Outlook on Cocoa

Among the major products discussed here, only cocoa and bananas have not yet been subject to international commodity controls. Cocoa qualifies on many of the same grounds as coffee, but is difficult to store in the tropics, and faces a greater threat of competition, either from vegetable oils (used in place of cocoa butter) or from other confectioneries. Efforts at agreement failed in both 1963 and 1966, because of disagreements between producers and consumers as to the price at which export quotas would become operative. More recently, it has been suggested that a cocoa agreement include provision for a buffer stock, along the lines of the tin agreement, in order to maintain price within agreed limits. A cocoa agreement would provide a number of the prerequisites: one or two major exporters (Ghana, Nigeria), large numbers of producers, inelastic demand, good possibility of devoting excess profits to development goals. It is less certain that the African countries can effectively control supplies. This is probably one major reason for their insistence on an international buffer stock. Unfortunately, the producing countries seem reluctant to recognize that buffer stocks exist not only to buy, but also to sell, so that the buffer stock cannot be relied on as a permanent siphon for excess production.

Is It All Worth the Effort?

This review of the major products suitable for conscious efforts at price fixing shows that the possibilities are limited, the complexities of production control great, and the technique essentially inefficient as compared to direct aid. Furthermore, as noted above, the export quota system offers little incentive to efficient new producers, because it freezes an historical production pattern, without much regard for changing cost and demand patterns (although it is theoretically possible to adjust export quotas selectively, no exporter wants his share reduced).

Coffee and cocoa are widely produced by individual farmers, so the allegation that high prices benefit only the plantation owner is clearly untrue for these crops. For sugar and tea, the charge may be closer to the mark, although there are many small producers and export taxes can be used to siphon off excess profits, unless the government is dominated by producer interests. Tin is a rather special case where demand has long been buoyant; half the world's output stems from nationalized industries (Bolivia, Indonesia, China, Russia) and most of the rest from Malaya. There seems no particular reason to believe that for these five products the distribution of gains from higher commodity earnings need be more inequitable than those stemming from other forms of aid (except food aid, which presumably benefits low-income groups most).

Recent developments in the Coffee Agreement indicate the commodity agreements may be a more flexible device for promoting economic adjustment than was previously supposed. It is obviously too early to judge the success of these measures in their dual objectives of controlling coffee supply and promoting the agricultural development of exporting countries. The most significant element is clearly the diversification fund. In embryo at least, it foreshadows a principle of international control of the proceeds of monopoly pricing in the interests of economic development. In that respect, the Coffee Agreement becomes, in part, an aspect of international economic assistance under the joint policy control of rich and poor countries. This novel organizational device may if successful, offer broad possibilities for application to other commodities and, for that matter, for other forms of economic aid.

However, this qualified support for a limited number of commodity agreements is, from another viewpoint, an admission of their weakness as answers to the world's commodity problems. Such agreements are only one element in a general policy to improve the trade position of commodity-exporting countries. The other elements include:

(1) Major efforts to increase the productivity of industries facing competition from synthetic substitutes or competing production in importing countries (rubber, fiber, sugar, rice, oilseeds).

(2) Reduction of protectionism in importing countries (petroleum, sugar, tobacco, nonferrous metals, fruits, meat, etc.). This is probably the largest potential source of increased exports for poor countries. Free trade in sugar alone might increase underdeveloped countries' exports earnings by nearly one billion dollars, at least as much as the amounts forthcoming from price-fixing agreements for coffee, cocoa, sugar, tea and tin combined.