ③

INTERNATIONAL BANK FOR
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INTERNATIONAL FINANCE CORPORATION

OFFICE OF THE PRESIDENT

1) No consensus on procedure

2) decision postponed until Bd Bd meeting

3) FAS 7 for Part I only — Jeffries, Reid, Scandinav., India?, Italy — C. Amer

7 for U.K. Part II and III — UK - Fr. - Japs

5 for pending / some. — Belg, Germ (?), Stone — Argentina

US agree with majority (Part I only for both)

U.K. for both or none

FAS 17 M... — happy with Part I — ok - yeomanry & proper ... not happy with Part II

c/ ... ... different decision

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1) Machado
a) Part I excellent
b) send documents as underdeveloped!
countries

2) Coleman
a) favors digest
b) favors conclusions and recommendations

3) Jaeckel
a) not averse to Part II - 2 parts
interdependent
b) either postpone Part II after release - or
preliminary decisions with changed decisions after
release ... not transmit to Gov

4) Stone
a) not ready to decide on behalf of authorities
b) problems of DC's as well as LDC's

5) Fernandez
a) could use editing of Part I at home
not a Part
b) get ideas of Govts - come

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back after Annual meeting
(c) explain problem of fluctuations and implications for financing develop program —
Fund solutions are short-term. need more long-term solutions to match long-term develop problem and foreign debt
(d) World Bank has much and more to contribute —
may partly (1) diversification - world do more — (e.g. regional problems) (2) financing of storage facilities (3) guaranteeing of commodity at long term
develop program — want to spell out explanation of the "solutions" for the Bank

6/ Camacho: can amend & send Part II as a "working paper"

7/ Chen send Part I - not part II

8/ Spreck - Part I - fairly & summary
Part II - doesn't indicate priorities
more profitable if related to IMF
(?)
(?) more on relation between fluctuations and develop

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importance - very controversial

|| Mr Bolans - submit Part I and II to Governors - as "starting point" - accompanied by any reservations of Pres or Board - Thoroughgoing appeal afterwards

9) Kochman -
favor sending both before Dec [illegible]

10) [illegible] - need for [illegible] org -
need to [illegible] financial org
a) Part I good
b) Part II not specific enough - [illegible]
|| [illegible] recommend of Directors - would favor general statement that Bank prepared to help in implementation of commodity agreements and [illegible] - give priority in [illegible] on storage - long-term financing of buffer stocks - diversification

|| Are we prepared to make connection [illegible]?
(EDI)

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as preliminary report subject to change

11) Jagannathan
sent - by ASP circulation

12) Sugabe -
favour Part I - II -
depends on status of Part II
(need reservation)

13) Haeckoper
should be ready paper

14) Tazi pleased with Part I

15) Reid - preliminary comments -
a) Part I - highly commended -
particularly joint document - points to pol. as finally
feasible solution - new st to stress
those in developed countries

(b) improving trend and stability
trend - IMF most concerned with
stabilizing around trend - but
adverse trend may be more harmful
and more important for develop - [illegible]
Bank emphasizes trend - limited number
of commodities where this is possible -
but coffee, tea, cocoa, sugar -
important - problem of supply
management and production restraints -
(incl. developed countries) - need
more effective and more support for
diversification - accumulation of
stocks (with or not IA) - can help
diversification and structural
change.

(c) on Part II - role of section - on
financing -

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on buffer stock — from experience of international buffer stock — which agency should finance buffer stock? May not be long-term interest of IMF —? In Bank group have less difficulties because Bank/IDA are development institutions —? (could Bank or IDA —? (could depend on price trend) —
Number of unresolved questions on Fund Part I and Part II and inter-relations of Fund and Bank Part II.
Very favorably disposed to Part II — in line with proposed evolution of Part II — take

7

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into recent "global consultation"
Also more far-reaching —
managing "special funds" — be very
careful — perhaps won't need special
funds" — eradication ~~policy~~ why
different from land-demand —
"presentation problem —
advice on allocation of country
quotas — very difficult to adjust
[illegible] to pledge and others

(c) On procedure —
very [illegible] Part II —
presentation to [illegible] Part II
(1) focus [illegible] Part I [illegible]
structured [illegible]

(d) Left track —
send Part I alone

a ~~Part~~ I – too clearly
demonstrates that result from
2 sets of differences – considerably
redrafting – not clearly
[illegible] problems put before IMF
as world [illegible] – what more about
(1) producing [illegible] [illegible] – believe these
[illegible] [illegible] but – [illegible] –
(3) "at remunerative level"
perhaps reduce [illegible] [illegible]
[illegible] [illegible] – [illegible] –
(3) No attention on how many
countries have to be involved –
[illegible] control [illegible] and
[illegible] as well as [illegible]
(?) [illegible] [illegible] [illegible] [illegible]

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lendg process
(b) blend Part I with no
fed comments - a Part II
has difficulties - no objection to
giving advice, although very difficult of
don't have agreements - on 3 fields
suggested - working to position
(3) (a) decentralization - normal draft
(3) cause of "oversupply" -
many options with their projects!
higher priority
(?) Difficulties in managing
decentralization process
(?) Projects vs General Benefits
purpose
(? ?) recommendations include
of their procedures

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on price stabilization

(A) Is there high priority

of Bank financing (?)

(B) ~~Strong~~
farm commodity by commodity
rather than general approach.
distinguish between proposal that
expand a restrict trade —

Test effect on global income —
most important is opening markets
In global terms of costs to consumers vs
gains to producers.

Requires case for transfer from consumers
but questionable if detrimental to growth in
world economy.

Why OECD restrict — when
don't allow OECD to reconstruct

(11)

aid transfer might be reduced
by guaranty support
Neither buffer stocks nor supply
management apply across the board -
technical commodities would differ
approaches apply
Why not supply management of
competition?
Favors mostly but with
than improving the U.S. Com by case basis

(17) Thomas agrees that problem is very
complicated - on Part II agrees with
Chairman

(18) Jredel

Files August 28 1968

Irving S. Friedman

Visit of Mr. Vilhjalmur Thor

During Mr. Thor's visit today he raised two things:

1. The Swedes were going along with the idea of sending Part I of the Commodity Study.

2. Concerned that at the October meeting of UNCTAD on Supplementary Finance that delay on the Commodity Study should not be used as an excuse for delaying supplementary finance.

I assured him we agreed with him and he could so inform the Swedish Government.

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Mr. Friedman

1. As rec'd this morning from IMF.

2. Original has gone to Mr. McNamara.

M. M. MENDELS
Secretary

AUG 14 1968

Copy sent to Mr. Avramovic
8/19

Office Memorandum

CONFIDENTIAL

TO : Mr. Mendels DATE: August 19, 1968

FROM : W. L. Hebbard

SUBJECT : Fund Board Meeting on Transmission of Primary Products Study

On Friday, August 16, 1968, the Managing Director asked Executive Directors to consider three procedural aspects of the response to the Governors' Resolution on Stabilization of Prices of Primary Products:

1. What parts of the staff study, if any, should be transmitted to Governors?

2. Should there be publication of the study?

3. What should be the form of the transmittal paper?

1. Parts to be transmitted: Although earlier-expressed reservations on both extremes were repeated, a consensus was easily reached for sending Part I only, with the Bank's decision to do so being an important factor to several Directors.

2. Publication of Part I: This decision was not so clear-cut. Behind the discussion lay a desire: (a) on the part of management and staff not to have the document open for extensive further negotiated redrafting, and (b) on the part of several Directors, to avoid an appearance either that they had put their stamp of approval on the document, or were willing to consider it more than a working document of the Organizations, rather than a "Publication". All recognized, however, that a document of such broad interest, to which Governors would be addressing themselves in public sessions, could not fail to come into the hands of journalists.

   The Board came out with about this conclusion: The document should look like an internal working document, typed rather than printed, clearly labeled as a staff study, and perhaps with a disclaimer that the Board had not passed on it; it should not be "formally published" but had to be available on request to anyone attending the Meetings, including journalists.

3. Form of transmittal paper: Although some progress toward a consensus was reached (embodied in the attached redraft), it was agreed to defer a final decision until the first week after the recess. A key factor in this agreement to defer was the information that it was technically and mechanically impossible to prepare this long paper for mailing to Governors before about September 7; a deferment of a decision on the nature of the transmittal paper will therefore not delay mailing.

   The attached redraft reflects the following major views of Directors:

   (a) A preference for a single document, as the Bank proposed, over the Fund proposal for a report of Executive Directors plus a covering note by the Managing Director.

(b) A preference for a Resolution by the Governors, partly on the basis that they would want and expect to take some formal action on this matter, and partly because it would be better to submit a Resolution than to have Governors and delegates draft one during the bustle of the Meetings. (Mr. Lieftinck's preference for withholding approval of the Bank draft was largely on the basis of thinking that it would be a mistake not to have a Resolution.)

(c) A wide diversity of views, and no agreement, on the question of a deadline for reporting back to Governors. (Mr. Plescoff's reluctance to approve the Bank draft was based on a desire that the deadline be the end of 1968, and the fact that the Bank Board had not discussed this facet of the problem in a meeting.) Some preferred the Bank's formula: "as early as possible but not later than the 1969 Annual Meetings." April 30, 1969, was mentioned. No deadline at all was suggested, based on the belief that the problem was so complex that no agreement might be reached before the end of 1969.

(d) In some of its wording, the redraft reflects views recorded under "publication" above.

At the close of the discussion the Managing Director suggested: that a redraft be prepared taking account of the views expressed; that during the recess the Heads of the Organizations and their staffs consult on the possibility of achieving closer parallelism in transmittal notes from the two Organizations; that the matter be brought back to the agenda for final decision in the week following the recess (for the Fund, this would mean Wednesday, September 4, or Friday, September 6). These suggestions were agreed.

August 16, 1968 - 68/129

To: Members of the Executive Board

From: The Secretary

Subject: Stabilization of Prices of Primary Products

There is attached a newly drafted text of a letter from the Chairman of the Executive Board to the Chairman of the Board of Governors incorporating a draft Resolution relating to the study of the problem of the stabilization of the prices of primary products reflecting the discussion at this morning's meeting.

Att: (1)

Dear Mr. Chairman:

At its Twenty-Second Annual Meeting in Rio de Janeiro, the Board of Governors adopted the following Resolution:

> WHEREAS Governors of the Fund and the Bank for Cameroon, Central African Republic, Congo (Brazzaville), Ivory Coast, Dahomey, France, Gabon, Upper Volta, Madagascar, Mali, Mauritania, Niger, Senegal, Chad and Togo have transmitted to the Managing Director of the International Monetary Fund the following request:
>
> > CONSIDERING the decisive importance of the stabilization of prices of primary products at a remunerative level for the economic advancement of the developing countries and the improvement of the standard of living of their populations, the Governors meeting in Dakar request that in Rio study be made of the conditions in which IMF, IBRD, and IDA could participate in the elaboration of suitable mechanisms involving balanced commitments on the part both of the producing and of the consuming countries, and devote the necessary resources thereto.
>
> AND WHEREAS the Board of Governors recognizes the importance of this subject in relation to the purposes of the Fund;
>
> NOW THEREFORE the Board of Governors resolves that the Managing Director is hereby invited to have the staff, in consultation with the Bank staff, prepare a study of the problem, its possible solutions, and their economic feasibility, in the light of the foregoing, to be submitted to the Executive Directors who are requested to transmit it with such comments or recommendations as they may have to the Board of Governors for consideration and appropriate decision by the Board, if possible at its next Annual Meeting.

In response to this Resolution the staff of the Fund has undertaken, in consultation with the staff of the International Bank for Reconstruction and Development, a study of the problem of the stabilization of the prices of primary products. As a first stage, the staff has prepared jointly with the staff of the Bank a general and analytical section of this study (Part I) which, at the request of the Executive Directors, I am transmitting herewith to the Board of Governors for their information in connection with item No. 6 of the agenda of the 1968 Annual Meeting of the Board of Governors. This section contains a detailed examination of the nature and causes of instability and adverse trends in the prices of primary products and discusses the problems involved in the various efforts to find solutions. The staff of the Fund is continuing its examination of these and related analytical aspects. The Executive Directors have begun consideration of the general and analytical section of the study but have not been able to complete their comments.

The staff of the Fund has also been considering the possible ways in which the Fund might make a contribution towards finding feasible solutions of the problem. It is felt that further work is needed to complete this section of its study (Part II), and the staff is actively engaged in pursuing this work. In preparing this section of its study, the staff will have the benefit of the views of the Executive Directors, who already have had a preliminary discussion of the problem. Upon completion, this section of the study will be transmitted to the Board of Governors together with any comments or recommendations that the Executive Directors may decide to make on the entire study.

In the light of the foregoing the Executive Directors have requested me to convey their recommendation that the Board of Governors adopt the following Resolution:

> WHEREAS Board of Governors Resolution No. 22-9 called upon the Executive Directors to transmit to the Board of Governors, if possible for consideration at the 1968 Annual Meeting, a study of the problem of the stabilization of prices of primary

products, its possible solutions, and their economic feasibility, together with such comments or recommendations as the Executive Directors might have; and

WHEREAS the staff of the International Monetary Fund, jointly with the staff of the International Bank for Reconstruction and Development, has prepared a general and analytical section of its study on the problem of the stabilization of prices of primary products; and

WHEREAS the Executive Directors of the Fund have transmitted this section to the Board of Governors for their information;

NOW, THEREFORE, the Board of Governors notes the section of the study already prepared and hereby resolves that:

(1) the Managing Director of the Fund is invited to have the staff complete its study as soon as possible, particularly by preparing a section which considers possible ways in which the Fund might make a contribution toward finding feasible solutions to the problem; and

(2) the Executive Directors are requested to transmit to the Board of Governors the section of the study referred to in (1) above as early as possible but not later than [date][the 1969 Annual Meeting], together with such comments or recommendations as they may have on the entire study.

DRAFT
August 13, 1968

Dear Mr. Governor:

At the Conference of the Board of Governors in Rio de Janeiro in September 1967, the following resolution was adopted:

RESOLUTION No.239

STABILIZATION OF PRICES OF PRIMARY PRODUCTS

WHEREAS Governors of the Bank and the Fund for Cameroon, Central African Republic, Congo (Brazzaville), Ivory Coast, Dahomey, France, Gabon, Upper Volta, Madagascar, Mali, Mauritania, Niger, Senegal, Chad and Togo have transmitted to the President of the International Bank for Reconstruction and Development the following request:

> CONSIDERING the decisive importance of the stabilization of prices of primary products at a remunerative level for the economic advancement of the developing countries and the improvement of the standard of living of their populations, the Governors meeting in DAKAR request that in RIO study be made of the conditions in which IMF, IBRD and IDA could participate in the elaboration of suitable mechanisms involving balanced commitments on the part both of the producing and of the consuming countries, and devote the necessary resources thereto.

AND WHEREAS the Board of Governors recognizes the importance of this subject in relation to the purposes of the Bank,

NOW THEREFORE the Board of Governors resolves that the President is hereby invited to have the staff, in consultation with the Fund staff, prepare a study of the problem, its possible solutions, and their economic feasibility, in the light of the foregoing, to be submitted to the Executive Directors who are requested to transmit it with such comments or recommendations as they may have to the Board of Governors for consideration and appropriate decision by the Board, if possible at its next Annual Meeting.

In response to this resolution, as a first step, the staff of the Bank jointly with the staff of the International Monetary Fund has prepared a preliminary analytical study. The Executive Directors have begun consideration of this preliminary study and have decided to transmit it to the Governors for their information. The Executive Directors intend to continue their deliberations on these matters, including possible lines of action by the Bank and IDA, immediately after the coming meeting of the Governors in Washington this year, and to report actions taken to the Board of Governors at the 1969 Annual Meeting or earlier if possible. I am instructing the staff to proceed with further work on this matter to facilitate the deliberations and decisions to be taken by the Executive Directors.

Sincerely,

Robert S. McNamara

(Ershow) [illegible]
5/2/68

COMMODITY AGREEMENTS, COMPENSATORY FINANCING FACILITY,

and SUPPLEMENTARY FINANCE SCHEME

Trade and Financial Approaches:

1. The Compensatory Financing Facility of the Fund, the proposed Supplementary Finance Scheme, and International Commodity Agreements, are different ways of influencing the foreign exchange receipts of developing countries. The stabilization of prices of commodities and increased access to the markets of industrial countries through commodity arrangements represent the trade approach; these devices, by reducing the amplitude of price fluctuations and by seeking to deal with the slow growth of demand for many of these commodities, help to improve the level and trend of export earnings. At the same time, financial approaches that deal more directly with export earnings are also needed, and involve loan finance. The Fund's Compensatory Financing Facility and the proposed Supplementary Finance Scheme are two such financial arrangements.

Types of Commodity Agreements, and their Aims:

2. For years the need for commodity agreements has been recognized; their aims and essential features have been discussed extensively. However, it has been possible to conclude only very few agreements. Access to markets has proved no less difficult.

3. Three main elements of commodity agreements may be noted:

(i) The multilateral contract feature under which importers and exporters agree to buy or sell certain agreed quantities; this is the main feature of the International Wheat Agreement.

(ii) The institution of an international buffer stock, that seeks to stabilize prices by buying when the world price falls below a certain minimum and by selling when the price rises above a certain maximum; this is the main feature of the International Tin Agreement.

(iii) Export restriction which provides for limiting exports, when needed, to maintain prices at a higher level; logically, this requires regulation of production. This is the main feature of the International Coffee Agreement.

4. The emphasis given to each of these elements differs in different agreements. However, price stabilization is a principal aim of commodity agreements; there is also some effort at stabilizing export volume. An international buffer stock is a useful device, in some commodity agreements and under appropriate safeguards, which can reinforce the effectiveness of sales quotas. However, no international buffer stock management and financing can be contemplated to sustain a continuing overproduction; essentially it can only deal with temporary phases of excess production or market shortages. Thus, as a means to stabilization, buffer stock financing has a short-term framework and involves the revolving of funds.

Compensatory Financing Facility and Supplementary Finance Scheme - Purposes:

5. The Compensatory Financing Facility of the Fund helps to even out the availability of exchange earnings from exports for a country and thus assists a country in meeting temporary, reversible, balance of payments deficits, on the understanding that the drawings would be repaid by the member country within an outer limit of 3 - 5 years. The burden of adjustment is thrown on the country itself, so as to be able to repurchase within a short period, like in other regular Fund drawings.

6. The Supplementary Finance Scheme, on the other hand, is intended to assist a developing country to maintain its development program which might otherwise be disrupted by a shortfall of export earnings from reasonable expectations on which the development program was based. The proposal for Supplementary Finance has been made because countries cannot undertake economic development programs with a longer term perspective unless there is some assurance that their export earnings will be kept up to reasonable expectations. Accordingly, the SFS assistance should be on long-term basis, corresponding to other types of development assistance. In brief, it may be said that CFF has to do with instability, and SFS with uncertainty of export earnings.

CFF and SFS - Method of calculating Export Shortfalls:

7. Thus, CFF is a means to promoting stability, and SFS is a means to facilitating development. The different purposes of the two schemes are reflected in the methods of calculating export shortfalls. Under the Supplementary Finance Scheme, export prospects are considered in the context of a development program and take account not only of various objective factors, domestic and external, but also the impact of new policy measures. Attempt is made to estimate future export eventualities over a planning period of, say, five years, on which a developing country can rely in formulating and implementing its development program. Export projections become an essential feature of SFS. For purposes of SFS, the shortfall in export earnings is measured from a prior export projection.

8. Under the Compensatory Financing Facility, the Fund meets requests for drawings by members whose export proceeds over the latest twelve-month period have fallen short of the estimated medium-term trend of exports. Therefore, CFF does not need a prior export projection; instead, the shortfall in export earnings is measured from a norm representing the medium-term trend value. The value is estimated by a statistical formula as well as a qualitative judgment. The statistical formula itself attaches a weight of .50 to exports in the shortfall year and .25 to each of the two preceding years. The qualitative estimates involve a direct forecast of exports for two years ahead. Formerly, the statistical and qualitative estimates were given about equal weight in determining trend value of exports. Currently, a somewhat greater weight is given to qualitative estimates. It is precisely because the trend or norm is a moving average for five years centered on the current, shortfall, year as the middle year that a rough balancing of shortfalls and surpluses of actual exports with respect to trend is expected over a relatively short period of time.

How Shortfalls Differ Under CFF and SFS:

9. The question may then be asked: if actual exports in the past two years are the same as projected exports, and if the estimates for next two years are projected on a qualitative basis, how does assistance under CFF when a shortfall occurs differ from that under SFS? For one thing, as already noted, the current shortfall year is crucial in the calculation of trends for purposes of CFF. A formula which gives less weight to the shortfall year would tend to a higher estimate of trend value, and a larger shortfall. Again, "the average level of exports for the two years following the shortfall year will not be assumed to exceed by more than 10 percent the average level experienced in the preceding two years ....". Therefore, even if actual exports in the past two years are the same as projected exports, assistance in the shortfall year under CFF would be less than the assistance from SFS.

Example:

	1966	1967	1968	1969	1970
Export Projection	100	100	100	100	100
Actuals	100	100	88		

The shortfall under SFM in 1968 would be 12; on the other hand, the shortfall under CFF (based on the qualitative estimate) would be 9.6. The position would be similar when exports are projected to expand. For instance, assuming an export projection at 5 percent growth rate:

	1966	1967	1968	1969	1970
Export Projection	100	105	110	116	122
Actuals	100	105	88		

For SFS the shortfall in exports in 1968 would be 22; for CFF it would be 18. With the 10 percent limitation for 1969 and 1970 projection referred to above, under CFF, the shortfall would be only 16.

10. Thus, apart from the different purposes served, there would be differences in scale of assistance and in terms thereof, in most instances. If there were no limitation referred to above on the projection for the two years following the shortfall year and if this projection for CFF happens to be more optimistic than the one for SFS, then the shortfall under CFF may prove to be larger in a shortfall year than under SFS; or, again, where there are overages from previous years against which a shortfall is set off under SFS. Further, if a fall in exports had been expected, no assistance would be available under SFS; under CFF, assistance would be available if the actual export is lower than trend.

Commodity Agreements and CFF:

11. The CFF is primarily concerned with the stability of total export receipts of individual countries, whereas commodity agreements are concerned primarily with the stability of price in international trade of individual

commodities. The effect of commodity agreements on the use of CFF depends on the extent to which the stabilization of price leads to stabilization of export earnings. If the instability of prices and export earnings were mainly due to fluctuations in the demand for the commodity, then stabilization of price by means of a buffer stock would lead to substantial degree of stabilization of earnings from that commodity and hence to a smaller drawing on CFF. On the other hand, if the instability of price and export earnings were mostly due to supply fluctuations, then stabilization of price by itself may not stabilize earnings from that commodity. In the case of supply fluctuations, the effect of price stabilization on stability of earnings depends on the elasticity of demand. If the elasticity of demand is lower than a critical value, then earnings would be stabilized; otherwise, earnings would be destabilized. The methods used in commodity agreements usually involve some stabilization of the quantities exported; to this extent, commodity agreements would stabilize earnings and thereby reduce recourse to CFF.

Commodity Agreements and SFS:

12. As for the relation ship between Commodity Agreements and Supplement ary Finance, progress in negotiating commodity agreements is likely to enable countries to have more accurate expectations of their export prices and, hence, in part, of their earnings, on the basis of which to formulate their development programs. When a developing country depends on one or two commodity exports, and a degree of price stability is secured, this reduces a main factor of uncertainty in export earnings. Thus, effective commodity arrangements make for better export projections and reduce the cost of supplementary finance measures. This effect would depend on the number of commodities subject to agreements and the operative features of such agreements, especially in regard to export volume. Insofar as commodity agreements take considerable time to negotiate and conclude, this effect would be postponed. Even if a large number of commodity agreements are successfully concluded over a period, they are unlikely to cover the total earnings of a country from all its exportable commodities (including invisibles) so that there would still be need for the approach through SFS.

Broader Objectives of Commodity Arrangements:

13. Finally, while commodity arrangements have a certain impact described above on CFF and SFS, they also have other, important, objectives: viz. to improve the trend of the export earnings of countries, especially by regulating international trade in particular commodities.

August 8, 1968

MEMORANDUM

To: Mr. Irving S. Friedman

From: Isaiah Frank

Subject: Part II-A of Commodity Study: Scope for Action by the Fund

I understand this section will be coming up for discussion in the Board on August 13.

The IMF proposal would accomodate the financing of buffer stocks within the framework of existing Fund operations and basically within the quantitative limits set for the compensatory financing facility. Although this is a minimum approach and may be viewed as somewhat grudging by the ldc's, I see no reason to object to the Fund's basic line for two reasons. First, international buffer stocks can only be administered as part of broader commodity agreements which include provision for limiting the supplies offered on the world market. But only a few commodities lend themselves to this type of arrangement. On the basis of its market characteristics, cocoa is an ideal candidate but even in this case several years of negotiations have yet to produce an agreement.

Second, as Prebisch has repeatedly pointed out in connection with the cocoa negotiations, the only international financing of buffer stocks he regards as necessary is pre-financing. What is needed are credits to enable the agreement to start functioning with a supply of cash and commodities, but the credits would be paid off in a few years from the proceeds of an export tax on the commodity. Since the calls on the Fund in connection with buffer stocks are likely for both reasons to be quite limited, I see no reason to set up more elaborate facilities.

One thought that occurred to me in reading the last section of the report is that the Fund makes a persuasive case for Supplementary Finance without ever actually coming out and saying so. In the last three paragraphs the paper refers to "ostensibly short-term problems" which turn out to be long-term and which "may put a country in a position where it would have to divert general resources from development." The final paragraph is the clincher in that it practically endorses a facility outside the Fund to provide long-term concessional finance to deal with this problem.

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The IMF proposal would accommodate the financing of buffer stocks within the framework of existing Fund operations and basically within the quantitative limits set for the compensatory financing facility. Although this is a minimum approach and may be viewed as somewhat grudging by the ldc's, I see no reason to object to the Fund's basic line for two reasons. First, international buffer stocks can only be administered as part of broader commodity agreements which include provision for limiting the supplies offered on the world market. But only a few commodities lend themselves to this type of arrangement. On the basis of its market characteristics, cocoa is an ideal candidate but even in this case several years of negotiations have yet to produce an agreement.

Second, as Prebisch has repeatedly pointed out in connection with the cocoa negotiations, the only international financing of buffer stocks he regards as necessary is pre-financing. What is needed are credits to enable the agreement to start functioning with a supply of cash and commodities, but the credits would be paid off in a few years from the proceeds of an export tax on the commodity. Since the calls on the Fund in connection with buffer stocks are likely for both reasons to be quite limited, I see no reason to set up more elaborate facilities.

One thought that occurred to me in reading the last section of the report is that the Fund makes a persuasive case for Supplementary Finance without ever actually coming out and saying so. In the last three paragraphs the paper refers to "ostensibly short-term problems" which turn out to be long-term and which "may put a country in a position where it would have to divert general resources from development." The final paragraph is the clincher in that it practically endorses a facility outside the Fund to provide long-term concessional finance to deal with this problem.

Draft Statement by Mr. McNamara for August 6.

1. We have scheduled for discussion today the subject of commodity price stabilization. The Bank and Fund staff, in accordance with a decision taken last year, have jointly prepared draft Part I of the study, which contains the analytical background and the quantitative evidence. The Bank staff has prepared draft Part II of the study, outlining the possible scope of action by the Bank in solving the commodity problem. The Fund staff has also prepared its own Part II, indicating the areas where the Fund may be of assistance.

2. At our last meeting, I have already indicated that this is an extremely complex subject. It has been under discussion in individual countries and in international meetings for a long time; and in the postwar period alone, it has occupied the attention of the international community at many sessions of the United Nations, of its bodies and of specialized agencies. The debate has culminated in the two sessions of the United Nations Conferences of Trade and Development, held in 1964 and 1968. The views on the subject frequently diverge violently, partly because of the inherent difficulties of the problem and partly because of the divergence of interests that are involved.

3. In preparing the studies, the staff has decided to broaden the scope of the study by analyzing trends and measures to improve trends, in addition to analyzing fluctuations and the measures to cope with fluctuations. In preparing the studies, each of the institutions has focussed on the areas which are of major interest to each: the Fund on the issue of short-run earnings stabilization and the Bank on the trends, the improvement of trends, on diversification and on the longer-run aspects of price stabilization.

4. There will be revisions in the papers before they are put in final form. This refers especially to Part II, but there will also be editorial work on Part I.

5. I will now invite the comments of the Directors on the papers before them. With respect to future action, the decision is up to the Board. Three courses of action are possible: sending to the Board of Governors both Parts I and II, with appropriate comments by the Directors; sending only Part I, with a statement by the Directors that they have also had an exchange of views on a draft Part II of the study and that further work on this will continue;*/ or not sending anything and reserving time for further work.

6. It is my understanding that the Fund Board, in their discussions on July 31 and August 2, refrained from any decision, and that the consensus was forming to adopt ________________________ course of action. In our discussions we should take into account the Fund Board deliberations.

7. I shall not take your time by trying to summarize the possible scope ~~of~~ for Bank action in this vital area. But, I should mention that it concerns widened and accelerated work of the Bank in diversification, improvement of the competitive position of primary products, possible assistance to price stabilization and an expansion of research and advisory activities in handling the commodity problems.

*/ Alternatively for the second course of action: with a statement by the Directors that Part II, dealing with the scope for possible Bank action, was still under preparation by the staff;

NOTES: BOARD MEETING
August 6 1968
(Commodity Study)

1. Machado: (a) Part I

(b) Send documents ED's to countries.

2. Coleman: (a) Favors digest
(b) Favors conclusions and recommendation to Governors.

3. Jaeckel: (a) If not enough time on Part II -- two parts
(b) Either postpone Part II after recess ~~0~~- or preliminary discussion with thorough discussion after recess -- not transmit to Governors.

4. Stone: (a) Not ready to state views on behalf of authorities.
(b) Problem of DCs as well as LDCs.

5. Fernandez: (a) Could use editing of Part I -- more work on Part
(b) Get ideas of govts -- come back after Annual Meeting.
(c) Explain problem of fluctuations and implications for financing development program. solutions are short-term - need more long-term solutions to match long-term development problem and foreign debt.
(d) World Bank has much and more to contribute -- many paths (1) diversification -- could do more -- (e.g. regional problems; (2) financing of storage facilities; (3) guarantee of carrying out long-term development program -- wants to spell out of the "solutions" for the Bank.

6. Camacho: (a) Convenient to send Part II as a "working paper".

7. Chen: (a) Send Part I -- not Part II.

8. Lynch: (a) Part I - favors editing and summary.
? (b) Part II - doesn't indicate priorities -- more profitable if related to IMF
? (c) More on relation between fluctuations and development.
(d) import -- very controversial.
(e) On balance -- submit Part I and II to Governors as "starting point" -- accompanied by any reactions by President or Board -- appraisal afterwards.

9. Kochman: (a) favors dending both before Governors' meeting

10. Plescoff: (a) Need for some international organiz. -- need to relate to financial org.
(b) Part I good
(c) Part II not specific enough -- useful to test what is in mind of Directors -- would favor general statement that Bank prepared to help in implementation of commodity agreement and ex. give priority in investments as in storage -- long-term financing of buffer stocks -- diversification.
Are we (EDs) prepared to make comments or recommendations? Aspreliminary report subject to change.

11. Jagannathan: Send -- no ED conclusion

FORM NO. 58 INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Mr. Irving S. Friedman DATE: August 2, 1968

FROM: N. A. Sarma Sarma

SUBJECT: Commodity Agreements, Compensatory Financing Facility, and Supplementary Finance Scheme

Attached hereto is a brief note you requested.

COMMODITY AGREEMENTS, COMPENSATORY FINANCING FACILITY, and SUPPLEMENTARY FINANCE SCHEME

Trade and Financial Approaches:

1. The Compensatory Financing Facility of the Fund, the proposed Supplementary Finance Scheme, and International Commodity Agreements, are different ways of influencing the foreign exchange receipts of developing countries. The stabilization of prices of commodities and increased access to the markets of industrial countries through commodity arrangements represent the trade approach; these devices, by reducing the amplitude of price fluctuations and by seeking to deal with the slow growth of demand for many of these commodities, help to improve the level and trend of export earnings. At the same time, financial approaches that deal more directly with export earnings are also needed, and involve loan finance. The Fund's Compensatory Financing Facility and the proposed Supplementary Finance Scheme are two such financial arrangements.

Types of Commodity Agreements, and their Aims:

2. For years the need for commodity agreements has been recognized; their aims and essential features have been discussed extensively. However, it has been possible to conclude only very few agreements. Access to markets has proved no less difficult.

3. Three main elements of commodity agreements may be noted:

(i) The multilateral contract feature under which importers and exporters agree to buy or sell certain agreed quantities; this is the main feature of the International Wheat Agreement.

(ii) The institution of an international buffer stock, that seeks to stabilize prices by buying when the world price falls below a certain minimum and by selling when the price rises above a certain maximum; this is the main feature of the International Tin Agreement.

(iii) Export restriction which provides for limiting exports, when needed, to maintain prices at a higher level; logically, this requires regulation of production. This is the main feature of the International Coffee Agreement.

4. The emphasis given to each of these elements differs in different agreements. However, price stabilization is a principal aim of commodity agreements; there is also some effort at stabilizing export volume. An international buffer stock is a useful device, in some commodity agreements and under appropriate safeguards, which can reinforce the effectiveness of sales quotas. However, no international buffer stock management and financing can be contemplated to sustain a continuing overproduction; essentially it can only deal with temporary phases of excess production or market shortages. Thus, as a means to stabilization, buffer stock financing has a short-term framework and involves the revolving of funds.

Compensatory Financing Facility and Supplementary Finance Scheme - Purposes:

5. The Compensatory Financing Facility of the Fund helps to even out the availability of exchange earnings from exports for a country and thus assists a country in meeting temporary, reversible, balance of payments deficits, on the understanding that the drawings would be repaid by the member country within an outer limit of 3 - 5 years. The burden of adjustment is thrown on the country itself, so as to be able to repurchase within a short period, like in other regular Fund drawings.

6. The Supplementary Finance Scheme, on the other hand, is intended to assist a developing country to maintain its development program which might otherwise be disrupted by a shortfall of export earnings from reasonable expectations on which the development program was based. The proposal for Supplementary Finance has been made because countries cannot undertake economic development programs with a longer term perspective unless there is some assurance that their export earnings will be kept up to reasonable expectations. Accordingly, the SFS assistance should be on long-term basis, corresponding to other types of development assistance. In brief, it may be said that CFF has to do with instability, and SFS with uncertainty of export earnings.

CFF and SFS - Method of calculating Export Shortfalls:

7. Thus, CFF is a means to promoting stability, and SFS is a means to facilitating development. The different purposes of the two schemes are reflected in the methods of calculating export shortfalls. Under the Supplementary Finance Scheme, export prospects are considered in the context of a development program and take account not only of various objective factors, domestic and external, but also the impact of new policy measures. Attempt is made to estimate future export eventualities over a planning period of, say, five years, on which a developing country can rely in formulating and implementing its development program. Export projections become an essential feature of SFS. For purposes of SFS, the shortfall in export earnings is measured from a prior export projection.

8. Under the Compensatory Financing Facility, the Fund meets requests for drawings by members whose export proceeds over the latest twelve-month period have fallen short of the estimated medium-term trend of exports. Therefore, CFF does not need a prior export projection; instead, the shortfall in export earnings is measured from a norm representing the medium-term trend value. The value is estimated by a statistical formula as well as a qualitative judgment. The statistical formula itself attaches a weight of .50 to exports in the shortfall year and .25 to each of the two preceding years. The qualitative estimates involve a direct forecast of exports for two years ahead. Formerly, the statistical and qualitative estimates were given about equal weight in determining trend value of exports. Currently, a somewhat greater weight is given to qualitative estimates. It is precisely because the trend or norm is a moving average for five years centered on the current, shortfall, year as the middle year that a rough balancing of shortfalls and surpluses of actual exports with respect to trend is expected over a relatively short period of time.

How Shortfalls Differ Under CFF and SFS:

9. The question may then be asked: if actual exports in the past two years are the same as projected exports, and if the estimates for next two years are projected on a qualitative basis, how does assistance under CFF when a shortfall occurs differ from that under SFS? For one thing, as already noted, the current shortfall year is crucial in the calculation of trends for purposes of CFF. A formula which gives less weight to the shortfall year would tend to a higher estimate of trend value, and a larger shortfall. Again, "the average level of exports for the two years following the shortfall year will not be assumed to exceed by more than 10 percent the average level experienced in the preceding two years ....". Therefore, even if actual exports in the past two years are the same as projected exports, assistance in the shortfall year under CFF would be less than the assistance from SFS.

Example:

	1966	1967	1968	1969	1970
Export Projection	100	100	100	100	100
Actuals	100	100	88		

The shortfall under SFM in 1968 would be 12;
on the other hand, the shortfall under CFF (based on the qualitative estimate) would be 9.6. The position would be similar when exports are projected to expand. For instance, assuming an export projection at 5 percent growth rate:

	1966	1967	1968	1969	1970
Export Projection	100	105	110	116	122
Actuals	100	105	88		

For SFS the shortfall in exports in 1968 would be 22; for CFF it would be 18. With the 10 percent limitation for 1969 and 1970 projection referred to above, under CFF, the shortfall would be only 16.

10. Thus, apart from the different purposes served, there would be differences in scale of assistance and in terms thereof, in most instances. If there were no limitation referred to above on the projection for the two years following the shortfall year and if this projection for CFF happens to be more optimistic than the one for SFS, then the shortfall under CFF may prove to be larger in a shortfall year than under SFS; or, again, where there are overages from previous years against which a shortfall is set off under SFS. Further, if a fall in exports had been expected, no assistance would be available under SFS; under CFF, assistance would be available if the actual export is lower than trend.

Commodity Agreements and CFF:

11. The CFF is primarily concerned with the stability of total export receipts of individual countries, whereas commodity agreements are concerned primarily with the stability of price in international trade of individual

commodities. The effect of commodity agreements on the use of CFF depends on the extent to which the stabilization of price leads to stabilization of export earnings. If the instability of prices and export earnings were mainly due to fluctuations in the demand for the commodity, then stabilization of price by means of a buffer stock would lead to substantial degree of stabilization of earnings from that commodity and hence to a smaller drawing on CFF. On the other hand, if the instability of price and export earnings were mostly due to supply fluctuations, then stabilization of price by itself may not stabilize earnings from that commodity. In the case of supply fluctuations, the effect of price stabilization on stability of earnings depends on the elasticity of demand. If the elasticity of demand is lower than a critical value, then earnings would be stabilized; otherwise, earnings would be destabilized. The methods used in commodity agreements usually involve some stabilization of the quantities exported; to this extent, commodity agreements would stabilize earnings and thereby reduce recourse to CFF.

Commodity Agreements and SFS:

12. As for the relationship between Commodity Agreements and Supplementary Finance, progress in negotiating commodity agreements is likely to enable countries to have more accurate expectations of their export prices and, hence, in part, of their earnings, on the basis of which to formulate their development programs. When a developing country depends on one or two commodity exports, and a degree of price stability is secured, this reduces a main factor of uncertainty in export earnings. Thus, effective commodity arrangements make for better export projections and reduce the cost of supplementary finance measures. This effect would depend on the number of commodities subject to agreements and the operative features of such agreements, especially in regard to export volume. Insofar as commodity agreements take considerable time to negotiate and conclude, this effect would be postponed. Even if a large number of commodity agreements are successfully concluded over a period, they are unlikely to cover the total earnings of a country from all its exportable commodities (including invisibles) so that there would still be need for the approach through SFS.

Broader Objectives of Commodity Arrangements:

13. Finally, while commodity arrangements have a certain impact described above on CFF and SFS, they also have other, important, objectives: viz. to improve the trend of the export earnings of countries, especially by regulating international trade in particular commodities.

Draft Memorandum by the President for the Exeuctive Directors attached to Part II

SUBJECT: The Problem of Stabilization of Prices of Primary Products

1. In response to the Resolution adopted at the Annual Meeting of the Board of Governors in Rio de Janeiro on September 29, 1967, the staff has prepared a study on the problem of stabilization of prices of primary products. Part I of the study, containing the analytical background and the quantitative evidence, was prepared jointly by the staff of the Bank and of the International Monetary Fund. The preliminary draft was distributed to the Executive Directors on July 5, 1968, and the revised draft on August ____, 1968. Part II of the study indicating the scope of action by the Bank in solving the commodity problem, was prepared by the Bank staff. The preliminary draft was circulated to the Executive Directors on July 30, 1968; the revised draft is attached.

2. The Bank has great interest in assisting the developing countries to reduce their dependence on a narrow range of primary products, to achieve greater stability in their export prices and to attain a higher level and better trend in their export earnings. Unless the external trade position of these countries is improved, investment and development efforts generally will not be fully and adequately reflected in the needed acceleration of their economic growth. Similarly, Bank assistance to these countries in financing capital formation cannot be made fully effective for as long as they suffer from violent fluctuations in their external accounts and from adverse price and quantity trends.

3. The attached paper, after providing a brief introductory statement of the issue, discusses the activities of the Bank in two major areas: research and advice, and finance. With respect to the first, it expresses

readiness of the Bank to expand its research and advisory activities in response to growing national and international needs in handling the commodity problems. As new international arrangements are made to deal with price instability and adverse price trends of primary products, the Bank would be prepared to advise, in cooperation with the international agencies concerned, in finding the most appropriate solutions to the problem of overproduction, in suggesting ways and means of achieving export diversification and the allocation of country shares in international commodity agreements, and in advising on proper financial arrangements necessary for viable international commodity schemes.

4. With respect to the provision of finance, the Bank assistance may be made available to countries in measures to deal with diversification, improvement of competitive position of primary products and price stabilization. For diversification the Bank has already been financing developmental projects which may be considered as diversification in the broad sense. It would now be prepared to consider projects for the withdrawal of factors of production from production of surplus commodities and their conversion to other uses. Furthermore, the Bank's lending for the development of new lines of production can be made particularly effective in promoting diversification if it is undertaken in the context of countries' over-all development programs, which have as one of their major purposes diversification of production and exports. The Bank will be prepared to assist countries in drawing up such programs and to extend financial help for their execution. In appropriate cases this requires willingness of the countries concerned to restrain growth of production of commodities in actual or potential surplus

and the readiness of the Bank to extend assistance for a series of diversification projects in one or more sectors, with adequate provision for local cost financing, if appropriate.

5. The Bank would be prepared to assist financially countries in measures to improve the competitive position of their primary products for exports. The issue is particularly acute in the case of commodities exposed to actual or potential pressure of substitution of synthetic materials. An important line of assistance would be in measures to reduce production costs of the natural products and in making investments for this purpose. Also, the Bank would be prepared to consider financial assistance for research programs for production improvement and development of new uses for primary products.

6. With respect to assistance for price stabilization through stocking operations, it is felt that in appropriate cases price stabilization schemes should be able to raise finance from the normal commercial channels or from the international agencies. It is assumed that the International Monetary Fund is prepared to consider short-term finance for buffer stock schemes. There may, however, be the need for Bank action in this field, such as the financing of reserve stocks in the case of some commodities to prevent temporary supply shortages leading to high prices and excessive expansion of production, the financing of stocks similar to buffer stocks in the case of other commodities to maintain prices above short-term market levels to enable longer-term adjustments of production and supply to be completed, and to help countries to meet their obligations to buffer stock arrangements in those special cases where they are unable to use their own resources or their access to Fund assistance because of their over-all debt position and borrowing needs.

7. The commodity problem is a complex and difficult problem; in essence, it is the problem of economic development. Only as development accelerates and the dependence of the low-income countries on a narrow range of primary products is reduced, will these countries cease to be so badly affected by violent short-run fluctuations, by recurrent commodity cycles and by protracted periods of low prices and depressed export earnings. The Bank alone cannot solve the problem; but it can probably make a significant contribution.

Robert S. McNamara

THE PROBLEM OF STABILIZATION OF PRICES OF PRIMARY PRODUCTS

Part II

B. Scope for Action by the World Bank[1/]

Prepared by the Staff of the
World Bank

Chapter I

Introduction

1. Price instability, adverse price trends and slow demand growth for primary commodities in international trade represent a major obstacle to the development efforts of the low income countries and thus tend to reduce the effectivness of World Bank assistance to these countries. Fluctuations in the price of a commodity which contributes a considerable part of the output and exports of a country affects the country's overall economic stability by inducing fluctuations in the investment in that commodity and, under certain conditions described in Part I, by causing fluctuations in the country's export earnings. Further, price fluctuations and the associated instability in other aspects of the economy of the less-developed countries lead to great uncertainty about the future prospects of production, exports and export earnings and thus adversely affect the ability of these countries to formulate and implement development programs. At the same time, price instability may interfere with the growth of consumption of primary products, especially those which are exposed to the threat of substitution by synthetic materials, and thus acts as a constraint on the efforts of some less-developed countries to achieve a more rapid increase of their export earnings. Similarly, adverse price trends, have been a major factor responsible for the declining share of the developing countries in

1/ In the paper, reference to the "World Bank" includes the I.D.A.

the post-war expansion of world trade, for slow growth in their exports and for the associated difficulties in their balances of payments. As a consequence of export fluctuations and adverse trends, developing countries have been hampered in achieving higher rates of economic growth on the basis of their own export earnings, and have had to depend to an increasing extent on the inflow of external capital for that purpose, while at the same time their ability to assume external debt has been adversely affected by the difficulties in increasing export earnings.

2. Remedial measures to deal with the commodity problem affecting the developing countries will have to cover many fields if lasting benefits are to be obtained. Important among these are the actions of the developing countries themselves to promote their economic development by a structural transformation of their economies, which would create new opportunities for employment and investment, reduce their dependence on the export of a limited number of primary commodities, and increase their ability to adjust more speedily and flexibly to changing external economic conditions. At the same time, the policies of developed countries must be adopted to assure greater stability in international trade and to remove the impediments to the imports of primary products from the developing countries.

3. In addition to actions which individual countries might take in the field of domestic policies to alleviate the problems of primary commodity trade, there is significant scope for international cooperation to improve the general conditions in which international trade in primary commodities takes place. In recent years, commodity agreements have received increased attention as an instrument of such international economic cooperation. In

addition to agreements now in force for wheat, tin, and coffee, there have been attempts to arrive at agreements in the case of other commodities, and further attempts have been proposed, especially under the auspices of the United Nations Conference on Trade and Development. Not all commodities are suitable for commodity agreements. In cases where they are, such agreements may influence the market situation of particular commodities by reducing price instability and by improving price trends through regulation of the flow of supplies on the market and assuring a larger and more certain market for commodities in importing countries.

4. The problem of the instability and uncertainty of the export earnings of less-developed countries may also be approached through financial arrangements. The Compensatory Financing facility of the International Monetary Fund is one such arrangement, dealing with financial assistance to meet deviations of export earnings from their medium-term trend. A proposal has been made and is under consideration for supplementary financial measures to help prevent the disruption of development programs, arising from shortfalls of export earnings from reasonable expectations. At the request of the United Nations Conference on Trade and Development in 1964, the Bank staff have made a study of the feasibility of such measures.1/ The relationship between commodity arrangements for stabilizing prices of primary commodities and the schemes for compensatory financing and for supplementary financial measures may be noted. Neither approach is a substitute for the other. Financial measures cannot eliminate the adverse effects of price fluctuations on production planning and on consumption: such effects can be removed only by price stabilization. On the other hand, price stabilization through commodity agreements cannot fully stabilize external earnings, since

1/ "Supplementary Financial Measures", World Bank, 1965.

they depend on volume changes as well as on price changes and since commodity agreements are unlikely to cover the whole spectrum of exports. On the other hand, progress in negotiating commodity agreements is likely to enable countries to have more accurate expectations of their export prices, and hence, to some extent, of their export earnings, on the basis of which to formulate their development programs, and will reduce the cost of supplementary financial measures. This effect would depend on the number of commodities subject to agreements and the operative features of such agreements.

5. In the discharge of its primary responsibility to promote the economic and social development of the low-income countries, the World Bank is deeply interested in commodity problems as they affect its member countries. This follows naturally from the large share of primary production in the present economic activities of the developing countries and the great extent to which these countries depend on their export earnings from primary products to meet the foreign exchange requirements of their development efforts including the service on their external debt. The trade situation of commodities affects countries producing them on a large scale both in the ways in which they allocate their investment resources and in the ways in which they seek to increase their export earnings, and the World Bank has tried to assist its developing member countries in both these areas. There are two principal ways in which such assistance has been provided; the first consists of a variety of consultative and advisory activities, and the second of the provision of long-term financial assistance for developmental activities. The Bank's activities in the past and the scope for possible further action in the future under these two headings are discussed in the following two chapters.

6. Chapter II describes the research and advosory activities of the Bank in connection with its country work, its project analyses, trade and other international relations and special studies. In the field of commodities, the Bank has undertaken systematic work on commodity projections which have served as a basis for judging export prospects and evaluating investment plans and development programs. In the future, as individual countries increase their efforts to deal with the commodity problems, the Bank's research and advisory activities would be expanded to assist these national efforts. Furthermore, as new international arrangements are made to deal with price instability and adverse price trends of primary commodities, the Bank would be prepared to advise, in cooperation with the international agencies concerned, in finding the most appropriate solutions to the problem of over-production, ways and means of achieving export diversification, the allocation of country shares and the financial arrangements necessary for viable international commodity schemes.

7. Chapter III discusses ways in which Bank financial assistance may be made available to countries in measures to deal with the commodity problem, under three headings: (a) diversification; (b) improvement of competitive position of primary products; and (c) price stabilization. For diversification, the Bank has already been financing developmental projects, which may be considered as diversification in the broad sense; in addition, it is prepared to consider financing projects for the withdrawal of factors of production from production of surplus commodities and their conversion to other uses. In addition to such efforts to withdraw productive factors from surplus commodities, the investment of new resources in commodity production would have to

be considered from the point of view of their effects on other developing countries and their compatibility with international agreements on such commodities. In addition to these activities in primary production, the Bank will continue to assist developing countries to expand their production and export of manufactures. Finally, in the field of diversification, the Bank would be prepared to help in managing or advising diversification funds under commodity agreements and in coordination of national diversification programs.

8. Chapter III also discusses the ways in which the Bank may assist developing countries in measures to improve the competitive position of their primary products for export. An important line of assistance would be in measures to reduce production costs of the natural products and in making investments for this purpose with due regard to the time horizon over which expanded production at lower costs would be justifiable. Also, the Bank would be prepared to consider financial assistance for research programs for production improvement and development of new uses for primary products.

9. Finally, Chapter III discusses Bank's interest in measures at price stabilization. The Bank feels that in appropriate cases price stabilization schemes should be able to raise finance from the normal commercial channels or from the international agencies. It assumes that the IMF is prepared to consider providing short-term finance for buffer stock schemes. There may, however, be the scope for Bank action in this field, such as the financing of reserve stocks in the case of some commodities to prevent temporary shortages leading to high prices and excessive expansion of production, the

financing of stocks similar to buffer stocks in the case of other commodities to maintain prices abovex short-term market levels to enable longer term adjustments of production and supply to be completed, and to help countries to meet their obligations to buffer stock arrangements in those special cases where they are unable to use their own resources or their access to Fund assistance because of their over-all debt position and borrowing needs.

Chapter II

Research and Advisory Activities of the Bank

10. Starting from the early years of the Bank and increasingly in recent years, the Bank has been devoting more and more of its attention to the study of the problems facing the developing countries, not only to serve its own operational needs, but also in order to advise these countries on the best ways to meet their problems, especially those connected with the formulation and implementation of their development programs. These activities of the Bank may be described under the following four categories:

(a) Country economic work;

(b) The collection and analysis of international economic intelligence;

(c) The analysis of the economic factors in project appraisal; and

(d) Special studies.

11. The Bank's country economic work is built around Bank missions which periodically visit developing member countries. These field missions concentrate on the developmental programs, economic problems and future outlook of these countries, and present the results of their field investigations and their judgments about economic policy performance in the Bank's country economic reports. The latter range from studies in depth of the basic economic structure and problems of a country and studies of current economic problems and prospects to briefer updating reports and special investigations or consultations. The judgments on performance of a particular country are a major consideration in decisions about lending operations to that country. These judgments are also becoming increasingly useful to the Bank in its role in the coordination of aid from other sources, as its

evaluations based on such country economic work are sought by other creditor or donor countries to assist them in their own bilateral aid activities. On the basis of policy recommendations derived from such field investigations, the Bank missions consult with the respective governments about their future policies relating to developmental matters.

12 The Bank has also been engaged in direct investigation in the field of a variety of factors relevant to the appraisal of individual projects, concerned not only with the financial returns from a project, but also with the economic benefits and costs of the project as it affects the entire national economy. In the course of this work, studies of key sectors provide data and guidance for appraising national investment plans and economic performance.

13 In addition to these activities, the Bank has also been engaged in a number of special studies touching on international financial problems for its own needs and also at the request of member countries and other international agencies. Bank staff have been made available to member countries to assist in the formulation of comprehensive development programs or investment plans; they have prepared special studies, such as the reports on Supplementary Financial Measures and Suppliers Credits in response to requests from the United Nations Conference on Trade and Development. They have cooperated with agencies such as the United Nations Development Program in carrying out feasibility studies for particular development projects.

14 In the course of these activities the Bank has had to give special emphasis to the study of the market conditions of primary commodities and their effects on the policies and prospects of the developing countries. A number of economists specializing in the field of commodity trade are continuously engaged in keeping abreast of and analyzing significant developments and trends in the economic, technological and institutional aspects of both major and lesser primary and intermediate commodities exported by the developing countries. The main responsibility of these economists is to make short- and medium-term projections of the likely trend of prices and volumes of these commodities in world trade. A particular objective of the projection is to anticipate the long-run prospective state of the world market and its significance for individual countries and for them as a whole. Information and views developed by trade and industry sources and by the existing intergovernmental commodity bodies~~, whose meetings are regularly attended by observers from the Bank~~, are carefully considered and taken into account in developing the projections. Information developed by Bank missions to member countries is also used and the projections are revised in light of new information as it is collected and evaluated.

15 These commodity analyses are integrated into the Bank's work at the global country and project level. They are used in formulating reasonable expectations of a country's export earnings as part of the medium and long-term balance of payments projections. Projections of export earnings made in this way are then used to evaluate the feasibility and appropriateness of development programs and investment plans; they are also used to help in determining the aid requirements of individual countries and their creditworthiness and ability to service external debts in the future.

16. The results of commodity research and projections are also used to advise countries on the feasibility of export targets and the possibilities of developing alternate lines of production as part of their economic development planning and policies. Through such advisory activities the Bank helps countries to formulate programs based on a more realistic appraisal of the world trade outlook than might otherwise be possible for national agencies working in relative isolation. In these ways, and in cooperation with the International Monetary Fund, the Bank has tried to help countries follow policies which would lead to higher export earnings, so that these countries do not have to resort to restrictive trade practices or ill-advised policies of import substitution. These advisory services are also intended to help reduce wasteful investment and to avoid possible mis-allocation of scarce financial resources.

17. The World Bank will continue to assist individual countries in these ways, and in any new activities undertaken by them to deal with the problems of primary commodities, such as advice on diversification programs and measures to improve the competitive position of primary products. In addition to such assistance to national agencies, however, there has also been scope for the World Bank to provide technical assistance in the field of international commodity arrangements. In 1964 it carried out largely at its own expense a study of the supply-demand prospects for extra-long staple cotton for the International Cotton Advisory Council, including an extensive international survey of mill use and preference criteria between the natural products and synthetic substitutes. During the past two years it has financed half the cost and made contributions in the form of special research

papers to the joint ICO-IBRD-FAO Coffee Study. The Study, first of its kind, includes projection of world demand and supply capacity and will contain analyses of some major elements of the cost of production in various countries and of diversification possibilities. The study is to be used inter alia to help countries formulate their production goals under the new International Coffee Agreement of 1968 and will thus help in devising policies to achieve long-term equilibrium in the world coffee economy. Coffee, the second largest commodity in international trade, has suffered from recurring cycles of over-production and associated protracted periods of low prices during the last half-a-century; and the solution of the coffee problem, of crucial significance for a large number of countries in the tropical belt of Latin America and Africa, would represent a major international achievement.

18. The Bank has also increasingly made its country economic studies available to commodity oriented bodies such as FAO and the ICO. These reports are used by the receiving institutions to give proper weight to the general state and progress of economic development in member countries in formulating commodity policies. The Bank is prepared to make the relevant country economic reports available to all commodity councils administering intergovernmental commodity agreements and also to other commodity study groups when these are considering policy questions that might affect economic development in the Bank's member countries.

19. The Bank would also be prepared to cooperate with international commodity councils in other ways. One of the problems facing such councils is the allocation of export quotas on the basis of relative opportunity

costs in the various producing countries. As a result of its regular consultation with member countries regarding their investment programs, the Bank staff would be in a position to make recommendations to the commodity councils on such questions. For instance, if the Bank staff on the basis of an economic survey of a country believes that the country has a clear comparative advantage in increasing its production of a commodity, the Bank could convey this judgment to the Commodity Council, which might then wish to consider an increase in the country's quota. In the past, the Bank has, on several occasions, contributed the services of its staff to special missions of the International Coffee Organization to investigate requests by member countries of the International Coffee Organization for quota adjustments or for waivers of annual quota restrictions under the International Coffee Agreement of 1962.

Chapter III

The World Bank's Financial Assistance

20 The World Bank has been assisting the developing countries by providing assistance to finance a large array of development projects. Many of these projects have been for the basic infrastructure of the economy, thus helping the required changes in the structure of commodity production to take place. Some of these projects have been for developing new industries, thus reducing the dependence of these countries on primary commodity production. Other projects have been concerned with promoting new export activities, and thus diversifying the export structure of the developing countries, thereby reducing their vulnerability to vicissitudes in their external ~~economic relations~~ accounts. By providing such financial assistance for their development activities, the World Bank has thus helped them in attempting a long-term solution to the commodity problem as it affects them.

21 In addition to the attempts being made for a long-term solution by accelerated development, there are also various other measures that may be taken at the national and international levels to deal with the problems of price instability and adverse price trends of primary commodities exported by the developing countries. The various aspects of these problems are interrelated and the policy issues to which they give rise cannot be regarded in isolation from each other. Nonetheless, it may be convenient to group such policy issues, as they affect the international financing agencies into three broad areas: (a) assistance to diversification of production and exports of developing countries; (b) assistance for the improvement of the competitive position of primary products; and (c) assistance in stabilization of commodity prices.

Diversification

22 Significant progress in diversification of production has been achieved during the postwar period, as reflected in relatively rapid industrial growth and changing economic structure in a number of developing countries. However, there has continued to be a high degree of concentration in the exports of less developed countries. Such concentration is not necessarily unfavorable to a country's growth if its exports consist of commodities with a satisfactory market outlook. But commodity concentration creates special difficulties for the large number of countries which are heavily dependent on products where the tendency toward overproduction has been frequent and persistent. Unless systematic diversification policies are pursued, it will be difficult to avoid over-crowding the markets in particular products; such over-crowding leads to a weakening of the foreign exchange position and aggravation of the development problem of a number of developing countries simultaneously.

23 The development measures, consisting of the establishment of new lines of production as part of an overall economic strategy, may be considered diversification in the broad sense. Assistance to such projects has long been a familiar feature of Bank lending. As a further extension of its activities focusing on the export problem, the Bank Group would be prepared to participate in financing projects whose purpose is also to assist diversification in the narrow sense -- i.e., the withdrawal of factors of production from a product now in surplus or likely to be in surplus and their conversion into alternative uses. The issue may be relevant, for example, in the case of coffee, if the Joint ICO-FAO-IBRD Coffee Study shows that surplus capacity still exists and that some of it should be withdrawn, with a consequent need for reemployment of the labor and land formerly engaged in coffee. Surplus supply conditions may also exist in the case of hard fibres, particularly sisal; sugar, tea, wine and bananas may also be involved, but to a smaller extent (for the case of rubber, see below). The removal of surplus capacity would be of substantial benefit to all producers remaining in production, since it would help either raise the price, (or prevent its fall) or it would permit the more efficient producers to expand production. However, in order to be of lasting benefit, the adjustment of surplus capacity in particular countries would have to be regulated by some sort of international arrangement, so that the objective is not defeated by overexpansion in supply capacity in other countries. Where, in the course of its regular work, the Bank sees such problems likely to arise in the future, it will analyze them and suggest practical solutions.

(of over-expansion

24 The individual countries where withdrawal took place would need external assistance for reemployment of the displaced factors of production; such external assistance should be provided on appropriate developmental terms. A special factor which should be taken into account in appraising programs aimed at conversion of productive factors into new uses is that the conversion may create serious employment problems: surplus commodities normally are relatively labor intensive and the obvious alternative uses of land and capital may employ very limited amounts of labor. Hence, there may be need on a considerable scale for the resettlement of labor and/or absorption into industry after further training. In both cases, the capital/labor ratio will shift upward, at least temporarily. There may also be need for a wide range of labor-intensive activities where sectoral approach to lending may be more suitable than the individual project approach. The local currency cost of the conversion is likely to be substantial.1/

25 Bank participation in "conversion" projects does not necessarily mean that it would have to finance the "liquidation component" of these projects (e.g., eradication of trees); this could be financed by the country itself and the Bank's assistance could be limited to new investment.

1/ In agriculture, where much of the diversification will have to take place, local currency cost averages two-thirds of total project cost. (Based on Bank-IDA financed agricultural projects, 1959-1967).

However, the Bank could finance such eradication activities if the country cannot finance them. What would be important would be Bank's willingness not only to engage in these types of activity, but also to give them priority consideration, in view of the internationalization of benefits they would confer (i.e., the flow of benefits to all producers), and especially in cases where such investments are part of coordinated and internationally agreed efforts.

26. The above category of cases is important, but in a sense special; the need for a large scale withdrawal of capacity and for conversion of production factors will occur where excessive investment has already taken place or where external demand trends are particularly adverse. A more general case will be the need to restrain the entry of new factors of production into products with relatively weak demand prospects in the future, i.e., the need to prevent over-crowding the markets in primary products, especially those of agricultural origin. It is highly unlikely that such a restraint on entry can be accomplished by individual producing countries acting on their own account. Any restraint that may be needed may be induced more readily if domestic development policies are focused on fostering the alternatives and if external finance is available for the alternatives.

27. The World Bank's lending for the development of new lines of production can be made particularly effective in promoting diversification if it is undertaken in the context of countries' overall development programs, which have as one of their major purposes diversification of production and exports. The Bank is prepared to assist countries in drawing up such diversification programs and is also prepared to extend financial help

for their execution. In appropriate cases this requires willingness of the countries concerned to restrain growth of production of commodities in actual or potential surplus, and the readiness of the Bank to extend assistance for a series of diversification projects in one or more sectors, with adequate provisions for local cost financing, if appropriate. The emphasis in the appraisal of such long-term diversification programs would have to be on their overall purpose, content and machinery for execution.

28. [The question of the circumstances when individual developing countries should or should not make new investments in commodity production is a complex one. In its own lending and advisory operations, the Bank would have to consider assistance for such new investments, not only on the basis of the direct return to the country making the investment, but also on the basis of the effects on other less-developed countries and on less-developed countries as a group. This would be particularly appropriate for the Bank as an international development agency. The Bank could evaluate such international effects because of its intensive contacts with the member countries. The effects on the less-developed countries as a group would depend on whether the group was a net exporter or a net importer of the commodity. As a net exporter, new investments may lead to adverse effects by reducing prices without offsetting increases in demand, whereas as a net importer, the benefits to consuming countries may outweigh the disadvantages to producing countries. In some cases, new investments in some countries would still be appropriate if the relative opportunity cost of production in these countries was lower than in other producing countries; in these cases, technical and financial assistance could be provided to the other countries adversely affected by such new investments.]

29. In devising an appropriate strategy of diversification and growth, an acceleration of the recent trend in exports of manufactures from developing countries could be a significant factor in the solution of the overall problem of export growth of developing countries. Such an expansion will initially provide a direct alleviation of the problem for a limited number of developing countries -- those which are industrially more advanced. However, indirect effects on other developing countries could also be significant: to the extent that an accelerated expansion of exports of manufactures from the more advanced developing countries reduces the pressure on them to expand their own exports of traditional primary products, the room for expansion of primary products of the less advanced developing countries would be widened, resulting in a higher rate of growth in earnings from these exports. The World Bank intends to continue giving consideration in its lending operations to the development of manufacturing industries which may become competitive in the international market.

30. The World Bank would be prepared to extend technical assistance and cooperation to the proposed Diversification Fund of the International Coffee Agreement. The Bank has already participated in the preparatory work and it would cooperate with the Diversification Fund after its establishment. Such cooperation may take the form of joint financing of particular projects. Alternatively, if requested to do so, the Bank might exercise certain management functions on behalf of the Fund, according to mutually agreed guidelines. If other diversification funds are established in the context of international commodity agreements and their purposes

and principles of operation are consistent with Bank's objectices and operational methods, the World Bank would be prepared to cooperate with them in a similar manner.

31. If requested to do so, the World Bank would also be prepared to advise or manage any funds that may be generated for development purposes as a result of possible introduction in developed countries of refundable import levies on selected primary products. Similarly, it would be prepared to advise or manage any funds resulting from a possible decision of developed countries to transfer for development purposes a part of the existing fiscal charges on primary products. Such funds might be used primarily for financing diversification.

32 There will have to be some degree of coordination of national diversification programs in order to avoid emergence of surpluses into which diversification takes place. ~~As mentioned in the last chapter,~~ The World Bank would be prepared, if requested, to advise governments on the basis of the information collected by its staff and by other international agencies, such as FAO, GATT and UNCTAD on the content and scope of various national programs.

Improvement of Competitive Position of Primary Products

33 Recent industrial development in the developed countries has resulted in rapid growth of substitute materials for natural products. The commodities most severely affected by competition from synthetic materials are rubber, cotton and wool, jute and hard fibers, hides and skins. Further, oils and fats in certain uses are being replaced by synthetics, while the development of plastic materials exercises adverse impact on the consumption of a wide range of natural products, including metals and lumber. Many factors have brought about the rapid growth of synthetics and the concomitant displacement of natural products. Certain synthetic materials have superior technical characteristics in some uses; unless the technical characteristics of the natural products can be improved, the process of substitution will continue. Frequently synthetic materials have been cheaper than primary products: in these cases, the improvement in the competitive position of the latter will require a reduction in production costs. (For instability of prices of natural products see further below.)

34 The major issue facing the developing countries-producers of materials exposed to the threat of substitution is to decide on specific cases where the undertaking of special measures designed to reduce production costs represents the best use of available resources. This issue is not difficult to decide in cases in which cost reduction is achieved primarily through better labor utilization. Also, in the case of current inputs -- fertilizer, insecticides -- the issue of resource allocation should not be too difficult to resolve: the time horizon over which the effects of higher current inputs will be felt is relatively short and therefore the profitability of these inputs can be relatively easily measured. It is in the case of investment expenditures, particularly in products with long gestation periods, such as tree crops and animal products, that the issue of resource allocation is most intricate. A view must be taken regarding the size of the export market for the natural product over the long-run and about the probable future level of costs and prices, also over the long-run. And the latter, in turn, requires that a view be taken regarding the future competitive pressure of synthetic materials, i.e., regarding the future long-run trend in their costs and prices.

35 The World Bank is prepared to examine with the producing countries the financial requirements involved in reducing production costs of primary products facing the threat of substitutes and the likely profitability of such investments in the light of alternatives that might be available. While the problem is fairly general, the issue is most critical at the

present time in the case of natural rubber. The price of synthetic rubber has been on the average below the price of the natural product. However, cost reductions in natural rubber, which can be achieved as a result of replanting with high-yielding varieties, are substantial: and it is argued that they would result in a price which would be substantially below the present level and which would improve its competitive position in relation to synthetic rubber. Replanting on a considerable scale has already taken place in some producing countries, while others have lagged behind. Major uncertainties still exist as to the rate at which replanting can take place in some producing countries in view of administrative constraints and with respect to the future costs of production of synthetic rubber. The World Bank would analyze the programs for replanting or for the development of alternatives and consider the appropriateness of financial assistance in specific cases. The problem of employment in the rubber-producing regions will have to be a special factor to be taken into consideration in the appraisal of the programs.

36. One key advantage which the industries producing synthetic materials have compared to the primary producers in developing countries is their ability to finance research and development expenditures on a large scale. Research has also been under way in natural products for some time; but while the amounts spent are not precisely known, there is no doubt that they have been modest and greatly inferior to those spent on research in synthetics.

37. The World Bank would be prepared to consider financial support to well-conceived research programs in the improvement of technical characteristics, reduction of production costs and development of new uses of natural products, if these programs are not being financed or cannot be financed from other sources such as UNDP.

Price Stabilization

38. The developing countries could benefit in two ways from measures for stabilizing the prices of primary commodities in international trade. One type of benefit would occur if price stabilization led to a reduction in the short-period instability of export earnings. This is a problem to which the International Monetary Fund has given great attention and for which it is prepared to assist member countries in various ways, especially through the Compensatory Financing facility. The Fund staff have also indicated in Section A of this Part of the Study the scope for Fund assistance in financing price stabilization operations.

39. The other way in which price stabilization might assist developing countries is by helping them to program their development activities more effectively. As indicated earlier, more stable prices of commodities exported by a country means that the country has greater certainty about the external economic environment on the basis of which it can make more accurate estimates of its future export earnings and also improve its own long-term investment plans and

production policies. More stable prices would reduce economic and social waste which arises from cycles of over- and under-investment in primary production; they should lead to improved allocation of resources and thus to higher return on investment; and they should induce a higher growth in consumption. Therefore, the World Bank attaches considerable importance to possible measures for price stabilization, because of these potential advantages for the development process.

40. Various techniques are available for stabilizing the prices of commodities in international trade, as described in Part I of the Study. Financing for such operations, where required, may be available through private financial channels or through international financial agencies. In their discussion of the scope for action by the International Monetary Fund, the Fund staff have noted that the Fund could provide the needed finance for approved buffer stocks by lending on its usual temporary basis, directly to members for this purpose, on certain conditions depending on the management and operations of the buffer stock and the policies of the members in connection to the buffer stock in question. In addition to such financial requirements of buffer stocks as may be met by the use of the Fund's resources or otherwise, Bank financing may also have a role to play in connection with commodity stock operations.

41. In the first place, the operation of a buffer stock would be strengthened if Bank financing could be available in special situations in which the Fund and the Bank had concluded that a desirable temporary operation involved for certain members sums in excess of what they could finance from their own reserves or through access to the Fund. If in such cases the Bank extended finance to members in support of buffer stock contributions, such assistance would, of course, need to be considered in the light of these countries' overall debt positions and borrowing needs.

42. Secondly, longer term finance would be needed if a stock operation were deemed appropriate and were undertaken, not in order to even out fluctuations around a medium term trend, but to maintain the price for a more prolonged period at a level in excess of the short-term equilibrium price, until such time as the longer term adjustments of production and supply appropriate to the higher price had been completed.

43. A long-term financial requirement would also arise, when the appropriate stabilization technique is that of a reserve stock, whose primary purpose is to prevent price increases beyond a ceiling, so as to avoid the stimulus for overproduction. The case for maintaining a reserve stock would be strongest for commodities which are produced or have close substitutes in developed importing countries. The ability of a reserve stock to keep prices below a particular level would depend on its holding

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1/ "Supplementary Financial Measures", World Bank, 1965.

a sufficient stock of the commodity, to be speedily replenished after any reduction; it follows therefore that the capital originally invested in building up the reserve would be a long-term investment.

44. In cases in which the recourse to Bank resources may be involved, such financial requirements may be met by lending or guarantee operations of the Bank. The appropriateness and feasibility of supporting particular commodity schemes under this general policy would have to be studied on a case-by-case basis.

FORM No. 57 INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Mr. Irving S. Friedman DATE: August 2, 1968

FROM: Dragoslav Avramovic

SUBJECT: Fund Board Discussion of the Commodity Study (Morning August 2)

1. The Fund Board resumed their discussion of the commodity study the morning of August 2. Only Mr. Stone (Australia) spoke on substance: he underlined the need for improved market access in the developed countries for the primary products exported by developing countries. The Fund staff replied to the comments on the study made by the Directors at the earlier meetings.

2. On the issue of procedure, the Deputy Managing Director, Mr. Southard, suggested two possible approaches (see the attached): sending to the Board of Governors both Parts I and II, with comments from the Executive Directors; or sending only Part I, with a statement by the Executive Directors that Part II, containing policy proposals, was under preparation.

3. Mr. Stone suggested that there was also a third course of action - namely, not sending any documents to the Board of Governors for their session of 1968. If this course of action was adopted, the documents -- Parts I and II -- would presumably be submitted to the Governors in the course of the year 1969. In presenting his proposal, Mr. Stone referred to Mr. McNamara's statement at the Bank Board of August 1 saying that Mr. McNamara was unhappy with the hurry with which the subject was being discussed and that Mr. McNamara considered the studies below the standards usual for the Bank. Mr. Biron (Belgium) requested the Deputy Managing Director to circulate to the Fund the minutes of the Bank Board meeting at which Mr. McNamara's statement was made.

4. Mr. Plescoff (France) proposed that both Parts I and II be sent to the Board of Governors 1968, with comments by the Executive Directors. He stated that the Board of Governors would be deeply disappointed if such a course of action was not followed.

5. Mr. Crispi (Italy) suggested that only Part I be sent to the Board of Governors, accompanied by a covering letter by the Executive Directors indicating that they have requested the staff to prepare policy proposals. Mr. Friis (Scandinavian countries) agreed with Mr. Crispi's proposal.

6. The Fund Board discussion on the procedure will be resumed on Monday August 5.

Attachment.

cc: Mr. McNamara

August 1, 1968

Further Consideration of the Procedure for the Handling of the Commodity Study

Statement by the Chairman

I think it would now be desirable to return to the question of procedure. I gave some preliminary indications on this subject at the start of Wednesday's meeting and the staff and I have been considering this further in the light of the statements by Directors during that meeting.

The way this question appears to me now is that there is basically a choice between two procedures. The first procedure would be for Directors to send the whole of the study (Parts I and II) to Governors. I doubt whether this could be done unless Directors were willing, in their comments or recommendations when transmitting the Study to the Governors, to take approximately the line mentioned by the Managing Director last month, namely that Directors felt that the approach of Part II constituted a suitable starting point for the consideration of Fund policies in the commodity field.

The other possibility would be to limit transmission at this stage to Part I of the Study, and this would then be accompanied by more general comments by the Executive Directors which would say primarily that Part II, dealing with the scope for possible Fund action, was still in course of preparation by the Staff, and that the Directors would transmit it later with their comments and recommendations.

In our view both approaches would be compatible with the Rio Resolution. If the second approach were taken the Preface to the Study would have to say that the staff had completed the analytical part of the requested study but felt that it would want to give further consideration to policy aspects before submitting the second part of its study. As a practical matter, the consequence of this approach would be that Part II would not be completed until the Board was ready to come to a conclusion on its recommendations for Fund action, some time after the Annual Meeting.

I continue to believe that we should publish and release shortly before the Annual Meeting, whatever staff study is formally transmitted to Governors.

We shall, of course, also have to bear in mind that the procedures in the Fund and the Bank should be coordinated and therefore it may not be possible to come to a definite choice on this matter before the Bank Board has had an opportunity to discuss it.

OFFICE MEMORANDUM

TO: Mr. Irving S. Friedman DATE: August 1, 1968

FROM: Guy H. Orcutt G.H.O.

SUBJECT: Supplementary Financing and Compensatory Financing

The major differences that I see between Compensatory Finance and Supplementary Finance have to do with:

1) the method of predicting what export earnings would be in the absence of shortfalls;

2) the time horizon and the length of fluctuations to be stabilized;

3) the objectives other than those of stabilizing export earnings.

In the Compensatory Financing program, exports are projected by combining well defined "statistical" projections based on export earnings for the current and two preceeding years with essentially undefined "qualitative" projections. The weighting of the two projections is not stated but it does appear that the "qualitative" projections are derived by projecting earnings for key commodities.

How projections are to be made in the Supplementary Finance program isn't spelled out but apparently these are to be derived from models of the LDC's in which the impact of policy actions and development plans on net export earnings is to be calculated and taken into account.

The Compensatory Finance Scheme attempts to do something about unforeseen deficiencies of export earnings which do not last much longer than one year. The Supplementary Finance Scheme attempts to do something about unforeseen deficiencies of export earnings which may last as long as five years.

Under the Supplementary Finance Scheme, leverage is expected to be used to promote sensible development planning and activity on the part of LDC's. This objective does not seem to be part of the Compensatory Finance Scheme.

Southard's Statement

August 1, 1968

Further Consideration of the Procedure for the Handling of the Commodity Study

Statement by the Chairman

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I continue to believe that we should publish and release shortly before the Annual Meeting, whatever staff study is formally transmitted to Governors.

We shall, of course, also have to bear in mind that the procedures in the Fund and the Bank should be coordinated and therefore it may not be possible to come to a definite choice on this matter before the Bank Board has had an opportunity to discuss it.

FORM No. 57 INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Mr. Irving S. Friedman DATE: August 1, 1968

FROM: Dragoslav Avramovic

SUBJECT: Fund Board Discussions of the Commodity Study (afternoon July 31, 1968)

1. The Fund Board discussion of the commodity study was resumed on the afternoon of July 31. A division of view, already noticeable in the morning session, became more pronounced. It concerned both the substance of the Fund proposal, and the procedure to be followed.

2. The representatives of the African countries (Messrs. Nikoi and Williams), India (Mr. Madan) and Central American countries (Mr. Gonzalez del Valle) considered the Fund proposals concerning the use of the compensatory financing facility for buffer stock financing as a possible starting point for discussions, but emphasized that it was too narrow and that a bolder approach will be necessary.

3. Mr. Huntrods (U.K.) was satisfied with the Fund proposals, although he stressed the need for further detailed work. Mr. Lieftinck had a number of substantive questions concerning the proposals (whether the buffer stock financing by the Fund was workable in the absence of universal membership, whether the Fund could provide permanent capital to buffer stock schemes, whether the Fund should engage in financing national stocks), but expressed his agreement in principle with the idea that the Fund should focus on buffer stock financing. Mr. Biron (Belgium) was sceptical regarding the feasibility of any commodity intervention, but seemed to agree that compensatory financing facility may be used for buffer stock financing, provided the present ceilings for countries' borrowings were rigidly maintained. Mr. Friis (Scandinavian countries) stated that the difficulties of handling the commodity problems were immense, but that a useful start can and should be made, provided ample time is given to deliberations concerning the directions in which to move. Mr. Crispi (Italy) considered the proposals as a useful starting point for further work, but doubted whether consensus of the Executive Directors could be reached quickly; in any case, he was against amendment of the Articles of Agreement since this would change the monetary character of the Fund. Mr. Reid (Canada) stated that the study had shown that the problem existed, that it should be viewed in the development context, that long-term measures were essential, and that buffer stocks should be considered as an adjunct to long-term solutions. However, his authorities were questioning whether the Fund was the suitable agency for buffer stock financing and therefore more time would be needed for the study of the institutional aspects.

4. Mr. Plescoff made a plea for accelerated consideration of the problem and for the need to consider a wide spectrum of solutions. He was envisaging financing both of international buffer stocks and of coordinated national stocks, e.g., at the regional level. He was opposed to setting a ceiling on countries' drawing on the compensatory financing facility for buffer stock financing.

5. Virtually all speakers emphasized the need for long-term solutions and expressed their satisfaction with the fact that the study has covered the fields of diversification and of improvement of competitive position of primary products.

Procedure

6. There was complete disagreement concerning the procedure to be followed. Mr. Plescoff urged that both Parts I and II be sent to the Board of Governors and that an attempt is also made to prepare a report of the Executive Directors as well. Mr. Ungerer (Germany) argued that the Board was under no commitment to send anything to the Board of Governors. Other Directors were taking different intermediate positions -- of sending to the Board of Governors Parts I and II without substantive comments by the Executive Directors or of sending only Part I. This issue will be discussed at the next meeting of the Fund Executive Board.

7. The Fund Board discussion of the commodity problem will be resumed on Firday, August 2.

cc: Mr. McNamara

FORM No. 57 INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Mr. Irving S. Friedman

DATE: July 31, 1968

FROM: D. Avramovic

SUBJECT: Fund Board Discussions of the Commodity Study

1. The Fund Board started their discussion of the Commodity Study today. In the morning session the speakers included the representatives of Malagassy Republic, Australia, Germany, Brazil and the United States. The representative of France had circulated a written statement: it will presumably be followed by his oral presentation. Both Parts I and the Fund Part II were discussed.

2. In his opening statement, Mr. Southard, Deputy Managing Director proposed a procedure that might be followed. He suggested that following the Board discussions and subject to agreement with the Bank, Parts I and II be sent to the Governors in a mimeographed form, and then published. Executive Directors were expected to submit their own report, in accordance with the Rio Resolution.

3. Mr. Stone (Australia), supported by Mr. Unger (Germany), questioned the suggested procedure. He stated that his authorities had not yet been able to examine the documents and therefore would find it impossible to formulate views on the Fund proposals. He deplored the hurry with which the proposals on such an important matter seemed to be pressed on the Fund Board and suggested that the procedure indicated by the Deputy Managing Director be re-examined in the course of the discussion. This is likely to happen either tomorrow or Friday. Mr. Plescoff is underlining the urgency of the matter.

4. On the substance of the issue, the division of views was already emerging. The representatives of Malagassy Republic and Brazil, while pleased with the constructive spirit of the approach, found the Fund's proposed financing of buffer stocks through the compensatory financing facility too narrowly based and therefore unsatisfactory. The French statement emphasizes the need to consider, in a spectrum of solutions, more ambitious forms of action including direct financing of new organizations in the commodity field if necessary by amentment of Articles of Agreement, and considers the Fund proposals unduly restrictive. In contrast, the representative of Germany expressed very strong reservations regarding any Fund involvement in commodity stock financing. The representative of the United States said that his government's views have not yet been formulated, but that he was sympathetic to the forward looking approach in the study.

5. All speakers emphasized the need for close cooperation between the Bank and the Fund in handling the commodity problems.

cc: Mr. McNamara

Italy - OK but caution
Can ?

Fr - be more ambitious

Aust (Stone) - too much hurry -
Ger (Unger) - strong reservation but Fund involvement
US - ?

~~Neth ... OK in principle~~
Bels - hesitant - positive

India - also Fund approval too narrow
UK - OK in principle

Mr. Robert S. McNamara July 31 1968

Irving S. Friedman

Stabilization of Prices of Primary Products

You may be interested in reading the attached memorandum circulated by Mr. Plescoff. Incidentally, I reviewed again the authorship of the Commodity Study. In Part I the Bank staff's contribution was Chapters II, VI and VII, entitled respectively, "Trends in Commodity Trade, "Measures for Improving the Trend", "Diversification". The Fund chapters were largely written by Mr. Hirsch, a former staff member of the London ECONOMIST, supervised by Mr. Polak. Mr. Goreux of our staff, provided the Fund staff with a good deal of analytical background material for their chapters. The Bank chapters were largely the work of Messrs. Avramovic and Sundrum, with comments from many others and reviewed by myself.

The two most controversial chapters were Chapter III "Commodity Fluctuations and Commodity Stabilization" and Chapter I "The Problem and its Setting". The Fund people were very insistent on doing the first draft of Chapter I because they were quite concerned to meet some of the views which had been expressed by Executive Directors. There was a good deal of wrangling over Chapter I between the two staffs since we felt that Chapter I should be a summary of what was in the subsequent chapters rather than the place to "compromise" basic differences on approaches to the commodity problem. However, we did agree to the language used.

I would like to register again my view that, if possible, the next step should be that Part I goes to the Governors with the indication that preliminary policy recommendations had been made by the Fund and Bank staffs to their Executive Directors respectively which would be considered in due course after the Governors' Conference. In this way, the deliberations on future Fund and Bank policies would have the benefit of views expressed at the Governors' Conference as well as by Executive Directors.

The main advantage I had seen in the attempt to get both Part I and the Part II's to the Governors quickly was that it might dispose of the problem. However, if in any case the matter is to be sent back for further consideration by the institutions concerned, then I see little advantage in trying to get a quick agreement on important policy matters before the Governors' Conference.

You may be interested in looking at the attached copy of a technical study that the Bank staff had done previously on the commodity problem. The study was originally done in 1964 and revised in late 1966. Mr. Avramovic was the principal author.

Attachment

D R A F T

Statement of the Chairman

Executive Board Meeting

July 30, 1968

The Executive Directors have from time to time queried the status of our Commodity Study resulting from the Rio Conference. The Part I of this Study, which was prepared jointly by the Bank and Fund staffs, was circulated on July 5. Part II of the Study which was prepared by the Bank staff was circulated this morning. An effort has been made to make it possible for the Board to consider the entire Commodity Study before the recess.

In view of the importance and complexity of this subject, I would suggest that we devote part of two Board meetings to it, namely on August 6 and August 13, if this meets your convenience. I do not intend to ask the Executive Directors to take responsibility for all that is contained in the joint Part I of the Study or even in the Bank's Part II. [Indeed, it is my intention, if time permits, to request our staff to revise Part II.]

However, in accordance with the Rio Resolution, we may aim at some statement of comments or recommendations for transmittal to the Board of Governors after we have finished our discussions.

D R A F T

Statement of the Chairman

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July 30, 1968

The Executive Directors have from time to time queried the status of our Commodity Study resulting from the Rio Conference. The Part I of this Study, which was prepared jointly by the Bank and Fund staffs, was circulated on July 5. Part II of the Study which was prepared by the Bank staff was circulated this morning. An effort has been made to make it possible for the Board to consider the entire Commodity Study before the recess.

In view of the importance and complexity of this subject, I would suggest that we devote part of two Board meetings to it, namely on August 6 and August 13, if this meets your convenience. I do not intend to ask the Executive Directors to take responsibility for all that is contained in the joint Part I of the Study or even in the Bank's Part II. [Indeed, it is my intention, if time permits, to request our staff to revise Part II.]

However, in accordance with the Rio Resolution, we may aim at some statement of comments or recommendations for transmittal to the Board of Governors after we have finished our discussions.

FORM No. 75
(2-60)

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL FINANCE
CORPORATION

INTERNATIONAL DEVELOPMENT
ASSOCIATION

ROUTING SLIP	Date July 30

NAME	ROOM NO.
Mr. I. Friedman	

	To Handle		Note and File
	Appropriate Disposition		Note and Return
	Approval		Prepare Reply
	Comment		Per Our Conversation
	Full Report		Recommendation
x	Information		Signature
	Initial		Send On

REMARKS

From Louis Goreux

Mr. F. Hirsch, IMF

July 30, 1968

Louis M. Goreux

Export fluctuations in 14 industrialized countries

As requested, the attached analysis is based on the data which you sent me on July 26.

Attachment:

L. Goreux
July 30, 1968

EXPORT FLUCTUATIONS IN 14 INDUSTRIALIZED COUNTRIES

1. In Chapter III, part I of the "Commodity Study", fluctuations of export earnings[1/] had been analyzed for 38 developing countries. Following a request of the IMF Board, a similar analysis has been carried out for 14 industrialized countries. The results are shown in a comparable form in the following tables:

38 developing countries Chapter III	14 industrialized countries Attached note
Table III-6 page III 10	Table 1.A
" III-3 " III 7	" 3
" III-8 " III 27	" 4

2. As shown in table 1.B below, export fluctuations were milder for the 14 industrialized country sample than for the 38 developing country sample. The difference is particularly striking in the case of average export unit-values over the period 1953-65. Thus, in that case, the average index of fluctuations was more than three times higher for the 38 developing than for the 14 industrialized countries, and the dispersion of the countries indices around the average was almost five times larger.

3. The relationships between the various indices of fluctuations by country were similar. As was the case for the 38 developing countries, there is a closer association between fluctuations of earnings and quantum of exports than

1/ Values expressed in current US$.

between fluctuations of earnings and export unit-values[1] (see table 2). Thus, between 1953 and 1965, 57 percent of the variance between country indices of earning fluctuations is explained by the differences in quantum fluctuations, while less than 8 percent is explained by the differences in fluctuations of export unit-values.

4. Export earnings increased significantly in all of the 14 industrialized countries (table 3), while this occurred in only 29 out of the 38 developing countries (table III-3). Average export unit-values declined significantly in only 3 out of 14 industrialized countries, while this occurred in half of the 38 developing countries between 1950 and 1965. However, in these three industrialized countries, the growth in the quantum of exports was considerable.[1] The growth of exports or GDP was not closely related to the index of export fluctuations; this was also true for the 38 developing countries.

1/ Italy and Japan were the two industrialized countries for which average export unit-value declined most significantly (between 1 and 1.5 percent per year); but they were also the two countries for which the quantum of exports increased most rapidly (between 13 and 16 percent a year). Austria was the third industrialized country for which export unit-value declined (less than one percent a year). However, in view of the rapid growth of the quantum of its exports, Austria ranked fourth regarding the growth of export earnings after Italy, Japan and Western Germany (see tables 5 and 6).

Table 1: INDICES OF EXPORT FLUCTUATIONS BY COUNTRIES: THEIR AVERAGES AND THEIR FLUCTUATIONS AROUND THE AVERAGE

1.A: Sample of 14 developed countries

	Average of fluctuation indices		Dispersion around the average	
	1950-65	1953-65	1950-65	1953-65
	.........percentage of price trend.........			
Prices	3.7	2.1	1.1	.6
Quantities	5.6	4.5	2.7	3.3
Values	6.2	4.2	2.1	1.6

1.B: Values for the 14 developed countries sample (table 1.A) expressed as percentage of the corresponding values for the 38 developed countries sample (table III-6,p.III 10)

	Average of fluctuation indices		Dispersion around the average	
	1950-65	1953-65	1950-65	1953-65
	...developed as percentage of developing...			
Prices	42.3	30.4	34.5	21.8
Quantities	58.4	55.8	32.2	72.9
Earnings	52.5	44.2	30.1	25.7

Table 2: CORRELATION MATRIX BETWEEN PAIRS OF FLUCTUATION INDICES RELATING TO 14 DEVELOPED COUNTRIES

	$f_v 50$	$f_q 50$	$f_p 50$	$f_v 53$	$f_q 53$	$f_p 53$
f_v 50	1.00	0.82	0.54	0.83	0.64	0.26
f_q 50		1.00	0.43	0.70	0.83	0.46
f_p 50			1.00	0.41	0.35	0.69
f_v 53				1.00	0.76	0.28
f_q 53					1.00	0.42
f_p 53						1.00

Table corresponding to table 10B of working paper (Goreux) March 26, 1968

Table 3: NUMBER OF CASES IN WHICH PRICES, QUANTITIES AND EARNINGS CONFORM TO DESCRIPTION BY A TREND WITH A CONSTANT RATE OF CHANGE

	Prices		Quantities		Earnings	
	1950-65	1953-65	1950-65	1953-65	1950-65	1953-65
Total exports by countries						
Significant trend	6	8	14	14	14	14
Positive	(3)	(5)	(14)	(14)	(14)	(14)
Negative	(3)	(3)	(0)	(0)	(0)	(0)
Nonsignificant	8	6	(0)	(0)	(0)	(0)
Total countries	14	14	14	14	14	14

Table corresponding to table III-3, p.III.7

Table 4: TOTAL EXPORTS OF 14 INDUSTRIALIZED COUNTRIES; FLUCTUATION INDICES AND TRENDS FOR PRICES, QUANTITIES AND EARNINGS

(Percent)

Country	Indices of Fluctuation						Annual Trend Rates of Growth						Country
	Prices		Quantities		Earnings		Prices		Quantities		Earnings		
	1950-65	1953-65	1950-65	1953-65	1950-65	1953-65	1950-65	1953-65	1950-65	1953-65	1950-65	1953-65	
Austria	4.7	2.4	7.5	3.9	7.6	5.5	-1.0*	-0.6*	10.9*	9.2*	10.3*	9.0*	Austria
Bel.-Lux.	5.1	2.3	5.0	4.7	8.4	5.9	-0.7	-0.3	7.9*	8.4*	7.4*	8.3*	Bel.-Lux.
Canada	3.6	2.2	5.0	4.8	6.1	4.6	0.6	0.1	4.8*	5.3*	5.2*	5.1*	Canada
Denmark	2.6	1.7	1.9	1.4	3.0	2.4	0.3	0.2	7.1*	7.3*	7.8*	8.0*	Denmark
France	4.0	2.9	6.1	4.6	5.7	4.1	0.1	-0.1	7.4*	8.2*	7.4*	8.1*	France
Germany	3.2	1.4	7.9	5.3	9.0	4.8	1.5*	1.2*	12.0*	10.6*	13.7*	11.8*	Germany
Italy	3.7	2.5	8.0	3.2	7.0	3.2	-1.5*	-1.3*	13.5*	15.3*	12.3*	13.8*	Italy
Japan	4.7	2.3	5.9	6.4	7.4	6.2	-1.4*	-1.1*	16.2*	16.2*	15.0*	15.1*	Japan
Netherlands	3.2	1.6	2.6	2.5	3.8	2.4	0.4	0.7*	8.7*	8.3*	9.2*	9.0*	Netherlands
Norway	4.9	3.0	11.8	14.4	8.7	6.4	0.3	0.1	5.9*	5.4*	6.8*	7.4*	Norway
Sweden	5.2	2.0	4.3	1.7	6.5	2.8	0.2	0.1	6.8*	7.6*	7.4*	8.3*	Sweden
Switzerland	3.1	2.6	2.7	2.0	3.2	2.7	0.4	0.9*	7.3*	7.3*	7.5*	7.9*	Switzerland
U.K.	2.4	1.2	3.0	2.1	3.0	2.4	1.6*	1.4*	2.6*	3.0*	4.6*	4.7*	U.K.
U.S.A.	1.9	1.1	6.0	5.6	7.4	6.0	1.1*	1.0*	4.6*	5.1*	5.7*	6.1*	U.S.A.

Table corresponding to Table III-8, p.III.27

* significantly positive
** significantly negative

Table 5': DEVELOPED COUNTRIES COMMODITY EXPORTS. INDICES OF FLUCTUATIONS AND RATES OF GROWTH: VALUE IN CURRENT DOLLARS (V), QUANTUM (Q), AVERAGE EXPORT UNIT-VALUE (p). 1950-65

	Index of fluctuations			Export earnings V			Quantum of exports Q			Export unit-value P		
	f_v	f_q	f_p	growth rate β_v % per yr.	(t ratio)	d_v D-W	growth rate β_q % per yr.	(t ratio)	d_q D-W	growth rate β_p % per yr.	(t ratio)	d_p D-W
Austria	7.60	7.51	4.70	10.33	(16.02)*	0.83*	10.86	(18.22)*	0.66*	-1.00	(2.41)**	1.56**
Bel.-Lux.	8.37	5.02	5.06	7.43	(12.10)*	1.57	7.94	(22.73)*	1.00*	-0.67	(1.61)	1.67**
Canada	6.05	4.95	3.56	5.20	(11.60)*	1.08*	4.79	(13.82)*	0.71*	0.57	(1.95)	0.87*
Denmark	3.03	1.90	2.58	7.80	(32.50)*	1.49**	7.14	(44.16)*	2.25**	0.28	(1.37)	1.21
France	5.70	6.12	3.95	7.40	(17.91)*	1.83**	7.35	(16.19)*	1.34	0.14	(0.45)	1.12
Germany	9.03	7.91	3.16	13.73	(17.15)*	0.81*	12.03	(20.92)*	0.47*	1.45	(4.84)*	1.27
Italy	6.95	7.99	3.71	12.28	(22.02)*	1.21	13.47	(22.53)*	0.63*	-1.49	(5.36)**	1.65**
Japan	7.35	5.87	4.74	15.00	(26.29)*	1.91**	16.15	(35.41)*	1.04*	-1.39	(3.31)**	2.32**
Netherlands	3.83	2.61	3.15	9.19	(28.43)*	1.56**	8.70	(43.05)*	1.00*	0.41	(1.64)	1.58**
Norway	8.66	11.83	4.88	6.83	(11.54)*	1.73**	5.91	(5.42)*	2.01**	0.29	(0.74)	1.61**
Sweden	6.49	4.27	5.20	7.44	(13.71)*	1.89**	6.82	(20.73)*	0.96*	0.23	(0.44)	1.68**
Switzerland	3.19	2.69	3.13	7.50	(30.41)*	1.13	7.28	(35.62)*	2.57**	0.43	(2.07)	0.40*
U.K.	3.01	2.97	2.37	4.64	(21.46)*	1.69**	2.64	(12.44)*	0.96*	1.57	(7.13)*	1.33
U.S.A.	7.39	6.00	1.89	5.72	(11.04)*	1.76**	4.59	(10.69)*	1.60**	1.11	(7.14)*	1.61**

Significance level at 5%

Table corresponding to table 3 of working paper (Goreux) March 26, 1968

d Durbin-Watson and β growth rate.

* significantly positive
** significantly negative

Table 6 : DEVELOPED COUNTRIES COMMODITY EXPORTS. INDICES OF FLUCTUATIONS AND RATES OF GROWTH: VALUE IN CURRENT DOLLARS (V), QUANTUM (Q), AVERAGE EXPORT UNIT-VALUE (p). 1953-65

	Index of fluctuations			Export earnings V			Quantum of Exports Q			Export unit-value p		
	f_v	f_q	f_p	growth rate β_v % per yr.	(t ratio)	d_v D-W	growth rate β_q % per yr.	(t ratio)	d_q D-W	growth rate β_p % per yr.	(t ratio)	d_p D-W
Austria	5.46	3.90	2.36	9.02	(14.53)*	0.80*	9.18	(18.59)*	0.97*	-0.60	(2.81)**	1.59**
Bel.-Lux.	5.90	4.67	2.33	8.28	(15.01)*	0.96*	8.35	(18.03)*	0.73*	-0.31	(1.24)	1.31
Canada	4.58	4.83	2.19	5.05	(11.86)*	0.92*	5.26	(11.54)*	0.74*	0.06	(0.31)	0.75*
Denmark	2.37	1.37	1.65	7.97	(32.01)*	0.76*	7.31	(49.35)*	1.89**	0.18	(1.03)	0.98*
France	4.09	4.58	2.85	8.07	(18.89)*	1.81**	8.21	(16.88)*	1.53**	-0.13	(0.51)	1.12
Germany	4.83	5.33	1.42	11.84	(23.99)*	0.62*	10.55	(20.12)*	0.53*	1.18	(8.79)*	1.35**
Italy	3.17	3.17	2.52	13.79	(40.13)*	1.72**	15.30	(46.41)*	1.56**	-1.31	(5.08)**	1.27
Japan	6.19	6.40	2.33	15.07	(24.08)*	0.97*	16.17	(23.69)*	0.85*	-1.11	(4.82)**	1.79**
Netherlands	2.38	2.45	1.57	8.98	(39.33)*	1.23	8.25	(34.03)*	1.52**	0.66	(4.39)*	1.18
Norway	6.44	14.39	2.99	7.35	(12.11)*	0.96*	5.35	(3.24)*	2.07**	0.14	(0.46)	0.73*
Sweden	2.84	1.74	1.97	8.31	(27.79)*	1.33	7.57	(39.23)*	1.64**	0.10	(0.53)	1.25
Switzerland	2.71	2.02	2.58	7.85	(26.36)*	0.90*	7.25	(35.23)*	1.94**	0.87	(3.57)*	0.43*
U.K.	2.41	2.06	1.17	4.73	(19.19)*	1.05	2.99	(14.72)*	1.13	1.39	(10.71)*	1.22
U.S.A.	5.95	5.59	1.10	6.11	(9.72)*	1.41**	5.06	(8.80)*	1.39**	0.98	(9.26)*	1.09

Significance level at 5%

Table corresponding to table 4 of working paper (Goreux) March 26, 1968

d Durbin-Watson and β growth rate.

* significantly positive
** significantly negative

Orig to File

July 30, 1968

Dear Mr. Allen,

Thank you for your letter of June 26, 1968. As Mr. Friedman indicated to you in his acknowledgment of July 2, your letter was brought to the attention of the staff concerned.

I am now able to inform you that the draft of the study on commodity problems in developing countries is now in the final stages of preparation and that your letter and its enclosure were quite helpful to them. Moreover, I can assure you that the knowledge our staff has acquired from talks with you in the past was also most useful in the preparation of the study.

The study has concentrated on the general aspects of the problem, although it has occasionally drawn on the existing factual knowledge concerning particular commodities, and I am certain that there will be many occasions, as in the past, for continued co-operation between the Tin Council, the IBRD and the IMF in the commodity field. The study will be distributed to our Board of Executive Directors and then forwarded to the Board of Governors. I am sure we can make a copy available to you in due course.

Sincerely,

(Signed) Robert S. McNamara

Robert S. McNamara

Mr. H.W. Allen
Chairman
The International Tin Council
28 Haymarket
London SW1
England

ISFriedman/DAvramovic/dm
7/25/68

cc: Mr. Schweitzer - IMF
Mr. Hoffman
Mr. Avramovic

Statement of the Chairman

Executive Board Meeting

July 30, 1968

The Executive Directors have from time to time queried the status of our Commodity Study resulting from the Rio Conference. The Part I of this Study, which was prepared jointly by the Bank and Fund staffs, was circulated on July 5. Part II of the Study which was prepared by the Bank staff was circulated last night. An effort has been made to make it possible for the Board to consider the entire Commodity Study before the recess.

The dual Executive Directors will have been informed already by the Managing Director of the Fund of his views on how we could most effectively deal with this question in preparation for the Annual Meeting. The Rio Resolution asks the Executive Directors to transmit the staff Study, with such comments or recommendations as they may have, to the Board of Governors for consideration and appropriate decision, if possible at the forthcoming Annual Meeting. The Fund has indicated that it would probably not be realistic for the Fund to aim at submitting to this meeting of the Board of Governors a precise set of recommendations. He aimed as a formation of a general view on whether they would be willing to support the approach contained in the Fund's Part II, which approach is couched in rather broad terms. If the Fund Directors felt that the approach constituted a suitable starting point for the consideration of Fund policies in the commodity field, it would be possible to convey this view in a brief report to the Board of Governors. This report could then conclude with the suggestion to the Governors that they adopt a Resolution requesting the Executive Directors to work out, as soon as possible after the Annual Meeting, precise policy decisions in this field.

I believe that a similar approach by the Bank Executive Directors would be desirable. In this way the Executive Directors would not be asked to take responsibility for all that is contained in the joint Part I of the Study or the Bank's Part II. Indeed, it is my intention, if time permits, to request the staff to revise these Parts in the light of Board discussion. However, it would seem possible to come to some agreement that the approach contained in the Bank's Part II is a suitable starting point for the consideration of Bank policies in the commodity field and that a brief report, parallel to the Fund report, could be prepared for the Board of Governors.

In view of the importance and complexity of this subject I would suggest that we devote part of two Board meetings to this subject, namely on August 6 and on August 13 if this meets your convenience.

Statement of the Chairman

Executive Board Meeting

July 30, 1968

The Executive Directors have from time to time queried the status of our Commodity Study resulting from the Rio Conference. The Part I of this Study, which was prepared jointly by the Bank and Fund staffs, was circulated on July 5. Part II of the Study which was prepared by the Bank staff was circulated ~~last night~~ this morning. An effort has been made to make it possible for the Board to consider the entire Commodity Study before the recess.

The dual Executive Directors will have been informed already by the Managing Director of the Fund of his views on how we could most effectively deal with this question in preparation for the Annual Meeting. The Rio Resolution asks the Executive Directors to transmit the staff Study, with such comments or recommendations as they may have, to the Board of Governors for consideration and appropriate decision, if possible at the forthcoming Annual Meeting. The Fund has indicated that it would probably not be realistic for the Fund to aim at submitting to this meeting of the Board of Governors a precise set of recommendations. ~~He aimed as a formation of a general view on whether they would be willing to support the approach contained in the Fund's Part II, which approach is couched in rather broad terms.~~ Mr. Schweitzer suggested that If the Fund Directors felt that the approach constituted a suitable starting point for the consideration of Fund policies in the commodity field, it would be possible to convey this view in a brief report to the Board of Governors. This report could then conclude with the suggestion to the Governors that they adopt a Resolution requesting the Fund Executive Directors to work out, as soon as possible after the Annual Meeting, precise policy decisions in this field.

Do not ~~intend~~ contend to ask

I believe that a similar approach by ~~the Bank~~ Executive Directors ~~would be desirable. In this~~ way the Executive Directors ~~would not be asked~~ to take responsibility for all that is contained in the joint Part I of the Study or even in the Bank's Part II. Indeed, it is my intention, if time permits, to request ~~the~~ our staff to revise ~~these Parts~~ Part II, ~~in the light of Board discussion~~. However, it would seem possible to come to some agreement that the approach contained in the Bank's Part II is a suitable starting point for the consideration of Bank policies in the commodity field and that a brief report, ~~parallel to the Fund report, could be~~ prepared ~~for the Board of Governors~~.

In view of the importance and complexity of this subject I would suggest that we devote part of two Board meetings to ~~this subject~~ it, namely on August 6 and on ~~August~~ 13 if this meets your convenience.

We may aim at some statement of comments or recommendations for transmittal to the Board of Governors, either after the August 13 meeting or early in September.

Office Memorandum

TO : Mr. Friedman

FROM : J. J. Polak

SUBJECT : Commodity Study - Bank Part II

DATE: July 29, 1968

Aside from the attached draft on buffer stocks for which you asked me, a few minor points are as follows.

Paragraph 31, line 4: "Diversification Fund," rather than simply "Fund" would avoid a possible ambiguity.

Paragraph 32, line 3: I would suggest insertion of "refundable" before import levies.

Paragraph 41: I found the second half of the second sentence somewhat elusive, and wonder whether the sentence is needed.

A minor stylistic point which first occurs on page 3 and at a number of subsequent points is that we do not ourselves capitalize "facility" in referring to the Compensatory Financing facility.

Copy given to Mr. Sandom/Mr. Avramovic
7/29

Mr. Avramovic

MEMORANDUM

TO: Mr. Friedman July 29, 1968

FROM: J. J. Polak

SUBJECT: Commodity Study

I attach the requested redraft of paragraph 42. I should perhaps point out one or two points in connection with it.

The suggestion that buffer stocks with the limited objective of stabilizing around the trend might obtain long-term finance from the Bank might raise fears that this would readily enable such buffer stocks both to escape from the Fund's insistence on their medium-term stabilizing objective and indeed to become uneconomic long-term accumulators of commodities.

The new draft of paragraph 43 tries to make it clear, therefore, that the Fund and the Bank would have to make a joint judgment before the Bank put additional financing at the disposal of the buffer stock. Such financing by the Bank might still be short-term financing. For that reason the general introductory clause at the end of paragraph 42 speaks of "Bank financing" in general, leaving it open what the proper term for such financing might be. Paragraphs 44 and 45 refer explicitly to long-term finance.

cc: Mr. Avramovic

42. In their discussion of the scope for action by the International Monetary Fund, (Section A of Part II above), the Fund staff have noted that the Fund could provide the needed finance for approved buffer stocks by lending on its usual temporary basis, directly to members for this purpose, according to a policy which would take into account the management and operations of the buffer stock and the policies of the members in connection to the buffer stock organization in question. In addition to such financial requirements of buffer stocks as may be met by the use of the Fund's resources, Bank financing may also have a role to play in connection with commodity stock operations.

43. In the first place, the operation of a buffer stock would be strengthened if Bank financing could be available in special situations in which the Fund and the Bank had concluded that a desirable temporary operation involved for certain members sums in excess of what they could finance from their own reserves or through access to the Fund. If in such cases the Bank extended finance to members in support of buffer stock contributions, such assistance would, of course, need to be considered in the light of these countries' over-all debt positions and borrowing needs.

44. Secondly, longer term finance would be needed if a buffer stock operation were undertaken, not in order to even out fluctuations around a medium term trend, but to maintain the price for a more prolonged period at a level in excess of the short-term equilibrium price, until such time as the longer term adjustments of production and supply appropriate to the higher price had been completed.

45. [old para. 43]

Office Memorandum

TO : Mr. Friedman

DATE: July 29, 1968

FROM : J. J. Polak

SUBJECT : Commodity Study - Bank Part II

Aside from the attached draft on buffer stocks for which you asked me, a few minor points are as follows.

Paragraph 31, line 4: "Diversification Fund," rather than simply "Fund" would avoid a possible ambiguity.

Paragraph 32, line 3: I would suggest insertion of "refundable" before import levies.

Paragraph 41: I found the second half of the second sentence somewhat elusive, and wonder whether the sentence is needed.

A minor stylistic point which first occurs on page 3 and at a number of subsequent points is that we do not ourselves capitalize "facility" in referring to the Compensatory Financing facility.

INTERNATIONAL MONETARY FUND
WASHINGTON, D.C. 20431

CABLE ADDRESS
INTERFUND

MEMORANDUM

TO: Mr. Friedman

July 29, 1968

FROM: J. J. Polak

SUBJECT: Commodity Study

I attach the requested redraft of paragraph 42. I should perhaps point out one or two points in connection with it.

The suggestion that buffer stocks with the limited objective of stabilizing around the trend might obtain long-term finance from the Bank might raise fears that this would readily enable such buffer stocks both to escape from the Fund's insistence on their medium-term stabilizing objective and indeed to become uneconomic long-term accumulators of commodities.

The new draft of paragraph 43 tries to make it clear, therefore, that the Fund and the Bank would have to make a joint judgment before the Bank put additional financing at the disposal of the buffer stock. Such financing by the Bank might still be short-term financing. For that reason the general introductory clause at the end of paragraph 42 speaks of "Bank financing" in general, leaving it open what the proper term for such financing might be. Paragraphs 44 and 45 refer explicitly to long-term finance.

cc: Mr. Avramovic

July 25 1968

Dear Burke,

Here is a copy of the Commodity report.

Mr. McNamara has asked the other members of the President's Council to discuss it Monday morning, hopefully to distribute it Tuesday.

He would like to have the Board discuss it August 13, in view of the Fund having their discussion next Friday.

I would appreciate very much your telephoning me your comments.

Yours sincerely,

Irving S. Friedman

Mr. J. Burke Knapp
Carolinian Hotel
Nag's Head
North Carolina

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

INTERNATIONAL FINANCE CORPORATION

Mr. Friedman

Re: "Commodity Studies"

1. Please see attached copy of Memo from IMF Secretary regarding reciprocal attendance of observers at the Bank and Fund Meetings which will be discussing the Commodity Studies; and also the proposal that Bank and Fund exchange (at Executive Directors' level) their respective Part II's.

2. I would be grateful for your advice and suggest that we plan either to have the Chairman to make an oral statement at the Executive Directors' Meeting on July 30, or, if more time is needed, circulate a Memorandum to them recommending that we follow the Fund proposals.

M. M. Mendels,
July 25, 1968

Files July 23, 1968

Andrew M. Kamarck

Commodity Study - Part II

Mr. Rice called me on July 22 saying that he had been asked by some of his people as to when the Bank's Part II of the Commodity Study would be available. I told him that this was being handled by Mr. Avramovic and that Mr. Friedman was in charge. Mr. Rice said that he knew that, but he didn't want to call Mr. Friedman as it might seem he was trying to put pressure on him.

I told Mr. Rice that a draft was in preparation which we expected would be ready by the 29th of July when Mr. Avramovic returned from home leave. Mr. McNamara had to consider the general policy approach and staff consideration would also have to take place. I said that perhaps around the middle of August the paper could be sent to the Directors but this was obviously subject to slippage. Mr. Rice said that this was sufficient for his purposes.

cc: Messrs. Friedman
Avramovic
Kalmanoff
Sundrum

AMK/vhw

Distr.
RESTRICTED

TD/II/C.1/L.4
26 February 1968

ENGLISH
Original: FRENCH

United Nations Conference on Trade and Development

First Committee
Agenda item 10(b)

MAIN ELEMENTS OF COMMODITY POLICY INCLUDING INTERNATIONAL COMMODITY AGREEMENTS AND OTHER TECHNIQUES OF COMMODITY MARKET STABILIZATION

STABILIZATION OF COMMODITY PRICES

Draft resolution submitted by the delegation of France

The Second United Nations Conference on Trade and Development:

Reaffirming the importance and urgency of so planning commodity trade as to make available to the developing countries the external resources of which they stand in serious need;

Recalling the Recommendation adopted at its 1964 session concerning "international commodity arrangements, removal of obstacles and expansion of trade" (Annex. A.II.1 of the Final Act of the First Conference);

Gravely concerned by the inadequacy of the practical steps taken to improve international commodity trade conditions, and particularly by the fact that since UNCTAD's first session no new agreement has been concluded on commodities of interest to the developing countries;

Noting the Resolution on commodity price stabilization adopted by the Board of Governors of the IBRD and of the IMF at its Rio de Janeiro session in September 1967;

Having taken cognizance of the provisions of the Charter of Algiers (TD/38) concerning "commodity policy",

A

(1) Calls the attention of IBRD and IMF to the importance it attaches to the study requested of them in the above-mentioned resolution;

(2) Expresses the hope that these agencies will be able to play an active part in introducing suitable machinery comprising commitments balanced as between producer and consumer countries, and to allocate the necessary funds thereto;

(3) Emphasizes the importance of assistance from them, especially in helping to solve certain financing problems, such as buffer stocks, and providing long-term backing for the diversification efforts deemed necessary;

(4) Requests IBRD and IMF to transmit the study to UNCTAD, the body responsible for the framing and implementation of an international policy on commodities.

B

(1) Invites the Secretary-General of UNCTAD to make representations to the Governments members of the 1967 United Nations Cocoa Conference with a view to the solution of outstanding problems, and requests the Chairman of the Executive Committee of that Conference to convene it as soon as possible, and at all events before the end of May 1968;

(2) Notes the convening by the Secretary-General of UNCTAD of a conference on sugar;

(3) Invites the Secretary-General of UNCTAD to initiate without delay, in collaboration with the competent international agencies and organizations, the consultations required for the framing of the international agreements on [commodities to be decided upon after discussion in the Committee, bearing in mind those mentioned in the Charter of Algiers] and to report to the Trade and Development Board on the subject at its September 1968 session;

(4) Invites the Secretary-General of UNCTAD also to report, similarly and at the same meeting of the Board, on the measures which might be envisaged for the following commodities of interest to the developing countries; [commodities to be decided upon after discussion in the Committee, bearing in mind those mentioned in the Charter of Algiers, and also phosphates and tropical timbers].

Mr. George D. Woods February 23 1968

Irving S. Friedman

Commodity Stabilization Study

1. Please find attached the material for the draft outline of the Commodity Stabilization Study, which, Mr. Avramovic informs me, has been agreed with the Fund working party. There will be some minor drafting changes in the final document, without affecting the substance. We may wish to shorten the text for submission to the Board if this proves necessary.

2. The Plan of the study is ambitious and, as indicated in the headnote, may have to be shortened in the course of work.

3. The attached draft outline has also been sent to Mr. Schweitzer for possible use on Monday.

Attachment

which could not support large indebtedness on conventional terms. Furthermore, a number of members have greatly advanced in the preparatory work of improving their economic performance and identifying projects. It is also expected that this will lead to a more diversified use of the resources of the Association from the point of view of both their geographical and sectoral distribution. One particular factor in this expected change is the need to obtain a more diversified pattern of production and improved foreign exchange earning capacity in the countries concerned. In this connection, in accordance with the Resolution of the Board of Governors of the Bank of September 29, 1967, a study is being prepared by the Bank staff in consultation with the Fund staff, on the stabilization of prices of primary products at a remunerative level, including possible solutions and their economic feasibility.

d. The discussions of the proposals for the replenishment of the resources of the Association have taken place in the face of considerable difficulties in some contributing countries, represented by large balance of payments deficits or budget and other difficulties. These difficulties have not made possible additions to the resources of the Association on a larger scale than is now proposed. Nevertheless, a 60 per cent increase over the level of the First Replenishment enlarges the role of the Association in the provision of development finance. The progress mentioned above ofddeveloping countries towards the development of a larger capacity to utilize effectively financial resources on concessionary terms is expected to continue in the coming years.

ISFriedman/USacchetti
February 23 1968

Mr. George D. Woods

February 23 1968

Irving S. Friedman

Commodity Stabilization Study

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2. The Plan of the study is ambitious and, as indicated in the headnote, may have to be shortened in the course of work.

3. The attached draft outline has also been sent to Mr. Schweitzer for possible use on Monday.

Attachment

Copy sent to Avramovic

Mr. [illegible]

FILES February 22, 1968

Patrick de Fontenay

C O P Y

UNCTAD II : Second Progress Report on the Work of Committee I

Committee I completed today the discussion of the following items of its agenda :

(a) Basic principles and guidelines for pricing policy designed to achieve the highest possible receipts from export of primary commodities.

(b) Operation and financing of buffer stocks. In order to focus the discussion on more precise issues, the Secretariat had prepared a list of four questions :-

(i) Can the Committee arrive at an agreed list of specific commodities for which commodity stabilization or other arrangements should be urgently considered?

(ii) Should a general timetable be laid down for consultations by interested governments concerning the practicability of such arrangements for the individual commodities concerned?

(iii) If a buffer stock appears to be desirable as part of an international commodity arrangement, what provisions should be made for its pre-financing.

(iv) Would it be desirable for a regular review to be made, for example on an annual basis, of progress in the field of commodity stabilization or other arrangements?

Following are the major points arising from the discussion of these topics :-

1) PRICING POLICY:

The discussion of pricing policy centered on the provisions of the Charter of Algiers whose authors considered it necessary :

(a) To eliminate excessive price fluctuations;

(b) To obtain the highest possible earnings from exports of primary products;

(continued ... 2)

(c) To maintain the purchasing power of the products exported by developing countries;

(d) To ensure that the developed countries would undertake to assist in achieving more stable and higher prices for unprocessed and processed commodities from developing countries;

All groups favoured action on the first point, they also generally supported the second one, with the reservation that it did not necessarily call for the highest possible prices: by artificially raising the price of a commodity, its consumption might be discouraged and its replacement by substitutes encouraged. The developing countries all asked, however, for a "remunerative" price for the commodities they produce and suggested that a minimum price be fixed which would guarantee a minimum income to the producers. In this connection, the Central African Republic, supported by a number of African Delegations and by the Holy See, introduced a draft resolution calling for "a general study to provide the main elements on a rational basis for fixing "a guaranteed minimum agricultural wage". With respect to the third point the developed countries stressed the difficulty of linking the prices of primary commodities to those of industrial products. On the fourth point, the Netherlands warned the LDC's against demanding a dual pricing policy under which a processed or semi-processed commodity would be sold on the international market at prices inconsistent with the prices of the primary commodities.

2) STABILIZATION TECHNIQUES:

The developing countries, as per the Algiers Charter, emphasized the use of buffer stocks as a stabilisation technique, while recognizing that it was designed only for short-term stabilization and that other techniques such as export quotas, bilateral contracts and reserve stocks should also be considered. The developed countries did not share the LDC's enthusiasm for buffer stocks. They stressed that buffer stocks were only one possible technique of stabilization, that the number of products suitable for buffer stock arrangements was limited, and that the use of buffer stocks should be avoided in those cases where a disequilibrium between production and consumption was evident. The socialist countries considered buffer stocks less important than bilateral agreements and long-term contracts. A short controversy arose between the LDC's and developed countries, and also among the latter group, on the possible terms of reference for buffer stock management. The LDC's and France asked that buffer stocks be allowed to intervene on the forward commodity markets. Germany, on the other hand, thought that buffer stock interventions should be confined to the spot market.

(continued .. 3)

3) FINANCING OF BUFFER STOCKS:

The LDC's stood by the Algiers Charter which calls for the pre-financing of buffer stocks by international financial institutions and developed countries. In this respect, the delegate from the Ivory Coast mentioned in his statement that "some optimism was currently being felt about possible changes in the World Bank policy". After the meeting he indicated that this referred to conversations that had taken place on this topic between the Bank's management and Dr. Prebisch, and to the current Bank-Fund Study. Mexico, however, suggested that private sources of funds be explored.

With regard to the regular financing of buffer stocks, the LDC's asked that the cost be shared equitably between producing and consuming countries. Finally, some LDC's favoured the creation of a Central Fund for Commodity Stabilization.

The developed countries admitted the participation of consuming countries and international institutions in the pre-financing of buffer stocks, but they suggested that the possibility of mobilizing private capital be explored first. Canada and Germany mentioned specifically existing international financing agencies as the second possible source of funds for the pre-financing of buffer stocks. At any rate, they all agreed that no commitment on this matter could be made before the results of the Bank-Fund Study were available. France indicated that the Secretary-General of UNCTAD should express its interest in the Study and request that it be oficially transmitted to UNCTAD. All developed countries rejected the suggestion of a Central Buffer Stock Fund. They generally supported the principle of equitable sharing by producing and consuming countries of the regular financing of buffer stocks.

4) POINTS OF DISCUSSION PRESENTED BY THE SECRETARIAT:

General agreement was expressed with respect to the first two points presented by the Secretariat. The LDC's favoured the drawing up of a list of commodities such as the one in the Algiers Charter. The developed countries were ready to examine the list but, generally, thought that it should be reduced. Everybody agreed on the need to resume negotiations on cocoa and to initiate negotiations on sugar and fats and oils.

The LDC's were in favour of arriving at a timetable for negotiations under the auspices of UNCTAD on commodities on the agreed list. The developed countries were generally amenable to the suggestion but asked that the timetable be sufficiently felxible. France proposed that the list should first be drawn up of the commodities such as cocoa or sugar on which the Secretariat should take action. As for other commodities, a list should be prepared indicating those for which arrangements should be concluded and the Secretary-General of UNCTAD should consult delegations about the opening of negotiations. For a third category of products, the

(continued 4)

Committee should request the Secretary-General to have studies undertaken as a matter of priority on inter-governmental action and to submit a report at the Meeting of the Board to be held in late 1968.

With respect to a review mechanism in the field of commodity arrangements, everybody agreed that the existing UNCTAD machinery was adequate and sufficient.

The Committee has agreed to revise its agenda as follows:

Three Meetings on	:	"Problems arising from the development of synthetics and substitutes".
Four Meetings on	:	"Role and financing of diversification programmes".
Five Meetings on	:	"Programme for the liberalization and expansion of trade commodities of interest to developing countries".
Eight Meetings on	:	"Drafting of a general commodity agreement, if it should be decided to have such an agreement, and on the final report".

The Committee has also decided, following the example of other Committees, to set up a so-called "contact group" consisting of representatives of the developed, developing and socialist countries, which would start negotiating on possible points of agreement.

FEB.21 1968

NOTES FROM MR. KAMARCK ON TODAY'S SSM

1. At Senior Staff Mr. Woods asked Mr. Avramovic what the position is on sending the outline of the Rio Study to the Board. Mr. Avramovic said that he was discussing this with the Fund. Mr. Woods said that he did not think we should be held up by the Fund - that we should send the outline to the Board in March whether the Fund wanted to do it in March or April or not. He said that his idea is that the Board having the outline in March it could be discussed in April with the new president and consequently something ready for the Annual Meeting.

2. Mr. Woods said he is having lunch with Mr. McNamara and Mr. Schweitzer on Monday. If he does not hear from Mr. Avramovic by Friday he will tell Mr. Schweitzer and McNamara that we are going to send the outline to the Board whether the Fund is ready or not for this.

3. I am preparing a memorandum from you to Mr. Woods on Fund/Bank collaboration in economic work as a briefing document for Mr. Woods and Mr. McNamara.

4. There was no mention of supplementary finance or New Delhi at the SSM.

FILES February 19, 1968.

Patrick de Fontenay C O P Y

UNCTAD II : First Progress Report on the Work of Committee I.

The First Committee of UNCTAD II is in charge of Item 9 of the agenda of the Conference : Commodity Problems and Policies. It is Chaired by Mr. Gueye from Senegal; Mr. Poh from Malaysia is Rapporteur; Mr. Rudolph from Czechoslovakia is the Vice Chairman.

The agenda of the Committee is the following:

(a) General discussion on the main elements of commodity policy.

(b) Basic principles and guidelines for pricing policy designed to achieve the highest possible receipts from export of primary commodities; operation and financing of buffer stocks.

(c) Role and financing of diversification programmes; problems arising from the development of synthetics and substitutes.

(d) Programme for liberalization and expansion of trade in commodities of interest to developed countries.

A number of developing countries had favoured the setting up of working groups on specific commodities. This suggestion was opposed by several developed countries, in particular by the U.S., Canada and Netherlands, on the grounds that delegations did not have with them experts on the various commodities which might be discussed. This question remains pending.

So far, the Committee has completed the discussion of the first item on its agenda and taken up the second item. The following are the main points emerging from the general discussion:

(i) Less-developed countries:

The LDC's generally expressed their support for the section of the Algiers Charter, dealing with commodity problems and policies. They were disappointed by the lack of action in that field and in particular by the failure of the Cocoa Conference. They supported an agreement on commodities either

(continued .. 2)

in the form of a general agreement, or in the form of separate agreements. They considered that developed countries and the international financial institutions should collaborate in the pre-financing of buffer stocks. They recognized the need for diversification of the primary producers' economies but insisted that it be accompanied by better access to the markets of the industrial countries for their exports of processed goods.

(ii) Developed countries:

Statements usually said that efforts towards a general agreement on the commodity issues were not worthwhile and that a commodity approach was preferable. These countries wanted to see the results of the Bank-Fund Study before making any commitments for the financing of buffer stocks. They stressed the need for diversification as a solution for long-term commodity problems but they consider that diversification was part of the general problem of the development and were unwilling to discuss it with commodity problems.

(iii) Socialist countries:

The socialist countries generally supported the Algiers Charter. They favoured urgent action in the field of commodity agreements but also stressed the importance of long-term bilateral agreements.

cc: Mr. Karasz (2)
Mr. N.A. Sarma

UNITED NATIONS

Press Services
Office of Public Information
United Nations, N.Y.

(FOR USE OF INFORMATION MEDIA -- NOT AN OFFICIAL RECORD)

Press Release TAD/152
15 February 1968

UNCTAD HEARS STATEMENTS BY FOUR DELEGATIONS, MAGHREB AND WFTU

(The following was received from a United Nations Information Officer with the second session of UNCTAD, New Delhi.)

Government positions on the broad issues of trade and development before the second session of the United Nations Conference on Trade and Development (UNCTAD) in New Delhi were outlined at this morning's plenary meeting by the representatives of Guinea, Ecuador, Sudan, and the Republic of Viet-Nam. In addition, views were expressed by the Permanent Consultative Committee of the Maghreb and the World Federation of Trade Unions.

It was decided that in the preparation of his report on the session, scheduled from 1 February through 25 March, the Rapporteur would be assisted by a "group of friends of the Rapporteur" consisting of two members each from Asia and Africa (in Group A), and two each from Groups B, C, and D.

Delegation Statements

Ousmane Baldet, Secretary of State and Controller of Finance of Guinea, agreed with the Algiers Charter conclusions that limited concessions and isolated measures no longer provided adequate opportunity for developing nations to develop their resources and to free their peoples from want and fear. The era of the formulation of recommendations having no operational value should end, he said. The Conference should indicate specific areas in which concrete agreements were possible, and agreements in such areas should be reached by the end of the session.

He stated that Guinea welcomed external aid on the understanding that economic development was a matter of sovereignty and offered the only guarantee for economic independence. "Tied aid" was repugnant, he added.

(more)

José Ricardo Martinez Cobo of Ecuador said that, no matter how hard they tried, the countries in relatively early stages of development could not make real economic progress without better access to markets for their primary commodities. Better distribution of agricultural products was equally vital. Ecuador, which lived in "permanent anxiety" that its traditional markets for bananas would be closed, he said, was forced to dump thousands of tons of first class bananas into rivers when they could be used to alleviate the world's food shortage. He proposed that as a "good transitional measure" the funds of the World Food Programme be utilized to buy surpluses of the non-exportable products of developing countries for distribution.

Beshir El Bakri, head of the Sudan delegation, expressed regret regarding recent measures by some developed countries in subsidizing production of long-staple cotton and restricting imports of that commodity, which was one of the Sudan's main exports.

Mr. El Bakri proposed that, in calculating the 1 per cent target for the transfer of capital to developing countries, the gross domestic product and not the national income should be the denominator,, that private investment and export credit should be excluded, that public loans carrying an interest rate of above 3 per cent should also be excluded, and that 1 per cent target should be limited to financial flows only. In stressing the need for peace and security as a prerequisite for international economic development, he referred to obstacles resulting from the war in Viet-Nam, "the Israeli aggression against the Arab people", and the apartheid situation in South Africa.

Tran Van Do, Foreign Minister of the Republic of Viet-Nam, said his delegation attached importance to the need to increase earnings from the exports of primary products and hoped UNCTAD would agree on concrete measures to reverse the decline in prices, or would at least agree on a precise time-table and framework within which future action for such agreements could be taken.

Urgent measures should be taken to end the unfair competition to which natural rubber was exposed from synthetic rubber, he added. Negotiations to reach agreement on cocoa and sugar should resume at the earliest possible time. His delegation hoped that agreement would be reached on a general, non-reciprocal, non-discriminatory system of preferences, and on a plan for the establishment of a mechanism of consultation to promote fruitful co-operation between users and owners of merchant marines.

(more)

Replying to comments expressed by some earlier speakers, he stated that South Viet-Nam was "the victim of open and subversive aggression from North Viet-Nam". The actions taken "by our armed forces and the allied forces" were for the defence "of our independence, freedom and territorial integrity" and for the protection "of our economic potential and civilian life".

Organizations' Statements

Chadli Tnani, Vice-President of the Permanent Consultative Committee of the Maghreb, said the four countries of the Maghreb -- Algeria, Libya, Morocco and Tunisia -- had committed themselves to close economic co-operation and integration because they believed this would make easier their "economic take-off".

Ibrahim Zakaria, Secretary of the World Federation of Trade Unions (WFTU), deplored the "discrimination" which excluded from the Conference the People's Republic of China, the German Democratic Republic, the Democratic Republic of Viet-Nam and the Korean People's Democratic Republic.

The developing countries, he said, could improve their trading position only by increasing the share of manufactures and semi-manufactures in their exports, but the developed countries refused to remove tariff and non-tariff barriers. Trade between the socialist countries and developing countries was the most dynamic sector, he said. There were also great potentialities for rapid expansion in East-West trade provided discriminatory practices were removed.

* *** *

Mr Conrad

UNITED NATIONS

Press Services
Office of Public Information
United Nations, N.Y.

SPECIAL DELIVERY

(FOR USE OF INFORMATION MEDIA -- NOT AN OFFICIAL RECORD)

Press Release TAD/151
14 February 1968

UNCTAD HEARS ADDITIONAL STATEMENTS IN GENERAL DEBATE

(The following was received from a United Nations Information Officer with the second session of UNCTAD, New Delhi.)

The representatives of Denmark, Cambodia, Rwanda, Congo (Brazzaville), Burundi, Liberia and the International Confederation of free trade unions addressed the second session of the United Nations Conference on Trade and Development (UNCTAD) at New Delhi this afternoon and discussed such problems as financial aid for developing countries, commodity policies, and markets for manufactured and processed products.

Wilhelm Ulrichsen of Denmark stated that the new Danish government which was constituted 10 days ago, fully supported the policy laid down by the previous government on trade and development assistance. He announced that the Foreign Minister of the new government, Poul Hartling, would come to New Delhi early in March to attend the Conference.

Mr. Ulrichsen stated that the Danish Government wished to see new endeavours for suitable commodity agreements and arrangements, that it was prepared to proceed to elaboration of a mechnnism for supplementary financial measures, and that it would work for an early agreement on a full-fledged scheme of preferences.

His delegation would welcome proposals for financial assistance in the field of international commodity policy, and he said that Denmark would consider new targets for development aid. He noted, in this context, that Denmark recently embarked upon a plan designed to bring its development assistance up to 1 per cent of the net national income in 1972, that half of the Danish assistance was being channeled through multilateral institutions, that all Danish development loans were granted free of interest, and that the repayment period had been extended to 25 years.

(more)

Nong Kimny of Cambodia said his country deplored the absence from the United Nations of the People's Republic of China because, without this big Power, no international problem could be solved completely.

Even in economic discussions, it was not possible to ignore the political factor, he continued. In South-East Asia, a "bitter, inhumane war" was being waged by "one of the most developed countries against an incomparably poorer country, determined to defend its independence", he stated. Cambodia recently had been threatened with being drawn into this war.

The frustration among the masses living in destitution was nothing compared to the sufferings caused by the war in Viet-Nam, or the anxiety felt by Cambodia in seeing its development and independence threatened by this war, he declared.

His country, "in conformity with our interests and national dignity", relied first on its own efforts to achieve economic and social development. Cambodia accepted, with gratitude, aid that was not tied to any conditions jeopardizing its independence. It had voluntarily put an end to American aid several years ago, he added.

Barnabe Kanyaruguru, Minister of Planning of Burundi, said that the few rich countries should stop subsidizing the uneconomic domestic production of certain agricultural products and give an opportunity to developing countries which could export these commodities at a cheaper price. He then spoke of the particular difficulties faced by land-locked countries, such as his own, which had to pay tremendous prices for the transport of goods overseas. He urged the Conference to take measures to lighten maritime freight rates.

David Franklin Neal, Under-Secretary in the Department of Planning and Economic Affairs of Liberia, said that "developing countries in this decade find themselves almost impotent in their economic and bargaining positions in world trade". The markets for which they competed belonged to a few highly developed countries whose interests were closely co-ordinated.

Liberia, unlike many other African countries, enjoyed no preferential treatment in the markets of any of the developed countries. He added that the introduction of a general, non-reciprocal scheme was "an absolute necessity" and he urged that the Kennedy Round be complemented by a new round of tariff reductions on agricultural products.

(more)

Deogratias Gashonga of Rwanda, referring to a statement that the Algiers Charter had not referred to the obligations of developing countries, said that those who had signed the Charter would accept their own share of responsibility. They must recognize the value of co-operating in larger units and realize that the era of national markets was over.

He urged efforts in the developed countries to overcome popular indifference to the concept of helping under-developed countries.

Aime Matsika, Minister for Commerce of the Congo (Brazzaville), said that the income of the investors and wage earners of the industrialized countries was growing and it was only right that the producers of commodities in the developing countries obtained a good price and a good share of the sales.

He urged the developed countries to give specific replies to the demands contained in the Algiers Charter. The period of hesitation was over. In addition, he said, the socialist and market-economy countries must harmonize their practices about the form and means of aid.

Paul Barton, Secretary of the Executive Committee of the International Confederation of Free Trade Unions, said that, parallel with an agreement on tariff preferences for manufactures exported by developing countries, the industries in advanced countries must intensify research with a view to bringing out new products and creating new demand and markets.

The gradual shift in the more advanced countries to more complicated industries, as well as the corresponding transfer of simpler industrial pursuits to the developing countries, should be an "orderly process" accelerated by a deliberate national policy in the industrial nations, he stated.

* *** *

See 15/2

Mr. Fred Hirsch February 13, 1968

Dragoslav Avramovic

Commodity Stabilization Study

1. Please find attached some suggestions for modifying your draft outline, for purposes of discussion. You will note that the outline, as modified, is essentially the same as yours in structure. The changes involved are broadly placing problems of improving trends on the same footing as problems of reducing fluctuation; spelling out of parts of the outline concerned with the associated long-term problems, and a redraft of the first chapter on the General Setting to serve the purpose of an introduction without taking any strong positions yet.

2. At this stage, it does not seem necessary to take a final decision on the outline. For the time being, it seems to be sufficient if we have an agreed outline to serve as broad indication of the scope of its study and as a means of organizing and dividing the work. I am sure that as the work proceeds, there will be new ideas for improving the structure of the report.

3. I would like your reaction, especially on the time schedule.

4. The major questions which arises is whether we can expect to produce a satisfactory study as suggested in the outlines within the time table we now have in mind. We should discuss this as soon as possible.

Attachment.

cc: Mr. Goreux
Mr. Sundrum
Mr. Friedman
Mr. Macone

Avr/cnm

DRAFT
Feb. 8, 1968

The General Setting (Chapter I) 1/

1. The Commodity Problem of the less-developed countries has been studied intensively over a long period of time from many points of view with limited progress towards a solution. However, there are some new elements in the present situation, which may lead to a more effective attack on the problem:

(a) A general recognition that the solution of some of the problems of commodity trade is intimately connected with the development efforts of the less-developed countries, concerning both the choice of development strategy and the ability to finance the chosen pattern of development.

(b) An important consequence of recognizing policies relating to commodities as the means of promoting the economic development of the poor countries is that in participating in international commodity negotiations, exporting and importing countries may be urged to take account of the major interests of development, and not only of the interests of the respective producers and consumers of individual commodities.

(c) One important question, which needs careful investigation, is the possibility that particular solutions of the commodity problem may provide donor countries with a more convenient vehicle for the transfer of development assistance to the less-developed countries, as indicated in some aspects of the proposals for an organization of markets.

2. In recent years the "commodity problem" has come to mean the special difficulties facing developing countries whose foreign exchange receipts are derived mainly from primary products. These receipts have varied from year to year. Over the longer run, trends in export receipts of the LDC's, taken as a whole, have shown slow growth: slow relative to the growth of world trade, and slow relative to the increase in imports required to sustain a satisfactory rate of growth in these countries. For individual primary products, trends have ranged from a rapid increase to a slow decline.

3. The commodity problem is a part of the general problem of development: fluctuations and adverse trends reflect the excessive dependence of low-income countries on a narrow range of primary products, for many of which the demand rises slowly and in a fluctuating manner. In addition to demand fluctuations, there are fluctuations in supply, partly caused by price fluctuations and partly by accidental factors. The problem is compounded further by restrictions on market access, which throw the burden of adjustment on the low-income countries whose resource mobility and therefore the capacity to adjust is severely limited.

4. Not all external difficulties of developing countries result from the commodity problem: a particular country or a group of countries may

1/ Similar to the Fund draft outline, this chapter is designed primarily to elicit reactions.

fail to produce for the existing international demand, whether the latter increases slowly or rapidly, while increases in imports are frequently induced by inappropriate domestic policies. Foreign exchange difficulties which are caused by lags in export supply from the low-income countries or by bursts of their import demand cannot be attributed to the commodity problem.

5. The ultimate solution of the commodity problem -- of the dependence on products with sluggish long-term growth in demand, with price fluctuations and with wasteful cobweb-type supply responses -- lies in the acceleration of economic growth and of diversification in the low-income countries. The question is whether intermediate solutions can be found: they should reduce fluctuations in prices and earnings, improve the long-term earning capacity if at all possible, and at the same time facilitate (and certainly not make more difficult) the resource shifts necessary to accelerate growth and diversification. The problem is whether and through what means can these objectives be made mutually consistent.

6. One of the major consequences of the commodity problem for the LDC's is the impact on their balance-of-payments position in the short run, as an adjunct to the pursuit of long run development policies. As such it is a factor affecting the role of the IMF in relation to these countries.

7. At the same time, the commodity problem is also a part of the general problem of development. Here, it is a factor affecting the role of the IBRD in relation to these countries.

8. Hence the Rio Resolution addressed to these institutions. The terms of reference.

9. The Plan of the present study.

<u>Trends and Fluctuations in the Commodity Trade of the LDC's</u> (Chapter II)

10. Summary presentation (rates of growth and measures of instability) of prices, quantities and values of exports of major commodities and of individual developing countries. Both short-term and periodic fluctuations should be discussed.

11. Analysis of results. Not all commodities suffer from the commodity problem: there are primary products -- e.g., petroleum, aluminum -- for which demand rises rapidly, price fluctuations are limited, and supply is adjusted with relative speed to demand trends and demand fluctuations. There are also commodities whose price fluctuations are very wide, but the underlying demand trend is strong (e.g., copper). In the majority of cases, however, a relatively slow growth in demand is combined with price variations (?); and in the case of agricultural products, the cobweb-type supply reactions cause a continuing sequence of over- and under-production.

<u>Causes of Adverse Trends and of Instability</u> (Chapter III)

12. Relationships of price, volume and value. Condition of demand and supply in world markets for primary commodities. Some illustrative statistical analysis of demand and supply functions for export.

13. Demand factors underlying long-term trend. Supply factors underlying trend -- the long-term tendency of developing countries to over-crowd the markets of primary products due to absence of alternative employment opportunities. The role of synthetic substitutes and of limitations on the access to markets.

14. Factors involved in cyclical and irregular fluctuations. Relative importance of demand-induced and supply-induced instability. Causal elements in price-quantity changes as regard stability of earnings. Possible statistical comparison of instability in organized and unorganized commodity trade, e.g., in the direction of trade or in largely contractual commodity sectors. "Residual markets". A possible classification of commodities and countries according to the nature of causes of instability.

15. Summary examination of factors behind major short-term declines in export earnings experienced in this period.

Consequences of Adverse Trends and of Instability (Chapter IV)

16. Effects of adverse trends on import capacity, income growth and possibly on production and investment patterns. Effects on ability to finance development. Experience of the Bank with member countries.

17. Impact of instability on producers' decisions -- cobweb effects. Impact of instability on the demand for primary materials -- the competitive position of primary products vs. synthetics.

18. Impact of fluctuations in prices and export receipts on payments difficulties and on the maintenance of internal equilibrium -- issues arising for national authorities in domestic financial policies and on balance of payments adjustment with unstable commodity markets -- experience of the Fund with member countries.

Previous Experience with Commodity Agreements (Chapter V)

19. A study of past attempts to deal with the problem by commodity agreements. A brief factual account of wheat, tin, coffee, sugar agreements, with an analysis of key factors in success or failure of these agreements. The experience with the French system.

Measures for Dealing with Fluctuations Around A Trend (Chapter VI)

20. The concept, distinguished from price leverage. Various techniques available -- buffer stocks -- and other or supplementary techniques to influence prices, quantities, and earnings, including quotas, levies, buffer funds. Particular conditions of elasticities, pattern of fluctuations, commodity characteristics, favoring alternative techniques. Effects on export earnings/availabilities, producer earnings and on trend. Relation to compensatory financing and to supplementary financial measures.

21. Buffer stocks: criteria for establishment of buffer stocks (physical and economic). The problems of management, price adjustment (moving average vs. steps), relationship to commercial stocks.

22. Candidates for buffer stocks: UNCTAD list, alternatives?

23. Financing requirements of buffer stock under various alternatives? Initial costs and contingency costs.

Measures for Improving the Level and Trend of Earnings (Chapter VII)

24. Different ways of improving the level and trend of export earnings: improvement of access to markets, improvement of the competitive position of primary products in relation to synthetics, stimulation of exports of manufactured goods from developing countries, management of supply of primary products.

25. The concept of remunerative prices (various definitions), the concept of adverse trends defined in relation to the possibilities of improving the trends.

26. Techniques of supply management: export restrictions with or without production controls; export levies; diversification; import levies in developed consuming countries for transfer to developing producing countries. Link with buffer stocks. Suitability of particular commodities to supply management and to different techniques of management, depending on the characteristics of commodities.

27. Side effects of supply management -- the existing producers vs. new producers.

28. Financial implications of supply management for the exporting and importing countries?

The Problems and Prospects of Diversification (Chapter VIII)

29. Diversification as part of over-all development policy. Different concepts of diversification -- in the broad sense (development of new activities without displacing factors of production from the existing activities) and in the narrow sense (displacement of factors). Experience with diversification. The most accute cases (coffee). The localized cost (nationally) and the widespread benefits (internationally) of diversification. Illustrative analysis of the cost of diversification in the narrow sense. Who should diversify? The need for international decision-making in diversification in order to avoid emergence of surpluses in alternate products. The link with internal price policy within the developing countries.

The Position of Particular Commodities (Chapter IX)

30. Should this be a separate chapter or should major findings and analyses be contained in the previous chapters of the report? Another alternative would be to have a discussion of particular commodities immediately after Chapter V.

D R A F T
Feb. 8, 1968

The General Setting (Chapter I) 1/ (Joint)

1. The Commodity Problem of the less-developed countries has been studied intensively over a long period of time from many points of view with limited progress towards a solution. However, there are some new elements in the present situation, which may lead to a more effective attack on the problem:

(a) A general recognition that the solution of some of the problems of commodity trade is intimately connected with the development efforts of the less-developed countries, concerning both the choice of development strategy and the ability to finance the chosen pattern of development.

(b) An important consequence of recognizing policies relating to commodities as the means of promoting the economic development of the poor countries is that in participating in international commodity negotiations, exporting and importing countries may be urged to take account of the major interests of development, and not only of the interests of the respective producers and consumers of individual commodities.

(c) One important question, which needs careful investigation, is the possibility that particular solutions of the commodity problem may provide donor countries with a more convenient vehicle for the transfer of development assistance to the less-developed countries, as indicated in some aspects of the proposals for an organization of markets.

2. In recent years the "commodity problem" has come to mean the special difficulties facing developing countries whose foreign exchange receipts are derived mainly from primary products. These receipts have varied from year to year. Over the longer run, trends in export receipts of the LDC's, taken as a whole, have shown slow growth: slow relative to the growth of world trade, and slow relative to the increase in imports required to sustain a satisfactory rate of growth in these countries. For individual primary products, trends have ranged from a rapid increase to a slow decline.

3. The commodity problem is a part of the general problem of development: fluctuations and adverse trends reflect the excessive dependence of low-income countries on a narrow range of primary products, for many of which the demand rises slowly and in a fluctuating manner. In addition to demand fluctuations, there are fluctuations in supply, partly caused by price fluctuations and partly by accidental factors. The problem is compounded further by restrictions on market access, which throw the burden of adjustment on the low-income countries whose resource mobility and therefore the capacity to adjust is severely limited.

4. Not all external difficulties of developing countries result from the commodity problem: a particular country or a group of countries may

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fail to produce for the existing international demand, whether the latter increases slowly or rapidly, while increases in imports are frequently induced by inappropriate domestic policies. Foreign exchange difficulties which are caused by lags in export supply from the low-income countries or by bursts of their import demand cannot be attributed to the commodity problem.

5. The ultimate solution of the commodity problem -- of the dependence on products with sluggish long-term growth in demand, with price fluctuations and with wasteful cobweb-type supply responses -- lies in the acceleration of economic growth and of diversification in the low-income countries. The question is whether intermediate solutions can be found: they should reduce fluctuations in prices and earnings, improve the long-term earning capacity if at all possible, and at the same time facilitate (and certainly not make more difficult) the resource shifts necessary to accelerate growth and diversification. The problem is whether and through what means can these objectives be made mutually consistent.

6. One of the major consequences of the commodity problem for the LDC's is the impact on their balance-of-payments position in the short run, as an adjunct to the pursuit of long run development policies. As such it is a factor affecting the role of the IMF in relation to these countries.

7. At the same time, the commodity problem is also a part of the general problem of development. Here, it is a factor affecting the role of the IBRD in relation to these countries.

8. Hence the Rio Resolution addressed to these institutions. The terms of reference.

9. The Plan of the present study.

<u>Trends and Fluctuations in the Commodity Trade of the LDC's</u> (Chapter II) Bruhn

10. Summary presentation (rates of growth and measures of instability) Fred of prices, quantities and values of exports of major commodities and of Bal individual developing countries. Both short-term and periodic fluctuations should be discussed.

11. Analysis of results. Not all commodities suffer from the commodity Bal. problem: there are primary products -- e.g., petroleum, aluminum -- for which demand rises rapidly, price fluctuations are limited, and supply is adjusted with relative speed to demand trends and demand fluctuations. There are also commodities whose price fluctuations are very wide, but the underlying demand trend is strong (e.g., copper). In the majority of cases, however, a relatively slow growth in demand is combined with price variations (?); and in the case of agricultural products, the cobweb-type supply reactions cause a continuing sequence of over- and under-production.

<u>Causes of Adverse Trends and of Instability</u> (Chapter III)

12. Relationships of price, volume and value. Condition of demand and supply in world markets for primary commodities. Some illustrative statistical analysis of demand and supply functions for export.

(Fred)

13. Demand factors underlying long-term trend. Supply factors underlying trend -- the long-term tendency of developing countries to over-crowd the markets of primary products due to absence of alternative employment opportunities. The role of synthetic substitutes and of limitations on the access to markets. (Bul)

14. Factors involved in cyclical and irregular fluctuations. Relative importance of demand-induced and supply-induced instability. Causal elements in price-quantity changes as regard stability of earnings. Possible statistical comparison of instability in organized and unorganized commodity trade, e.g., in the direction of trade or in largely contractual commodity sectors. "Residual markets". A possible classification of commodities and countries according to the nature of causes of instability. (IMF)

15. Summary examination of factors behind major short-term declines in export earnings experienced in this period. (IMF)

Consequences of Adverse Trends and of Instability (Chapter IV)

16. Effects of adverse trends on import capacity, income growth and possibly on production and investment patterns. Effects on ability to finance development. – experience of the Bank B

17. Impact of instability on producers' decisions -- cobweb effects. Impact of instability on the demand for primary materials -- the competitive position of primary products vs. synthetics. – experience of the Bank B

18. Impact of fluctuations in prices and export receipts on payments difficulties and on the maintenance of internal equilibrium -- issues arising for national authorities in domestic financial policies and on balance of payments adjustment with unstable commodity markets -- experience of the Fund with member countries. F

Previous Experience with Commodity Agreements (Chapter V)

19. A study of past attempts to deal with the problem by commodity agreements. A brief factual account of wheat, tin, coffee, sugar agreements, with an analysis of key factors in success or failure of these agreements. The experience with the French system. F

Measures for Dealing with Fluctuations Around A Trend (Chapter VI) (Joint)

? 20. The concept, distinguished from price leverage. Various techniques available -- buffer stocks -- and other or supplementary techniques to ? influence prices, quantities, and earnings, including quotas, levies, buffer funds, compensatory financing and supplementary financial measures. Particular conditions of elasticities, pattern of fluctuations, commodity characteristics, favoring alternative techniques. Effects on export earnings/availabilities, producer earnings and on trend.

21. Buffer stocks: criteria for establishment of buffer stocks (physical and economic). The problems of management, price adjustment (moving average vs. steps), relationship to commercial stocks.

22. Candidates for buffer stocks: UNCTAD list, alternatives?

23. Financing requirements of buffer stock under various alternatives? Initial costs and contingency costs.

Measures for Improving the Level and Trend of Earnings (Chapter VII) (Bal)

24. Different ways of improving the level and trend of export earnings: improvement of access to markets, improvement of the competitive position of primary products in relation to synthetics, stimulation of exports of manufactured goods from developing countries, management of supply of primary products.

25. The concept of remunerative prices (various definitions), the concept of adverse trends defined in relation to the possibilities of improving the trends.

26. Techniques of supply management: export restrictions with or without production controls; export levies; diversification; import levies in developed consuming countries for transfer to developing producing countries. Link with buffer stocks. Suitability of particular commodities to supply management and to different techniques of management, depending on the characteristics of commodities.

27. Side effects of supply management -- the existing producers vs. new producers.

28. Financial implications of supply management for the exporting and importing countries?

The Problems and Prospects of Diversification (Chapter VIII) Bal.

29. Diversification as part of over-all development policy. Different concepts of diversification -- in the broad sense (development of new activities without displacing factors of production from the existing activities) and in the narrow sense (displacement of factors). Experience with diversification. The most accute cases (coffee). The localized cost (nationally) and the widespread benefits (internationally) of diversification. Illustrative analysis of the cost of diversification in the narrow sense. Who should diversify? The need for international decision-making in diversification in order to avoid emergence of surpluses in alternate products. The link with internal price policy within the developing countries.

The Position of Particular Commodities (Chapter IX)

30. Should this be a separate chapter or should major findings and analyses be contained in the previous chapters of the report? Another alternative would be to have a discussion of particular commodities immediately after Chapter V.

FORM No. 57

INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Mr. Irving Friedman

DATE: Feb. 2, 1968

FROM: Dragoslav Avramovic DA

SUBJECT: Commodity Stabilization Study

I have received the attached draft outline from the Fund. We shall be discussing this early next week. I will appreciate it if I could get your reaction.

Attachment.

cc: Mr. Kamarck

mtgs held Feb. 7 + 8

C O P Y

To : Mr. Avramovic February 1, 1968

From : Fred Hirsch

Subject: Commodity Stabilization Study

"Attached is a draft outline which I have prepared with Mr. Ridler for discussion with you and your colleagues. Points which are of primary concern to the Bank we have deliberately covered rather lightly at this stage. As indicated, some changes would be required in adapting this outline for a paper suitable for presentation to the Board. The first priority seemed to be to get the fullest meeting of minds between ourselves.

"Could we have a meeting on this when you are ready?"

Attachment

Part I

1) [illegible] Bd Seminar

2) [illegible] Buffer stocks [illegible]

3) [illegible] discuss

cc: Mr. Ridler
Mr. Familton
Mr. Eucsynski
Mr. Polak
Mr. Fleming

4) SDRs

IDA etc

3) [illegible] — an [illegible]

4) What [illegible] present (IMF for IBRD)

4) [illegible] preliminary note

C O P Y

Commodity Stabilization Study

Part I

Draft Outline

I. The Problem

1. General Setting — Hirsch (Bank)

(This section, which might possibly be more suitable at the end of Part I, would be designed to put 'the commodity approach' in its wider perspective. The following very tentative indications of the ground to be covered is designed to elicit reactions; it would be considerably compressed in any paper to the Board.)

The commodity problem as part of the general problem of development; fluctuations and adverse trend are more usefully seen as an element in low earning capacity and adverse resource disposition than as 'independent' distortions capable of definitive treatment in themselves. The 'terms of trade' approach tends to abstract from possible resource shifts, including shifts within primary production, to more favored sectors (viz., LDC food imports, etc). Relevance, in same context, of market access, agricultural policies in developed countries, etc. In certain cases (sugar), actions in this sphere may be the most effective means of stabilization; otherwise, adverse actions in this sphere may vitiate the benefits of stabilization.

Possible view of commodity problem in three dimensions.

A. Fluctuation and/or adverse trend in earnings: suggesting compensation as an immediate remedy or palliative.

B. In some, but not in all, cases, source of A. to be found in fluctuations in commodity prices: in some cases, to be identified, action to reduce price fluctuations should ease both fluctuation and adverse trend.

C. But except in rare cases, price stabilization is not to be regarded as the heart of the problem, which is to move to increased earning capacity, perhaps through resource shifts.

A dilemma often inherent in 'the commodity approach' is this: price-quantity action to help B. may in some degree delay or compromise more enduring solutions of type C. This must be remembered in weighing any choice that has to be made between A. and B. Further, complication of extensive (and partly incalculable) third party (and next generation) effects of price/quantity action. As distinct from the more direct mechanisms for resource shifts (aid, concessional loans), commodity approach may involve indirect losers as well as gainers, aside from consumers, viz., 'new' producers and next generation producers; producers as a whole insofar as a given output is produced at higher resource cost. Particular schemes therefore demand close assessment of net benefits taking side effects into account. Distinction between stabilization around the trend and trend-influencing schemes in this context.

2. The measure of instability (Bank)

Summary presentation of 1953-66 (? and 1950-66) experience in price trends and fluctuations.

(a) Individual LDC's) with data in volume, value, unit value,
(b) Main commodities) 'import capacity,' national income.

3. The causes of instability Hirsch, Familton, Kuczynski

Relationships of prices, volume, value. Conditions of demand and supply in world markets for primary commodities. Factors involved in cyclical and irregular fluctuations. Chronic and structural problems of supply and demand. Relative importance of demand-induced and supply-induced instability. Causal elements in price-quantity changes in exports as regards the stability of export earnings. Some illustrative statistical analysis of demand and supply functions for exports. Possible statistical comparison of instability in organized and unorganized commodity trade, e.g., in the direction of trade or in largely contractual commodity sectors. "Residual markets'. A possible classification of commodities and countries according to the nature of causes of instability.

Summary examination of factors behind major short-term declines in export earnings experienced in this period. To be carried out with the aid of country desk men, with view to brief shorthand notation in each case.

Ditto for countries that have taken compensatory financing drawings.

4. The consequences of instability Hirsch, Familton, Kuczynski (Bank)

Effects of price changes on export receipts, import capacity, GDP and investment. (Goreux-Kuczynski) Impact of fluctuations in prices and export receipts on payments difficulties and on the maintenance of internal equilibrium - issues arising for national authorities in domestic financial policies and balance of payments adjustments with unstable commodity markets - experience of the Fund with member countries. (Familton)

5. The problem assessed Hirsch

General conclusions on the nature of the instability problem.

The analysis should lead to conclusions (a) on the relevance of the problem for the Fund and Bank's general purposes, and (b) as regards price stabilization as an objective with respect to stabilization of export earnings or other economic magnitudes. The section should also lead to the identification of circumstances in which price stabilization would and would not tend to stabilize export earnings. Later discussion of the merits of intervention would be based on such conclusions.

II. Feasibility of Solutions

6. International commodity stabilization: past experience — Ridler

A brief review of general approaches to stabilization - the Havana Charter - the UNCTAD approach - French proposals - compensatory financing - other general views - the case for a commodity-by-commodity approach.

Techniques of commodity stabilization - application of these techniques in the postwar period. Problems of negotiation and problems of effectiveness of the techniques themselves.

7. Stabilization around the trend — Fund/Bank

The concept, distinguished from price leverage. Particular conditions of elasticities, pattern of fluctuation, commodity characteristics, favoring alternative techniques. Comparative assessment of buffer stocks, of other or supplementary techniques to influence price including quotas, levies, buffer funds, and compensatory financing, in effect on:

(i) Export earnings/availabilities
(ii) Producer earnings
(iii) Effects on trend of stabilization as such

? Experience with tin. ? Preliminary short list for buffer stocks, with and without quantitative restrictions.

Buffer stocks: the problem of price adjustment and stabilizing character of commercial stocks. The more provision for price adjustment, the greater the danger of destabilizing speculation? Conditions of particular commodity markets. (Exchange rate analogies and differences.) ?Test of comparative price adjustment techniques - moving average versus steps combined with or without quota adjustments.

8. Stabilization at target prices — (Bank)

The concept of remunerative prices.

The means of market management. Export quotas, import levies, export levies; link with buffer or reserve stock. Problem of allocation and efficiency. Diversification.

Side effects - commodities diversified into
competitiveness in processing industry
incentive to new production

(Relate to Section 1.)

9. Commodities amenable to commodity approach, on above considerations (illustrative rather than comprehensive) — Ridler, Lovasy (Bank)

(Both the particular commodities included and the categorization are put forward merely as a starting point for discussion.)

Cocoa) (Tin))	Buffer stocks with contingent export restrictions
Jute) Hard fibers) Copper) Rubber	In need of stabilization; possible means diverse or uncertain
Tea Sugar	? Buffer stock plus restrictions ? Multilateral long-term contract
Coffee) ? Bananas)	Export restriction Diversification

Estimates of price and earnings effects of price leverage (compare Pincus).

Countries affected and unaffected; ditto for fluctuations.

III. Financing requirements — Ridler (Bank)

10. Financing requirements of:

(i) Selected buffer stocks; alternative price ranges. Initial costs and contingency costs. How far would existing compensatory financing facilities of countries affected be adequate for buffer stock contributions.

(ii) Financial implications of other stabilization schemes.

(iii) Diversification. Long-term and possible short-term or medium-term financing requirements.

Hirsch/Ridler
January 31, 1968

Mr. Dragoslav Avramovic January 2, 1967

Irving S. Friedman

Stabilization of Prices of Primary Products - Governors' Resolution No.239

With respect to the question of Board discussion of the Study on Stabilization of Prices of Primary Products, Mr. Woods has sent the suggested memorandum to Dr. Donner. Would you please undertake to make certain that we do discuss this matter with the Executive Directors before conclusions have been formulated.

cc: Mr. Kamarck

FORM No. 57

INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Mr. George D. Woods 12/28

DATE: December 28, 1967

FROM: Irving S. Friedman

Thanks - I've sent the memo to Donner

SUBJECT: Stabilization of Prices of Primary Products - Governors' Resolution No.239

Pls note this on your calendar and ask Drag to make certain we discuss with E.D's before "conclusions have been formulated"

Attached hereto is a proposed reply to Dr. Donner's memorandum of December 8 regarding a possible Board discussion at an early stage of the staff study on the Stabilization of Prices of Primary Products arising out of the Rio Resolution. It represents the combined views of Mr. Avramovic, Mr. Kamarck and myself.

We are aiming to have something for the next Governors' Conference, if feasible. However, it is too early to say when we might have a Board discussion, but we will keep this matter in mind.

I think I ought to report to you that we are devoting a considerable amount of staff resources to this study, despite all efforts to get the International Monetary Fund to do as much as possible. Part of our problem is that the person who is responsible for the studies in the Fund, namely Mr. Polak, has been ill and some important questions of division of labor remain to be settled.

GDW

12/28

Dr. Otto Donner December 28, 1967

George D. Woods

Stabilization of Prices of Primary Products - Governors' Resolution No.239

This is in reply to your memorandum of December 8, 1967.

The suggestion contained in this memorandum is welcome and we will plan to have a discussion by the Board on the study on Stabilization of Prices and Primary Products at a fairly early stage.

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

INTERNATIONAL FINANCE CORPORATION

OFFICE OF THE PRESIDENT

~~Mr Friedman~~ rec'd, Dec 12, 67

Mr Avramovic

Any reason for not adopting this suggestion?

[illegible] 12/11

FORM NO. 57 INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

DEC 11 REC'D

OFFICE MEMORANDUM

TO: Mr. George D. Woods

DATE: December 8, 1967

FROM: Otto Donner

SUBJECT: Stabilization of Prices of Primary Products
Governors' Resolution No. 239

I refer to Document SecM67-285 of October 30, 1967, to which there is attached a paper by the Economic Adviser to the President on arrangements for the study requested by the Governors at Rio in the afore-mentioned resolution.

I have read the paper with great interest. I would like to offer some comments which, in my opinion, would assist in the carrying out of the task assigned by the Governors.

The resolution contemplates that the study "be submitted to the Executive Directors who are requested to transmit it with such comments or recommendations as they may have to the Board of Governors for consideration and appropriate decision by the Board....". I feel that at a fairly early stage of the Staff Study, before the outline for it takes final shape and before conclusions have been formulated, there should be a presentation of the direction of the study as contemplated by the Staff at a meeting of the Board (if necessary in a Committee Session) so that there would be a joint discussion which could be helpful to the Staff in completing its study and forestall the risk of any Executive Director feeling compelled at the final stage to express strong reservations, or even disagreement, which would have to be presented to the Governors while transmitting this study. This proposed discussion could, in my opinion, proceed best if a paper on the outline was distributed in advance.

Dray: Lets talk about this
I.S.F.

Talked to Mr. Friedman Dec 15; we said postpone until he comes back

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

SecM67-285

FROM: The Deputy Secretary

October 30, 1967

STABILIZATION OF PRICES OF PRIMARY PRODUCTS

There is attached a statement on the procedure to be followed by the staffs of the Bank and the Fund in the preparation of a study on the problem of stabilization of prices of primary products.

A statement, substantially similar to that attached, is being distributed by the Fund today to its Executive Board.

Distribution:

Executive Directors and Alternates
President
President's Council
Executive Vice President, IFC
Vice President, IFC
Department Heads, Bank and IFC
Secretary, IMF

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

STUDY ON PROBLEM OF STABILIZATION OF PRICES OF PRIMARY PRODUCTS

The Board of Governors of the Bank under Resolution No. 239 (copy attached) adopted at the Annual Meeting in Rio de Janeiro, has called on the President to have the staff prepare a study, in consultation with the Fund. This study is to be transmitted by the Executive Directors, with such comments and recommendations as they may wish to make, to the Board of Governors, if possible at its next Annual Meeting, for consideration and appropriate decision. A parallel resolution calling on the Managing Director of the International Monetary Fund to have the staff of the Fund, in consultation with the Bank, prepare a parallel study was adopted by the Board of Governors of the Fund at the meeting in Rio de Janeiro.

Staff members of the Bank and Fund have exchanged views regarding the procedure to be followed in the preparation of the parallel studies by the respective staffs of the two institutions. They concluded that the studies could conveniently be divided into two parts, the first covering introductory and general aspects of the problem (including a discussion and an evaluation of the various possible solutions to the problems of commodity prices which have been suggested so far), and the second, discussing the role, if any, that the Bank or the Fund could play in the solution of these problems. They agreed that the most expeditious way to proceed with the task would be for the staffs of the two institutions to prepare jointly the first (i.e., general) part of these studies. For obvious reasons, the second part, which would contain a discussion of the possible role that each of the two institutions could play in this field, would be prepared separately by the staff of each of the two institutions, but in close consultation with each other.

In the course of the preparation of the studies, the staffs of the two organizations intend to maintain contact with other interested international organizations, in particular UNCTAD and FAO.

While it is too early to indicate the time which the study will require, the staff has been instructed to proceed on the working assumption that it would be highly desirable to finish the report at an early enough date to permit consideration by the Governors at the 1968 Annual Meeting.

The Economic Adviser to the President
October 27, 1967

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

RESOLUTION NO. 239

STABILIZATION OF PRICES OF PRIMARY PRODUCTS

WHEREAS Governors of the Bank and the Fund for Cameroon, Central African Republic, Congo (Brazzaville), Ivory Coast, Dahomey, France, Gabon, Upper Volta, Madagascar, Mali, Mauritania, Niger, Senegal, Chad and Togo have transmitted to the President of the International Bank for Reconstruction and Development the following request:

> CONSIDERING the decisive importance of the stabilization of prices of primary products at a remunerative level for the economic advancement of the developing countries and the improvement of the standard of living of their populations, the Governors meeting in DAKAR request that in RIO study be made of the conditions in which IMF, IBRD and IDA could participate in the elaboration of suitable mechanisms involving balanced commitments on the part both of the producing and of the consuming countries, and devote the necessary resources thereto.

AND WHEREAS the Board of Governors recognizes the importance of this subject in relation to the purposes of the Bank,

NOW THEREFORE the Board of Governors resolves that the President is hereby invited to have the staff, in consultation with the Fund staff, prepare a study of the problem, its possible solutions, and their economic feasibility, in the light of the foregoing, to be submitted to the Executive Directors who are requested to transmit it with such comments or recommendations as they may have to the Board of Governors for consideration and appropriate decision by the Board, if possible at its next Annual Meeting.

(Adopted on September 29, 1967)

FORM No. 57 INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Mr. Dragoslav Avramovic

DATE: December 19, 1967

FROM: Andrew M. Kamarck A. M. Kamarck (signed)

SUBJECT: Econometrician for Commodity Stabilization Study

This is in response to your memorandum of December 18 in which you inquire about the possibility of another econometrician being assigned to the Commodity Stabilization Study.

The problem I have on this is the following. So far we have already made a large contribution of personnel to this study. This includes Louis Goreux, Gertrud Lovasy, K. Krishnamurty, a substantial portion of Tony Macone's time and of the time of most of the people in his division, a substantial contribution of work by the Statistical Services Division, without counting Flora White who is assigned to you from the Economics Department and is also absorbed in this study. This means that the Commodity Stabilization Study is already getting one of the highest priorities in the Economics Department work program. The assignment of another econometrician could only be done by further depleting the staff and holding up the work program of the Quantitative Techniques Division.

I gather that the Fund so far has made a fairly small contribution: mostly in the form of part-time work by several staff members.

It seems to me that before I can assign any more personnel to the study that we should have a clear decision on the subjects that were discussed last week with Mr. Friedman; that is to say, we need to have a clear delineation of the scope and time table of this study. Only if this makes it evident that it is more essential to assign still another econometrician to the study than it is to carry on other work will I be able to make such a decision.

In the meantime, I assume that attempts are also being made to secure help of this kind from the Fund. I gather the Fund has a number of econometricians in different parts of the organization. I would think that their experience in working on short-term fluctuations would make them more qualified for this aspect of the Commodity Stabilization Study than any of our people.

cc: Messrs. Friedman
Stevenson
Goreux

AMKamarck/ner

Mr. Andrew M. Kamarck Dec. 18, 1967

Dragoslav Avramovic

Commodity Stabilization Study

You will recall that about a month ago I raised the question of the need for the second econometrician to be attached to the commodity stabilization study. Whatever the final scope of the study, it is obvious that econometric work is our chief bottleneck: more than a month was required to cover the case of cocoa, and the work cannot still be considered completed. Even if a very restricted sample of commodities is handled, one econometrician will not be sufficient: if our staff in this area is not strengthened, the work will inevitably remain superficial.

cc: Mr. Irving S. Friedman
Mr. L. M. Goreux.

Avr/cnm