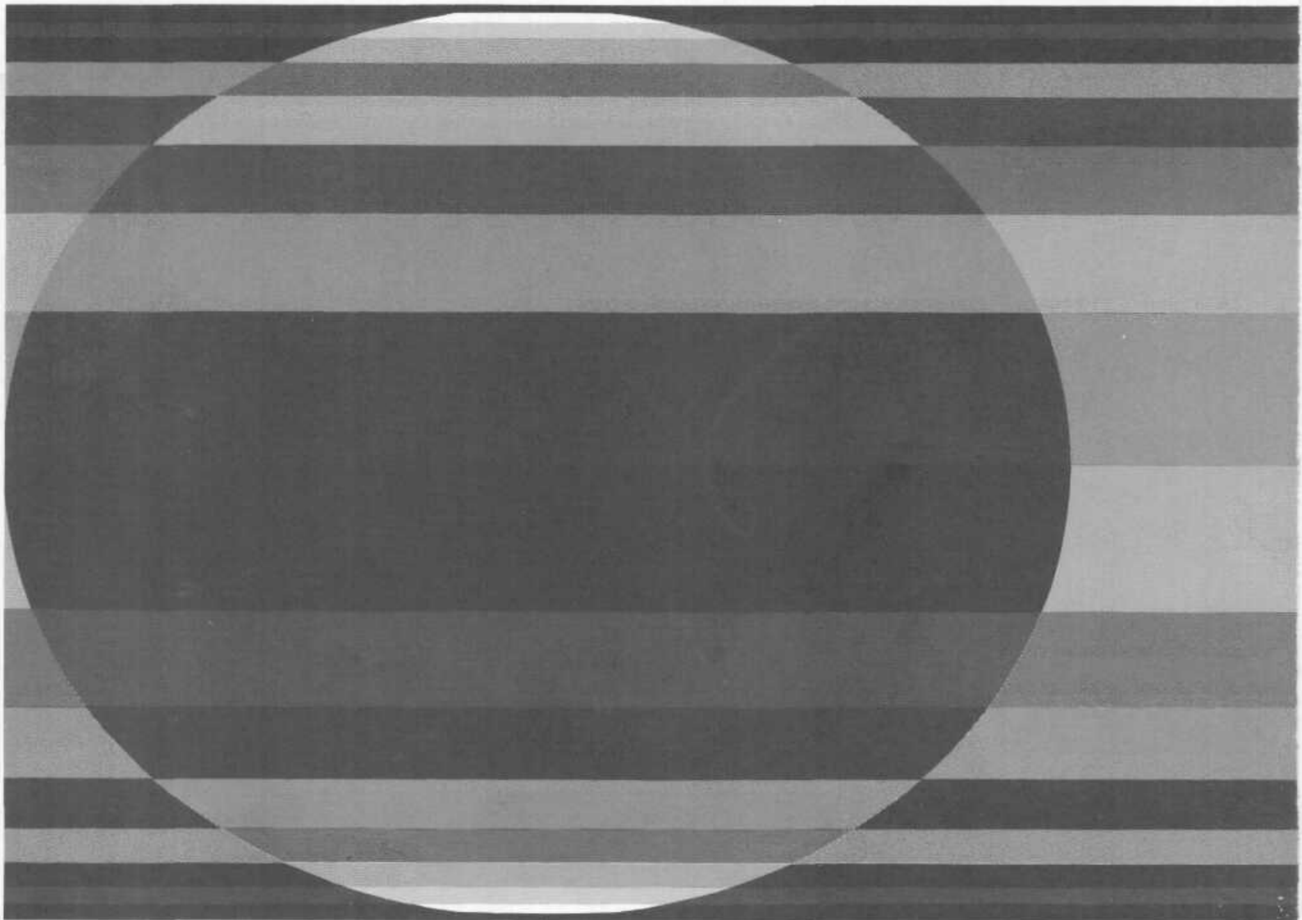
BACKGROUND PAPER

Commodity Initiatives of Less Developed Countries: U.S. Responses and Costs

May 1977



Congress of the United States
Congressional Budget Office
Washington, D.C.

COMMODITY INITIATIVES OF LESS DEVELOPED COUNTRIES: U.S. RESPONSES AND COSTS

The Congress of the United States
Congressional Budget Office

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PREFACE

For a number of years, many less developed countries that rely on exports of primary commodities have pressed for arrangements to stabilize their export earnings. Within the next six months, the U.S. government will have to take a position on one such proposal, the UNCTAD Integrated Program for Commodities. If the United States participates in this agreement, authorizing legislation and appropriations would probably be required.

This paper identifies potential beneficiaries of the integrated program and of alternative measures for stabilizing export earnings. Such information should be useful to the Congress in evaluating how costs and benefits of the integrated program compare with other programs to assist LDCs.

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SUMMARY

Before November 1977, officials in the Executive Branch must decide whether the United States will participate in the United Nations Conference on Trade and Development (UNCTAD) Integrated Program for Commodities. This program is designed to stabilize export earnings of less developed countries (LDCs) by establishing a series of commodity agreements and a common fund to finance buffer stocks and other appropriate measures to reduce the price fluctuations of 18 primary commodities.

Congressional interest in the integrated program is based on several factors:

- The program could be negotiated as a treaty, which would require Senate ratification.
- Authorizing legislation would be required that might span the jurisdiction of several authorizing committees.
- Budget authority and appropriations might eventually be required because the potential cost of U.S. participation in the UNCTAD program could range from $200 million to $800 million over several years.

Regardless of U.S. participation, the integrated program could have an impact on the price of commodities that the United States imports and exports.

Alternative methods for compensating for export earnings shortfalls include:

- Establishing international commodity agreements similar to those under the integrated program but financed separately and negotiated on a case-by-case basis.
- Expanding use of the International Monetary Fund (IMF) facility for compensatory finance, a mechanism for providing financing for declines in export earnings.
- Extending direct foreign assistance payments to governments of LDCs experiencing export earnings difficulties.

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The analysis here focuses on the distribution of benefits, both among and within countries, that are likely to result from these options. Export earnings from products now under study for inclusion in the integrated program are more important, as a percentage both of total exports and of the gross national product (GNP), to the economies of middle-income exporters than to the economies of low- or high-income LDCs. Even though these measures indicate less importance of UNCTAD products to the economies of poorest countries, nearly all of the world's poorest countries are dependent on UNCTAD products for a significant portion of export earnings.

The IMF compensatory finance facility, as currently constituted, lends to countries experiencing shortfalls in export earnings. The amount a member may borrow is based on that country's quota in the IMF; country quotas are based on a nation's importance in the world economy. Thus, those countries ranked poorest (on a per capita basis) are able to borrow the least; the rich can borrow the most. Furthermore, the current IMF facility has been inadequate to finance recent shortfalls for some LDC applicants for assistance.

If foreign assistance payments were applied to offset shortfalls in export earnings, the distribution of benefits would depend on which countries are experiencing the shortfalls. Financing through foreign assistance a 10 percent shortfall in export earnings for UNCTAD products would benefit the middle-income LDCs most in terms of total dollars transferred or dollars transferred per capita.

These alternatives can be evaluated in terms of:

- Their likely impact on U.S. consumers and producers.
- What countries would be likely to control the distribution of benefits.
- How consistent they would be with the aims of the U.S.' "New Directions" emphasis on assisting the poorest people.
- What would be the likely effects on the relationships between the United States and LDCs.
- What might be the budgetary cost to the United States.

Of all the various choices, the integrated program could have the greatest impact on U.S. producers and consumers because it is the only alternative with the potential to affect the prices of a large number of U.S. imported commodities. The impact of the integrated program on the magnitude and direction of price movements would depend on the terms of agreement and the normal price and supply fluctuations for each commodity. The greatest degree of control over the distribution of benefits could be exercised by the United States in defining the terms and the recipients of foreign assistance; once the terms of commodity agreements or compensatory finance were negotiated, the benefits would be distributed automatically depending on what is happening to prices and to export earnings. Compared to other stabilization options, the compensatory finance facility of the IMF could give the most (in the aggregate) to the poorest countries. But the aid would be loans that would have to be repaid with interest. For the poorest people to benefit would depend largely on distribution within countries, which is determined largely by the actions of recipient governments, or in the case of certain commodities, on multinational corporations or local entrepreneurs. Decisions regarding the integrated program and compensatory finance could be the most politically sensitive, because they form a package that the LDCs themselves have proposed and to which they give high priority.

The budgetary cost to the United States of participating in the integrated program could be a minimum of $200 million and a maximum of $800 million over a period of several years. The cost of commodity agreements negotiated on a case-by-case basis would depend on which commodities were included. The type of agreement chosen to bring about price stabilization would also be an influential factor. Expanding compensatory finance facilities of the IMF could take place through overall quota increases, which require Congressional authorization but no appropriations. For the United States to finance a 10 percent shortfall in export earnings for UNCTAD products through foreign assistance payments could cost some $370 million for low-income LDCs, $660 million for the middle-income group, and $670 million for the high-income group. Such costs would be recurring. In contrast, the costs of other proposals represent one-time investments.

CHAPTER I. BACKGROUND AND OBJECTIVES

The governments of less developed countries (LDCs) are dissatisfied with the pace of their nations' economic development during the last few years. They cite as causes such factors as fluctuating export earnings, trade barriers, debt-servicing problems, and insufficient levels of foreign assistance.

While such problems are not new, the climate surrounding the LDC demands has taken on a new character. Paradoxically, the success in 1973 of a group of LDCs--the Organization of Petroleum Exporting Countries (OPEC)--in withholding supplies of oil to obtain both political benefits and increased earnings encouraged many LDCs to join forces and work toward similar ends. At the same time, the economic conditions of many LDCs were severely worsened by the effects of the oil price increases. The result was a more uniform set of demands consisting of measures designed to transfer resources from rich nations to poor, to permit more rapid growth of LDCs, and to bring about a New International Economic Order.

Between 1973 and 1975, U.S. policymakers did not indicate that they would be willing to accommodate LDC demands. Since 1975, however, both LDCs and the United States have shown more inclination to compromise. The Ford Administration proposed various measures to deal with LDC problems, including initiatives for a few specific international commodity agreements, increased availability of compensatory finance, and an international resources bank for encouraging investment in mineral exploration in LDCs. 1/

1/ The International Resources Bank (IRB) was proposed by Secretary of State Kissinger at the UNCTAD IV conference. It would have set up a mechanism for guaranteeing private foreign investment in mineral exploration in LDCs. The fund for financing this arrangement was estimated at $1 billion, of which $200 million would be the U.S. contribution. The resolution to create an IRB was defeated at UNCTAD, but the plan has been discussed in other forums such as the Council on International Economic Cooperation (CIEC) in Paris and at meetings of the Organization of American States (OAS). There is no indication at present that an IRB will be established in the near future, or that the new administration will continue to pursue this as a separate option.

These measures have not always been the measures sought by the LDCs themselves.

A principal forum for discussing issues raised by the LDCs has been the meeting of the United Nations Conference on Trade and Development, UNCTAD IV, held in Nairobi, Kenya, in May 1976. Among the major issues presented at Nairobi by the so-called "Group of 77" (the LDC caucus in the United Nations 2/) were requests for international commodity agreements, improving the compensatory finance facility of the International Monetary Fund (IMF), improving market access for LDC exports of manufactures and semi-manufactures (i.e., goods which have been partially processed, but cannot yet be sold as an end product), alleviating the LDC debt burden, and negotiating a code of conduct for the transfer of technology. 3/

In May 1976, officials of the Ford Administration agreed that the United States should participate in preliminary sessions to prepare the foundations for formal negotiation of the UNCTAD Integrated Program for Commodities.

The first negotiating conference on the integrated program, held in March 1977, ended in a stalemate, and plans were made to resume in November 1977. At the March session, the U.S. delegation stated that they could not support a common fund until the details of its operations were clarified. 4/

The objective of the program is to stabilize export earnings for commodity producers, especially LDCs, and in particular those that depend on a few primary commodities for their total export earnings and for large amounts of government revenue. The program calls for the establishment of a series of commodity agreements and a common fund to finance buffer stocks (i.e., commodity stockpiles used as a cushion against price fluctuations) and other appropriate measures for controlling extreme price fluctuations of 18 primary commodities.

2/ In fact, the Group of 77 represents more than 100 of the world's poorest nations.

3/ U.N. Document, TD/195, "Manila Declaration," Nairobi, May 5, 1976.

4/ Reginald Dale, "Commodities Fund Talks in Geneva Deadlocked," Financial Times, April 4, 1977.

U.S. interest in the Integrated Program for Commodities is based on three factors: that the program, if enacted, might have an impact on U.S. producers and consumers; that the U.S. response to this LDC initiative might affect the political relationships between the United States and LDCs; and that U.S. participation in the program could result in a budgetary cost ranging from $200 to $800 million in appropriations over six years.

Before investing in such a program, the Congress must examine its implications, not only for the budget, but also for the potential recipients of benefits--the commodity producers and consumers. It is also useful to compare this progam with other measures that could achieve substantially the same results, such as commodity agreements negotiated on a case-by-case basis and compensatory financing. Another topic that should be assessed is the appropriateness of U.S. direct financial assistance as a tool for compensating for shortfalls in export earnings.

Some LDC governments contend that extreme fluctuations in export earnings are among the most serious obstacles to their economic development. Stable export earnings are considered necessary to promote investment in LDCs and prevent disruption of development plans.

The economic evidence of the effects of excessive price fluctuations on economic growth is mixed. For example, in 1966, economist Alasdair MacBean concluded that, in general, there is little evidence to indicate that LDC economies have been damaged by short-term export instability. 5/ Others, however, have been critical of this conclusion. 6/ The U.S. dilemma in responding to LDC initiatives for stabilizing export earnings stems from a desire to promote some of the economic development objectives of LDCs and at the same time to maintain special political relationships with particular LDCs, to ensure against excessively high prices, and to protect U.S. producers and consumers.

5/ Alasdair MacBean, Export Instability and Economic Development (London, George Allen and Unwin, Ltd., 1966).

6/ For example, see Constantine Glezakos, "Export Instability and Economic Growth: A Statistical Verification," Economic Development and Cultural Change, July 1973.

CHAPTER II. POLICY OPTIONS

If the U.S. government accepts stabilization of LDC export earnings as a valid objective, there are a number of instruments that could be employed, either singly or in combination, to achieve this objective. These include:

- o International commodity agreements--either the UNCTAD Integrated Program for Commodities or commodity agreements negotiated on a case-by-case basis; and
- o Compensatory finance; and
- o Variable foreign assistance--that is, a system of direct subsidies to countries that experience export earnings shortfalls.

Each option can be analyzed according to the likely distribution of benefits both among and within countries.

Besides distribution, a number of other criteria exist by which these policy options can be evaluated. These include:

- o What is likely to be the impact, if any, on U.S. producers and consumers?
- o Who controls the distribution of benefits?
- o Is the distribution of benefits consistent with the U.S. foreign assistance program's "New Directions" objective of helping the poorest people? In passing the Foreign Assistance Act of 1973, the U.S. Congress stated that priority should be given to the use of foreign assistance funds to help the poorest people. Although technically, this does not require that other arrangements with LDCs such as international commodity agreements follow these guidelines, many observers are interested in the potential trade-offs between foreign assistance and other forms of aid to LDCs.

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o What are the likely effects on political relationships between the United States and LDCs?

o What is the budgetary cost to the United States?

INTERNATIONAL COMMODITY AGREEMENTS

For many LDCs, the problem of fluctuating export earnings is caused by heavy dependency on earnings from one or a few primary products for both total export earnings and for government revenues. Annual price fluctuations for the 18 commodities included in the UNCTAD program are often 10 percent or more. Prices have sometimes doubled or been halved in the span of a year (see Table 1).

In most cases, total export earnings rise with an increase in commodity prices and decline with a fall in commodity prices. 1/ This is because price changes for a given commodity are not accompanied by equivalent demands that would offset the effects of the change. For example, when prices for copper increased from over $1,000 per metric ton in 1972 to $1,800 per metric ton in 1973, Chile's export earnings increased from $860 million to $1.2 billion. When the price of cocoa declined from approximately 34 cents per pound in 1970 to 27 cents per pound in 1971, total export earnings for Ghana fell from $430 million to $350 million. 2/

International commodity agreements are one often-proposed solution to the problem of unstable export earnings. Commodity agreements are accords among producers, or among producers and consumers, that attempt to stabilize the price of a specific commodity. As a result, they assist in stabilizing overall

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1/ See Sara Gordon and others, "Causes of Export Instability in Developing Countries," U.S. Department of the Treasury, Discussion Paper Series, June 1975.

2/ Commodity Trade and Price Trends, International Bank for Reconstruction and Development, August 1975; and Yearbook of International Trade Statistics, Volume 1, United Nations, 1974. More detailed statistics for many LDCs on export earnings relative to prices can be found in International Financial Statistics, published by the International Monetary Fund.

TABLE 1. MARKET PRICE FLUCTUATIONS OF LDC COMMODITIES: PERCENT DEVIATIONS FROM TREND, 1953-1973 AND CHANGES IN AVERAGE PRICES, 1972-1975

Commodities	1953-1973 a/ Average Deviations From Trend	Annual 1972-1973 b/ Change	Annual 1973-1974 b/ Change	Annual 1974-1975 b/ Change
Bananas	4.3	7	14	31
Bauxite	4.7	N/A c/	N/A c/	N/A c/
Cocoa	23.0	110	51	-14
Coffee	17.0	34	7	15
Copper	21.5	64	37	-38
Cotton	8.2	66	63	-15
Hard Fibres d/	N/A c/	N/A c/	N/A c/	N/A c/
Iron Ore	8.3	-9	20	58
Jute	11.9	-5	12	12
Manganese	N/A c/	N/A c/	N/A c/	N/A c/
Meat	20.8	29	15	9
Phosphates	N/A c/	25	340	18
Rubber	13.2	111	8	-24
Sugar	33.4	59	245	-33
Tea	6.2	2	33	1
Tin	7.9	32	67	-14
Tropical Timber	N/A c/	68	27	6
Vegetable Oils	N/A c/	360	81	-60

SOURCES: From Statement of Bart S. Fisher before the Subcommittee on Inter-American Economic Relationships of the Joint Economic Committee on United States Policy Toward International Arrangements for Commodities, Appendix A, Joint Economic Committee, August 12, 1976.

a/ Column I is the average over the period of differences between annual observations and calculated trend values (irrespective of sign) expressed as percentages of the trend value.

b/ Yearly averages data from Commodity Trade and Price Trends (1976 edition), Section IV.

c/ Data not available.

d/ Hard fibres include sisal, henequen, abaca, and agave.

export earnings. (Commodity agreements that result from negotiations between producer and consumer countries, and that are managed by representatives acceptable to both, should not be confused with associations or cartels in which only one side is represented.)

What impact, if any, would an international commodity agreement have on the long-term price trend for that commodity? For example, if an international commmodity agreement keeps the price of a given item within a range consistent with the free market price for that commodity, the result would not constitute a long-term resource transfer to the producing states. On the other hand, an international commodity agreement that tends to raise the long-run average price would lead to a permanent, long-term transfer of resources to the producers. If the U.S. government were facing a decision about whether or not to support an international commodity agreement that would raise the long-term price, the alternatives for consideration would be mechanisms for direct long-term resource transfers rather than stabilization measures.

In theory, there can be advantages both to producers and to consumers in minimizing price instability. 3/ For the producers, the benefits stem from a more favorable climate for investment and development planning brought about by more predictable market conditions. In addition, many governments depend upon export taxes on primary commodities for a large portion--sometimes nearly all--of government revenue. 4/ In such cases, stabilization would mean more dependable government revenues for LDCs. Historically, sudden shortfalls in revenues have often obliged LDC governments to finance deficits by internal borrowing, by increasing external debt, or by cutting public services and government expenditures. In addition, consuming industries plan and invest with more confidence when prices of commodities that they import are predictable. In both developed and less developed countries, fluctuations in the prices of raw materials have contributed to increases in the prices of manufactured goods and to overall

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3/ Richard N. Cooper and Robert Z. Lawrence, "The 1972-1975 Commodity Boom," Brookings Papers on Economic Activity, No. 3, 1975, pp. 707-709.

4/ See, for example, Robert L. Curry, "Problems in Export Based Public Revenue Collections in Zambia and Liberia," Journal of World Trade Law, Vol. 9, No. 5, 1975.

inflation. When commodity prices go down, concentrated industry structures sometimes prevent prices paid by consumers from decreasing by an equivalent amount.

International commodity agreements may employ one or a combination of four mechanisms for price stabilization:

- o Internationally held buffer stock schemes, which would establish funds to purchase a stock of a commodity so that when prices are high, the buffer stock manager may sell from the stock to depress price, and when prices are low, the manager may make purchases for the stock to prevent further reductions in price;

- o Production control systems, which would attempt to control price by controlling the amount of a commodity produced by each exporter;

- o Export controls or quotas, which would assign quantities for export to each producer and which would be closely related to production control schemes; 5/

- o Multilateral contracts, which are arrangements by which importers agree to buy and exporters agree to sell a specified quantity of a commodity at a certain price. 6/

The potential of an international commodity agreement as an instrument for permanently raising prices, as opposed to merely stabilizing them, depends largely on which of the four mechanisms is included in the agreement. Theoretically, a buffer stock could raise prices over the long term only if one assumes there are infinite resources available for continual purchases for the buffer stock of that commodity.

5/ Both production and export controls have the same effect on the international market, although they may have slightly different effects within a producing country.

6/ Harvey R. Sherman, "International Commodity Agreements: A Brief Historical Review and Outlook," Congressional Research Service (May 30, 1973), pp. 2-3.

Producers or producers and consumers together could conceivably agree on a price range above the long-term trend. This would require the buffer stock manager to act in the long run as a net buyer, and repeated financing would have to be provided by the producers or the producers and consumers. Production controls or export quotas, by restricting total supply or whatever portion enters international trade, would, however, make it possible to keep the supply low and the price high. Such controls and quotas would have to be agreed upon by the members of the agreement. Multilateral contracts might specify a higher-than-average price, but since the quantity is specified, their impact on prices paid by others would probably be minimal unless the quantity under contract constituted a large portion of the market.

One advantage of a buffer stock over the other mechanisms is that once the terms of the agreement have been negotiated, the buffer stock manager can implement the agreement according to the specified constraints. In general, he can make the necessary adjustments to changes in supply and in distribution of production without the whole agreement having to be renegotiated. The other mechanisms necessitate renegotiations for adjustments, such as redistributing quotas because of new producers. However, problems may emerge in determining who will control the management of the buffer stock.

International commodity agreements can be difficult to implement. Negotiations often fail to produce an agreement acceptable to all participants. Several factors could contribute to this failure, including inability to agree on quota shares, cost shares, voting power and procedures, upper and lower price limits, and control of the buffer stock. Furthermore, once an agreement has been reached, there are still factors that could interfere with its implementation. Among these are new producers entering the market, changes in the quantity of a commodity each producer exports, and price increases sufficient to exhaust the buffer stock.

UNCTAD Integrated Program for Commodities

One approach to commodity agreements now under consideration is the UNCTAD Integrated Program for Commodities, which has been under study by the Group of 77 for more than two years. This proposal would establish a series of commodity agreements and a common fund of $3 to $6 billion for financing buffer stocks or other suitable arrangements for 18 commodities. The plan, clarified by the LDCs at the Manila Conference in February 1976,

was presented three months later in Nairobi by the Group of 77. The resolution on commodities that was passed at this session states among its objectives:

> To achieve stable conditions in commodity trade, including avoidance of excessive price fluctuations, at levels which would:
>
> a) be remunerative and just to producers and equitable to consumers;
>
> b) take account of world inflation and changes in the world economic and monetary situations;
>
> c) promote equilibrium between supply and demand within expanding world commodity trade. 7/

At the Nairobi session, the LDCs and many industrial nations reached an agreement to take steps toward negotiating a common fund and to study the particular needs of each commodity and of the nations most seriously affected by the 1973-1974 oil price rise. 8/

Response from developed countries to the integrated program has been mixed. Canada, Norway, the Netherlands, and Sweden have shown support; Germany and Japan have expressed reservations. 9/ The United States voted for the commodity resolution but issued a statement of clarification, saying that it is committed to nothing more than to participating in the preparatory discussions on individual commodities that began in the fall of

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7/ U.N. Document TD/L 131, p. 3.

8/ Ibid., pp. 4-5.

9/ Some developed countries have proposed compromise programs of their own. For example, France proposed a "Central Fund" to be set up after four or five international commodity agreements with individual funds have been negotiated. This differs from the common fund approach, which seeks to have the fund established as a first step. (See Reginald Dale, "The Hard Bargaining Begins," Financial Times, May 8, 1976.)

1976. 10/ Initial discussions were completed on copper, jute, and hard fibres.

The Nairobi resolution specifies, but does not limit, the coverage of the integrated commodity program to include the following 18 commodities, the first ten of which are the "core" commodities, or those of greatest export interest to LDCs:

cocoa	rubber	iron ore
coffee	sugar	manganese
copper	tea	meat
cotton and cotton yarns	tin	phosphates
hard fibres and products	bananas	tropical timber
jute and products	bauxite	vegetable oils, including olive oil and oil seeds

UNCTAD argues that a common fund may be cheaper than having individual financing for 18 separate agreements. Assuming that the fluctuations for various commodities are not moving simultaneously in the same direction, a common fund could finance purchases of one commodity with receipts from sales of others. Furthermore, the integrated program may be able to obtain financing at better terms than would individual agreements, because the larger organization could borrow larger sums of money at lower interest rates.

A serious consideration in formulating the U.S. position toward the integrated program is what potential the integrated program has to be successful without U.S. participation. This issue is important for the Executive Branch officials who must decide what the U.S. position will be at the November 1977 negotiating session. It is equally significant for the Senate, which must make a decision on ratification of any agreement that may come out of that conference, and for the Congress as a whole, which must resolve whether or not to pass authorizations and appropriations for the program.

If there appears to be sufficient support for instituting the program without U.S. participation, the United States may wish to consider participating in order to have a vote in the

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10/ U.S. Department of State, "U.S. Statement of Reservation and/or Interpretation," May 1976, p. 2.

decisions of the organization. This vote could serve to protect the interests of U.S. producers and of U.S. customers who would be obliged to pay the international price produced by the agreement for whatever amount of these products the United States imports. The significance of these amounts is illustrated in Table 2, which lists U.S. shares of world exports and the shares of U.S. consumption for each imported UNCTAD commodity.

The United States has more of an interest as an importer than as an exporter in the 18 commodities. Of the ten core commodities, the United States is a major exporter only of cotton, but it is the major importer of sugar, coffee, cocoa, jute, hard fibres, rubber, and tin. In addition, the United States is a major importer of tea and on a smaller scale, of copper. 11/ Measured in dollars, the total value in 1973 of U.S. coffee and cocoa imports alone exceeded that of all U.S. cotton exports. 12/

Many details of the integrated program have yet to be clarified. Among these are:

- o How the program will be coordinated with existing commodity agreements;
- o What the relationship will be with the existing International Monetary Fund facility for financing buffer stocks;
- o What the appropriate timing will be for accumulating the buffer;
- o How much the necessary capital for acquiring the buffer will be;
- o How the voting system in the agreement will be organized;
- o Who will control the management of the buffer stocks; and
- o Which products will be included.

11/ U.N. Document TD/B/C 1/196, October 6, 1975, pp. 11-14.

12/ Yearbook of International Trade Statistics, Vol. 1, United Nations, 1974.

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TABLE 2. IMPORTANCE OF UNCTAD PRODUCTS TO THE UNITED STATES: ESTIMATED FOR 1976

Commodities	Percent of World Exports Accounted for by the United States	Percent of U.S. Domestic Consumption Accounted For By Imports
Bananas	3	100
Hard Fibres	a/	100
Jute	a/	100
Tropical Timber	a/	100
Vegetable Oil	20 b/	a/
Bauxite	a/	88
Manganese	a/	98
Phosphates	12	a/
Cocoa	a/	100
Coffee	a/	100
Copper	a/	20
Cotton	21	a/
Iron Ore	2 c/	17
Meat	1	5
Rubber	a/	100
Sugar	a/	38
Tea	a/	100
Tin	a/	84

SOURCES: International Trade Commission, Commodity Data Summaries: 1976; Department of the Interior, Bureau of Mines, Survey of Current Business, 1976; International Economic Report of the President, March 1976, p. 96.

a/ U.S. proportion insignificant.

b/ Average for 1970-1971.

c/ Average for 1970-1972.

If U.S. officials decide to seek a more modified version of the integrated program than the one the Group of 77 now supports, the November 1977 negotiating session will provide an opportunity for the United States to seek compromises on these and other aspects of the integrated program. A major point of controversy is

likely to be whether the common fund will be established as a first step to be followed by the negotiation of individual agreements, or whether the agreements will be negotiated first, to be followed by the establishment of the common fund. The Group of 77 favors the former position, arguing that lack of financing has been an obstacle in the past to the creation of commodity agreements. The United States, being reluctant to become committed to agreements the details of which have not yet been negotiated, favors the latter position.

An analysis of who would benefit from the UNCTAD program is based on the assumption that those countries that would benefit most are those whose economies are most dependent on UNCTAD products. How dependent particular economies are on UNCTAD products can be measured to some extent by the portion of export earnings accounted for by UNCTAD products, and by export earnings for UNCTAD products calculated on a per capita basis or as a percent of the gross national product (GNP).

In addition, it is possible to estimate roughly how much particular countries or groups of countries would benefit from stable prices in UNCTAD products. Given the history of price fluctuations, those fluctuations resulting in a 10 percent change in export earnings can be taken as typical. In this analysis, 10 percent of earnings for UNCTAD products expressed in dollars represents the portion of export earnings that fluctuates and the portion of earnings that would not fluctuate if prices for UNCTAD products were stable.

Table 3 gives various indicators of the degree to which the 18 commodities included in the UNCTAD IV commodities resolution were important to groups of LDCs for export earnings and to their economies as a whole. Only countries that are dependent on earnings from one of the 18 commodities for more than 7.5 percent of total export earnings are included in the calculations (7.5 percent is the cut-off point used under STABEX), a program organized between the European Economic Community (EEC) and 46 African, Caribbean, and Pacific LDCs.

For 1970 and 1973, the economies of middle-income LDCs are more dependent on UNCTAD products than are those of either the poorest or high-income LDCs. This is true if dependency is measured by commodity earnings as a percent of total export earnings of the commodity producers within each income group; it remains so if dependency is measured by export earnings for UNCTAD products as a percent of GNP or by export earnings for UNCTAD products per capita. The exception to this distribution pattern

TABLE 3. INDICATORS OF LESS DEVELOPED COUNTRIES' DEPENDENCY FOR EXPORT EARNINGS ON THE EIGHTEEN COMMODITIES IN THE UNCTAD LIST: ESTIMATED FOR 1970 AND 1973

Less Developed Countries by Income Group	Percent of Export Earnings Accounted for		Export Earnings As a Percent of GNP		Export Earnings in Dollars Per Capita		10 Percent of Export Earnings in Millions of Dollars a/	
	1970	1973	1970	1973	1970	1973	1970	1973
28 Low-Income (Below $200 GNP Per Capita) b/	43	35	3	3	3.3	3.8	278	374
24 Middle-Income (Between $200-$500 GNP Per Capita) b/	61	52	10	9	23.3	29.7	481	663
16 High-Income (Over $500 GNP Per Capita) b/	43	37	5	4	22.1	31.0	444	672

SOURCE: International Financial Statistics, June, 1976, International Monetary Fund and Yearbook of International Trade Statistics, 1974, United Nations. (For details on methodology, see technical footnotes following the appendix.)

a/ Total per group.

b/ Based on World Bank Atlas, 1975.

is that the per capita measure in 1973 is greatest for the high-income LDCs. However, the UNCTAD commmodities program could help nearly all of the low-income LDCs. It would benefit roughly one-half of the countries within the high-income group and two-thirds of the middle income LDCs. The value in dollars of export earnings for UNCTAD products is less for the poorest countries than for either the middle-income or high-income LDCs. For example, in 1970, a 10 percent rise (or drop) in commodity earnings for the UNCTAD commodities would have benefited (or harmed) the poorest countries in the approximate amount of $278 million. The middle-income nations would have eperienced a change of $480 million, and the high-income LDCs, $444 million. How much stabilization of prices for UNCTAD products would actually benefit each income group depends on the magnitude of earnings fluctuations within each income group resulting from commodity price fluctuations. (A list of countries assigned to each income group is included in Appendix A.)

The distribution described above is the same when the ten core commodities are examined. LDCs export the largest share of world exports of core commodities, whereas the remaining eight commodities are exported in many cases by developed countries. It is useful, therefore, to examine the ten separately because they are considered far more likely candidates for agreements under the UNCTAD program than are the remaining eight commodities. Table 4 illustrates the dependence on the core commodities of the economies of various groups of LDCs.

In all income groups, both for the ten core products and for the full eighteen, shares of UNCTAD commodities as a percent of total exports declined from 1970 to 1973. This is probably attributable to an increase in the non-commodity exports of LDCs.

TABLE 4. INDICATORS OF LESS DEVELOPED COUNTRIES' DEPENDENCY FOR EXPORT EARNINGS ON THE TEN CORE COMMODITIES IN THE UNCTAD LIST: ESTIMATED FOR 1970 AND 1973

Major Groups of LDCS	Percent of Export Earnings Accounted for		Export Earnings As a Percent of GNP		Export Earnings in Dollars Per Capita		10 Percent of Export Earnings in Millions of Dollars a/	
	1970	1973	1970	1973	1970	1973	1970	1973
28 Low-Income (Below $200 GNP Per Capita) b/	37	28	3	3	2.90	3.00	227	287
24 Middle-Income (Between $200-$500 GNP Per Capita) b/	51	41	8	8	19.80	23.50	353	462
16 High-Income (Over $500 GNP Per Capita) b/	39	34	5	4	17.90	25.70	308	482

SOURCE: International Financial Statistics, June, 1976, International Monetary Fund and Yearbook of International Trade Statistics, 1974, United Nations.

a/ Total per group

b/ Based on World Bank Atlas, 1975.

Just how the benefits from stabilization of a particular commodity will be distributed across income groups is not always entirely predictable. Income for a given item may be increasing within one group and remaining stable or even declining within another. For example, while the dollar value of copper exports in 1970 and 1973 remained relatively constant for LDCs with per capita GNP above $500 and those between $200 and $500, the dollar value to the group below $200 declined. The value of cotton nearly doubled for those LDCs over $500 per capita GNP, and increased to a lesser extent for those below $200; but it remained stable for the middle-income group.

When LDCs are categorized by continent rather than by income group, the economies of Latin America and Africa are revealed to be more dependent on UNCTAD products than are those of Asia or Oceania. Latin American trade in UNCTAD products is slightly more than Africa's in terms of dollars. Export earnings for UNCTAD products as a percent of total exports and as a percent of GNP indicate that African LDCs' economies are most dependent on UNCTAD products.

Developed countries that export UNCTAD products are far less dependent on them for export earnings than are LDCs. Australia, Canada, New Zealand, Sweden, the Soviet Union, Ireland, and the United States are examples of exporters in developed countries that could benefit from the integrated program (see Table 5). Although the export earnings per capita from UNCTAD products for these seven nations are less than the per capita measures for high-income LDCs, they are much higher than those for the poorest countries. A 10 percent rise (or drop) in commodity earnings for all 18 commodities would benefit (or harm) these seven developed countries in the amount of roughly $900 million. A 10 percent rise (or drop) in earnings for the ten core commodities would benefit (or harm) these countries in the amount of $300 million.

A relationship seems to exist between the developed countries that would be the likely beneficiaries and the positions they presented at UNCTAD IV. For example, Canada and Ireland were among the strongest supporters of the common fund. 13/ Canada is the leading exporter of the ten core commodities in the developed world, and Ireland is one of the few developed countries dependent on UNCTAD products for a significant portion of export earnings.

13/ Reginald Dale, "Optimism About Accords with Developing Countries," Financial Times, May 8, 1976.

TABLE 5. EXPORTS BY DEVELOPED COUNTRIES OF COMMODITIES IN THE UNCTAD INTEGRATED PROGRAM

Developed Countries	Percent of Export Earnings Accounted for	Export Earnings in Dollars Per Capita	10 Percent of Export Earnings in Millions of Dollars
Australia (1973)	28	199.3	262
Canada (1973)	6	63.6	141
Ireland (1973)	13	91.4	28
New Zealand (1973)	31	271.5	81
Sweden (1974)	6	77.3	63
USSR (1972)	10	6.1	152
United States (1973)	1	8.2	172
Developed Commodity Products	6	17.6	898 a/

SOURCE: Yearbook of International Trade Statistics, 1974, United Nations.

a/ Column does not add to total because of rounding.

Whether poor countries or poor people in producing countries derive the full benefits of commodity stabilization depends in part on who owns the mines, farms, and plantations. In countries such as Malaysia, where small farmers own many of the production sites for natural rubber, the benefits from a commodity agreement in that material could go directly to poorer people in rural areas. In cases where multinational firms own the mines or plantations, such as is the case for natural rubber in Liberia and bananas in several Central American countries, benefits might or

might not go to local citizens and laborers. For example, an UNCTAD study concluded that of every retail dollar of sales in the banana industry, $0.87 returns to foreign enterprise and only $0.13 goes to local producers. 14/

In cases in which multinationals own mines and plantations, the LDC governments themselves would benefit to the extent that multinationals paid higher taxes or wages when materials prices either increased or did not decrease. In countries where local governments either own the sources of production or centralize sales through a government marketing board, the local governments would determine whether the benefits of commodity agreements would in fact accrue to the poorest people in their countries.

In general, it appears that, in countries with less than $200 per capita GNP, local private firms and government marketing boards sell the coffee, tea, jute, cotton, and vegetable oil exports. Multinational or local private firms and LDC state companies are more prominent in exports of the middle and better-off LDCs.

Viewed item by item, the structure of ownership is quite heterogeneous. Multinationals have been most prominent in mining and minerals; local firms have been most important in agricultural commodities. Nevertheless, there has been a clear trend over the past decade toward government ownership of production or involvement in marketing. 15/ Until recently, production of bauxite and iron ore was almost exclusively in the hands of multinational companies. However, LDC governments are increasingly obtaining ownership participation in these minerals. Control in copper and tin has been shared among governments, multinationals, and local private firms. In these industries, too, there has been a trend toward increased government ownership. Phosphate exports are almost exclusively controlled by state monopolies. Furthermore, in sectors where multinationals continue to be active, LDCs have increased their tax take on multinational output. Governments, through state marketing boards, control most exports of

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14/ U.N. Document TD/B/c.1/162, "Marketing and Distribution System for Bananas," 1974.

15/ United Nations Economic and Social Council, Committee on Natural Resources, Permanent Sovereignty Over Natural Resources, Report of the Secretary General, New York, January, 1975.

cocoa, cotton, hard fibres, and jute--even though ownership of farms and plantations is often in the hands of private farmers or of cooperatives.

Commodity Agreements Negotiated on a Case-by-Case Basis

One approach to commodity agreements, which reflects the policy stance of the Ford and Carter Administrations, is that international commodity agreements should be negotiated on a case-by-case basis. This differs from the UNCTAD approach, in that negotiations, management, and funding for each agreement are all handled by separate commodity organizations. This approach is justified on the grounds that the markets for each commodity have different characteristics and implications for the United States.

Unlike most LDC commodity producers, the United States is in an ambiguous position, being both a major producer and a major consumer. Rationale for U.S. interest in commodity agreements for coffee, cocoa, and copper (three of a handful of commodities given priority consideration for negotiations by the Ford Administration) stems from a different set of circumstances in each case. For example, the United States has been a member of several successive international coffee agreements, the most recent of which was ratified by the Senate in 1976. The nation produces no coffee but is the world's largest importer of coffee. The coffee agreement appears to have served as a political means for the United States to support the interests of coffee producers, especially those in Latin America. In the case of cocoa, another product the United States does not produce, the U.S. firms that are importers of cocoa were not opposed to an agreement. Nevertheless, the United States refused to join an agreement negotiated in the fall of 1975 because the specified price range was considered too high.

The United States is the largest producer of copper in the world, but imports more copper than it exports. Many U.S. copper producers oppose a commodity agreement in copper largely because they feel it could damage the domestic copper industry by increasing access to foreign sources of copper. In spite of this opposition, however, the Ford Administration supported the creation of a producer/consumer forum, a permanent group working toward a price agreement in copper. The inclusion of consumers in this forum was recommended by the International Council of Copper Exporting Countries (called CIPEC), an association of copper producers that has been frustrated in its unilateral attempts to stabilize the copper market.

Another argument for the case-by-case approach to commodity agreements is the wide variety in the views of U.S. industries that import or export commodities. For example, U.S. cotton exporters are opposed to an international commodity agreement in cotton because they feel that such an agreement could only result in a decrease in the U.S. share of world cotton exports. In principle, U.S. importers of rubber and cocoa do not oppose international commodity agreements; but industry associations have indicated that they might object to particular aspects of commodity proposals. For example, U.S. cocoa importers recommended that the United States not join the current international cocoa agreement because, to some extent, they opposed the provision for continual use of export quotas. U.S. wheat growers are promoting the international agreements being negotiated by the International Wheat Council in London. For other industries, such as sugar, however, there is no agreement among various segments of the industry as to the desirability of international commodity agreements and their potential impact on commodity markets.

The distribution of benefits from commodity agrements negotiated on a case-by-case basis depends on which commodities are to be included. The Ford Administration suggested that five of the ten core commodities be given priority consideration on a case-by-case basis: copper, tin, cocoa, sugar, and coffee. 16/ These five commmodities are the same five cited on the UNCTAD

16/ See "Global Consensus and Economic Development," Congressional Record, September 9, 1975, pp. H8528-9. At the same time, the Ford Administration assigned priority to food grains (wheat and rice), which are not included on the UNCTAD list. These are covered under the proposal for an International Food Reserve being negotiated by the International Wheat Council in London. The proposal emphasizes ensuring adequate food supplies to prevent starvation in time of world shortage more than it does correcting commodity price fluctuations. The poorest countries account for 11 percent of world rice exports and less than one percent of world wheat exports. In Secretary of State Kissinger's address at UNCTAD IV, bauxite and iron ore were named for priority consideration. (See Department of State, "Address by the Honorable Henry A. Kissinger before the Fourth Ministerial Meeting of the United Nations Conference on Trade and Development," May 6, 1976, p. 8.) Exports of these commodities are concentrated largely in high-income LDCs and developed countries.

list of core commodities for which the smallest shares of world exports are accounted for by the poorest countries. The poorest countries account for about 13 percent of world copper exports, 15 percent of coffee exports, 14 percent of tin exports, 4 percent of cocoa exports, and 1 percent of sugar exports. This contrasts with the importance to the poorest countries of two other commodities on the UNCTAD list, jute and tea. The poorest account for 85 percent and 86 percent respectively of all world exports of these two commodities. In other words, if U.S. officials choose to apply the foreign assistance objective of helping the poorest people to commodity agreement proposals, agreements in UNCTAD products would come closer to that objective than would agreements in the commodities to which the Ford Administration gave priority.

COMPENSATORY FINANCE

Increased availability of compensatory finance offers another method of dealing with the problems caused by fluctuations in export earnings. Compensatory finance is a means of providing assistance in the form of loans to make up for shortfalls in a country's export earnings. It can be linked either to earnings from specific commodities or to overall export earnings. Currently, compensatory finance facilities are available within the International Monetary Fund and within the STABEX program.

Unlike commodity agreements, which are designed to assist major commodity exporters, the compensatory finance fund of the IMF is available to any member country that exhibits a deviation below a five-year trend in its export earnings. In the past, availability of the fund to members has been constrained by the quota restrictions on how much can be drawn by each member in a certain time period. Until December 1975, members could draw for this purpose 25 percent of their quotas in the IMF in any 12-month period and could have no more than half of their quotas outstanding at any one time. Difficulties have arisen from the fact that, in many cases, shortfalls have been in excess of the 50 percent of quota limit. This constraint led to a decision in late 1975 to expand the compensatory finance facility. The liberalization of the fund amounts to a redefinition of the terms of access, rather than acquisition of new capital for the Fund. The action did not require any Congressional authorization or appropriation. Countries are now allowed to draw 50 percent of their IMF quotas over any 12-month period, but they may never exceed 75

percent of their quotas. 17/ For example, after borrowing 50 percent in 12 months, assuming no previous borrowing outstanding, in month 13 an additional 25 percent may be borrowed. No more funds are then available until the member has repaid some portion of its indebtedness. Then another loan can be negotiated to take the member back to 75 percent of quota outstanding. Drawings for conpensatory finance are in addition to what members may draw from other facilities within the IMF.

The IMF considers that its current assets are insufficient to allow an increase in the amounts available for compensatory finance without an increase in the quotas in the IMF. Authorization for such an additional quota increase of some 30 percent, however, was passed by the Congress in 1976 and signed by President Ford. It is expected to take effect in mid-1977 and will increase proportionally the amounts member countries can borrow from the compensatory finance facility.

The country-by-country distribution of access to the compensatory finance facility of the IMF reflects the fact that eligibility for loans is based on the size of a member's contribution to the IMF. Thus, the poorest countries may borrow the least and rich countries the most. Access to the IMF compensatory finance facility (when measured on a per capita basis) is now nearly the same for the countries that are commodity producers within each income group as it is for all IMF members within each income group (see Table 6). The per capita distribution for all LDC members of the IMF (including non-producers of commodities) provides the poorest with the least and the high-income group with the most. The poorest LDCs are eligible for the least on a per capita basis, but the middle-income group could receive slightly more than the high-income group.

When measured in dollars for less developed IMF member countries as a whole, the largest sum is available to the high-income group; next come the poorest, and last, the middle group. The largest amount of compensatory finance is available to the low-income group, followed by the high-income group, and finally, by the middle-income group.

17/ International Monetary Fund, Memorandum, "Compensatory Financing of Export Earnings," December 24, 1975, p. 1.

TABLE 6. AMOUNT OF IMF COMPENSATORY FINANCE AVAILABLE TO LESS DEVELOPED AND DEVELOPED COUNTRIES: ESTIMATED FOR 1976

Countries by Income Group and Development Status	50 Percent of IMF Quota in Millions of U.S. Dollars	50 Percent of IMF Quota Per Capita in Millions of U.S. Dollars
Commodity Producers		
28 Low-Income Countries (Below $200 GNP Per Capita)	1,245	1.2
24 Middle-Income Countries a/ ($200-$500 GNP Per Capita)	797	3.7
16 High-Income Countries b/, c/ ($500-$1000 GNP Per Capita)	1,045	3.0
6 Developed Countries d/	5,216	20.1
All IMF Members		
Low-Income Countries (Below $200 Per Capita GNP)	1,439	1.3
Middle-Income Countries ($200-$500 Per Capita GNP)	1,296	3.9
High-Income Countries ($500-$1000 Per Capita GNP) c/	2,015	5.1
Developed Countries	12,171	16.8

SOURCE: International Financial Statistics, June 1976.

a/ Data for St. Lucia not available.

b/ Data for Surinam not available.

c/ Some countries with more than $1,000 per capita GNP are included, since they are classified as LDCs by the World Bank.

d/ The Soviet Union is not a member of the IMF.

By any measure, the amounts available to either developed IMF members as a whole or to the commodity-producing developed countries far exceed the amounts available to LDCs. Since the 1975 liberalization of the compensatory finance facility, however, the LDCs have actually drawn considerably more from the facility than have developed countries.

All countries can benefit from the IMF scheme, not just those who are producers of large quantities of certain primary products. Also, unlike commodity agreements, compensatory finance is useful in assisting producers who are experiencing shortages in the amount of a product available for export, and especially for those producers who are unlikely to have a significant impact on the world market. The compensation provided by the IMF compensatory finance scheme, however, is in the form of short-term loans, and the borrowing country must pay interest of 4.5 to 6 percent, the exact amount depending on the period of time for which the loan is extended. This can range from one year to five.

Table 7 illustrates for selected producers of the UNCTAD 18 commodities how much of a decrease in commodity earnings could be financed by what is available from the IMF compensatory finance facility. For about half the commodity-producing LDCs, the IMF could finance in a one-year period decreases of less than 20 percent in export earnings for UNCTAD products.

An example of a compensatory finance facility that links the availability of loans to deviation from the trends in export earnings for specified products, rather than to drops in total export earnings, is STABEX. The STABEX program is a product of the Lome Convention of 1975, an agreement between the EEC and 46 African, Caribbean, and Pacific (ACP) countries. The EEC has designated a sum of $450 million for use in financing export earning shortfalls for the 46 ACP countries in 12 primary product groups:

- groundnuts
- cocoa
- coffee
- cotton
- coconut
- palm and palm nut products
- rawhides, skins, and leather
- wood
- bananas
- tea
- raw sisal
- iron ore

Many of these products are also included on the UNCTAD list. A country is eligible if export earnings of one of the 12 products

TABLE 7. COMMODITY-PRODUCING LDCs FOR WHICH THE IMF COMPENSATORY FINANCE SCHEME IS POTENTIALLY INADEQUATE

IMF Member Countries for Which 50% of IMF Quota Would Finance Decreases in UNCTAD Commodity Earnings of Less Than 20%	Estimated Percent Decrease in UNCTAD Commodity Earnings That the IMF Would Finance	Estimated Amount Available in Millions of U.S. Dollars (50% of IMF Quota)
Low-Income LDCs		
Sudan	17	42
Uganda	10	23
Zaire	14	67
Togo	17	9
Mauritania	6	8
Tanzania	16	24
Indonesia	16	151
Kenya	19	28
Ethiopia	14	16
Gambia	18	4
Middle-Income LDCs		
Ghana	11	50
Ivory Coast	5	30
Liberia	7	17
Zambia	4	44
Philippines	7	90
Guyana	13	12
Guatemala	11	21
Honduras	9	15
Cameroon	9	20
Ecuador	10	19
El Salvador	10	20
Colombia	19	91
Bolivia	16	21
Paraguay	18	11
Mauritius	11	13
High-Income LDCs		
Malaysia	5	108
Dominican Republic	11	25
Nicaragua	11	16
Gabon	7	8
Fiji	17	8
Peru	19	71
Costa Rica	10	19
Chile	9	92

SOURCE: Yearbook of International Trade Statistics, 1974, United Nations; International Financial Statistics, June 1976. (Based on 1973 trade statistics and current availability of IMF.)

account for 7.5 percent or more of total export earnings. 18/ The distribution of benefits from this program is, as with commodity agreements, limited to primary-product producers, such as Mauritania, Liberia, Jamaica, Tanzania, and Zambia.

FOREIGN AID

Many observers have speculated about whether international commodity agreements could substitute for foreign assistance. In its traditional form, foreign assistance can be an alternative to commodity agreements that result in long-term resource transfers due to increases in long-run average prices. However, foreign assistance theoretically can also be adapted to alleviate the short-term difficulties discussed here. In other words, the United States could directly subsidize countries experiencing shortfalls in export earnings. The amounts transferred in any given year might vary depending on the severity of downward fluctuations. For areas experiencing increasing export earnings, outlays could be zero.

The program could be administratively cumbersome, however. For example, considering the amount of time necessary for Congressional authorizations and appropriations, it would be difficult to plan the arrival of the funds at the time most appropriate to relieve the problem. Multi-year budgeting might make this alternative administratively more feasible. Also, it might be possible to set up a fund in the Executive Branch in which Executive officials would have discretion to spend the funds specifically for alleviation of export earnings difficulties.

The distribution of U.S. foreign economic assistance among groups of LDCs and among LDC commodity producers for fiscal year 1977 is presented in Table 8. The middle-income LDCs (including both commodity producers and all LDCs) receive the largest amount of U.S. economic assistance, whether measured in total U.S. dollars transferred, or by dollars per capita. For LDCs overall, and for commodity-producing LDCs, the smallest amounts by total dollars and on a per capita basis accrue to the high-income

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18/ International Bank for Reconstruction and Development, Memorandum, "Compensatory Financing: A Quantitative Analysis," December 1975, pp. 1-4.

TABLE 8. DISTRIBUTION OF U.S. FOREIGN ECONOMIC ASSISTANCE AMONG GROUPS OF LDCS a/: ESTIMATED FOR FISCAL YEAR 1977

Countries by Income Group	Total U.S. Economic Assistance (Millions of Dollars)	U.S. Aid in Recipient Countries (Dollars Per Capita)	Percent Change b/
Commodity-Exporting LDCs			
Low-Income Countries (Below $200 GNP Per Capita)	737	.7	50
Middle-Income Countries ($200-$500 GNP Per Capita)	1,193	5.5	55
High-Income Countries (Over $500 GNP Per Capita)	119	0.4	565
All LDCs			
Low-Income Countries (Below $200 GNP Per Capita)	946	0.9	c/
Middle-Income Countries ($200-$500 GNP Per Capita)	1,548	4.7	c/
High-Income Countries d/ (Over $500 GNP Per Capita)	950	1.8	c/

SOURCE: Agency for International Development, Fiscal Year 1977 Summary.

a/ Includes A.I.D., Peace Corps, P.L. 480, and International Narcotics Control.

b/ Percent change in assistance required to compensate for 10 percent shortfall in UNCTAD commodity earnings, and based on 1973 commodity earnings, which are the latest data available.

c/ Not applicable.

d/ If Israel were excluded from the calculations, total U.S. economic assistance would be $272 million and U.S. aid in dollars per capita would be $0.5.

LDCs. 19/ If the United States were to compensate LDCs for a ten-percent decrease in commodity earnings for UNCTAD products, it would require an increase in current foreign economic assistance levels of 50 percent for the poorest countries, 55 percent for the middle-income LDCs, and 565 percent for the high-income LDCs.

19/ Israel is not considered here because the volume of U.S. aid to that country is greatly out of proportion with aid to other LDCs. Its inclusion in these calculations would therefore distort the estimates.

CHAPTER III. COMPARISON OF THE ALTERNATIVES' EFFECTS

Beyond determining what nations would benefit from which policy option for stabilizing the export earnings of less developed countries, five other factors must be weighed:

- o What might be the impacts on U.S. producers and consumers?
- o Who would control the distribution of benefits?
- o Would the distribution of benefits further the U.S. foreign assistance program's so-called "New Directions" aim? That is, would it help the poorest people? 1/
- o What might be the effects on political relations between the United States and LDCs?
- o What would be the budgetary cost to the United States?

A discussion of these five questions and their interrelationships follows.

IMPACTS ON U.S. PRODUCERS AND CONSUMERS

Because of its potential to affect the prices of numerous imported commodities, the integrated program could have a great impact on U.S. producers and consumers. The magnitude and direction of its effect on price movements would depend on the terms of agreement and on the normal price and supply fluctuations for each commodity.

Case by case, the impact of an international commodity agreement on U.S. producers and consumers depends in large part on whether the United States is a major importer of the commodity in question. If the United States is also a major producer of the commodity, the nation could conceivably, through domestic price

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1/ For a more detailed treatment of "New Directions", see "Bilateral Development Assistance: Background and Options," CBO Budget Issue Paper, February 1977.

controls and trade restrictions, insulate its domestic industry from the world price. The impact on U.S. consumers depends not on whether the price setting mechanism includes an international commodity agreement, but on the level and degree of fluctuation of the price and supply.

Unlike commodity agreement proposals, changes in amounts of compensatory finance available through the IMF would have virtually no impact on U.S. producers and consumers (provided the transaction were not financed by inflationary creation of Special Drawing Rights or borrowing from the U.S. Treasury). Compensatory foreign assistance could affect U.S. producers and consumers adversely if it had to be financed through an increase in taxes or in the budget deficit. If LDCs used the funds to purchase additional U.S. goods and services, compensatory foreign assistance could even benefit U.S. firms producing for export.

CONTROL OF BENEFIT DISTRIBUTION

Depending on market conditions and on the terms negotiated, international commodity agreements, whether controlled by UNCTAD or by individual commodity organizations, have automatic transfers. How much Congressional oversight would be possible for these accords is unclear. Past agreements such as the international coffee pacts have had built-in provisions for renegotiation after five years. The procedure for withdrawing prior to expiration of the agreement is undefined. This would mean essentially that control of the distribution of benefits would be in the hands of government or private recipient groups in the producer countries and, where applicable, to a buffer stock manager acting within the constraints defined by the agreement. Similarly, compensatory finance represents an automatic short-term transfer--in this case, from the fund to the recipient government.

The level and distribution of foreign assistance among countries can be controlled by the United States. There is also opportunity for yearly reevaluation of the level and justification for short-term foreign assistance payments.

DISTRIBUTION AND THE NEW DIRECTIONS OBJECTIVE

How close any of these options come to achieving the New Directions objective of helping the poorest people depends not only on whether the poorest countries benefit, but also on how the potential benefits are distributed within countries.

In terms of how much is available to poor countries, compensatory finance could transfer the most in terms of total dollars. How much stabilization of prices for UNCTAD products would benefit the poorest countries would depend on the magnitude of earnings fluctuations resulting from commodity price fluctuations. The degree to which foreign assistance payments could help stabilize export earnings for the poorest countries would depend on the pattern of earnings fluctuations and on how much the U.S. government would be willing to extend for this purpose.

Whether benefits from these alternative policies would be distributed to poor people within low-, middle-, or higher-income LDCs largely depends upon how recipient governments use those benefits. Payments under the IMF compensatory finance scheme go exclusively to recipient governments. U.S. foreign assistance either goes directly to recipient governments or, if it is extended to private recipients, must be agreed to by LDC governments.

Payments for commodities are made not only to LDC governments, but also to multinational corporations and, less frequently, to smaller enterprises owned by private LDC citizens. The payment/recipient pattern varies from commodity to commodity. The degree to which the benefits of the UNCTAD commodity program, or individual commodity agreements, would be distributed to the poorest groups within LDCs would depend on spending and investment decisions by these various actors.

There is no sure way of predicting whether LDC governments (or in the case of commodity agreements, multinational corporations or private entrepreneurs) would distribute the benefits of alternative stabilization programs to their poorest citizens. Since stabilization mechanisms other than foreign aid would necessarily be automatic, the U.S. government would have little influence over the distribution of benefits within LDCs. Only in the cases of changes in foreign aid would the United States have the opportunity to make benefits conditional on the grounds that they go to the poor.

EFFECTS ON POLITICAL RELATIONSHIPS

Because LDCs supply the United States with large amounts of many raw materials, such countries have a certain leverage. Although it is unlikely that other groups of LDCs could repeat

the success of OPEC in raising oil prices in 1973, short-term interruptions in supply could well have a marked negative impact on the U.S. economy. 2/

The UNCTAD program for commodities is an integral part of what LDCs themselves consider crucial to their plans for economic development. Increased availability of compensatory finance has been viewed by many LDCs as a companion program to--but not a substitute for--commodity agreements, which provide compensation to countries that are not large producers of primary products. Many LDCs prefer commodity agreements that could prevent export earnings shortfalls. Compensatory finance is a means of making up for the results of the problem, but it would do little to prevent the export earnings fluctuations. Rejection of these proposals could have significant repercussions on U.S./LDC relations. The opposition of the LDCs at UNCTAD IV to U.S. proposals for an international resources bank is an example of likely political ramifications from U.S. initiatives to assist LDCs.

The United States can agree to specific commodity agreements as a political reward for particularly friendly LDCs. The wealthier LDCs that turn out to be prime beneficiaries of a particular commodity agreement may also be those that the United States is most interested in supporting politically. For example, the U.S. decision to join the Fifth International Tin Agreement was based on two factors: that there would be no detrimental economic effects for the United States; and that the political benefits would be substantial. This latter point relates to the fact that, of the seven producer members of the International Tin Agreement, six are LDCs--Malaysia, Bolivia, Indonesia, Thailand, Nigeria, and Zaire. Politically, these nations are generally moderate, and some people have stressed the importance of keeping the policies of these LDCs in a moderate vein. A similar argument also helps to explain U.S. interest in a commodity agreement for copper, given that the major copper producers--Zambia, Zaire, Peru, and Chile--are LDCs with which the United States seeks continued cooperation.

Whether political difficulties with LDCs would follow from a U.S. proposal to utilize foreign assistance as a tool for stabilizing export earnings would depend to some extent on what

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2/ See "U.S. Raw Materials Policy: Problems and Possible Solutions," CBO Background Paper No. 16, December 28, 1976.

conditions were attached to the arrangement. LDCs usually prefer an automatic transfer, while the United States prefers to specify the purposes for which the money will be spent.

THE BUDGETARY COST TO THE UNITED STATES

The budgetary cost of international commodity agreements can be discussed in terms of the cost of the entire integrated program including 18 commodities, compared to the cost of individual agreements for the 10 core commodities discussed in the preceding chapter. According to UNCTAD, a $6 billion fund could be necessary to finance the integrated program. 3/ Of this sum, $3 billion would be required initially, and an additional $3 billion would likely be needed later, depending on the magnitude and degree of synchronization of price fluctuations in the 18 commodities. This estimate is based on UNCTAD assumptions concerning which commodities would need initial support and what size of buffer stocks would be necessary to stabilize the markets for these commodities. Of the initial $3 billion, $1 billion would be financed by paid-in capital contributions and $2 billion from government loans, international financial institutions, and private capital markets. The U.S. share could be from $200 million to $400 million, some of which might take the form of callable capital. (Callable capital would not need to be paid in unless the fund was unable to meet its obligations to its bondholders.) These calculations are based on the assumption that both exporters and importers share in the cost, and that shares of cost are calculated according to shares of exports and imports. The U.S. share of the additional $3 billion would be the same as the share required for the initial sum. The total costs to the United States of the integrated program, therefore, could amount to $400 million to $800 million over several years.

In order to finance U.S. participation in individual agreements for the core commodities, again based on UNCTAD assumptions as to the appropriate size of buffers, the cost could be $400 million to $600 million in paid-in capital. For purposes of

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3/ Since the cost of the integrated program includes costs for accumulating the buffer stocks for various commodities, the exact cost of the integrated program would depend on the pattern of commodity price fluctuations at the time the buffer stock is purchased.

comparison, these initial amounts necessary for an integrated program or an individual agreement would be equivalent to roughly one-third of the fiscal year 1977 U.S. appropriations to international financial institutions.

It should be emphasized that there is considerable argument about whether the size of the buffer stocks recommended by UNCTAD would, in fact, be sufficient to stabilize the commodity markets. For example, a U.S. Treasury Department simulation concluded that a buffer of four million metric tons of copper would be necessary to minimize price fluctuations for copper to plus or minus 15 percent. UNCTAD estimates (and those used to compute the cost estimates included in this paper) for a copper buffer were 560,000 to 740,000 metric tons. Analysis by the Organization for Economic Cooperation and Development is consistent with UNCTAD estimates.

The amount available for the International Monetary Fund's compensatory finance fund could be expanded by increasing IMF member countries' overall quotas in the IMF. Such an increase in IMF quotas requires Congressional authorization, but no appropriation. The quota increase would involve a transfer of dollars from the U.S. Treasury to the IMF, but under current regulations, these dollars transferred to the IMF would continue to be counted as liquid U.S. Treasury assets. Without lengthy international negotiations, IMF quotas cannot be increased beyond the 30 percent already scheduled to come into effect in June 1977.

The cost of utilizing foreign assistance as a means of stabilizing export earnings would depend very much on which individual countries the United States decided to support. If, however, the United States were to choose to finance a 10 percent drop in export earnings for the UNCTAD commodities (based on commodity earnings for 1973), it could require a 50 percent increase in fiscal year 1977 foreign economic assistance payments to commodity-producing low-income LDCs, a 55 percent increase for middle-income LDCs, and a 565 percent increase for high-income LDCs. In dollars, this amounts to approximately $370 million for the low-income group, $530 million for the middle-income group, and $670 million for the high-income group. It should be noted that these costs represent a unilateral effort by the United States, whereas the costs of commodity agreements and compensatory finance represent the U.S. share of a multilateral effort.

APPENDIXES

APPENDIX A. COMMODITY-EXPORTING LDCs BY INCOME GROUP 1/

Less Than $200 GNP Per Capita
Afghanistan
Bangladesh
Benin (Dahomey)
Burma
Central African Republic
Chad
Ethiopia
Gambia
Haiti
India
Indonesia (oil exporter)
Kenya
Madagascar (Malagasy Republic)
Malawi
Mali
Mauritania
Niger
Rwanda
Sierra Leone
Somalia
Sri Lanka
Sudan
Tanzania
Togo
Uganda
Upper Volta
Yemen Arab Republic
Zaire

$200-$500 GNP Per Capita
Bolivia
Cameroon
Colombia
Congo (People's Republic of)
Ecuador (oil exporter)
Egypt (Arab Republic of)
El Salvador
Ghana
Guatemala
Guyana
Honduras
Ivory Coast
Liberia
Mauritius
Morocco
Papua New Guinea
Paraguay
Philippines
Senegal
St. Lucia
Thailand
Tunisia
Western Samoa
Zambia

Greater Than $500 GNP Per Capita
Argentina
Barbados
Brazil
Chile
Costa Rica
Dominican Republic
Fiji
Gabon (oil exporter)
Jamaica
Malaysia
Nicaragua
Panama
Peru
Surinam
Turkey
Uruguay

1/ Based on World Bank Atlas, 1975.

APPENDIX B. ABOUT THE DATA

The data for total exports, exports by commodity, and exchange rates are taken from the June 1976 issue of International Financial Statistics, a publication of the International Monetary Fund. Where IFS statistics were not available, substitutions were made from the United Nations Yearbook of International Trade Statistics, 1974.

The substitutions included:

Meat exports for Chad, 1970.
Cocoa and cotton exports for Benin, 1970.
Tropical timber exports for Indonesia, 1970, 1973.
Coffee exports for Sierra Leone, 1970, 1973.
Iron ore exports for India, 1970, 1973.
Meat exports for Honduras, 1970.
Meat exports for Costa Rica, 1970.

Also, total exports and all commodity breakdowns were substituted for the following countries:

Yemen Arab Republic
Upper Volta
Saint Lucia
Papua New Guinea
Surinam

Data for GNP for 1970 are taken from "Estimates of GNP for Non-Communist Countries," Agency for International Development, April 1, 1972. GNP data for 1973 are from World Bank Atlas, 1975. Population data for both years were taken from the Statistical Abstract, 1975.

Data published by the IMF and those published by the United Nations are sometimes at variance in the numbers for total exports and for certain commodity exports. If this analysis had been based on U.N. data instead of IMF data, the export figures would have been as follows:

For 1970, 10 percent of commodity earnings for the UNTCAD's 18 products would have been approximately $291 million for the poorest countries, no significant difference for middle-income LDCs, and $425 million for the high-income LDCs. For 1973, 10 percent of commodity earnings for the UNCTAD's 18 commodities would have been approximately $379 million for low-income LDCs, $662 million for middle-income LDCs, and $667 million for high-income LDCs.

In certain cases, the exact commodity classification (based on the commodities included in the UNCTAD resolution) was unavailable, or was not broken down in sufficient detail to pick up the specific commodity. For example, sometimes figures are given for oilseeds, nuts, or kernels as a group, but not for oilseeds specifically. In such cases, figures for the entire category are used. The countries for which this was done are:

Sri Lanka: Entries for vegetable oil include all coconut products.

Benin: Entries for vegetable oils include all palm products.

Zaire: Entries for tin include tin and cassiterite.

Gambia: Entries for vegetable oils include groundnut products.

Niger: Entries for vegetable oils include groundnuts.

Philippines: Entries for vegetable oils include all coconut products.

Senegal: Entries for vegetable oils include groundnuts and oil.

Fiji: Entries for vegetable oils include coconut and products.

In some instances, data were unavailable from either source. Export data was unavailable in the following cases:

Chad: meat for 1973.
Benin: cocoa and cotton for 1973.
Upper Volta: cotton and vegetable oil for 1973.
Honduras: meat for 1973.
Congo: tropical timber for 1973.
Costa Rica: meat for 1973.
Yemen Arab Republic: cotton for 1970.
Papua New Guinea: tropical timber for 1973.

Population data were not included in the following cases:

Central African Republic, 1973.
Madagascar (Malagasy Republic), 1973.
Indonesia, 1970.
Yemen Arab Republic, 1973.

Gross National Product data were not included in the following cases:

Western Samoa, 1970.
Fiji, 1970.
Saint Lucia, 1970.
Papua New Guinea, 1970.

Data for some countries are not published in either IFS or by the U.N. Some examples are Botswana and Guinea.

Information for developed countries is for 1973 unless otherwise noted. Population and GNP figures are from World Bank Atlas, 1975.

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