PART I

General Review

THE COMMONWEALTH IN WORLD TRADE

Summary

Nineteen seventy was a remarkably favourable year for world trade as a whole and a good one for Commonwealth trade as well. Commonwealth exports rose by £2,800 million f.o.b. to record a rate of growth only a little less than the exceptional 14 per cent advance of world exports. Even after allowing for the rise in prices on account of inflation, world trade in real terms advanced by about 9 per cent—well up to the average of recent years.

For the first time in twelve years Britain's visible trade balance (f.o.b.–f.o.b.) moved into surplus, and the growth of exports, at 12 per cent, was still well above pre-devaluation levels. Though Canada was naturally affected by its close ties with the United States and the situation there, and though her exports to that market were less buoyant, her shipments of basic materials to Western Europe and Japan, and of wheat to Eastern Europe and China, registered a robust expansion. Boom conditions were maintained in Hong Kong despite the American recession, but conditions in the North American automobile industry and the de-escalation in Vietnam produced a slump in rubber prices, and a drop in exports of petroleum products from Singapore. With the exception of Zambia, which suffered both from falling copper prices and from a mine disaster, and Sierra Leone, whose diamond trade encountered more difficult conditions, minerals provided a major growth point for the exports of many Commonwealth countries in 1970. Notable examples were Australia (metallic ores and metals, and coal), Canada (non-ferrous metals), Guyana and Jamaica (bauxite and alumina), Nigeria (petroleum oil) and Swaziland (iron ore).

In a group of countries showing such economic diversity as those of the Commonwealth, and so much of whose production and exports are subject to the vagaries of weather and fluctuating commodity prices, it is not easy to make simple statements of general validity. It may be mentioned, however, that drought was an important feature of the economic life of several Commonwealth countries in 1970. There were crop failures on this account in Lesotho and Botswana, resulting in greater imports of foodgrains, and a record export of meat from Botswana as slaughterings rose and pasture dried out. Bad weather reduced output of maize in Zambia and Malawi, although tea and tobacco did well in the latter. Drought affected production and exports of Cyprus. This happened in Australasia too. In 1969 and 1970 many areas were severely affected, particularly in the northern parts of Australia and the North Island of New Zealand. The wheat growers suffered most from the drought, which incidentally led to shipments of wheat and other grain from Australia to New Zealand. Wool growers in both countries were hit by low prices as well as drought. Consumption of virgin wool by the textile industries of Japan, the United States, the United Kingdom and the E.E.C fell by an average of 8 per cent in 1970. Beef, on the other hand, was one of the agricultural highlights, with a strong increase in export demand, largely from the United States. Prices remained firm in the U.S. market, but since implementation of U.S. quotas in 1967 and the meat diversion programmes of Australia and New Zealand, larger amounts have been shipped to Britain, Japan and Canada. Though beef exports from New Zealand have been going up, reflecting a trend towards more beef farming in response to better world prices and demand, the carcass weight of mutton and lamb shipped from New Zealand in 1970 showed a big reduction. And while there was a complete transformation of the world dairy situation and outlook, with lower supplies from Denmark and the E.E.C. resulting in higher sales and a reduction of stocks in New Zealand, the effects of the drought meant that full advantage could not be taken of the new opportunities.

World markets for most foods, and vegetable oils and oilseeds, were stronger during 1970, and this was reflected in the trade of many countries in East and West Africa. It also went some way toward offsetting the weakness of rubber prices for Malaysia. Though cocoa was a major exception, suffering substantial price falls during the year, exports from Ghana did well on account of the increased volume shipped.

The world free market for sugar was exceptionally strong in 1970, but the sugar industries of Commonwealth Caribbean countries face many difficulties and production shortfalls in some of them prevented full advantage being taken of the situation. A concern has been expressed that, should these difficulties not be overcome, there would be a possibility of International Sugar Agreement quotas being affected. In the face of these difficulties the Canadian Government decided to continue the sugar duty rebate system for Commonwealth Caribbean countries until the end of 1971. This was in addition to the $5 million Agricultural Development Fund for the Caribbean which the Canadian Government decided to launch at the start of 1971.

Ceylon made progress during the year under review toward recovery in its foreign trade position, the value of exports of tea, rubber and coconut products advancing while retrenchment at home cut the level of imports—with the notable exception of food. Both India and Pakistan faced the problem of containing a large reserve demand from the home population. The export duty on tea was abolished by India and the excise duty raised commensurately. In Pakistan, the effect on exports of rising internal prices had formerly been cushioned by increased subsidies under the Export Bonus Scheme: in 1970 bonus vouchers were extended to raw cotton and raw jute, and new import curbs were announced at the end of the year.

Many Commonwealth countries continued to make progress with development policies designed to reduce any excessive degree of reliance on particular sources of supply, or individual export markets, by opening up new avenues for trade. Diversification of trade flows has in several cases been linked with changes in agricultural and industrial production, and indeed one of the most significant long-term changes in the pattern of India's trade has been the rise in importance of exports of engineering goods—about half of which are absorbed by Asian countries, with Eastern Europe taking a growing share.

The effect of all the diverse influence playing upon the trade of Commonwealth countries in 1970 is summarised in Table 15 of this report. As would be expected in view of the economic recession in North America, there was a decline, from 30 per cent to 29 per cent, in the proportion of total Commonwealth trade going to and from the United States. The increase in the U.S. share over several years up to 1968 had been mainly at the "expense" (as a matter of simple arithmetic) of the intra-Commonwealth share, which since then has shown a marked degree of stability. No statistical significance attaches to the apparent increase in the intra-Commonwealth share of imports in 1970, which is an increase from 23·4 per cent to 23·7 per cent in a provisional estimate. Commonwealth imports from the E.E.C. and Japan in 1970 showed unusual strength.

Trends in international trade and payments

Preliminary data published by the International Monetary Fund,* which have been drawn upon in the compilation of Table 1 below, show the value of world exports having increased by 14·1 per cent from 1969 to 1970, and a rise of 12·7 per cent in imports. These data are subject to progressive revision in the light of fuller information becoming available, especially from the developing countries. The relatively up-to-date and detailed statistics published by the Organization for Economic Co-operation and Development, covering about 80 per cent of world trade, showed that in 1970 the trade of member countries expanded by 15·8 per cent on the side of exports and 15·2 per cent on the side of imports. Owing to differences of coverage and valuation the O.E.C.D. data are not directly comparable with the statistics published by the I.M.F., but they do serve to illustrate the somewhat rapid growth of the trade of the industrialized world, compared with world trade as a whole. Intra-O.E.C.D. trade grew even faster: the imports of O.E.C.D. members from one another in 1970 rose by 16·4 per cent, whereas their imports from non-O.E.C.D. countries expanded by only 11·8 per cent. The last-mentioned percentage is an average compounded of 12·6 per cent for developing countries generally, 11·3 per cent for the Sino-Soviet area, and as little as 7·2 per cent from developed sterling area countries.

The table on "World trade by major areas" shows exports from Commonwealth countries as having increased from £21·1 thousand million, f.o.b., in 1969 to £23·9 thousand million in 1970, a rise of 13·3 per cent. Commonwealth imports, c.i.f., went up by only £2·1 thousand million, 9·3 per cent—a result

TABLE 1

WORLD TRADE BY MAJOR AREAS *a*

	1966	1967	1968	1969	1970
	£ thousand million (f.o.b.)				
World exports *b*	64·8	68·0	88·7	101·5	115·8
of which Commonwealth ..	14·0	14·3	18·4	21·1	23·9
	percentages of world exports				
Commonwealth	21·5	21·1	20·8	20·8	20·6
United States	16·8	16·6	16·3	15·6	15·5
Latin America	6·1	5·8	5·4	5·1	..
European Economic Community	29·0	29·5	30·2	31·1	32·0
EFTA (Continental)	7·6	7·8	7·6	7·7	7·8
Japan	5·4	5·5	6·1	6·6	6·9
Rest of world *b*	13·6	13·7	13·6	13·1	17·2*c*
	£ thousand million (c.i.f.)				
World imports *b*	68·6	72·3	93·7	106·5	120·0
of which Commonwealth ..	15·8	16·6	20·8	22·6	24·7
	percentages of world imports				
Commonwealth	23·0	23·0	22·2	21·2	20·6
United States	14·4	14·2	15·8	15·0	14·8
Latin America	5·1	5·0	4·9	4·7	..
European Economic Community	27·9	27·2	27·6	29·6	31·0
EFTA (Continental)	9·0	8·9	8·5	8·6	9·3
Japan	5·0	5·8	5·8	5·9	6·0
Rest of world *b*	15·6	15·9	15·2	15·0	18·3*c*

a The pound sterling was devalued by 14·3 per cent in November 1967.

b Excluding the trade of Eastern European countries, China, North Korea, North Vietnam and Cuba.

c Including Latin America.

* International Financial Statistics, March 1971.

much influenced by the abnormal Canadian imports which showed little movement between 1969 and 1970, and by the British figures which advanced by 8·9 per cent, well under the world average. Overall, the Commonwealth share of world trade, at 20·6 per cent, (about 21·0 per cent in 1969), thus marked a continuation of the gradual downward trend which is itself a reflection of the rapid economic growth of Western Europe and Japan. The E.E.C., EFTA (Continental) and Japan all show larger shares of both world exports and world imports, the increments being particularly noteworthy on the side of exports for E.E.C. and Japan, and imports for EFTA. Imports into Austria went up by 25·6 per cent, into Denmark by 15·3 per cent, into Norway by 25·6 per cent, into Portugal by 26·4 per cent, into Sweden by 18·7 per cent, and into Switzerland by 22·6 per cent—all well above the growth rate of world imports estimated at 12·7 per cent. The U.S. share of world imports has been falling since 1968, while its share of exports, falling over a longer period, has reflected demand pressures inside the United States, the pace of inflation and the decreasing price competitiveness of its exports compared with Western Europe and Japan. The shares of Latin America and the remaining developing countries follow as a matter of arithmetic.

A characteristic of world trade in 1970 was the remarkably high rate of inflation, affecting especially the prices of industrial goods. When allowance is made for the inflation of unit values, the real growth of O.E.C.D. trade as a whole seems to work out at about 10½ per cent, and of world trade as a whole at about 9 per cent. This and the preceding year were the first since the Korean war boom in which foreign trade prices had moved ahead at a very substantial rate. Before 1969, elements in the competitive situation, especially the strength of the Japanese trade threat and the price leadership exercised by the United States (which until recent years had managed to contain internal inflationary pressures), meant that the expansion of foreign trade in terms of volume was not much out of line with increases in corresponding values. In 1970, however, a powerful influence was the effect of currency revaluations which had been brought about by many countries in the years immediately preceding. A point widely emphasised in this connection was the bias in the parity changes, and the lack of symmetry in their effects. German exporters, after revaluation of the Deutschmark, reportedly maintained their quotations in Dm, whereas British and French exporters, quoting in dollars, only partially adjusted their rates downwards, preferring to allow devaluation to restore profit margins to some extent. The result was that (in terms of dollars) prices tended to rise overall. And it has been noted that, for this and other reasons, foreign trade became a vehicle for the transmission of widespread domestic inflation coincidental with activation of the I.M.F.'s scheme for supplementing international liquidity by the issue of Special Drawing Rights.

An apparent slight drop-off in the rate of growth in the value of imports into industrialized countries, more especially those in north America, seems to have been associated with a weakness in the prices of industrial raw materials—a trend which is illustrated in the section of this report dealing with commodities. Although the N.I.E.S.R.* price index for primary exports other than petroleum fell by over 5 per cent between the second and fourth quarters of 1970—a decline exaggerated by the long expected slump in copper prices—for the year as a whole the index was 2½ per cent higher than its level in 1969. Year-on-year, the food component rose by about 9 per cent, non-food agricultural products fell by about the same amount, and there was no appreciable change in minerals and metals (other than petroleum). The higher published prices for Middle East crude oil in 1970, advancing freight rates and the price settlement between

* National Institute of Economic and Social Research, London.

O.P.E.C. and the producing consortia early in 1971 will add a new dimension to the inflation of foreign trade in this and subsequent years.

A consequence of these price movements was a change in the terms of trade, after several years of comparative stability, in favour of those countries whose exports consist mainly of finished manufactures and against those exporting mainly primary products. A factor that complicated to some extent the assessment of price and volume changes was the sharp rise in freight rates (not only for tankers but also for dry cargo vessels) from the closing months of 1969 onwards. The overall incidence of freight rate increases on c.i.f. unit values of imports cannot be calculated but it appears likely that a significant proportion of the price rises of industrial countries' imports from developing countries can be attributed to this factor.

On the basis of industrial production statistics published by the O.E.C.D., it would appear that the growth of output gradually slowed down in 1970. Output in most industrial countries was almost on a plateau since the beginning of that year, the United Kingdom being one of the few where output seemed to have accelerated considerably in the second half of 1970. Production in north America was stagnant and suffered a marked setback in the fourth quarter of the year owing to a strike in the automobile industry. The growth of output weakened in Canada in the second half of the year, with foreign demand providing less impetus. Notwithstanding wide disparities between the Provinces, unemployment rose to very high levels in Canada, reaching 6·6 per cent in September, and an upward tendency in unemployment rates was observed in almost all other countries.

The depressed growth rate of industrial production in most O.E.C.D. countries and an actual slight decline in the United States in 1970 was paralleled by a relatively modest growth of G.N.P. amounting to 2 to 3 per cent for the group as a whole, in real terms. The discrepancy between these figures and the much larger increase in the volume of world trade, estimated at about 9 per cent, was widely commented on. Part of the explanation no doubt lies in the greater "dependence" on foreign trade, including intra-trade, of Western Europe, than is the case with the United States—where stagnation of output was most marked. Random influences of various kinds may also have played a part: these included the depression of 1969 data by the protracted United States dock strike and the lift given to the 1970 total by a revival of world food exports. Another factor which made a contribution was the increase in the foreign exchange reserves of countries which often find themselves in a vulnerable balance of payments position. This increase resulted partly from the activation of Special Drawing Rights in January 1970.

The growth of trade was much more evenly distributed on an area basis in 1970, and the same was true on the whole for the major countries—exceptions being Canada, whose imports registered a small fall (or a purely nominal increase in terms of United State dollars or sterling), and Japan, whose imports rose by more than a quarter. A sharp fall in Canadian imports from the United States in the fourth quarter of the year could be attributed partly to the General Motors strike. O.E.C.D.'s consolidated trade balance with the rest of the world strengthened considerably in 1970, especially with China and Eastern Europe and with the developed countries of the overseas sterling area.

In general, partly as a result of changes in exchange rates between currencies in recent years, and differential movements in international demand pressures, trade balances moved in the direction of a better balance on current account in 1970. The visible trade surplus of the United States and Canada increased considerably, the deficit of France was dramatically reduced, and that of the

United Kingdom moved to a small surplus (f.o.b.—f.o.b.). The corresponding deterioration in the visible trade account of several other European countries and Japan was not large enough to upset their balances on current account, but the Italian and German surpluses declined significantly—the former as the effects of labour disputes limited the delivery possibilities of the exporting industries and demand was switched increasingly to imports. The current account surplus of the German Federal Republic declined in spite of a further increase of its heavy foreign trade surplus.

The balance of current and long term capital transactions of the United States showed some improvement in 1970, but the year was marked by sharp changes of relative monetary conditions and a reversal of the very large flows of short term capital exports in 1969. The total capital account of the United States may have experienced a negative swing of $14 billion or more and that of West Germany a positive one of $8 billion between 1969 and 1970. Thus the first year of S.D.R. creation also saw an unprecedented increase in the dollar component of official international liquidity.

The enormous outflow of capital from the United States during 1970, something like $10 billion, dominated the pattern of reserve changes in that year, and contributed to the floating of the Canadian dollar at the end of May. At the same time S.D.R.'s had already begun to make a significant impact on international liquidity. The expectation at the beginning of 1971 was that the three year period of 1970–1972 would see the introduction of an aggregate $9·4 billion of S.D.R.'s. The first allotment of S.D.R.'s at the beginning of 1970 totalled $3·41 billion to 104 countries. The second allotment, made in January 1971 to 109 countries, amounted to $2·95 billion. The new distribution, which reflected the new I.M.F. quotas introduced in 1970, altered the size of certain members' allotments. As a result of the changes in I.M.F. quotas in 1970 India lost its position on the Executive Board of the I.M.F. to Japan.

International trade policy

The trend towards liberalization of international trade continued during the year 1970, agreement on the scheme of generalized preferences under the auspices of UNCTAD coinciding with the unfolding of a co-ordinated strategy for the Second U.N. Development Decade. These, however, and most of the fruits of the Kennedy Round, were put at risk by moves in the U.S. Congress which, had they succeeded, would have led to the imposition of quotas on man-made and woollen textiles as well as on footwear. Counter measures by major trading nations could by escalation have undone the whole of the Geneva Protocol of 1967, and affected adversely the offers under the UNCTAD Scheme of Generalized Preferences.

A three year extension of the Arrangement Regarding International Trade in Cotton Textiles (L.T.A.), from 1 October 1970 to 30 September 1973, came into force. Under this Arrangement a country suffering from disruptive imports may request the exporting country to restrain its shipments to a certain level. If agreement is not reached, import restrictions to this level may be imposed. The permitted level must be regularly increased, and existing quotas must also be enlarged. Under Article 4 of the L.T.A., the E.E.C. in 1970 carried on bilateral negotiations with several developing countries and Japan. These provided for higher ceilings on E.E.C. imports of cotton textiles from Pakistan and India as well as Japan.

Of all the requests submitted by the U.S. Administration to Congress toward the end of 1969, one of the most important was the elimination of A.S.P.—the "American Selling Price" method of valuation of certain chemicals for duty. This had more than symbolic importance for Europe: the A.S.P. package had been agreed under a supplementary Protocol at discussions outside the main Kennedy Round talks. Britain and the E.E.C. had already consented to three annual extensions of the time limit for ratification of the Protocol covering the Agreement. As the failure of Congress to enact connected legislation in 1970 made a casualty also of specific implementing legislation required by the A.S.P. deal, the closing date for the Chemicals Agreement again had to be postponed for one year by Britain and the E.E.C.

As regards the rest of the Kennedy Round Agreement, scheduled cuts in tariffs were made on 1 January 1970 and 1971, leaving only the final instalment at the beginning of 1972 to complete what was indeed the most ambitious (fully multilateral) tariff-cutting exercise undertaken in post-war years. By the end of 1970, however, five countries had already completed or practically completed their scheduled tariff reductions: Argentina put its Kennedy Round reductions into force in 1967, followed by Iceland in 1968, Canada and the Irish Republic in 1969, and Switzerland in 1970. While the circumstances which prompted their decisions varied, one aim was generally to reduce the price of imports and thus to help in countering inflationary pressures. Most of the participants in the Kennedy Round also put into force ahead of schedule many tariff reductions which were of particular interest to developing countries. When scheduled cuts have been completed on 1 January 1972, the average level of tariffs on manufactured goods will vary from 4 to 5 per cent for Denmark, Sweden and Switzerland, to 8·4 per cent for the E.E.C., 9 per cent for the United States, 9·4 per cent for Canada, 10·2 per cent for the United Kingdom and 10·9 per cent for Japan.

In 1970 the member countries of GATT were again engaged in preparations for future negotiations, this time with a particular emphasis on non-tariff barriers to trade. A large part of the 800 barriers identified are of importance to less developed countries. In addition, more than thirty developing countries, including some non-members of GATT, are engaged in negotiations for an exchange of tariff concessions aimed at encouraging their mutual trade.

Discussions on the Generalized Scheme of Preferences sponsored in UNCTAD (G.S.P.) reached their concluding stage during 1970, somewhat later than expected but leading to definitive understandings. At its second plenary session held in New Delhi in early 1968, the United Nations Conference of Trade and Development had unanimously adopted Resolution 21 (II) on preferential or free entry of exports of manufactures and semi-manufactures of developing countries to developed countries. In this the Conference recognised "the unanimous agreement in favour of the early establishment of a mutually acceptable system of generalized non-reciprocal and non-discriminatory preferences which would be beneficial to developing countries". It agreed that the objectives of the system of preferences should be to increase the export earnings of those countries, to promote their industrialization and to accelerate their rate of economic growth.

The Special Committee established by the Conference for holding consultations and for drawing up details of the scheme met on four occasions between November 1968 and October 1970, during which intensive consultations between the prospective preference-giving countries and developing beneficiary countries were carried out on the basis of substantive documentation submitted by the members of O.E.C.D. and New Zealand. As a result of these consultations, arrangements for a mutually acceptable system of generalized non-reciprocal and non-discriminatory preferential treatment in favour of developing countries in the markets of developed countries were drawn up and transmitted to the U.N. General Assembly in October 1970, to become part of the international strategy for development in the Second U.N. Development Decade. In agreeing to these arrangements, the prospective preference-giving countries indicated their determination to seek as rapidly as possible the necessary legislative or other sanction with the aim of implementing the preferential arrangements as early as possible in 1971. Efforts for further improvements to these preferential arrangements would be pursued in a dynamic context in the light of the objectives of Conference Resolution 21 (II). The scheme would be limited to a period of ten years to begin with and would be subject to periodic reviews.

The final agreement reached in UNCTAD embodied not a uniform scheme that had been hoped for earlier, but a number of separate schemes adapted to the political and economic realities of the major preference-offering countries. The United Kingdom's proposals included the grant of duty-free entry for "industrial" products in Chapters 25–99 of the Tariff (including raw materials, with some possible exceptions still to be decided upon) other than most textiles and apparel and goods subject to revenue duties. Duty-free entry was offered on a number of textiles including carpets and floor coverings of all materials. Duty-free entry or tariff reductions were also proposed for a range of processed agricultural products covering 140 tariff positions. The inclusion in the British scheme of a number of goods is conditional upon the consent of countries in the Commonwealth Preference Area which have trade agreement rights to preference in the United Kingdom market. The Commonwealth preference arrangements will continue in parallel with the G.S.P., but in the event of successful negotiation for entry into the E.E.C., the United Kingdom scheme would need to be assimilated with that of the Community.

The E.E.C. has proposed duty-free entry to all "manufactures and semi-manufactures" in Chapters 25–99 of the Common External Tariff. Industrial raw materials are excluded as being outside the original concept of the G.S.P. There will be no safeguard arrangements linked to injury to domestic industries, but the amounts of imports from developing countries that will benefit from duty-free entry will be subject to limitation within quota ceilings. This will be calculated under a standard formula applicable to all products under which each ceiling will have two elements. The first, the basic amount, will be the total value of imports of the product from the beneficiary countries in the base year 1968. To this will be added a supplementary amount calculated by taking 5 per cent of total imports into the Community from all sources other than the beneficiary countries. A ceiling under this formula will in principle be available to all the manufactures and semi-manufactures in Chapters 25–99, but the Community has stated that it intends to enforce the ceilings only on a limited range of goods which are considered to be "sensitive". Another provision in the formula is that preferential imports of each product from any one developing country will not as a general rule be allowed to exceed 50 per cent of the total ceiling of that product. In the case of a limited number of sensitive items the quota for any one country will be 20 per cent to 30 per cent of the ceiling. For a range of processed agricultural products, tariff reductions mostly averaging about a fifth, but with some larger ones, were offered. Preferential entry of these products would not be limited by means of a tariff quota, but an escape clause related to injury will apply. The countries and territories associated with the E.E.C. will continue to enjoy their existing preferential arrangements. At a Council meeting on 31 March 1971 the Foreign Ministers of the Six voted to begin implementation of the scheme on 1 July and to extend its benefits in the first instance to the Group of 77 (then numbering 91) and the dependent territories of the industralized countries (such as Hong Kong).

The United States has proposed to grant duty-free entry for all manufactures and semi-manufactures other than most textiles (broadly speaking those of cotton, wool and manmade fibres), apparel, footwear, benzenoid chemicals (assessed for duty under the A.S.P. system) and petroleum products. Duty-free entry is also offered on about 100 tariff positions for industrial primary products and for about 180 tariff positions covering processed agricultural products. All the offers are subject to a safeguard to domestic industry based on standard escape clause procedure under existing United States legislation. Developing countries which grant preferences to developed countries (reverse preferences) will be excluded from the United States scheme. However, if these developing countries provide adequate assurances that their preferences will be phased out within two or three years they will be able to benefit from the United States scheme from the outset.

The scheme proposed by Japan, which reportedly was to be introduced by 1 July 1971, covers all goods (including raw materials) in Chapters 25–99 of the Brussels Tariff Nomenclature other than a short list of exclusions (including hydrocarbon oils subject to fiscal duties, leather clothing, silk fabrics and footwear of rubber or plastics). On goods in a list of 57 tariff headings the preferential rate will be 50 per cent of the full rate of duty, and on all other goods in these Chapters of the tariff the preferential rate will be nil. Preferential entry will, however, be subject to ceilings calculated by a formula which is generally similar to that of the E.E.C. scheme. Duty reductions, mainly at 50 per cent, or duty-free entry is offered without limitation on a range of processed agricultural products. These will be subject to an escape clause arrangement under which the preference could be withdrawn for a specific product from a specific beneficiary country.

Canada proposed as a first step to reduce the duty by a third or down to the British Preferential rate in the Canadian Tariff, which ever is less, on all industrial manufactures and semi-manufactures with the exception of goods whose import into Canada is subject to quantitative restraints. The latter include woven cotton, worsted and manmade fibre fabrics and certain other textiles. Duty-free entry or duty reductions are also proposed for a range of agricultural products.

New Zealand proposes to reduce the duty on imports from developing countries, in a list of agricultural and industrial products, down to the British Preferential level of the New Zealand Tariff, or in some cases to nil or a special preferential rate.

The Nordic countries (Sweden, Norway, Denmark and Finland) put forward joint proposals involving preferences based on free entry from developing countries for all industrial products including raw materials. They have, however, submitted a list of products which in one or more of the Nordic countries are at present considered to be sensitive to market disruption and which may consequently have to be excluded or given special treatment in one or more of these countries.

Austria, Switzerland and the Irish Republic, in their separate schemes, generally propose duty reductions by 30 per cent or a third on imports from developing countries of all manufactures and semi-manufactures in Chapters 25–99 of the Brussels Tariff Nomenclature with some exceptions. The Soviet Union, Poland, Czechoslavakia, Hungary and Bulgaria have stated their intention to take steps to facilitate imports from developing countries, including in the case of Czechoslavakia, Hungary and Bulgaria the granting of tariff preferences.

In the report of the Special Committee on Preferences, adopted by the Trade and Development Board at its fourth special session in October 1970, it was noted that "developing countries which will be sharing their existing tariff advantages in some developed countries as the result of the introduction of the generalized system of preferences will expect the new access in other developed countries to provide export opportunities to at least compensate them". This question of "compensation" had engaged the close attention of, and has been exhaustively discussed at informal meetings of Commonwealth countries attending the fourth session of the Special Committee in March/April 1970, and again in September/October 1970. Though it had been stated that "compensation" to developing Commonwealth countries for having to share their preferences in the British, Canadian and New Zealand markets would be provided by improved and preferential access to the markets of other developed countries, a number of Commonwealth countries expressed misgivings about the "equivalence" of benefits. These misgivings were not calculated to be minimised by the possibility, even if this later proved to be without foundation, of a number of countries, including the E.E.C. and Britain, implementing their schemes well in advance of the United States which, toward the middle of 1971, had not submitted the necessary legislation to Congress. Even had such legislation been introduced its passage could well be fraught with difficulty, and certainly delay. Further misgivings, in the context of the G.S.P., arose out of the possibility of British accession to the E.E.C. and its consequential adoption of the system of tariff quotas and ceilings embodied in the E.E.C. scheme.

The agreement in Geneva of the Special Committee on Preferences, at its resumed fourth session in October 1970, came at an auspicious moment when, after two years of work in a preparatory committee and in the General Assembly, the U.N. Economic Committee was about to adopt the much revised strategy for the Second Development Decade. Like any document approved by all 127 U.N. Member States, the strategy is a compromise. The basic goal is that the Gross National Product of developing countries should grow by at least 6 per cent each year, presuming an annual increase of population of about 2·5 per cent and of per capita income of 3·5 per cent. The 6 per cent growth rate also anticipates an annual 4 per cent growth of agricultural output and 8 per cent in manufacturing, while imports should increase by slightly less than 7 per cent and exports by slightly more than that proportion. Apart from the important objectives and recommendations in the field of aid, and several other important areas lying outside the scope of this report, the strategy calls for the conclusion by 1972 of outstanding commodity agreements. Developed countries agreed not to raise new tariff barriers to the primary products of developing countries and promised to reduce present barriers. Similar measures were recommended for manufactures and semi-manufactures from developing countries. On the United Nations 25th Anniversary its entire Membership pledged itself "to create a more just and rational world economic and social order".

At a GATT Council session in December 1970 Australia, which had introduced its own scheme of preferences for developing countries five years earlier and had consequently not joined in the G.S.P. exercise, provided information on the operation of its scheme. According to this, since the implementation of the scheme in 1966, the value of available quotas had been increased from the initial total of $A 13·3 million p.a. to $A 47 million. In addition, the range of handicraft products admissible at the preferential duty-free rate had increased considerably.

Commodity trends and arrangements

The boom in raw materials markets which began in 1968, and extended through 1969 into the first quarter of the following year, came to an end during the remainder of 1970. The continuing high level of interest rates, unfavourable indications in the U.S. economy—the world's biggest single market for raw materials—and the collapse on Wall Street, all tended to strengthen the view that world commodity prices must fall. In the event there was a slump in world market prices for non-ferrous metals and some agricultural raw materials including rubber and wool; but at the same time there was a strong upward movement in the food and feedingstuffs group—especially cereals, fats and oils, and sugar.

Copper led the decline in industrial raw material prices under the impact of a steady rise of stocks in London Metal Exchange warehouses to the highest level since before the second world war. The L.M.E. price of cash wirebars dropped steadily from a peak of about £750 per metric ton in April 1970 to below £500 six months later, and down to £415 in January 1971. Strikes threatened supplies from Chile and Peru, and the cave-in and flooding at the Mufulira mines reduced output in Zambia substantially; the failure of the copper market to react sharply to these events was a fair measure of the general surplus position. A special factor acting on demand in the second half of 1970 had been the General Motors shutdown, which also increased pressure on lead and zinc prices.

Even aluminium processors, who had enjoyed a steadily expanding market for many years, ran into surplus conditions in 1970, when U.K. processors sought anti-dumping action against imports of semi-manufactured aluminium products. Towards the end of 1970 free market aluminium was available in the U.K. at less than £200 a ton compared with the producers' price of £257 a ton.

Tin prices in 1970 reached a peak of over £1,620 per metric ton cash metal in January, and again in April, following exhaustion of the International Tin Agreement buffer stock, but within a month the cash price had fallen to less than £1,450—one particularly bad day on Wall Street resulting in a drop of £87 in the L.M.E. price. After the May 1970 low point L.M.E. tin prices (cash metal) rose by £80 a ton, mainly because the U.S. Government announced it would not sell tin from its strategic stockpile. At its meeting in October 1970 the International Tin Council raised the price range within which the Tin Agreement aimed to keep prices. Apart from the adjustment for sterling devaluation, there had been no change since 1966. A fall in tin prices on the London Metal Exchange in December 1970 took the market below the level of £1,460 a ton at which the buffer stock manager of I.T.A. is entitled to start support buying.

A fourth International Tin Agreement (to succeed the third Agreement which expired at the end of June 1971) was negotiated at the U.N. Tin Conference meeting under the auspices of UNCTAD in April/May 1970. The objectives of the new Agreement remain basically the same as those of its predecessor, but greater flexibility was introduced into buffer stock operations, price ranges for which could be revised by the Council at any time. In February 1971 it was announced that the Soviet Union was to join the Agreement for the first time. The United States remains outside the Agreement but attends Council meetings as an observer.

The International Monetary Fund has indicated that it regards the terms of the Fourth International Tin Agreement as consistent with requirements that are appropriate to commodity agreements for which assistance may be given. In particular, schemes suitable for Fund assistance are expected to take account of the effects of price stabilization, and should aim at price stabilization around a medium term trend, so that buffer stock transactions could be expected roughly to balance out in the medium term.

As regards the non-metallic raw materials, 1970 was a year of almost unrelieved gloom. For rubber, the spot London price of No 1 R.S.S. fell from a peak of over 2·8d/lb (1·7p/lb) in August 1969, down to 2d/lb (0·83p/lb) in April 1970. Then, with continued depression in automobile production in a number of countries and the impending General Motors shutdown in North America, the price slide continued to below 1·8d/lb (0·75p/lb) by October, when it was far from clear whether the market would bottom out. With prices at their lowest level for over two years, the Malaysian Government declared that it would support the market if it considered prices too low. Meanwhile, the market remained depressed by the existence of heavy stocks in the East and poor off-take by most consumers. Against this background moves were afoot for a price stabilization scheme among rubber producers. At a meeting of the Association of Natural Rubber Producing countries in October 1970, a decision was taken in principle to implement a joint rubber marketing system, and to establish a secretariat in Kuala Lumpur as a first concrete step in this direction.

In the fibres sector, Australian wool producers went through a particularly difficult period in 1970. The selling season which opened in August of that year saw auction prices sink below the level touched earlier in the year. Producers in other countries did not do very much better. The basic trouble again appeared to be poor demand, with synthetics apparently making further inroads into the market for apparel-type and carpet making fibres. Under legislation passed by the Australian Government in November 1970, a Wool Commission was constituted to assist the country's troubled wool industry, which produces about 20 per cent of total export earnings and accounts for 45 per cent of the world's total raw wool exports. The establishment of the Commission, with its wide powers of support buying, has greatly modified the Australian "free auction system", world renowned and often referred to as a model of wool marketing. In recent years this system came under increasing attack by Australian wool growers, whose disenchantment stemmed not only from the decline in wool prices, which hit their lowest level in 22 years during the 1969/70 season, but also from rising costs.

Demand conditions for cotton were strengthened by the requirements of Communist countries; a lower than expected U.S. crop, and shortfalls in other producing countries, lifted import prices in 1970.

Jute prices showed no very marked change in 1970, though the crop news was not encouraging; in India supplies of raw jute for mill consumption were so short throughout the summer and autumn that the Jute Mills Association urged the Government to permit imports of Kenaf from Thailand. In July Pakistan introduced a 10 per cent bonus on its raw jute exports, which enabled an immediate lowering of Export Price Check levels, with PWD grade falling (from £120 at the end of the previous season) to £113 per long ton f.o.b. Pakistan ports. This was within the price range recommended by F.A.O.'s Study Group, which decided to make no change in its recommended price range for the 1970/71 season.

As regards sisal, in February 1970 the Kenyan authorities, faced with the problem of mounting stocks and the danger of wholesale closure of plantations, ceased to enforce agreed minimum prices. Their action was rapidly followed by other producing countries and world prices fell very sharply, East African rejects dropping from the previous minimum of £72 per metric ton, c.i.f. London, to £60. After a partial rally, prices drifted to a new post-war low of £58 by the time of the October session of F.A.O.'s Study Group on hard fibres. At this meeting, attempts to revive the informal quota scheme broke down owing to the non-attendance of Tanzania, the world's largest sisal producer, but during the remainder of the year, prices recovered somewhat and gave rise to a widely held feeling in the trade that sisal might at last be emerging from its prolonged period of depression. Underpinning the firmer tone of the market was a very substantial fall in production in Commonwealth East Africa; and cutback of output in Brazil, the world's second largest producer, was also reported.

In 1970 a much more cheerful side to the picture was shown by the markets for foodstuffs and beverages, namely coffee, tea and sugar, among tropical products, and fats and oils, wheat and maize among the rest. The exception was cocoa. As a result of unprecedented speculative activity by syndicates in the summer of 1970, the cocoa market experienced one of the sharpest movements in its history. After soaring almost £100 a ton in July and August, prices fell back by more than £50 in a matter of days in September. Over the year as a whole, cocoa futures (second position) on the London market fell from a peak of over £420 a ton in November 1969 to £290 a year later, and below £250 at the end of January 1971.

In compliance with the recommendation made by the UNCTAD preparatory meeting on cocoa in June 1969, the Secretary General of UNCTAD held bilateral consultations in 1970 to review the prospects for an international cocoa agreement, which would to some extent stabilize the market by eliminating extreme fluctuations. A meeting of the Cocoa Consultative Group was convened in June 1970, but progress was limited owing to continuing disagreement between producing and consuming countries over the price range. There was also bargaining over the question of processed cocoa products, but in spite of failure to reach agreement—one of the priority commodity objectives agreed upon at the second plenary session of UNCTAD in 1968—the long term prospects for the industry seem to be sound. F.A.O. reported that by 1975 world demand should increase by half a million tons over the 1970 level, to 1·8 million tons, which would require an additional 3·4 million acres of new planting.

Although the International Coffee Agreement has doubtless contributed to the relative stability of international markets for coffee, the generally strong tone of these markets in 1970 must be attributed in no small measure to very low production in Brazil as a result of adverse weather conditions. In September 1970 the Brazilian crop forecast was only half the size of the preceding year. The Commonwealth Secretariat forecasts indicated that the 1970/71 world coffee crop might be the lowest for ten years, and the fifth consecutive season during which new supplies would be below expected demand. Prices, which had generally declined from 1965, started rising steeply in the second half of 1969, and though the increase moderated to some extent in 1970, by the time of the August meeting of the International Coffee Council price quotations were at their highest level for nearly twenty years. There was naturally some pressure at the August meeting of the I.C.A. for larger export quotas: in the event, quotas were left unchanged, but the initial global export quota for the 1970/71 season was set at 54 million bags compared with only 46 million bags the year before. By March 1971, the global quota had been reduced to 51 million bags.

The tea market enjoyed surprisingly buoyant conditions in 1970 compared with the previous year when prices fell to the lowest levels for sixteen years. London auction values were running around 10d/lb (4·17p/lb) above year-ago values until September, when the North Indian crop started to arrive in quantity. Reasons for the firmer tone of the market included the autumn 1969 strike affecting a number of important Indian tea gardens; the Calcutta warehouse strike early in 1970 (which held back tea subsequently absorbed locally); and more recently, lower production in Ceylon. The net result was that there was no longer a heavy weight of stocks overhanging the London auctions. Indeed, stocks were at their lowest for several years. The informal agreement of 1969 (whereby tea exporters were pledged to limit their shipments to a fixed quota) had not been given practical effect in 1970 owing to shortage of supplies. However, to some extent at least the firm tone of the market appears to have been due to the very existence of the agreement, which acted to restore confidence.

Formal agreement to limit world tea exports, to secure better prices, was reached in New Delhi in December 1970, when the Consultative Committee of

F.A.O. decided to maintain the existing (informal) quota level of 1,311 million lb during 1971. This level had been agreed in 1969 by seventeen tea exporting countries at a meeting in Mauritius. The New Delhi agreement, however, had the backing of importing countries accounting for 80 per cent of world imports of tea as well as exporting countries accounting for 95 per cent of global exports. It was expected that the international agreement on tea prices and production would come into effect towards the end of 1971 when the F.A.O. Consultative Committee met again. Till then, short term arrangements which had been informally agreed upon would continue to operate. Efforts being made to bring about a fully-fledged tea pact are influenced by the fact that world production plans add up to a 30 per cent rise in exportable output by 1975, and to a 70 per cent rise by 1980.

The situation of East African teas in the London market does not always follow in line with supplies from India and Ceylon. Over the past ten years the weight of East African tea imported into London has risen by 450 per cent. Blenders like the quality of most East African teas—London market prices for which averaged 52d/lb (21·67p/lb) in 1970 compared with 50d/lb (20·83p/lb) in 1969 and 42d/lb (17·50p/lb) in the year before that. East African production has trebled in the last decade to reach 150 million lb in 1970, and it is clear that any international tea pact to keep expanding production in line with consumption must take account of the position of East African countries.

So far as free market sugar supplies were concerned, the year 1970 was the most prosperous since the highly abnormal period of world sugar shortages in 1963/64. The London daily price started the year at about £30 a ton, rose above £40 in April and, with the International Sugar Council keeping close watch over the market, prices moved to around £50 a ton in December/January 1970/71—in spite of export quotas having been lifted from 90 per cent of the "basic" level under the I.S.A., at which they had rested for the previous two years, to 95 and then 100 per cent. In February 1971 export quotas moved to 110 per cent of "basic", but there had not at that time been any releases from stocks compulsorily kept in producing countries under the terms of the I.S.A.

One of the reasons for the large fluctuations in free market sugar prices is that most of the world's sugar industries are protected, so that price fluctuations in the residual market (and before signing of the new International Sugar Agreement) had little effect in adjusting output to demand. Of the sugar that is exported, more than half is paid for under preferential trade arrangements like those under the Commonwealth Sugar Agreement, the U.S. Sugar Act, and the contracts between the Soviet Union and Cuba. Under the first-mentioned, Britain has a contract to buy approximately 2 million tons a year from Commonwealth exporters at negotiated prices which, in 1970, were not very far out of line with free market prices. Because of the relatively high level of free market prices the variable element in C.S.A. prices to developing Commonwealth countries for 1971 supplies was cut out.

A dominant feature of the commodity markets in 1970 was the remarkable turnround in cereal prices, after large surpluses in most of the major supplying countries had put extreme pressure on the Wheat Trade Convention of the International Grains Arrangement and had caused most exporters to breach the latter's minimum price levels. The sudden increase in wheat prices in late 1970 can be attributed to several factors including disease damage to the U.S. maize crop—the biggest single source of animal feed grain—and smaller wheat harvests in all the major exporting countries due to either poor seasonal conditions or the effect of production controls. While world wheat prices practically everywhere rose above £30 a ton, there was some indication that surplus wheat stocks would be substantially reduced during 1971. Combined exports of the main grains in 1970 were estimated at nearly a fifth higher than in 1969, in terms of volume.

In January 1971, negotiation of a new Wheat Agreement to replace the 1967 International Grains Arrangement commenced with the opening of the U.N. Wheat Conference by the Secretary General of UNCTAD, on the advice of Wheat Council officials. These officials believed that the time was then right for successful negotiation to replace the 1967 agreement which "had not been noticeably successful". In the event, however, there was only a new limited wheat trade convention for the next three years, operative from 1 July 1971. It does not include any price structure or rights and obligations linked to it, nor does it contain obligations on the part of importing countries to buy fixed quantities or percentages from exporters. Thus for the first time in many years there will be a free world market in wheat.

The grain situation in 1970 also affected the oils and fats sector. Oilseed cake was naturally in good demand for animal feed and the exceptionally buoyant demand for oils led to increasing scarcity as the year progressed. With the dropoff in the rapid growth of the Peruvian catch, fish oil supplies were less abundant than in 1968, and there were no signs in 1970 of a serious influx of vegetable oil supplies from Eastern European countries, exports from which had undermined the market in the past. Moreover, the dairy fats situation in Europe, which had appeared so alarming a year or two earlier, seemed to be coming under control with butter stocks heavily reduced.

Prices for most oils and fats were markedly higher in 1970 than the depressed levels to which most vegetable oils had sunk in the wake of the above-trend exports to world markets in 1967 and 1968, and which had prevailed until May 1969. Revived interest and higher prices later developed when it became apparent that availability for export was less than expected, and would not satisfy normal growth in demand. Prices reacted sharply, reflecting a relatively inelastic demand, and continued strong until late summer 1970. This provided the necessary stimulus to dislodge a large volume of soya beans from Commodity Credit Corporation stocks which found their way into consumption in the major developed countries, where growing prosperity had resulted in considerable expansion of meat and poultry output and consumption.

Other important factors in the market were the disappearance of the fish oil surplus seen at the end of 1968 when Peru, South Africa and Norway had all expressed considerable concern about the dangers of over-fishing. The 1969/70 groundnut crops in Nigeria and Senegal were smaller and there was also a significant drop in Philippine supplies of copra and coconut oil. The year was thus one of relative shortage. In September 1968, the general level of fats and oils prices had been near its lowest point for the whole post-war period, but average prices two years later were 50 per cent above that level. Some individual oils had shown particularly sharp increases. Thus fish oil was £38/ton c.i.f. London in September 1968; two years later it was over £150/ton. Over this period sunflower oil practically doubled in price as a result of the drying up of supplies from Eastern Europe.

A remarkable decrease in the huge West European and North American stocks of butter and skimmed milk powder took place in 1970. Thus a situation which had developed during the second half of the 1960's was reversed. Stocks of skimmed milk powder, which had risen from 325,000 tons to 560,000 tons in two years to the end of 1969, and butter stocks of Western Europe, North America and Australasia which had increased to 576,000 tons in the same period, fell 28 and 14 per cent respectively by June 1969. The sharpest decreases occurred in Western Europe where, by early September 1970, E.E.C. butter stocks of about 340,000 tons were 100,000 tons below the previous year's level, and skimmed milk powder stocks held by intervention offices amounted to less than 130,000 tons, compared with 390,000 tons at the beginning of September 1969; by the end of December 1970, E.E.C. butter stocks had declined to something nearer 100,000 tons.

Nineteen-seventy was the second poor year for milk production in Western Europe and this, combined with a general rundown elsewhere, brought about an improvement in the whole tone of the international dairy market. World market prices for skimmed milk powder, of particular interest to New Zealand, rose during the year to considerably in excess of the export price set by the GATT Skim Milk Powder Arrangement which came into force in May 1970; and Britain's suppliers of butter and cheese at the end of 1970 were looking forward to a period of consolidation, after the first significant price rises in dairy products on this market for nearly five years.

A special session of the study group on oilseeds, oils and fats was convened jointly by F.A.O. and UNCTAD in London in January/February 1970, but the exceptional complexities inherent in the subject baffled the negotiators and it is now recognised that market intervention of the traditional type is more or less ruled out because of the lack of homogeneity in production and marketing, and the number of largely substitutable products involved, many of them by-products. The approach now being adopted is to identify specific problems calling for short-term action, and to co-ordinate all measures which may be taken, nationally or internationally.

Addressing the July 1970 Congress of the International Association of Seed Crushers in London, the Director of F.A.O.'s Commodity and Trade Division said that the great hopes for international action to stabilize world commodity prices, based on the Havana Charter of 1947, had not been fully realised. There had been important achievements, but these were modest in relation to the hopes entertained and the problems that remained. For products sold by the poorer countries of the world, he said, the problem of stabilizing export prices had now become entwined with wider problems of international development and aid. Creation of the U.N. Conference on Trade and Development to promote action in commodity and other fields, and the increasing involvement of the World Bank and the International Monetary Fund, symbolised this evolution. But it remained to be seen what impact they would have on the price stabilization problem.