The original documents are located in Box 61, folder "1976/08/31 - Economic Policy Board" of the James M. Cannon Files at the Gerald R. Ford Presidential Library.

ECONOMIC POLICY BOARD
EXECUTIVE COMMITTEE MEETING

August 31, 1976
11:00 a.m.
Roosevelt Room

AGENDA

1.	Report of EPB/NSC Commodities Policy Coordinating Committee	State-Treasury
2.	Assessment of U.S. Performance in Implementing Multilateral Aid Commitments	State

AUG 30 1976

MEMORANDUM FOR THE ECONOMIC POLICY BOARD

Subject: Report of the EPB/NSC Commodity Policy Coordinating Committee

As a result of several meetings, the CPCC is ready to seek the EPB's approval of a more concise description of the International Resource Bank (IRB) proposal, and a series of questions and answers that amplify on the proposal. These papers are attached at Tab A.

The CPCC has also agreed on a paper presenting options for the United States' approach to the fall preparatory meetings on the Common Fund. This paper is attached at Tab B.

Gerald L. Parsky

Julius L. Katz

Description of the International Resources Bank

Introduction

The International Resources Bank (IRB) deals with a major area of international commodity policy which up to now has received relatively little attention: The problem of assuring rational and adequate investment in resource production in the developing countries. The central purpose of the IRB is to correct a situation in which the pattern of foreign, primarily private resource investment seems to have been distorted because of a deterioration in the climate for such investment, causing commercially viable projects to be deferred or dropped in favor of investment in less economically-justified projects in developed countries. Some results of this situation are higher production costs for the minerals affected, less efficient production, higher consumer prices and, eventually, impaired economic development in developing countries having needed mineral resources.

The purpose of the IRB is thus to facilitate investment in resource development in the developing countries. Its effect will not necessarily be a net increase in total resource investment, but simply to create the conditions in which foreign, primarily private investment will be placed in projects where it can best be utilized. Ideally, the IRB would function in such a way as to diversify direct private foreign investment among a larger number of countries. This would have the added benefit for the U.S. of reducing concentration of resource production in a few countries and, thus, the possibility of cartel action.

Functions of the International Resources Bank

The basic functions of the International Resources Bank would be to:

- mobilize and encourage the flow of foreign, primarily private capital, management, and technology to projects in developing countries, when participants in projects invite IRB assistance;

- encourage adherence to standards of equity and encourage observance of contractual undertakings both by host countries and by private companies participating in resource projects; and

- minimize political obstacles to the most rational international allocation of capital investment in resources.

Central Function of the IRB

The most important of the IRB's functions is to guarantee investment against types of non-commercial risk specified in individual contracts within general guidelines established when the IRB is created. The IRB would facilitate financing on a project-by-project basis by acting as guarantor of bonds issued by the project entity. Its guarantee would be against defaults on bonds for non-commercial reasons. The IRB could also provide guarantees against non-commercial risk for direct equity investment in the project by participating private companies. When the IRB issues a guarantee, it would obtain a lien or comparable security device as a condition for issuing its guarantee. After making payment under the guarantee, the IRB would enforce its lien in other countries to recover its losses.

Assumption of commercial risk would continue to be the responsibility of the project participants.

The IRB would not:

- make direct loans to resource projects from general funds;

- bear direct liability for the commercial viability of projects;

- guarantee project bonds, or foreign, primarily private equity, against any form of commercial risk.

- guarantee production levels (though private investors and the host country participating in the project entity could conclude contracts under which they would receive given amounts of mineral product over a given period of time);

- facilitate (through guarantees or other means) projects outside the extractive industries (minerals and energy projects);

- intervene in the investment decision-making process by initiating projects;

- assume responsibility for commercial viability of the project.

- participate in resource projects in developed countries;

- guarantee investment in pre-production activities such as exploration (although the IRB might be involved at the pre-production stage by offering guarantees of future finance of production facilities made contingent upon the success of the pre-production activities, i.e. actual discovery of oil, the proving out of high quality mineral ores, or confirmation of technical feasibility of ore processing techniques);

- duplicate functions of the World Bank Group or other existing international financial institutions.

The Trilateral Agreement

New projects facilitated by the IRB in developing nations would be the subject of trilateral agreements in which foreign investors (either singly or in consortia), the host country government, and the IRB would participate. The trilateral contract would be an instrument setting forth obligations and undertakings by both private participants and by host countries. A trilateral agreement would give private investors assurances against non-performance for political reasons. Similarly, it would provide undertakings or obligations to be met by private sector participants. Trilateral agreements would be negotiated for particular projects and would reflect the specific attributes of a project and the needs and concerns of its participants. The IRB would only participate in contract formulation to the extent necessary to protect its own economic interests and assure its commitments are maintainable.

The Trilateral Agreement could include provisions relating to:

- pre-production activities to complete technical and commercial evaluation of a project;

- the financial basis of the project, including the equity participation of foreign, primarily private investors, the capital contribution of host government, and the amount of project bonds for which the IRB could act as sales agent;

- production sharing;

- transfer of technology and training of local personnel;

- performance and payment undertakings by both the host government and the private firms in the investing consortium;

- dispute settlement provisions providing procedures for conciliation or adjudication of disputes arising under the trilateral contracts.

IRB Participation in the Trilateral Agreement

The IRB would oversee the performance of the terms of the trilateral contractual arrangement as a neutral "facilitator," and informal mediator of investment disputes.

The IRB would also act as guarantor against non-commercial risk for selected aspects of a trilateral contractual arrangement, such as:

- actions by the host country that interfere with, prevent or prohibit private investors from benefiting from specified commitments under the contract, including provisions regarding such matters as import licensing and earnings repatriation.

- failure of private companies to perform on contract provisions requiring specific amounts of capital investment, training of host country nationals, transfer of technology, or local participation in management.

The IRB would not:

- provide any guarantees against default or non-performance, as stipulated in the contract, if default or non-performance were due to commercial reasons; or

- determine the standards of performance to be agreed to by the host country or the private companies in negotiating the contract.

Financing of Production Projects

Projects subject to trilateral agreements could be financed in a number of ways, including the issuance of project bonds which could be denominated either in cash or in commodities, or in a combination of both. The physical production under many circumstances could be used as partial security for the bonds. The project bonds could be sold to operating companies and financial institutions participating in the project, or they could be sold (or resold) to private investors through bond markets, with IRB acting as sales agent.

Financing of the IRB

The capital base of the IRB would consist of a paid-in loss reserve fund of $1 billion, which could be supplemented by additional amounts to be subscribed by governments as callable capital reserves. Consistent with practice in the World Bank and other institutions, the IRB could issue guarantees initially equal to the total amount of paid-in plus callable capital.

The total amount of paid-in and callable capital, and the ratio of paid-in to callable capital, will have to be further discussed. The total should be related to both the costs of IRB administration (which could be financed from the earnings of the loss reserve fund), and to the specific nature of the IRB guarantees. Of the $1 billion of paid-in capital, it has previously been agreed for planning purposes that the U.S. share could be as much as $200 million. However, the amount of total paid-in capital could be much smaller. For example, the total paid-in capital could be $300 million, and callable capital could be $2.7 billion. By reducing the U.S. share in this way, it might be easier to obtain Congressional authorization.

Institutional Aspects of the IRB

The IRB is not intended to duplicate or compete with any existing international financial facilities. It is intended to complement them. Because of certain similarities and complementarities between its activities and the operations of members of the World Bank Group, it would be sensible for the IRB in some way to be associated with this Group--in a manner to be worked out by participants and consistent with the activities of other members of the Group.

INTERNATIONAL RESOURCES BANK

Q's and A's

1. Q. In what kind of projects would the IRB participate--metals, other minerals, agricultural raw materials, foodstuffs, energy projects?

A. In general, the IRB would have a broad mandate to operate in the resources field in developing countries. But its activities would be focused in areas where there is a clear need to facilitate investment because non-commercial considerations are inhibiting investment flows to developing countries.

The main activity of the IRB would occur in mineral extraction. It may play a role in energy projects, including oil, natural gas, coal and uranium. We see no IRB role in agriculture, particularly foodstuffs, because of the heavy involvement of the World Bank and the regional development banks in the agricultural field and because of the prospective activities of the International Fund for Agricultural Development.

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2. Q. Would the IRB support projects for processing of basic raw materials?

A. The IRB could insure projects against specified non-commercial risks which involve the initial stage of processing such as smelting or refining. Sometimes processing projects might be tied into the mining project itself in an overall investment package.

It would be wise for the IRB to not spread itself too thin by becoming involved in further stages of processing such as milling and fabricating.

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3. Q. What role might the IRB have in the energy field?

A. The IRB might play an important role in the energy field, particularly with respect to oil and natural gas development.

Some energy projects are exceedingly large in terms of capital requirements, running into billions of dollars. We would want the IRB to be cautious about over-extending its commitments by heavy participation in individual projects in this or any other area.

We expect to elaborate the energy role of the IRB in the course of our discussions in the energy commission of the Conference on International Economic Cooperation.

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4. Q. Would the IRB participate in deep seabed mining projects?

A. We do not want to speculate about IRB participation in deep seabed mining projects until we are more certain about the regime under which deep seabed mining would take place.

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5. Q. What items would be specified in the trilateral contract in which the IRB would participate, including performance and payment guarantees by the host country government and private investors?

A. A variety of subjects would normally be included in any contract signed to develop a natural resource project whether the IRB would participate or not. These might include:

- -- financial commitments by each of the participants in the project, including both the host country government and foreign direct investors;
- -- a financial plan for obtaining finance from sources other than the direct investors;

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5. A. (continued)

- -- the shares of equity of each of the participants, the total equity base and the terms under which equity shares might be changed;
- -- the terms under which technology is to be provided to the project;
- -- the terms under which the management of the project will be conducted and who will participate in the management;
- -- possibly a production-sharing scheme in which participants would have a right to specified shares of the offtake of the project;
- -- possibly a scheme for training local technical and managerial personnel.

In addition, a project contract might contain performance and payment commitments on the part of both the host country government and the private investors. For example, both the host country government and the direct private investors might jointly guarantee payments on loans by outside investors such as commercial banks. The host country government might agree to issue import licenses and grant permission to repatriate earnings from the projects. The private investor might agree to perform appropriate technical and managerial functions and to train local nationals.

The purpose of the IRB would not be to insist on any particular terms in the trilateral contract. the IRB would legitimately protect its own interests in a project which would result because of the IRB's function as guarantor of non-commercial risk. The IRB might suggest that provisions to cover certain contingencies be included in the contract, particularly contingencies that might result in a dispute between the host country government and the private investors. For example, the contract might indicate who would be responsible for paying creditors in the event that cash flow was disrupted by natural disaster or labor strife. The IRB would want to assure itself that the commitments negotiated in the contract are sustainable even though the IRB would make no commercial guarantees. The specific terms of the contract would be the subject of negotiation between the host country government and the private investors.

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6. Q. What role would the IRB play in arranging finance for projects in which it participates?

A. It could act as an agent in selling bonds issued by the project entity or facilitate other types of investment finance. It could guarantee these financial instruments against non-commercial risk.

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7. Q. In what way would the IRB "underwrite" project bonds?

A. The IRB would not underwrite in the sense that it would be committed to buy any unsold project bonds. This would be an assumption of commercial risk and an additional undesirable claim against IRB capital. The IRB, if necessary, could underwrite bonds in the sense that it could act as sales agent in selling project bonds and would charge a fee for these services. In addition, the IRB could guarantee these bonds against non-commercial risk.

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8. Q. Would the IRB insure or invest equity in a project?

A. The IRB could guarantee equity against non-commercial risk for a specific period of time. The IRB guarantees might be supplemental to the protection provided by national equity insurance schemes such as the United States Private Investment Corporation (OPIC) that perform this function.

The IRB would not invest its own equity. The proposed $400 million expansion in the capital of the International Finance Corporation (IFC) should provide a multilateral source of equity finance in mineral projects which the IRB would not duplicate. A major function of the IRB will be to facilitate bond finance or other forms of loan finance, possibly including that provided in connection with production-sharing and "take or pay" contracts.

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9. Q. What is a "take or pay" contract?

A. A "take or pay" contract involves a commitment on the part of a participant or customer in a project to take a certain proportion or fixed amount of the output of the project and to pay to the project for the amount which it is committed to take, even if it is unable or unwilling to accept delivery of the commodity. The price at which payment has to be made may be fixed in the contract or it may be based on prices existing at the time for which delivery is contracted. Or the price may be some combination of prices and cost factors as determined by a formula specified in the contract.

Financial institutions or other lenders to a project might insist that the participants negotiate a "take or pay" contract in order to ensure that the project will generate a sufficient cash flow in order to pay off commercial bank or other loans.

A production-sharing arrangement, including those combined with "take or pay" provisions, may involve a commitment by the private investor to provide a certain amount of the capital investment in return for a share of the product. If the capital is advanced in the form of a loan, the loan may be liquidated upon delivery or sale of the output.

Project finance tied to production-sharing and "take or pay" contracts often contain elements of risk, generally not associated with debt financing, since the firm that takes the product may be subject to risk that prices will fall when he has to contract on the basis of a fixed price or price formula. He may also have to take the risk of non-delivery under certain circumstances. This kind of risk capital may sometimes, partially or wholly, substitute for equity risk capital.

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10. Q. What is subordinated debt?

A. Subordinated debt is debt with a secondary claim on the assets or revenues of a project entity. For example, loans provided by direct private investors to a project entity in which they participate may be subordinated to commercial bank loans.

Subordinated debt carries a greater risk element for the lender than primary debt.

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11. Q. Would the IRB provide loans to governments for equity participation in a project?

A. The IRB would not lend to anyone, including governments. The primary function of the IRB is to guarantee project investment finance against non-commercial risk. The IRB would confine its direct financial relations to a project entity. The IRB might operate in collaboration with the IFC in a plan whereby the IFC participates in equity with a buy-back provision that would enable the host country to purchase the IFC equity over an agreed period.

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12. Q. What is a commodity bond?

A. A commodity bond is a bond used to finance a project which carries with it a right to one of the following:

-- a fixed amount or share of the production that results from the project over a specified time frame;

-- the revenues from the sales of a fixed amount or share of the production from the project over a specified time frame; or

-- a fixed amount of cash at a specified date or over a specified time frame in which the bondholder would have a claim on the product or on the proceeds from the sale of a given amount of product as security or collateral for the bond.

The idea of the commodity bond is flexible and it would be an entirely optional, not obligatory form of finance for projects in which the IRB would participate.

The function of the first type of bond, in which the holder has a right to a share of the production, is nothing more than the embodiment of a production-sharing arrangement of a "take or pay" variety. A private investor would put up loan capital in return for a claim on production which he could pay for or accept as payment on the bond. The advantage to having an instrument of this sort as an element in this transaction is twofold. First, the instrument could be posted as collateral by the private investor for a commercial loan. Second, the bond could be sold and the rights to production transferred.

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The second type of commodity bond, which entitles the holder to the revenue from a project is very similar to the first, except that the holder would not have the obligation to market the product on his own. This type of bond could more likely be a marketable instrument, saleable to buyers in secondary markets.

The third type of commodity bond, denominated in cash, is a secured, fixed term loan. Like any normal bond, it would be denominated in cash. It could be secured, in part, by a claim on the flow of commodities or on the cash derived from sale of those commodities from the project.

All of the above could be used in circumstances in which it was difficult to raise enough capital through ordinary loans or the sale of ordinary bonds.

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13. Q. How does a commodity bond differ from production-sharing or supply contracts frequently associated with investments by transnational enterprises in raw materials projects in developing countries?

A. A commodity bond can embody the rights and obligations of an arrangement in which an investor provides capital for a project in return for a share of the production. It has two advantages over a production-sharing arrangement without such an instrument.

-- it could be a legal negotiable instrument with recognized validity in courts of law or participating countries;

-- it could be posted as collateral by a private investor for a commercial loan.

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14. Q. To whom could IRB guaranteed project bonds be sold?

A. IRB guaranteed project bonds could be sold to a variety of buyers. Private investors participating directly in the project might want to invest a certain proportion of their capital through IRB guaranteed bonds. Private direct investors would be the most likely purchasers of commodity bonds payable in terms of an amount of the commodity.

Project bonds could also be sold to investors not participating actively in the project as portfolio investments. Regular cash bonds or commodity bonds denominated in cash could be sold more easily to these investors.

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15. Q. How would a decision be made whether to denominate bonds in money or commodities? Would producers be required to denominate bonds in commodities, or make them convertible to commodities? Under what conditions?

A. There would be no requirement to denominate bonds in terms of commodities or make them convertible into commodities. These decisions would be made in negotiations among the other participating parties in the project. The IRB would merely guarantee investment finance against non-commercial risk.

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16. Q. Do you envision a secondary market in project bonds guaranteed by the IRB?

A. Marketability of project bonds would depend primarily on the viability of the project which would be enhanced by the IRB guarantee. There are examples of secondary markets for financial instruments of this sort. Commodity bonds also may be converted to cash by offering them as collateral for loans rather than through sales in secondary markets.

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17. Q. Would the IRB proposal force producers to guarantee supplies, thus preventing them from controlling exporters?

A. The IRB would not force producers to guarantee supplies. Supply guarantees would be a matter for contract negotiation by the project participants.

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18. Q. Would the IRB only participate in projects in which there was host country government equity participation?

A. The IRB could participate in projects in which there was no host government equity participation. The host country government must be willing to participate by providing guarantees to the participants of the tripartite agreement. Regardless of the equity participation in the project, the host country government would have to participate in the trilateral contract.

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19. Q. Would the IRB participate in projects of wholly owned government enterprises?

A. The IRB could participate in projects where the project already is wholly government owned. But the wholly owned project entity would have to have some relationship with foreign investors in order for the IRB to play a role as guarantor. For example, the IRB might provide non-commercial risk guarantees for loan finance to the project provided by foreign investors that do not participate in the equity of the project.

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20. Q. Would the IRB require a minimum proportion of equity investment in projects in which it participates?

A. The IRB would not require any fixed proportion of equity in a project. If the proportion of equity is small, however, it may be impossible to find adequate loan finance for the project, regardless of IRB participation. Other forms of risk capital would have to substitute and play the role of equity if the project is to be financed.

The role played by equity is two-fold:

-- Equity holders, having the last claim on the cash flow and assets of a project, bear the major portion of the downside risk in a project. If the ore body does not prove out as high grade or extensive as the original investors hoped, if prices of the project are depressed or if there are labor or management difficulties, then equity holders are the first to suffer losses since they have last claim on cash flow.

-- By the same token, equity holders have the potential for upside return. If the ore body or prices prove better than anticipated or the operation runs especially smoothly, equity holders can made a higher-than-anticipated rate of return since they have a residual claim on the earnings of the project.

Resource projects generally carry some technical, commercial and political risks. If a project is to be undertaken, some investors must be willing to assume these risks, either the host country government or private investors. Furthermore, investors that assume the downside risk will also want to share in the potential for upside gain. And the greater the downside risk, the more potential there must be for upside gain or no investors, public or private, will want to participate.

Equity capital is only one form of risk capital. Finance provided in return for production-sharing and subordinated debt with profit-sharing and convertible debentures are other forms of risk capital. A project will not be feasible, regardless of IRB participation, unless the direct investors understand the risks involved and are willing to put up sufficient risk capital of one form or another to attract the requisite amount of low-risk capital, i.e., debt.

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The IRB would be concerned that the trilateral contract be clear as to which investors were to assume the downside risk and how it would be apportioned and how the upside potential was to be shared. An explicit contract on these matters can help ensure that investment disputes are avoided.

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21. Q. Would a commitment to turn the project over at some future time to the hose government to own, manage and operate be an optional feature of the trilateral agreement?

A. This is an optional feature of any contract arrangement. It would be a matter for the host country government and the private investors to decide. The IRB might suspend its guarantees to private investors in the event that such a commitment were not honored.

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22. Q. What criteria would the IRB use in choosing projects in which to participate?

A. The necessary criteria for IRB participation would be that the project concerned extractive industries, possibly including oil and gas, from developing countries; an invitation by the participants in the project entity; and an assessment by the IRB that its participation would help the project to be undertaken. The IRB would not intervene in the investment decision-making process by initiating projects or by accepting any responsibility for commercial viability. It would, however, evaluate the commercial viability of the project, the extent of non-commercial risk involved, and the contract provisions before choosing to participate, to protect its own economic interests.

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23. Q. What portion of the finance for any particular project would the IRB be likely to guarantee? What investors might be involved?

A. The extent of IRB involvement in a project would depend on both the desires of the other participants for IRB involvement and on the IRB assessment of the need for its involvement to attract capital and get the project underway.

Investors might be the host country government; private foreign investors; foreign government investors; private investors not directly involved in the project, such as commercial banks, investment banks, insurance and pension funds, local development banks, investment trusts or funds; and other multilateral institutions, such as the IBRD, and the regional development banks. We would expect that the IRB would work very closely with the IFC which could provide equity capital and loans for the project and the IBRD which might provide loans for related infrastructure investments. In fact, the IRB could be completely integrated into the World Bank Group.

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24. Q. Why would a host government find IRB-guaranteed projects more attractive than projects it negotiates directly with multinational enterprises which provide for royalty payments and income tax revenues rather than production-sharing?

A. A host country government might well find IRB involvement useful in attracting capital to commercially viable projects that might not otherwise take place. The IRB might attract this capital by providing guarantees to foreign investors against non-commercial risk. The IRB could provide assurances to the host country governments against failure of private investors to honor their commitments in the project contract by making its guarantees to relevant private investors, conditional on the private investors' performance of their commitments.

An IRB presence in a project would not rule out any particular form of financing arrangement. Traditional equity-type investments with royalties and income tax provisions could be just as likely candidates for IRB participation as production-sharing arrangements.

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25. Q. Would not the IRB operate to increase the supply of raw materials and lower prices?

A. The primary function of the IRB is to facilitate more investments in developing countries in commercially viable projects. By removing non-commercial considerations from investment decisions, the IRB will help insure that investment funds are employed more efficiently throughout the world. We believe this would generally result in increased incomes for the developing countries from raw materials production.

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26. Q. By promoting production-sharing arrangements, would the IRB narrow the free world market for affected resources, increase competition for the residual market, and drive down market prices?

A. The IRB would not "promote" production-sharing arrangements. It would insure the funding in such arrangements against non-commercial risk if they are freely negotiated among the direct participants in the projects. We do not believe that the kind of production-sharing arrangements that the IRB might guarantee would result in a serious narrowing of world markets. First, many investments are already subject to supply contracts and the role of the IRB would be to ensure the funding of a portion of such future contracts that are explicitly tied to investment finance. Second, many supply contracts for minerals are not end-user contracts but contracts between mining operations and processing plants which would sell the product on the open market after processing.

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27. Q. What kinds of guarantees could the IRB provide?

A. The IRB could provide two different types of guarantees. First, the IRB could provide guarantees to lenders, including holders of project bonds, that they would be reimbursed in the event of default for non-commercial reasons. Second, the IRB could provide assurances to the project participants against non-performance of some of the terms of the trilateral contract negotiated among the private investors, the host government and the IRB, by making its guarantees to relevant private investors conditional upon the private investors' performance of their commitments.

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28. Q. What guarantees would the IRB offer to project bondholders? Who might these bondholders be?

A. The IRB would guarantee project bondholders against non-commercial risks specified in the trilateral contract.

Bondhonders might be either the direct participants in the project or outside investors. They might include both private investors and sovereign entities.

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29. Q. The trilateral contract might include commitments to the host country government by private investors, including the training of host country nationals, transfer of technology and participation by the host country government. Private investors might receive commitments in the trilateral contract by the host country government not to interfere phsycially with respect to shipments, to issue required import licenses, not to burden the project with confiscatory taxation, or to maintain the ability to repatriate profits. How would the IRB provide incentive for performance on these kinds of matters?

A. The IRB could provide incentive for performance on these matters in a number of ways. First, if the contract permits, the IRB may regard the offending party in technical default of its obligations whenever the offending party fails to perform on its commitments to other investors. This would bring into play the default provisions, including any cross-default provisions, of the trilateral contract.

Second, the IRB could cancel or reduce its guarantee coverage of offending parties.

Third, the presence of the IRB in the actual negotiations would lend weight to the obligations entered into by the other participants.

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30. Q. Would the IRB assume any commercial risks?

A. No. The IRB would only enter projects in which the participating investors, public and private, assumed the commercial and technical risks. Thus, the IRB would only participate in a project if all reasonable commercial risks were identifiable and were assumed by the participating investors.

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31. Q. How would the IRB define non-commercial risks?

A. Non-commercial risks will be specified in individual contracts within general guidelines, established when the IRB is created, which set out what will constitute commercial risk, political risk, force majeure and the like. The specific non-commercial contingencies for which the IRB would provide guarantees would have to be determined after careful study of the problem. The trilateral contract would determine which parties are to assume which specific risks.

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32. Q. Is there any evidence that political risks or non-commercial risks are an inhibiting factor to investments in developing countries?

A. There is quite a bit of evidence to suggest that political risk is an important factor in deterring investment in developing countries. Geologists tell us that the world's natural resources in the form of mineral deposits and hydrocarbons are probably roughly equally distributed between the developed and developing world. Yet 80 percent of all mineral exploration between 1970-73 took place in four industrialized countries. Ore bodies being developed in the developing countries are often much higher grade than ore deposits being developed in the industrialized world. For example, a delayed project in Zaire has 6 percent copper ore while in the United States projects have gone forward to mine 0.4 percent copper ore, one-fifteenth as rich. In the United States there have been up to 300 oil wells drilled for every one well drilled on geologically comparable terrain in Africa. The ratios for Latin America and Asia are 50 to 100 to one. These numbers are only suggestive of cost differentials.

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through legal action against either the project entity or the project participants. In the case of commodity bonds, the IRB might attach the proceeds from commodity sales of the commodities themselves. IRB guarantees would be most useful in all member governments if the IRB agreed that IRB guaranteed project bonds would be legally enforceable instruments in their local jursidiction in order to make IRB bond guarantees as universally enforceable as possible. Another possibility is that the IRB would obtain a lien or a comparable security device as a condition for issuing its guarantee. After the IRB made payments under its guarantee, it would then enforce its lien to recover its losses.

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35. Q. What is the function of the loss reserve fund?

A. The loss reserve fund would serve as backing for IRB guarantees of investment finance.

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36. Q. Would the IRB lend any of its own capital?

A. No. The IRB would not lend from its loss reserve fund nor would it call upon any callable capital subscription in order to provide funds for loans.

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37. Q. What would be the total guarantee capability of the IRB?

A. Consistent with practice in the World Bank and other institutions, the IRB could issue guarantees initially equal to the total amount of paid-in plus callable capital. The total amount of paid-in and callable capital and the ratio between the two will have to be discussed and related to the specific nature of IRB guarantee activities. The amount of paid-in capital might, however, be of the order of $300 million and callable capital of the order of $2.7 billion for a 10 to 1 ratio of callable to paid-in and a total IRB exposure of $3 billion.

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38. Q. In how many projects might the IRB become involved?

A. This would depend not only on the overall limitations on the Bank's activities but also on its exposure in any individual project. Exposure could be limited to a token participation in the negotiations, to partial guarantees of investment finance, or to guarantees of only certain classes of capital invested in the project.

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39. Q. Would the IRB engage in dispute settlement? How would disputes be settled for investments in which the IRB participates?

A. The IRB would not preside over formal settlement of disuptes. As a participant in the trilateral contract, the IRB itself may be a party to a dispute.

Procedures to resolve differences among the parties to the trilateral contract would be negotiated as part of that contract and would have to be acceptable to all parties, including private investors and host country government. Conditions under which the terms of the contract might be renegotiated might also be specified in the contract.

A major function of the IRB would be to help ensure that investment disputes never take place. The IRB role in the trilateral contract negotiations should help ensure that the contract is unlikely to lead to serious disputes.

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40. Q. What would the IRB do in cases of expropriation or nationalization?

A. If the trilateral contract involved a procedure or method for compensation, agreed by both the host government and private investors, then the IRB guarantees might cover that contingency. The IRB might provide for insurance of equity in which case the IRB might compensate, at least partially, for inadequate compensation by the host government. IRB guarantees might be supplemental to that provided by national investment insurance institutions.

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41. Q. How would the IRB promote fair standards for projects in the resource field?

A. The IRB would not promote any standards for resource projects. Its role would be to encourage that the trilateral contract is negotiated in good faith, with adequate information available to all parties, and with important contingencies covered. It would be most concerned to see that the contract is negotiated in a way to protect itself as guarantor against non-commercial risk.

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42. Q. Would the IRB promote "unbundling" of technology and management services from equity investments?

A. The IRB should not promote "unbundling" or any other particular investment procedure. But, it could guarantee against non-commercial risk a project in which private investory played only a contractual role as provider of technology and management if both private investors and the host country government agreed that this was the best way to proceed.

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43. Q. How would IRB decisions be made? How would the voting power be distributed?

A. The manner in which decisions are made for the IRB will be a matter for governmental negotiation. In order to maximize the ability of the IRB to raise finance for resource projects and to inspire investor confidence, we believe that the voting in IRB decisions should reflect the relative financial contributions of IRB members.

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44. Q. Would decision-making in the IRB become political? What safeguards would there be to prevent this from happening?

A. The United States would resist every effort to make political IRB decisions on resource projects. IRB participation in projects should be based solely on commercial viability, the willingness of the other parties to invite IRB participation and the usefulness of an IRB role in facilitating the undertaking.

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45. Q. What can the IRB do that the IFC and the IBRD of the World Bank Group and the regional development banks cannot do now?

A. The functions of the IRB would differ from the IBRD of the World Bank Group in at least two respects: First, the IRB would function to a large extent as a guarantor of non-commercial risk, not as a direct lender to projects or to governments, thus having the effect of increasing overall LDC access to capital markets. Second, the IRB would participate in trilateral contracts involving projects of a directly productive and generally export-oriented nature, which would generate their own potential to pay back loans, whereas the World Bank lends to social education, urban renewal and other infrastructure projects.

The IFC lends mainly to private investors or participates in equity. It does not perform extensive guarantee functions, participate in trilateral contracts or lend to any government projects. Nevertheless, the IRB would work very closely with the IFC and the IBRD, and could become a part of the World Bank Group or a separate function of the IFC or IBRD institutions.

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46. Q. How does the IRB differ from investment insurance schemes, including both national schemes, such as the United States Overseas Private Investment Company (OPIC), and multilateral schemes, such as the earlier proposal for a World Bank sponsored International Investment Insurance Association (IIIA)?

A. The IRB differs from investment insurance schemes in several respects. First, the IRB could become involved in facilitating the financing of investment projects as sales agent. Secondly, the IRB would be a party to a trilateral contract and thus be involved in the negotiations. Obligations to IRB on the part of other investors and guarantees by the IRB would be specified in that contract. Third, investment insurance schemes often operate primarily as insurers of equity. The IRB would guarantee a wide range of capital investment against non-commercial risk. Fourth, unlike the IIIA, the IRB would participate in a trilateral contract in which the method for resolving contract differences would be spelled out in the negotiated

(continued)

46. A. (continued)

contract. Fifth, unlike OPIC, governmental member obligations to cover losses would have callable capital limitations. The IRB would not be able to operate backed by the full faith and credit of member governments beyond the combined total of the paid-in and callable capital subscriptions. This limited liability should give incentive to the IRB to act judiciously in choosing the projects in which it participates.

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47. Q. Would the IRB be a new institution? Given the proliferation of new institutions, wouldn't it be more desirable to use existing institutions?

A. The United States believes it would be preferable that the functions of the IRB be assumed by existing international institutions. We would not rule out the possibility of a new institution.

One very attractive possibility is to house the IRB in the World Bank. Another possibility is to use the regional development banks.

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48. Q. What could be the form of association of the IRB with the World Bank Group?

A. The IRB could be very closely associated with both the IBRD and the IFC of the World Bank Group. It might be run completely with the existing staff of the IBRD or the IFC. Or it might have a separate small staff and have the same relation to the World Bank Group as the IFC does now. Under this arrangement, the IRB would have many staff in common with the IBRD, especially services and support staff, and it would have the same president and board of directors as the IBRD. The directors, however, might have different voting weights than in the IRB and the IBRD.

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49. Q. How might the IRB proposal be elaborated and negotiated? Which institutional fora might be used?

A. At the present time, we are exploring ways to determine how the IRB could be negotiated. First, however, we would like to encourage a thorough discussion of the IRB in the Conference on International Economic Cooperation (CIEC), especially in the raw materials and energy commissions. The CIEC may want to establish a special working group of technical exports to more fully elaborate the proposal.

After the IRB has been fully aired in CIEC, we might remand the proposal to an international institution, such as the World Bank, for negotiation and implementation. Alternatively, we could use the IFAD model and establish an ad hoc intergovernmental negotiating group.

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OPTIONS PAPER -- COMMON FUND

Issue

The resolution entitled "Integrated Program for Commodities" in which we concurred--with explanations and reservations--at UNCTAD IV in Nairobi 1) requests the Secretary General of UNCTAD to convene a negotiating conference open to all members of UNCTAD on a Common Fund no later than March 1977; (2) further requests the Secretary General to convene preparatory meetings prior to the negotiating conference concerning inter alia elaboration of objectives, financing needs of a Common Fund and its structure, sources of finance, mode of operation, and decision-making and fund management; and (3) invites the member countries to transmit to the Secretary General of UNCTAD, prior to September 30, 1976 any proposals they may have concerning the above and related issues.

The U.S., having agreed to participate in the preparatory meetings, though not necessarily in a negotiating conference, must now decide on the lines of its basic approach to the Common Fund issue over the next several months leading up to and into the negotiating conference.

This paper provides: (1) an assessment of the political significance of the Common Fund in the North/South dialogue and possible implications of various US approaches to it; (2) an economic assessment of the Fund; (3) an analysis of prospects for the Fund's creation in the absence of US participation; and (4) three possible options for the US approach to the Common Fund.

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Description of Common Fund

It is difficult to outline precisely the Common Fund as proposed by the UNCTAD Secretariat since several versions of the proposal have been advanced. These are described in detail in Annex 1, but the main points can be summarized:

-- The objective of the Fund would be to improve LDC earnings from commodities by at least stabilizing commodity prices around a long-term trend, but more likely by raising commodity prices to levels higher than they would otherwise have been.

-- The primary device to meet this objective would be the creation of buffer stocks for individual commodities.

-- Buffer stocks would be established for at least ten "core" commodities, representing roughly three quarters of the value of agricultural and mineral commodities exported from LDCs (according to UNCTAD calculations).

-- The Fund would begin with subscriptions for paid-up risk capital totalling $1 billion and would borrow an additional $2 billion. This in UNCTAD's view would be a first tranche, to which at least one other would be added later.

-- Under the UNCTAD Secretariat's various formulas for financing the Fund, the US share would vary from 8-11% --or about $100 million.

Common Fund in North/South Framework

LDC Attitudes Toward Common Fund: The Common Fund has become a major political issue for the LDCs. Its symbolic importance in the field of raw materials has made it the political yardstick by which many LDCs measure progress in the North/South dialogue.

The Common Fund concept embodies the achievement of many long-standing LDC aspirations. Most importantly, it combines action in the resource area with the realization of their persistent desire for a larger LDC role in the shaping of the international economic system. Many LDCs see the Common Fund as the cornerstone of a new global economic institution controlled by LDCs and based on G-77 philosophy.

In addition, the Fund meets still another major interest of the LDCs--increased resource transfer through both higher commodity prices and pre-financing commitments from DCs. Finally, the LDCs have made the Common Fund issue another test of the "political will" of the industrialized countries in the dialogue. They argue that a forthcoming attitude on the Common Fund is evidence of DC commitment to a constructive dialogue.

Some of the LDCs--particularly some of the G-19 in Paris--have begun to express privately some misgivings over having staked so much on the Common Fund. They have begun to perceive that the Common Fund is not the panacea for all

LDC complaints in the commodity area and that in terms of costs and benefits only a few LDCs stand to gain significantly from the Common Fund.

Nevertheless, given the dynamics of the G-77 process it is unlikely that these misgivings will have any significant impact on the political momentum of the G-77 drive to establish the Common Fund. The G-77 is now locked into a firm political commitment to the establishment of the Common Fund, and there is unlikely to be any public backing away from that commitment as long as the G-77 continues to pursue its bloc approach to the dialogue. Also, even some LDCs who recognize that their own interests would be badly served by the Fund as now conceived probably hope that, once it is established, its functions would be significantly broadened into diversification,etc. and provide more direct benefit to them.

Thus, it is likely that continued US opposition to the Common Fund--and refusal to participate if it is established--would, quite apart from the economic issues involved, be a point of some friction in the overall North/South dialogue. The G-19 has not yet shown signs of wanting to make the Common Fund a central issue in CIEC. But it is likely that in the negotiation of a final communique for the December CIEC ministerial, the G-19 will make some attempt to force the US and other industrialized country holdouts toward a more positive stance on the Common Fund in preparation for the March 1977 negotiating conference. Looking beyond CIEC a US decision not to participate in the March 1977 conference and/or a US refusal to participate in the Common Fund, should it be established, would spark criticism of the US in the UN and other forums and could have, at least for the near term, a moderately negative impact on the tone of the dialogue.

At this point, it seems unlikely that the majority of LDCs--most of whom are beginning to recognize that they will obtain few if any direct benefits from the Common Fund--will want it to become a make-or-break issue in the dialogue. This, of course, depends on the manner in which the US and other DCs articulate their position. It also depends heavily on continued LDC confidence that the dialogue can provide benefits to them in the areas of resource transfer, energy, technology, and in specific commodity arrangements. Should they begin to lose confidence that the dialogue will produce meaningful results in these areas, it is possible that even the more moderate LDCs will be tempted to seize upon the US refusal to join the Common Fund as an issue for a major political confrontation. But in that event the Common Fund will be more a symptom than a cause of the breakdown of the dialogue.

In the meantime, we will probably find that the Common Fund issue does have an impact on some other areas of the dialogue. In the commodities area, some LDCs may link their support for certain of our initiatives (e.g., IRB) to our support for the Common Fund. But we have tried to make clear that the IRB is as much in the interests of the LDCs as the industrialized countries, and, therefore, that no trade-off is demanded. The Common Fund might spill over into non-commodity areas of the dialogue where we have a direct interest such as energy. Some of the OPEC countries might seize upon US refusal to join the Common Fund as justification for their unwillingness to agree to an on-going energy dialogue. However, our refusal to endorse the indexation of oil prices is likely to be a much more fundamental issue in this regard than the Common Fund.

Economic Assessment of the Common Fund

Economic Critique: The Common Fund proposal is based on two fundamental misconceptions: (1) that price stabilization is in itself a generally feasible and desirable measure to improve LDC commodity export earnings and (2) that the chief obstacle to the establishment of buffer stocks is the lack of financing.

In fact, price fluctuation is only one aspect of commodities problems as they relate to the development process. The costs and benefits of price stabilization measures must be assessed in the broader context of the problems of each commodity, including diversification, market promotion, vulnerability to substitutes, etc. Even in those cases where price stabilization is objectively desirable, the obstacles to buffer stocks are not likely to be financial but rather:

-- lack of agreement by exporters and importers on price objectives;

-- unworkability in the case of many commodities because of non-storability (bananas), cost of storage (sugar), or competition from substitutes (cotton);

-- ineffectiveness as a market improvement scheme for a number of commodities (jute).

(See Annex 3 for a summary of each of the core commodities.)

Where a buffer stock can be agreed upon, financing can be obtained by direct contribution by participating countries (producers, consumers, or both), by commodity taxes, or by borrowing from commercial or international institutions.

This fundamental misconception is probably not accidental. The authors of the Common Fund proposal did not wish to deal with the real obstacles to buffer stock arrangements and they seek to avoid them by creating the financing in advance of the buffer stock schemes. This, however, could lead to the creation of economically unsound buffer stock schemes which could waste enormous amounts of money as well as distort the functions of commodity markets. Both private individuals, as well as governments, have in the past lost huge sums of money in attempts either to gain profits through commodity speculation or to rig prices through market operations. There is no reason to expect that even a multibillion dollar fund could avoid the same fate if expended on economically unsound schemes. These concerns are strengthened by the indications in an October 1975 UNCTAD Secretariat document that the Common Fund would have the authority to intervene "in markets for which commodity arrangements do not exist."

Whether or not the Common Fund expends its monies on sound or unsound schemes, it must be recognized that contributions to the Fund will represent a real cost for most countries, and above all, for the United States. Therefore, contributions to the Fund might not in practice be incremental aid flows but rather alternative to expenditures for bilateral foreign aid or contributions to other international institutions.

<u>Developmental Significance of the Common Fund</u>: The analysis of individual commodities in Annex 3 confirms that the Common Fund is largely irrelevant to the development process of the great majority of LDCs. Not only are buffer stocking agreements unlikely in more than a handful of cases but also relatively few LDCs would benefit significantly from a Common Fund to finance such buffer stocks.

There are at the present time only two commodity agreements providing for buffer stocks-tin and cocoa. The Tin Agreement is inadequately capitalized and the major producers--Malaysia, Bolivia, Thailand and Indonesia--would clearly benefit.

Cocoa, for which a buffer stock has not yet been constituted, is now more than adequately financed out of an export tax which has been collected since 1972. The cocoa producers (mainly Ghana, Nigeria, Brazil and a number of other African and Latin American countries) would obviously wish to have the funds collected so far returned to them and cocoa buffer stocks operations financed out of the Common Fund. It would, however, be difficult to justify this step.

Apart from these two cases, the only other remote cases for buffer stocks are rubber and copper. With the increase in energy prices and consequent rise in the price of synthetic rubber, a major obstacle to a buffer stock for natural rubber has disappeared. At the same time the lessened competition with synthetic rubber seems to have diminished the enthusiasm of the natural rubber producers for an agreement. The major producers in South East Asia are the same as those producing tin--Malaysia, Indonesia and Thailand.

Copper is of major interest to several important developing countries--Bolivia, Chile, Zaire and Peru--but the US, Canada and Australia are also major producers. While frequently mentioned as a candidate for a buffer stock, copper would be difficult to organize into a buffer stock. For one thing, it would be very expensive ($2 to $3 billion). Secondly, a buffer stock for copper would be technically difficult to manage because supply is so elastic (scrap is a large portion of total supply) and because of the competition of synthetic metals.

In the case of virtually all other commodities, stocking agreements are either not feasible and/or would operate largely to the advantage of industrialized countries who are leading exporters, e.g., bauxite (Australia), cotton (US. USSR), iron ore (Australia, USSR), and vegetable oils (US).

We should, of course, articulate our position on the Common Fund in the context not only of our analysis of its relative lack of importance to general LDC economic development, but also of our own approach to economic development which stresses increased access to DC markets, investment, technology, quality as well as quantity of ODA flows, etc., as practiced and effective means of resource transfer and development assistance.

<u>Prospects for the Common Fund</u>

Since the Group of 77 countries have made the Common Fund a major objective of the North/South dialogue, there is unquestionably a strong push behind it. It is, in fact, possible that it will come into existence regardless of the position taken by the U.S. Fifty-one countries--including five OECD countries--have so far expressed support for the Fund, with 26 pledging contributions. Five countries have specified the amounts of their pledges, which total $155 million. (A list of countries pledging or expressing some degree of support for the Fund is attached at Annex 5). In most cases the pledges are conditional on successful international negotiations. According to the UNCTAD Secretariat, the OPEC Ministers have agreed in principle to contribute. Some countries have pledged "according to UNCTAD formula". The Secretariat has not yet decided which formula to use, the issues being the apportionment among exporting and important countries and the inclusion of OPEC.

As the analysis in Annex 3 confirms, a Common Fund based on the above resources would not be a significant instrument for the organization of most commodity markets. We may expect that in the coming preparatory and negotiation conferences, some additional contributions will be forthcoming. Still, many countries might be reluctant to pledge to a fund whose outcome is in doubt. The reactions of the major industrialized trading nations, therefore, could be crucial in determining the outcome of the negotiations. The key countries are the UK, Germany, Japan, and the United States, which together account for nearly 60% of the world's trade and whose contribution to the $1 billion of paid-in-capital--assuming equal exporter and importer shares and no separate OPEC contribution--would be $254 million ($200.5 million with an OPEC contribution). The participation of these countries would be even more important in terms of the Fund's ability to borrow funds beyond its paid-in capital.

The current attitudes of these countries are as follows:

UK. After Nairobi, UK officials told us the UK did not accept the principle of a Common Fund nor did it consider itself obligated to participate in a negotiating conference. Most recently, however, they have indicated they are under strong pressure to be more forthcoming and view some kind of a fund as inevitable.

FRG. The FRG Ministry of Economics remains strongly opposed to any kind of Common Fund and believes it can maintain this position if the US holds firm. According to one official of that ministry, Chancellor Schmidt has said the FRG could accept isolation within the EC on the Fund issue but only if supported by the US. We have recently received indications the FRG might say no unequivocally to the Fund but couple this rejection with a positive proposal on other raw material issues, such as diversification. The Germans would pledge budgeted funds for this purpose.

Japan. The Japanese do not want a Common Fund but may be prepared to be flexible on the issue assuming they can buy their way out at a low price. Most of all they fear isolation. If the FRG and the UK stood firm, the Japanese might follow, though there can be no assurances they will do so. We understand that a strong high-level appeal from Indonesia was a factor in their last-minute decision not to issue a separate statement at Nairobi.

Economic Implications of the Common Fund for the U.S.

International commodity agreements can be economically sound and the U.S. has in fact supported such agreements, for example in tin and coffee. Unsound agreements, however, can disrupt markets, raise prices to consumers, and lead to the misallocation of resources. The economic harm or perhaps gain that accrues from an international agreement will depend on the characteristics of the market to which it applies and the provisions of the agreement. The possibility of proliferation of unsound agreements depends primarily on whether a Common Fund would dissipate the leverage the U.S. has used in the past to block the establishment or effective operation of agreements which might have been detrimental to our interests.

One stated purpose of the Common Fund is to encourage the formatión of commodity agreements. It can be argued that the fund would provide impetus to the proliferation of international commodity arrangements in two ways. (1) It would mitigate the obstacles to the negotiation and enforcement of the agreements by financing the holding of stocks. (2) It would provide a focal point of LDC unity and put political pressure on the developed countries to cooperate with the establishment of agreements.

Although readily available financing can be a factor in mitigating problems associated with the establishment of new agreements, the principal obstacle in negotiating commodity arrangements has been the attitudes of major producers and consumers. If all major producers and consumers are willing to cooperate, some form of agreement, whether using a buffer stock or quotas, is possible on all of the UNCTAD commodities. (An analysis of different types of stocking arrangements is provided in Annex 2.) If the political unity shown by the G-77 at UNCTAD IV successfully alters the attitudes of all of the countries involved in individual commodity negotiations, the political impact if not the economic impact on the U. S. could be substantial. To do so, the G-77 would have to transfer the political unity developed at a forum where few tangible economic interests were at stake to individual commodity forums where slightly different formulations of an agreement can involve millions of dollars in export earnings to participants.

The key to the successful operation of most agreements under a modestly endowed Common Fund will be the stance of the U. S. government. A product-by-product analysis is provided in Annex 3. The analysis assumes that:

1. The U. S. contributes $100 million and a Common Fund acquires financial resources of $3 billion.
2. The U. S. has no real leverage over how the funds are used.

3. The establishment of a Common Fund could provide a psychological impetus for producers to push for pricing arrangements containing provisions for buffer stocks, quotas, or some combination of the two.
4. The U. S. receives no strong support from its industrial allies for its position on individual commodity negotiations.
5. The financing made available would be used to support stocking arrangements, not necessarily for deficiency payments programs or other activities.
6. The U. S. can successfully resist political pressures to participate in arrangements it finds detrimental to its interests.

As the analysis in Annex 3 shows, pure buffer stock arrangements could be established for seven commodities that have a relatively small value in world trade and relatively limited financial requirements - cocoa, jute, manganese, rubber, sisal, tea, and tin. These agreements could be operated without U. S. cooperation. The more important commodities in world trade - coffee, copper, cotton, iron ore, phosphates, sugar, and vegetable oils - require some form of quota arrangement to enlarge the purchasing power of the funds available for financing stocks. Financed stocks are not suitable for bananas, meat, and timber, and bauxite does not lend itself to an international agreement.

For the commodities that require quotas, with the exception of copper, the U. S. could effectively block or at least severely hinder the operation of any agreement that might emerge by refusing to comply with the quota provisions that would be necessary for adequate defense of the price range. As a major exporter of cotton, phosphates, and vegetable oils, the u.s. could prevent the effective functioning of international agreements based on export restrictions. As an importer of coffee, iron ore and sugar, as well as of bananas, and tropical timber, it could refuse to assist efforts to enforce commitments by producers to impose quotas on shipments. Without U. S. cooperation, it is very doubtful that the quota restrictions could be operated successfully for any length of time.

This leaves cocoa, jute, manganese, rubber, sisal, tea, tin, and copper as commodities which might be subject to pricing agreements, despite U. S. objections, if there is financial backing from the Common Fund. Even with financing, an agreement on manganese is unlikely, since world exports come largely from developed countries which have thus far not expressed interest in an agreement. Of the remaining commodities, cocoa and tin are already covered by agreements. Both of these commodities are fairly well suited to buffer stock operations and an agreement would not necessarily be contrary to U.S. interests. The danger in these commodities is that we may lose what influence we have on the shape of the provisions of an agreement. With or without a Common Fund, a quota agreement in tea is a real possibility owing to the strong support given by the UK, the dominant importer.

It is doubtful that the economic impact of agreements in the four remaining commodities -- copper, rubber, jute, and sisal -- would be substantial. Jute, sisal, and rubber face strong competition from synthetics which would limit the freedom of the agreement to raise prices to the detriment of consumers. The U.S. is largely self-sufficient in copper and somewhat insulated from the world price.

If the U.S. does not contribute to the Common Fund and a fund with more limited capital resources is established, its potential for financing commodity arrangements would be more restricted. Without US participation, the Fund could acquire around $500 million in paid in capital, with perhaps $1 billion total resources including borrowing. In this case, pure buffer stocks might be established in four or five of the potentially suitable commodities listed earlier. Alternatively, some type of quota arrangement financed by the Common Fund could be established in the commodities that have a relatively small value in world trade. To extend the commodity coverage, pure quota arrangements would have to be negotiated for commodities with a higher volume in world trade. Again, quota type arrangements would make US membership in the agreement highly advantageous if not essential for the effective operation of the quotas. The availability of financing would not drastically alter the situation we face currently. Thus as in the case with US participation in the Fund, the economic impact without US participation would not be substantial if the US refused to join unsound agreements.

Since it appears unlikely that the US or the developed countries as a group will have political control of the organization dispensing the funds, one important caveat should be noted. If the concept is abandoned that the financing facility of a stocking arrangement should be self-sustaining (i.e., that the Fund's expenditures will be covered in real terms by later receipts), the possible uses of the Common Fund's resources are multiplied. There may be attempts to establish buffer stock agreements in commodities that have a large volume in world trade, even though the resources of the Fund are insufficient to support the purchases necessary to stabilize prices. UNCTAD might gamble that producing and consuming nations would make further contributions to prevent the collapse of the Fund or to prevent further damage to markets which have been adversely manipulated through Common Fund financed action. Another result might be what would amount to a modest worldwide deficiency payments program. In the case of jute and sisal, for example, financing from the Fund could buy these products at a price providing producers "reasonable returns" while dumping them at a loss to prevent substitutes from gaining a stronger foothold in the markets. A similar program could be undertaken with tea. There would probably be calls by the developing countries to restrict production of certain commodities and synthetic substitutes by developed countries that compete with exports from the developing world. There would probably also be proposals for giving subsidies to the poorer members of the Group of 77 for the commodities they must import. The larger the financial pool in the Common Fund, the stronger the pressures will be to expand the activities in which the Fund can engage.

The conclusion of this analysis is that the economic impact of a Common Fund would not be substantial because:

1. The U.S. could block the establishment or at least limit the effectiveness of agreements in most commodities through its stance in the individual negotiations;

2. The agreements that could be concluded and successfully operated without U.S. cooperation would be imported commodities that are not of particular interest to the U.S. or that face strong competition on our market from synthetics or other substitutes.

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Options

There are three basic options open to the US in dealing with the Common Fund.

Option 1 - Join the Common Fund. The US could decide to join the Common Fund as proposed by the UNCTAD Secretariat. We would participate actively in both the preparatory meetings and in the negotiating conference. We would try to maximize our influence over decisions by the Common Fund by striving to obtain as much voting power as possible. We would also seek to limit the degree to which our financial commitments were open-ended by making any new calls for capital contributions subject to new negotiations and commitments.

Pros

-- Would be seen by LDCs as firm evidence of US commitment to improvement of LDC earnings from commodities and to the objective of accelerating the transfer of resources from developed to developing countries.

-- Our active involvement would give us the opportunity to limit the extent to which the Common Fund engaged in economically unsound operations, although depending on the management and voting structure, we might not be able to control these decisions.

Cons

-- Existence of a Common Fund with US participation would probably create political pressure for the creation of more buffer stocking schemes than would result from a commodity-by-commodity review in the absence of a pre-financing commitment.

-- Reversal of our opposition to the Common Fund could encourage some LDCs to believe that a radical politicization of other issues such as indexation and debt would eventually cause the US to accept G-77 demands in these areas.

-- Reversal of our position on the Common Fund would jeopardize our credibility with key DCs and possibly complicate achieving unified DC positions in the future.

-- A US financial contribution to the Common Fund might well be offset, at least in part, by reductions in our contributions to other IFIs.

<u>Option 2 - Rejection of the UNCTAD Common Fund Together with Alternative Approaches to Some Variety of Common Fund.</u>

This option comprises two sub-options, both of which would be accompanied by a more explicit commitment than at Nairobi of our willingness to make direct consumer contributions to the financing of individual buffer stocks, consistent with our case by case approach.

<u>Option 2(a) - Willingness to Consider Financial Relationships Among Buffer Stocks with a Central Financial Facility</u> (Variant of the Fourcade Proposal)

Under this option, we would express our objections to the common fund supported by UNCTAD, indicate we would not plan to join, and would not submit written comments to UNCTAD by the September 30 deadline. We would attend the preparatory meetings but would give no indication as to whether or not we would participate in a negotiating conference. We would indicate our willingness to consider financial links among buffer stocks, once they are established, through a central financing--but not managerial--facility. (We would not accept the other element of the Fourcade Proposal, which involves an advance commitment to enter into an unspecified number of commodity agreements.)

The individual buffer stocks would be managed by the specialized producer/consumer organizations. The common financing facility would neither operate in markets independently nor have any management role in the operations of individual buffer stocks. The fund would be limited to contributing supplementary resources on a loan basis--with buffer stocks continuing to be financed primarily by the producer and consumer members of a specific commodity agreement. There would be no commitment of funds for the central facility until the commodity-by-commodity review has been completed and it is known how many buffer stocks might be created. (Annex 5 sets forth principles for inclusion in a buffer stock financing facility.)

Pros:

-- If the work on individual commodities results in the establishment of some new buffer stocks, the creation of a central funding pool could result in financial savings.

-- Would avoid the disadvantages of the UNCTAD proposal, which would permit the common fund to interfere directly with commodity markets and which, through its pre-financing commitments, would tend to prejudge decisions on buffer stocks in individual commodity consultations and negotiations.

-- Would be a defensible, alternative common fund type proposal which some influential LDCs might prefer.

-- US participation in such a fund would enable us to help shape the criteria for buffer stock financing.

-- Would give other DCs a proposal around which to consolidate.

-- Assuming a limited degree of US control over any type of common fund, a fund of limited scope would be less harmful to US interests than one that would engage in a variety of activities.

-- By focussing exclusively on buffer stock financing, might be opposed by the many LDCs who do not stand to benefit from a common fund with a limited range of activities--thus raising the possibility of no agreement on a common fund.

Cons:

-- Both through our direct contributions and the broadened support our participation would induce on the part of other countries, would significantly increase the financial resources available for potentially disruptive buffer stocks.

-- Assuming a limited degree of US control over the Fund and the broader financial support that would result directly and indirectly from US participation, we might lose some of the leverage we now enjoy in individual commodity negotiations.

-- US participation would increase political pressure on us to support commodity agreements we find unsound.

-- Would not meet the institutional and political objectives of the G-77 as a whole. This proposal was, in effect, rejected by the LDCs at Nairobi and it is unlikely that we could obtain a significant amount of active LDC support for it as an alternative to the UNCTAD version.

-- Once a common fund is established, under whatever terms, its functions and financial capacity could be expanded, a process we might not be able to control.

Option 2(b) - Attempt to Reshape Role of the Common Fund and Redirect its Activities. We could participate actively in the Common Fund negotiations to reshape it into an institution more acceptable to us and one which we could join. In the negotiations, we would seek to reorient the use of the Fund away from an institution whose single purpose is to provide financial resources to commodity stabilization agreements and move it towards a multi-purpose fund designed to meet a broad range of commodity problems. This conception of the Common Fund would attempt to accomplish two objectives: (1) encouragement of feasible solutions to commodity problems with minimum interference with the international market mechanism, and (2) diversion of a portion of the financial resources and attention of the Fund from potentially disruptive commodity agreements.

As an alternative to the UNCTAD formulation, the U. S. would propose that the scope of the Fund be broadened to include activities that would facilitate the normal workings of the market such as diversification into more profitable commodities, loans to LDC's to promote processing facilities for primary products and increased LDC participation in distribution systems for commodity exports, research on methods for improving agricultural productivity and technology suited for developing countries, improved internal agricultural credit facilities, and market promotion in items of interest to developing countries. Such additional activities would be of interest to members of the G-77 who currently receive few benefits from the UNCTAD program. To the extent that these activities reduced the amount of resources available for financing commodity agreements, a broader concept of the fund would limit the scope of potentially disruptive activities.

In addition, the U. S. would seek to use the lure of a U. S. contribution to directly limit the role of the Common Fund in commodity stabilization. The U. S. would propose that the Fund be prohibited from any management role in market intervention schemes including buffer stock operations. This function would be accomplished by the administrative machinery created under individual commodity agreements. Criteria for buffer stock agreements eligible for financing by the Common Fund would be established along the lines of Annex 5. Also, we would circumscribe the role of the Common Fund by limiting the financial resources available for buffer stocks, thus requiring that buffer stocks would have to be financed primarily by the producer/consumer members of an individual commodity agreement, with the Common Fund contributing supplementary resources on a loan basis.

PROS

-- Could be defended as a constructive alternative to the UNCTAD version of the Common Fund, which would benefit more LDC's by addressing a number of problems other than buffer stock financing,

-- Might obtain active support from some LDC's who disagree with focussing the Common Fund heavily on buffer stocking and market intervention.

-- May allow the U. S. to shape the criteria under which commodity agreements can receive financing from the Fund.

-- Would limit the resources and the role of the Common Fund in buffer stocking, thus minimizing the opportunity for harmful market interventions.

-- To the extent that it expanded resources presently available for diversification, market promotion, etc., could make a real contribution to solution of commodity problems.

-- Would be consistent with U. S. approach to direct the dialogue positively into pragmatic solutions to real problems.

CONS

-- If the U. S. becomes committed to participation, it will virtually assure that the Fund will attract universal membership, supplementing the resources of the Fund and thereby increasing the resource available for potentially unsound agreements.

-- Since it is likely the developing countries will achieve control of the Fund's activities, the broader scope would allow greater opportunity for financing projects which might be prejudicial to our interests.

-- U.S. acquiesence may permit the Fund to finance commodity agreements in which U.S. participation is not necessary to make a sound arrangement, thus eliminating U.S. negotiating leverage in shaping the agreement.

-- Our ability to reshape the Common Fund is by no means assured, and this course of action would put pressure on us to join the institution even if not all our desired limitations and modifications were achieved.

-- Any U.S. contribution to a reshaped Common Fund might be at the expense of corresponding U.S. contributions to other institutional development activities.

-- As in the case of buffer stocks, the problem of diversification is less one of financing than of developing sound projects. To the extent that the Fund becomes involved in financing sound investments in the LDC's it may be duplicating the work of existing IFI's.

Option 3 -- Reject the Common Fund

Under this option, the U.S. would state that it will not join the Common Fund and would not actively participate in the negotiating conference on the Common Fund. U.S. opposition to the Common Fund could be either active or passive.

Option 3(a)--Passive Opposition to the Common Fund

Under this option we would calmly but clearly express our objections to the Common Fund and indicate that we would not plan to join. The U.S. would also refuse to accept linkages among any commodity agreements that are established. We would not submit written comments to UNCTAD by the September 30 deadline but would attend the preparatory meetings, at which time we would express our views in analytical fashion. We would signal the unlikelihood of our participation in a negotiating conference.

We would, however, combine our opposition to the Common Fund with active leadership in the individual commodity consultations, making concrete proposals to increase access, lower the costs of production and improve production efficiency, and considering constructively price stabilization measures, including buffer stocks, where these are feasible and appropriate. We would propose diversification schemes where appropriate.

Pros

-- By stating our position clearly and unambiguously, we reduce the extent to which the Common Fund negotiations may gain further momentum over the next six months.

-- Would maintain the support of Germany and possibly the UK.

-- Could not be regarded as a confrontational approach, particularly when combined with an active and constructive role with respect to individual commodities.

-- Without U.S. support and participation, a Common Fund with sufficient resources to be inimical to U.S. economic interests is unlikely.

Cons

-- LDCs and a number of developed countries may move to establish the Common Fund without the U.S., and we would have lost any opportunity to influence its initial shape.

-- In view of the importance attached to the Common Fund by LDCs, our opposition could adversely affect the overall atmosphere of the North/South dialogue and might prejudice LDC support for certain of our initiatives (e.g., IRB) as well as progress on those North/South issues where we have a direct interest (e.g., on-going energy dialogue).

Option 3(b) -- Active Opposition to the Common Fund

Under this option, we would actively campaign against the establishment of the Common Fund, even one in which the U.S. itself was not a member. We could use the preparatory meetings to expound our case against the Common Fund. We would press other DCs, including those who have already indicated some flexibility in the UNCTAD proposal, not to join. We would similarly launch a major campaign to convince the majority of LDCs that the Common Fund is at best irrelevant or even inimical to their development needs because it would raise the price of some of their imports, drain off DC resource flows, etc.

Pros

-- Would leave other countries under no illusions as to the U.S. view of the Common Fund.

-- Would demonstrate to the G-77 that we are not willing to accept or acquiesce in unrealistic proposals just because they make them into major political issues.

-- Would, if successful, help ensure that world commodity markets are not influenced by economically unsound buffer stocking activities.

Cons

-- Active U.S. efforts to block the establishment of the Common Fund would probably lead to a major political confrontation in the North/South context, possibly leading to the disruption of CIEC and jeopardizing a constructive conclusion of the work on individual commodities under the UNCTAD resolutions.

-- Such a U.S. position does not appear economically justified since our analysis indicates that without U.S. participation a Common Fund would not seriously affect our economic interests.

Tactics: There are two factors which should guide the tactics of the US approach to the Common Fund issue over the next several months: (1) the need to maintain close coordination of our position with other key DCs; and (2) the need to maintain sufficient flexibility so that we do not arrive at the March negotiating conference, if we decide to attend, having exhausted all our options and facing the bare choice of accepting or rejecting the UNCTAD version of the Common Fund.

Pressures on the US to join the Common Fund would become increasingly heavy if we were the only major DC holdout. The UK, FRG, and Japan will be watching closely for any evolution in the US position over the next few months. None of them will stick to a tougher position than our own, and if our opposition to the UNCTAD version of the Fund were seen to be softening, the UK, Japan, and perhaps even the FRG would move quickly to avoid being isolated. We are thus a key to what they do and should carefully coordinate our own discussions and moves with them.

We should be able, if we so decide, to maintain the support of these countries for a continued position of firm, non-confrontational opposition to the UNCTAD version of the Common Fund over the next few months as in Option 3(a). As the March negotiating conference draws near, we may find that they are increasingly anxious either to come up with commodity-related alternatives to the Common Fund (as the FRG is apparently now studying); or in the case of the UK and Japan, to participate in the negotiations with a view to reshaping the Common Fund and making it less noxious. Whether they would be successful in that effort, particularly without the active support of the US and the FRG, is uncertain at best. It is equally uncertain whether they would be able to resist joining the Common Fund if their efforts to reshape it failed.

In the interest of preserving some measure of flexibility, it may be advantageous for us to move toward Option 2a (a version of the so-called Fourcade approach) on a step-by-step basis over the next several months. That is, to the extent we are able to indicate a willingness to consider financial links among buffer stocks when these are agreed, we would present this option initially as involving simply direct contacts among the buffer stock organizations themselves. We would then be prepared to move from there to acceptance of the notion that in practice such links would involve some sort of common financing facility. Such a position would avoid a totally negative stance on this key element of the Common Fund. To be even moderately credible as an alternative to the Common Fund, this position on buffer stock financing would have to be coupled with constructive US leadership in the work on individual commodities. In particular, we would have to show a willingness to consider new buffer stocks where these make economic sense. To avoid later charges of bad faith, however, we would probably want to indicate at the outset that our preliminary analysis does not reveal that buffer stocks would be feasible in more than a few cases.

A US position along these lines over the next several months would probably not result in any significant slowing of the G-77 political push for the Common Fund. The financial linkage proposal was made and rejected at UNCTAD IV. However, with this approach we could probably retain the support of key DCs and prevent the UNCTAD proposal from gaining additional momentum, particularly as we moved toward a willingness to consider a central financing facility (option 2a).

Similarly, a carefully articulated US position along these lines should minimize, although not eliminate, the risk of major confrontation over the Common Fund in the North/South context over the next several months. In particular, it should not prejudice a smooth beginning of the work on individual commodities. The LDC producers hoping to obtain real benefits from the commodity-by-commodity approach are not likely to jeopardize its success by making the US opposition to the UNCTAD Common Fund proposal a major issue in these discussions.

Option 2(b) (reshaping the Common Fund) may be increasingly attractive to the other DCs, and we could explore it quietly with them over the coming months. However, we should avoid any early indication that we might be willing to adopt such an approach. The strong possibility that any Common Fund actually negotiated would be one in which our influence would be reduced relative to existing IFI's must be considered in assessing the desirability of our supporting a fund of expanded scope. Aside from this question, a reshaped Common Fund acceptable to us (e.g., no pre-financing, limitations on market intervention, etc.) may well be politically unacceptable to the LDCs. It is conceivable that such an approach might be viable once the G-77 discover in the negotiating conference that a fundamentally reshaped Fund is their only alternative to a Fund which would be largely impotent because major DCs refuse to join. But any such proposal during the preparatory meetings is almost certain to be rejected, and we would then find ourselves at the time of the March Conference with only the choice of accepting or rejecting the UNCTAD version.

Moreover, even a reshaped Common Fund would carry a cost, particularly if we elected to broaden its activities into diversification, market, market promotion, etc. We would want to assess whether such a Fund would represent the best use of development resources.

In addition, even with full support from the FRG, UK and others (possibly including some LDC moderates), it is far from certain that we would succeed in reshaping the Common Fund into a facility we could accept. But once we begin to participate actively in the negotiations, it could become increasingly difficult for us to resist participation in whatever type of Common Fund might emerge.

Policy Implications and Tactics of Various Approaches to Common Fund Issue

The foreign policy implications of various US approaches to the Common Fund issue vary widely. Were we to reverse our opposition and agree now, or during the negotiating conference, to participate in a Common Fund more or less along the lines of the UNCTAD proposal, our decision would be greeted warmly by the G-77. However, the benefits of the resultant upsurge in LDC goodwill would have to be measured against the inevitable loss of confidence on the part of the FRG, UK and other DCs in the ability of the US to resist G-77 political demands, even when these make little sense in terms of economic development and are patently prejudicial to our own interests. An abrupt about-face following the serious and compelling arguments we have advanced against the Common Fund would be a blow to our credibility. Our leadership role in the dialogue could thus be seriously compromised and it might be increasingly difficult to maintain even minimal DC unity on other important North/South issues. Moreover, reversal of the US position on the Common Fund could encourage the LDCs to rachet up political pressure on some of their other demands, such as debt and indexation, in anticipation that they could force a similar change in US policy.

On the other hand, were we to launch a major campaign to block the establishment of the Common Fund, rather than simply refusing to join a Fund established along the lines of the UNCTAD proposal, we could cause a major political rupture in the dialogue. As explained earlier, the Common Fund has become an article of political faith among LDCs, and an active US effort to block its establishment would probably be viewed as confrontational, even by those LDC moderates who recognize that the Common Fund offers no real benefits to them.

Such a US position would also cause great strains on DC unity. Many DCs would not want to be identified with this direct political challenge to the G-77. Japan would probably back away from the US position rather quickly. The UK and even the FRG would become increasingly nervous about being identified with the US position as the March negotiating conferenc drew near.

However, on the basis of our analysis of the likely impact on US economic interests of a Common Fund formed without US participation, such an all out effort to prevent its establishment does not appear warranted. This judgement is even more convincing if we can assure that other key DCs, particularly the FRG, continue to refuse to participate in a Common Fund established along the lines of the UNCTAD proposal.

Description of the Common Fund

The major objective of the Integrated Program for Commodities, which grew out of an action resolution of the 6th Special Session of the United Nations General Assembly, is "equitable" commodity prices. Buffer stocks are considered the principal technique available to achieve this objective for ten "core" commodities of a list of 17 representing--according to the UNCTAD Secretariat--roughly three quarters of the value of agricultural and mineral commodities, other than petroleum, exported from developing countries.

The Group of 77 views the establishment of price stabilization schemes, primarily through the creation of buffer stocks as fundamental to their objective of improved LDC earnings from commodities. They believe the chief obstacle to the creation of buffer stocks has been financing. They have therefore proposed the creation of a Common Fund which would consist of contributions from consumers and producers in relation to their share in world trade in commodities augmented by contributions from OPEC countries. The Fund would begin with subscriptions for paid-up risk capital totalling $1 billion and obtain an additional $2 billion from loans (from both private sources and international lending agencies) to finance buffer stocks for the five most critical "core" commodities (coffee, tea, rubber, copper, and tin). Under the Secretariat's various formulas for financing the Fund, the US share would vary from 8-11%-- the amount being roughly $100 million or 1/10 of the total initial subscription of $1 billion.

An additional $3 billion--again with $1 billion in the form of government subscriptions and $2 billion as loans-- would be callable if and when needed. This additional amount would presumably be used to finance buffer stocks for the remaining five "core" commodities (cocoa, sugar, cotton, jute, hard fibers), although at recent UNCTAD meetings

(Manila) there have been signs from the G-77 that the Fund could be envisaged to cover other activities as well. Chief among these "other measures" may be compensatory actions to aid developing countries who are net importers through concessional financing of their imports of the commodities covered by the Fund.

With respect to organization, earlier documentation on the Fund calls for its establishment along the lines of existing financial organization--that is, with a Board of Governors, Board of Directors, and Executive Head. The Fund might adopt a system of weighted voting "or devise its own rules to protect smaller countries' interests in the face of large and powerful trading partners." The staff of the Fund would be kept small. "Trading transactions normally would be carried out by individual commodity organizations." Here, it should be noted that according to previous Secretariat documents (TD/B/C.1/196 of October 1975), as an exception to the primary function of lending monies to individual commodity organizations, the Fund should "have the authority to intervene directly, for a limited period, in markets of commodities for which commodity arrangements do not yet exist, so as to be able to provide emergency price support when needed."

An alternative means of operation of the Fund described by the Secretariat (TD/B/C.1/196) would be as a "pool of finance." Here, the Fund would exist simply as a pool of to be drawn upon as needed by commodity organizations. Each organization would have its own separate financing but would deposit with the Common Fund its cash balances and be eligible to draw this amount (presumably from the deposits of other commodity organizations) to meet its peak requirements.

The Secretariat literature on the Fund itself for the most part avoids explicit references to indexation and related concepts, although a May 1976 paper (TD/184) on the Fund refers to "more remunerative prices." The same documents, however, when dealing with measures such as stocking (which the Fund would finance), refers to "maintaining prices at adequate levels in real terms." The literature on the Integrated Program is replete with references to safeguarding the purchasing power of developing countries. The May 1976 document would"...be feasible only for those commodities for which effective market control is established in the framework of international agreements..." and "...since indirect indexation by market regulation cannot be expected to cover more than a certain range of commodities, consideration needs to be given to complementary measures to achieve the indexation objective." Since the Common Fund is the central element of a program committed in varying degrees to the notion of indexation, we must assume even in the absence of explicit references to indexation in the documentation that the developing countries would seek to use the Fund in furtherance of that goal.

TYPES OF STOCKING ARRANGEMENTS

There are a number of possible international commodity agreements that would involve stocks. The two major kinds are buffer stocks and quota agreements. The following analysis outlines the varieties of possible commodity arrangements and the implications of each for the negotiation and enforcement of the agreement.

Pure Buffer Stocks

A pure buffer stock is the basic form of stocking arrangement. A commodity is purchased, presumably when market prices are low, and sold presumably when market prices are high. Of the possible types of stabilization agreements, buffer stocks potentially require the most initial funding. The buffer stock must purchase the commodity at the full market rate and cover the costs of storage. The total funding requirements of the buffer stock will depend on (1) the value of the commodity entering world trade, (2) the price range, (3) the length of the random or cyclical price movements in the commodity, and (4) the cost of storage and turnover costs.

The difficulties faced in negotiating a buffer stock depend on the characteristics of the participating producers. On one hand, it eliminates one contentious issue among producers in the negotiation of quota type agreements, the division of market shares. On the other, a buffer stock, that does not restrict the exports of dynamic producers and allows the market share of stagnant producers to continue to erode may meet opposition from producers whose production is declining.

If adequate funds are available to finance a pure buffer stock, it can be implemented without the cooperation of producers or consumers. With stock obtained through purchases at the market price, there are no quotas to enforce.

Buffer Stock with Supplemental Quotas

This arrangement would defend the price range by purchasing at the market price and imposing supplemental export quotas. To the extent that the price range is defended by quotas, it will require less financial outlay than a pure buffer stock.

Relying on supplemental quotas to maintain an international buffer stock will force producers to address the question of their market shares. This question may be less contentious than in negotiations for a pure quota agreement, since full international financing will be available for some or all of the production in excess of quota.

Export quotas can be enforced by either producing or consuming members. If there is a small number of producing members, enforcement of the quotas may be left in the hands of exporting countries. In this case, prompt statistical information provided by the importing members on the source of their imports plays an important role in the enforcement system by identifying countries that have shipped over their quota. If there is a large number of exporters, importing members may have to enforce the quotas by denying entry of exports in excess of the exporting member's quota. In the first case, all major exporters must participate in the agreement and major importers would probably have to cooperate by providing statistics. In the second case, all major importers must cooperate. In addition, they must be willing to limit imports from exporters that stay outside the agreement.

Buffer Stock Obtained by Quotas

In this type of agreement, production in excess of export quotas would be purchased by the buffer stock at a price below the market rate, expanding the potential capacity of the financing facility. When the price is in the lower portion of the range, producing members would sell their excess production over the quota to the buffer stock at some portion of the market price. When the stocks of the commodity were released to defend the upper limit of the agreement, the producer would receive the difference between the price at the lower limit and the initial payment.

Apart from storage costs, this type of arrangement will expand the effective purchasing capacity of the buffer stock by the inverse of the proportion of the market price initially paid to producers. For example, if the buffer stock paid 20 per cent of the market price at the lower limit, the buffer stock capacity would be increased five times.

This arrangement provides several advantages for producers over traditional quota type arrangements. Although a portion of the production is initially sold below market prices, the producer is able to sell his entire output. A portion of it would be kept off the market in storage at international expense. This stock gives producers greater assurance of protection of the lower limit of the price range makes this type of arrangement easier to negotiate among producers than a pure quota agreement. There remains, however, the difficult negotiation of market shares.

Paying less than the full market price allows the purchasing power of the buffer stock to be expanded, but it also raises difficulties for enforcing export quotas. Non-member importing countries willing to pay market prices for the commodity would encourage exporting members to ship over their quota rather than sell to the buffer stock. If exporting members enforce the quotas, the lack of prompt information on exports would also hinder efforts to attribute exports to their country of origin. An agreement without cooperation of all major consumers would face difficulties.

Buffer Stock Obtained by Allotment

Like the buffer stock obtained by export controls, this arrangement would provide thebuffer stock with an inexpensive source of the commodity, expanding the purchasing capacity of the financing facility. Each producing member would receive an allotment quota, probably based on a percentage of previous export levels. When prices fell to a trigger point, each producing member would sell its allotted quota to the buffer stock at some set percentage of the market price. Producers would again be reimbursed when the stocks of the commodities are sold to protect the upper limit of the agreement. The financing required would be the same as a buffer stock obtained by export quotas.

This type of arrangement will require the participation of all major exporters. If the number of exporters is small, consumer cooperation may not be necessary. The major difference between this type of agreement and traditional quota agreements is that information on sales of the allotted quota to the buffer stock is available immediately.

International Financing of Nationally Held Stocks

This type of arrangement would provide international financing for stocks held in producing or consuming countries. When prices reach a certain trigger point, the commodity organization would provide loans to producing nations and perhaps importing nations to finance acquisition or storage of the commodity. These loans would be repaid by the producing nations when prices rise and the stocks are sold. This arrangement could be used with or without export controls.

The total amount of the financing required would depend on how ambitious the agreement was. An agreement with loans completely covering the costs of acquisition and storage of the commodity would require the same amount of financing as a buffer stock. An arrangement only partially covering the costs of acquisition would be less expensive. Loans to finance only the storage costs would require the least initial outlay.

If a quota arrangement were considered desirable, this type of agreement would appeal to producing members, who would receive support in the financing and storage of stocks during periods of depressed prices. Consumer participation would probably be necessary if the agreement contained export quotas but probably not necessary if major producers were willing to agree on an arrangement without quotas.

THE IMPACT OF THE COMMON FUND ON INDIVIDUAL COMMODITIES

BANANAS

No stocking arrangement of any kind is feasible for a fruit as perishable as bananas. U. S. assistance is essential in policing any pure quota agreement even if producing countries were able to bury their differences enough to begin to negotiate such an arrangement.

BAUXITE/ALUMINA/ALUMINUM

No stocking arrangement or quota agreement can work for bauxite or alumina largely because they are goods transferred between subsidiaries of vertically integrated companies with virtually no quoted price to gauge a market "value." There is no real international market in which these commodities are traded.

COCOA

The Common Fund could be used to finance an international buffer stock without U. S. or EC participation. But even with funding available, U. S. cooperation would be required for a lasting stocking arrangement based on quotas.

A Cocoa Agreement has been negotiated that relies mainly on export quotas but also contains some provision for financing a limited international stock. Those producers who have joined the Agreement have already collected about $85 million from export taxes to support this stock. They would resist any proposal for integrating this fund into the Common Fund, but they may well be interested in supplementing or replacing it completely with proceeds from an UNCTAD facility. However, the new Agreement may not come into effect with the U. S., the largest consumer, and the Ivory Coast, the major dynamic producer, refusing to join an export quota arrangement.

COFFEE

Coffee can be stored for long periods, but an international buffer stock would still need an initial capital requirement of up to $3 billion, well beyond the means of the Common Fund. At any rate, the major producers now oppose an UNCTAD buffer stock. A quota agreement could not be enforced without U. S. compliance.

It is conceivable, but hardly likely, that U. S. cooperation would not be needed if the resources of the Common Fund were to be employed to back up a quota agreement among the dominant producers by purchasing the surplus production of the smaller, less disciplined exporters. However, the Coffee Agreement about to come into force has the strong support of the coffee producing countries, especially the major ones. Some may seek to draw on the Common Fund to help finance the nationally held stocks which provisions of the Agreement encourage them to build as a hedge against disruptions in supply.

COPPER

The value of world trade in copper is probably too great for the Common Fund to finance effectively an international buffer stock. It could be used to finance the supplemental stocking arrangement contained in a quota agreement among producers. U. S. cooperation would not necessarily be required for such an agreement, but support of the other major importers would probably be necessary. The producing countries themselves have not yet shown the discipline for effective provisions for export quotas. It is possible that establishment of the Common Fund might offer them an incentive to do so.

Since the U. S. is largely self-sufficient in copper production, the impact of such a scheme would not be substantial. In the past, its domestic producers have not responded to the world price for copper. A pricing arrangement could, however, have some impact if the floor price to be supported was set high enough to raise copper prices in the U. S. But in this case, the U. S. could become a net exporter as our copper producers entered the world market to take advantage of the higher price. If this price were set high enough, U. S. exports could well undermine an agreement to restrict exports among other producers.

COTTON

Like copper, so much cotton is produced and traded internationally that the Common Fund could not easily bear the cost of financing an international stock. The U. S. is a major exporter. Withholding its support would effectively scuttle any quota arrangement with or without an internationally financed stock. The competition from synthetic fibers would make any program to stabilize prices no less difficult to establish.

IRON ORE

A buffer stock for iron ore would have to be so large to exert any influence on prices that the resources of a Common Fund would probably not be able to cover the cost. As a net importer, the U. S. could probably prevent any successful attempt to combine a stocking arrangement with export quotas, simply by refusing to police them. There are other reasons why an agreement would not be negotiated. The benefits of more stable prices would flow mainly to the major exporters in the industrialized world. Moreover, the price of iron ore is already noted for its stability.

JUTE and SISAL

It would be technically possible to set up either a buffer stock for jute and sisal or a modified quota arrangement at relatively little cost to the Common Fund. U. S. cooperation would not be essential to induce exporters to organize quota arrangements as long as their stocks were financed by the Common Fund. It is possible, if not likely, that India and Bangladesh, the principal jute producers, may recognize that price stabilization measures might encourage more competition from synthetic fibers, unless sales were subsidized, which in effect would convert the buffer stock scheme into an international deficiency payments scheme. The economic impact in the U. S. of either program, however unsound, would not be significant.

MANGANESE

The cost of financing an initial international buffer stock for manganese would be well within the resources of a Common Fund that might conceivably be set up. Financial support for stocks to bolster export quota schemes might also be a possibility, perhaps without U. S. cooperation. Nonetheless, there would not be much interest in organizing a buffer stock for manganese. Only two developing countries--Brazil and Gabon--export manganese in any substantial quantity, the rest coming from South Africa and Australia. Neither of these producers has shown any interest in price stabilization arrangements. Establishment of the Common Fund is not likely to change their views. Like iron ore, the supply and price of manganese are very stable, most of it being purchased under long term contracts with price negotiated annually.

MEAT

Fresh meats are too perishable to stock. Frozen meats require storage facilities that would be too expensive for the Common Fund to finance under any kind of stocking arrangement. The health and sanitary regulations of most importing countries would frustrate any program to store meats. U. S. support would be necessary for any pure quota agreement. In fact, a unilateral program already exists in the U. S. in the form of a voluntary restraint program. Any attempt to organize an international quota arrangement might well be welcomed here.

PHOSPHATES

Trade in phosphates is too large to permit an effective international buffer stock. A quota arrangement with the Common Fund financing stocks might be technically feasible but politically impossible, since the U. S., the world's largest producer and the second largest exporter after

Morocco, could refuse to accept any international measures that would require it to restrict its exports.

RUBBER

Rubber can be readily stored at a relatively low cost. The producers of natural rubber in Southeast Asia have already organized a producers' organization and begun to devise plans for a price stabilization scheme with provisions for stocks. They anticipate receiving contributions from both consuming and producing countries.

Financial assistance for a stocking arrangement would be well within the means of a Common Fund and would no doubt be welcome by the producers. It could in fact provide them just the encouragement they need to carry through with their plans for a stocking arrangement with or without U. S. cooperation. Financing, however, is probably not the key problem and could in any case be obtained with or without an UNCTAD scheme. The goals of any agreement would be somewhat limited by competition from substitutes.

SUGAR

An international buffer stock for sugar would be too costly for the Common Fund to support. A quota arrangement, either with or without financing available to back up stocking provisions, could not be secured without U. S.

support. If the U. S. chose to enter a sugar agreement that relied on quotas and nationally held stocks, the Common Fund could well be used as a source of financing. A Common Fund could help perpetuate such a scheme even without U. S. participation, probably with reduced chances of success.

TEA

The relatively high perishability of tea and its many grades and varieties make it a difficult commodity to stock effectively. UNCTAD has already presented a proposal for a buffer stock in tea, without arousing interest of either producers or consumers. There is strong support for a quota agreement from several producers and the U. K., the most important importer. To date, a quota agreement has been blocked by the objections of the growing exporters in East Africa. As a relatively minor importer, U. S. participation would not be essential for an agreement.

TIN

A relatively inexpensive buffer stock can be organized for tin, especially when supplemented by export controls. With financial assistance from the Common Fund, U. S. cooperation would not be needed.

There have been buffer stocks under International Tin

Agreements for twenty years. They have been relatively effective in defending floor prices, when restrictions on exports were imposed, but less so in defending ceiling prices. Their financing has come almost entirely from seven producer members, although in recent years a few consumer members have made small voluntary contributions. Producer members would probably welcome funds from an UNCTAD facility to replace these mandatory contributions, particularly if they could be used to raise the floor price. Producers may not be especially enthusiastic about supplementing the existing funds for building a larger stock more effective in defending the ceiling price in the interests of the consuming countries. The consumer members have enough votes to block an effort to amend the existing Agreement to allow its financial reserve to be integrated into the Common Fund. Once the Agreement expires or is suspended, the producers could seek to using the Common Fund for almost any stocking arrangement they chose.

TROPICAL TIMBER

Any kind of stocking arrangement is not really feasible for timber. The cost of storage or treatment to prevent the wood from deteriorating is probably prohibitive. The wide range in species and characteristics of trees in any tropical forest and the equally heterogenous demand for them also make timber a commodity virtually impossible to stock with a specific price range to be defended. Any quota agreement would also be difficult to defend, especially without U. S. backing.

It is conceivable, if unlikely, that the availability of financing could spur producers to support a minimum price by making loans to the lumber industries to refrain from cutting the timber. The administrative complications would be enormous.

VEGETABLE OILS

There are 40 different kinds of vegetable oils, each very interchangeable with another as well as with fish oils, animal fats, and certain synthetic compounds. Few can be stored for long periods without deteriorating rapidly. For these reasons alone, stocking arrangements are not practical. Moreover any agreement would probably have to combine quotas with stocking provisions. The U. S. could block such a move by refusing to cooperate. Its exports of vegetable oils amount to 30 percent of world trade. It supplies about two-thirds of world exports of soybean oil, the vegetable oil with the largest share of trade in fats and oils. Thus, even if a buffer stock coupled with export quotas were practical, it could not be negotiated over U. S. opposition.

Pledges to the Common Fund

Fifty-one countries (including five OECD countries) have expressed some sort of support for the Common Fund, with twenty-six pledging contributions. Many of the pledges are conditional. Five countries (including Norway) have specified the amounts of their pledges, totaling $155 million. In addition, the UNCTAD Secretariat reports that the OPEC Ministers have agreed in principle to contribute, but OPEC countries seem to be vacillating and the commitment appears to be less than binding. Most other pledges are conditional upon successful negotiations involving a broad range of countries.

Several countries agree to pledge according to a yet undecided UNCTAD formula. The UNCTAD Secretariat has proposed three possible formulas for allocating capital subscriptions among country groups.

--OPEC 25 percent; exporting countries 37.5 percent; and importing countries 37.5 percent;

--exporting countries 50.0 percent; and importing countries 50.0 percent; and

--exporting countries 60.0 percent; and importing countries 40.0 percent.

The strongest commitments are by those countries which have specified the amounts of their pledges; next strongest are those which pledge "according to UNCTAD formula" or a similar formulation such as "prepared to contribute"; somewhat weaker are Finland's, Portugal's, and Sweden's positions; and Iran and Zambia appear the least committed of those countries making pledges. Those countries which have "pledged" to the Common Fund are:

--Algeria: according to UNCTAD formula.

--Finland: conditional on broad participation of other countries.

--Ghana: according to UNCTAD formula.

--India: $25 million.

--Indonesia: $25 million.

--Iran: will contribute at "an appropriate occasion."

--Iraq: according to UNCTAD formula.

--Kenya: according to UNCTAD formula.

--Kuwait: according to UNCTAD formula.

--Malaysia: prepared to contribute.

--Mexico: according to UNCTAD formula.

--Netherlands: "prepared to contribute."

--Nigeria: "ready to participate."

--Norway: $25 million, subject to Parliamentary approval. This amount is about four times the contribution called for under UNCTAD plans. The excess would be used to reduce contributions by the poorest countries.

--Pakistan: according to UNCTAD formula.

--Peru: according to UNCTAD formula.

--Philippines: $50 million.

--Portugal: conditional on broad participation.

--Rumania: according to UNCTAD formula.

--Saudi Arabia: according to UNCTAD formula.

--Sri Lanka: according to UNCTAD formula.

--Sweden: conditional on broad participation.

--United Arab Emirates: according to formula to be negotiated.

--Venezuela: according to UNCTAD formula.

--Yugoslavia: $30 million.

--Zambia: "will contribute in principle."

Countries which have expressed less definite support for the Common Fund are: Bangladesh, Burma, Chad, China, Cuba, Cyprus, Ecuador, Egypt, Fiji, Guyana, South Korea, Lebanon, Madagascar, Malta, Morocco, Mozambique, Rwanda, Senegal, Somalia, Sudan, Syria, Tanzania, Trinidad and Tobago, and Tunisia.

Possible Principles for Inclusion in a Buffer Stock Financing Facility Under Options 2(a) and 2(b)

-- No managerial link to separate stocks.

-- No indexation.

-- No open-ended commitment, but some formula in which financing available through a common facility were made a function of the sum total of financing supplied by the participants of individual commodity arrangements.

-- Eligibility for financing from a common facility would have to include:

  -- participation in the individual commodity arrangements by producers and consumers;

  -- demonstrated efforts on the part of members of the arrangement to improve the functioning of markets; and

  -- provisions in the specific commodity arrangement to insure reliable supplies.

-- Buffer stocks financed from a common facility could be subject to guidelines like these:

-- that financing of buffer stocks from a common facility would be supplemental to other financing sources;

-- that financing of buffer stocks be secured by the commodity stocks themselves;

-- that buffer stocks hedge their purchases by operating in both forward and spot markets to limit financial risk;

-- that buffer stocks not attempt to fix prices through rigid price floors and ceilings or by controls on production and trade except in extreme situations; and

-- that rules for release and acquisition be symmetrical as possible, providing for effective release when prices are above trend as well as accumulation when prices are below trend.

DEPARTMENT OF STATE

Washington, D.C. 20520

AUG 27 1976

MEMORANDUM FOR: William L. Seidman

From: Joseph A. Greenwald

Paper on U.S. Multilateral Aid-Giving Performance for EPB

Here is the paper on U.S. Multilateral Aid-Giving Performance requested by the EPB. We have coordinated this paper with Treasury.

Attachment:

As stated.

U.S. Multilateral Aid-Giving Performance

Overview

At the present time, the United States lags significantly behind other major donors in supporting international financial institutions. We have fallen behind in our appropriations to most institutions of which we are a member. Prior to 1970 the United States was in a position of leadership in the multilateral assistance field. We had been instrumental in setting up both IDA and the Inter-American Development Bank. The Executive Branch had negotiated replenishment agreements in good faith and had placed its political commitment behind the agreements with the result that Congress authorized an appropriation of sufficient funds on a timely basis.

Beginning in 1970 the United States' position began eroding. In Fiscal Year 1970 Congress for the first time refused to authorize the full amount of the Administration's request for the replenishment of the Inter-American Development Bank. This event was followed in subsequent years by delays in honoring our commitments to the Asian Development Bank and the African Development Fund, and the culmination of this erosion occurred when the Congress refused to pass the IDA IV replenishment legislation in January, 1974. Further, partly because of the problems of doubling up of IDA IV and IDA V replenishments in FY 78 and 79, we are having problems with negotiations for IDA V and are arguing for a smaller replenishment than any other donor country.

Multilateral Development Banks

This section and the attached tables describe our current situation in the major multilateral development banks.

IDA

Table 1 demonstrates the serious problem we face with IDA. At the annual meeting of the World Bank in Nairobi in 1973, the United States agreed with other major donor countries to an IDA IV replenishment stretching over fiscal years 1975-1977. As can be seen from Table 1, we are now two years behind most other donors. Furthermore, although we have committed ourselves to annual payments of $375 million, we only received appropriation of $320 million for FY 76, and there is a strong possibility that our appropriation in FY 77 will not exceed $320 million.

There have been three meetings of IDA donor countries on a fifth replenishment, and it is clear that most other countries are prepared to agree to a larger total replenishment to IDA than we can accept. Since the IDA V replenishment period will be fiscal-years

1978-1980, the United States will either have to double up its contributions during FY 78 and 79 or risk falling further behind other donors.

Inter-American Development Bank (IDB)

Table 2 describes the situation in the IDB. The United States agreed to the third replenishment of the IDB at the Bank's annual meeting in 1970. The replenishment period agreed to was fiscal years 1971-1973. As Table 2 shows, we have still not completed our final contribution to this replenishment, although there is hope that we can complete it in FY 77.

We are already behind in meeting our commitments in the most recent IDB replenishment (IDB IV), for which payments were to begin in FY 1976.

Asian Development Bank

Table 3 describes the situation with the Asian Development Bank. At the end of FY 1976, the U.S. had not completed its contributions to the original funding of either ADB ordinary capital or the Asian Development Fund (ADF). These initial subscriptions were to have been completed in FY 1975.

On December 3, 1975, the ADB Board of Governors adopted a resolution providing for an $830 million replenishment of the ADF. The U.S. portion was determined to be $180 million, and an authorization of $50 million was requested for the first installment of the U.S. share due in FY 1977. Congress has not yet passed authorization legislation; therefore, we are falling another year behind.

African Development Bank

The United States played a leading role in negotiations that led up to the establishment of the African Development Fund in 1973. At that time the single largest contributor for any donor country was $15 million, and there was a general expectation that we would also contribute $15 million.

Authorizing legislation enabling U.S. participation in the African Development Fund was not passed until FY 1976. At Congressional insistence, the amount of U.S. contribution was raised to $25 million. Congress has thus far only appropriated $5 million to the African Development Fund. With luck, we will receive another $10 million appropriation in FY 1977 which will enable us finally to join this Fund at the end of this calendar year. The President has agreed to request the remaining $10 million in the FY 1978 budget. By this point other donor countries have increased their levels of contribution substantially so that our $15 million contribution will place us in 11th place among donor countries.

New Initiatives

The U.S. has also lent its support to new multilateral initiatives which lie beyond the established framework of international financial institutions described above. These include the establishment of the International Fund for Agricultural Development (IFAD), U.S. participation in the Club des Amis du Sahel - a multilateral organization established to assist the Sahel region of Africa, and the creation of an International Resources Bank (IRB) which was proposed by Secretary Kissinger at the UNCTAD IV meeting in May, 1976. Appropriation for $200 million has been passed by Congress for the U.S. contribution to IFAD, representing one-fifth of the total $1 billion target for IFAD funding. U.S. commitments to support the Club des Amis and the IRB have not been tested as yet. Negotiations on these organizations are still in the preliminary stages, and requests for U.S. funding have not been presented to Congress.

U.S. ODA Contributions

The erosion of the U.S. position in funding international financial institutions has been accompanied by a more general decline in U.S. aid-giving performance.

In providing official development assistance (ODA),[1/] U.S. performance has shown a strong decline (see Table 4) with absolute amounts extended during the early 1970s (1970-74) falling slightly below the average level provided during the 1964-66 period. Although U.S. contributions of ODA have grown in absolute amounts during the 1970s (with the exception of 1973), Table 5 shows that, for all DAC[2/] nations, the U.S. has exhibited the lowest rate of growth of ODA measured in both current and real prices. In fact, when measured in real terms, U.S. ODA declined by 33.8 percent between 1970 and 1974. Only two other DAC nations exhibited negative rates of growth (France: -3.6 percent; Italy: -16.3 percent) during this period. Moreover, ODA represents a smaller share of our total net flows to developing countries in 1975 (25 percent) than in 1974 (33 percent). In terms of the share of total ODA provided by the DAC countries, the U.S. has dropped from 58.4 percent in the 1964-66 period to 29.5 percent in 1975. Our ranking among DAC

1/ Commitments to developing countries and multilateral agencies based on the DAC (see footnote 2) definition of ODA, which includes, for the U.S., all economic assistance programs (A.I.D., PL 480, Peace Corps and contributions to multilateral institutions), but excludes such other resource transfers as Export-Import Bank and Commodity Credit Loans and private transfers.

2/ Development Assistance Committee, a group of 17 donor nations formed within the OECD to monitor and encourage aid-giving performance.

donors, in terms of ODA as a percentage of GNP, has also dropped markedly, falling from third in the mid-sixties to twelfth in 1975.

This declining trend in part reflects U.S. policy which stresses the importance of development assistance on market terms. However, developing countries place highest priority on ODA flows.3/ In view of LDC expectations, the declining trend in U.S. ODA flows (as a percentage of GNP) has caused us to lose some credibility with the LDCs in our efforts to improve North-South relations.

Lagging U.S. aid levels, because of our large share of total aid flows, have contributed to an overall picture characterized by LDCs as one of stagnant aid flows. Delinquencies in U.S. multilateral contributions and our inability to support generous replenishments is even more detrimental to a contructive U.S.

3/ In the 1970 UN resolution for an International Development Strategy, a target of 0.7 percent of each donor's GNP was established for annual contributions of ODA. The U.S. joined the consensus in support of this resolution, but made a reservation which indicated that we could only make "best efforts" to reach to 0.7 percent ODA target and could not accept a specific target date for its achievement. As shown in Table 4, we fall considerably short of this mark (in 1975, U.S. ODA equalled only 0.27 percent of our GNP). 13 other DAC nations have accepted this target, however, and two (Sweden, Netherlands) surpassed the 0.7 percent figure in 1975. Four other DAC nations have come close to reaching the target.

role in relations with developing countries. On balance, the frustration of the LDCs' expectations regarding aid flows has undoubtedly contributed to their drive on alternative resource transfer mechanisms, in particular commodity prices and debt moratoria, even though many LDCs must recognize that these mechanisms are less efficient in terms of development objectives than transfer payments.

8/26/76

TABLE 1: International Development Association:
Fourth Replenishment (IDA IV)
($ millions)
U.S. Pledge: $1500 million

	FY 75	FY 76	FY 77	FY 78	FY 79
Replenishment period	X	X	X		
Authorization		375	375	375	375
Appropriations		320			

TABLE 2.A: Inter-American Development Bank: Third Replenishment (IDB III) ($ millions)

IDB III U.S. Pledge: Ordinary Capital $824 million.
Fund for Special Operations (FSO) $1,000 million.

	FY 71	72	73	74	75	76
Replenishment Period	X	X	X			
Authorizations						
Ordinary Capital	274.5	274.5	274.5			
FSO	100	450	450			
Appropriations						
Ordinary Capital	225	211.8	193.4	193.4 a/		
FSO	50	-	225	225	225	225 b/

a/ Ordinary capital replenishment was completed in FY 1974, one year behind agreed payment schedule.

b/ At end of FY 1976, FSO replenishment was 3 years behind agreed payment schedule. U.S. is still $50 million short of completing this replenishment.

TABLE 2.B: Inter-American Development Bank: Fourth Replenishment (IDB IV) ($ millions)

IDB IV U.S. Pledge: Ordinary Capital $1,650 million
FSO 600 million

	FY 76	77	78	79	80	81
Replenishment Period	X	X	X	X		
Authorizations						
Ordinary Capital a/	400	400	400	450		
FSO	-	200	200	200		
Appropriations						
Ordinary Capital	- b/					
FSO	-					

a/ Includes $930 million of Inter-regional callable capital for which no appropriations are required. Hence, appropriations for $240 million are required in FY 76, FY 77 and FY 78 to meet payments according to schedule on the remaining $720 million.

b/ Payment of $240 million as first installment of ordinary capital replenishment was due in FY 1976. Request for appropriation was denied by Congress.

TABLE 3: Asian Development Bank: Original Funding

U.S. Pledge: Ordinary Capital $300 million
Asian Development Fund (ADF) $150 million

	FY 72	73	74	75	76	77
Payment Period		X	X	X		
Authorizations						
Ordinary Capital				120.6	120.6	120.6
ADF		50	50	50		
Appropriations						
Ordinary Capital				24.1 a/	120.6 b/	
ADF			50	50	25 c/	

a/ Represents paid-in capital portion; $96.5 million in callable capital was not appropriated, however subscription was made to ADB.

b/ At end of FY 1976, the U.S. was behind one year in agreed payment schedule and must still contribute $120.6 million to complete original funding of ordinary capital.

c/ At end of FY 1976, the U.S. was behind one year in agreed payment schedule, and must still contribute $25 million to complete original funding of ADF.

ble 4 Net Official Development Assistance from DAC Countries to Developing Countries and Multilateral Agencies

bursements.

$ million and percent of GNP

	1964-1966 average			1970			1971			1972			1973			1974		Rank	1975		
	$ m.	as % of GNP	Rank	$ m.	as % of GNP	Rank	$ m.	as % of GNP	Rank	$ m.	as % of GNP	Rank	$ m.	as % of GNP	Rank	$ m.	as % of GNP		$ m.	as % of GNP	Rank
tralia	114.9	0.51	2	202.4	0.59	3	202.2	0.53	3	266.9	0.59	3	285.9	0.44	6	430.3	0.55	5-6	507.0	0.61	5
tria	10.0	0.11	14	10.6	0.07	16-17	12.3	0.07	17	17.8	0.09	16-17	40.2	0.15	16	59.7	0.18	14-15	64.0	0.17	16
gium	83.0	0.49	3-4	119.7	0.46	4	146.1	0.50	4	193.2	0.55	4	234.7	0.51	4	271.1	0.51	7	377.0	0.59	6
ada	120.5	0.23	9	346.3	0.42	5	391.1	0.42	7	492.0	0.47	6	514.9	0.43	7-8	713.4	0.50	8	869.0	0.57	8
mark	14.7	0.15	13	59.1	0.38	6-7	74.4	0.43	6	95.6	0.45	7	131.6	0.48	5	168.2	0.55	5-6	205.0	0.58	7
land	2.7	0.03	17	6.8	0.07	16-17	13.3	0.12	15-16	20.4	0.15	15	28.0	0.16	14-15	37.9	0.18	14-15	48.0	0.18	15
nce	775.1	0.78	1	971.0	0.66	1	1075.3	0.66	1	1320.3	0.67	1-2	1488.4	0.58	1	1614.8	0.59	3	2121.0	0.63	4
many	444.7	0.39	6	599.0	0.32	9-10	734.2	0.34	9	808.3	0.31	10	1102.0	0.32	10	1430.4	0.37	10	1691.0	0.40	10
ly	62.0	0.10	15	147.2	0.16	14	182.7	0.18	14	101.8	0.09	16-17	192.0	0.14	17	218.4	0.15	16	183.0	0.11	17
an	214.9	0.24	8	458.0	0.23	12-13	510.7	0.23	12-13	611.1	0.21	13-14	1011.0	0.25	12	1126.2	0.25	12-13	114[illegible].0	0.24	13
herlands	70.9	0.37	7	196.4	0.61	2	216.1	0.58	2	306.7	0.67	1-2	322.1	0.54	3	435.3	0.63	2	603.0	0.75	2
Zealand	10.0	0.19	11	13.7	0.23	12-13	16.7	0.23	12-13	20.6	0.25	12	29.1	0.27	11	39.2	0.31	11	66.0	0.52	9
ay	11.7	0.17	12	36.7	0.32	9-10	42.3	0.33	10	63.3	0.43	8	86.6	0.43	7-8	131.4	0.57	4	184.0	0.66	3
den	42.6	0.21	10	117.0	0.38	6-7	158.9	0.44	5	197.7	0.48	5	275.3	0.56	2	401.7	0.72	1	566.0	0.82	1
zerland	11.3	0.08	16	30.2	0.15	15	23.4	0.12	15-16	64.8	0.21	13-14	65.3	0.16	14-15	67.7	0.14	17	104.0	0.19	14
ed Kingdom	483.8	0.48	5	446.9	0.36	8	561.8	0.41	8	608.7	0.39	9	602.9	0.34	9	730.9	0.38	9	863.0	0.38	11
ed States	3453.0	0.49	3-4	3050.0	0.31	11	3324.0	0.32	11	3349.0	0.29	11	2968.0	0.23	13	3439.0	0.25	12-13	4007.0	0.27	12
al DAC untries	5925.8	0.44		6811.0	0.34		7690.5	0.35		8538.2	0.33		9378.0	0.30		11,315.6	0.33		13,606	0.36	

Source: OECD: 1975 Review of Development Cooperation

TABLE 5 INCREASES IN ODA AT CURRENT AND REAL PRICES, 1970-1974

Percentages.

Country	Increase in ODA, 1970-1974	
	In current prices	After applying ODA deflator
Australia	+ 112.6	+ 0.6
Austria	+ 459.4	+ 242.8
Belgium	+ 126.5	+ 25.3
Canada	+ 106.0	+ 7.6
Denmark	+ 184.6	+ 58.7
Finland	+ 457.4	+ 204.4
France	+ 66.3	— 3.6
Germany	+ 138.8	+ 34.5
Italy	48.4	— 16.3
Japan	+ 145.9	+ 44.6
Netherlands	+ 121.6	+ 15.4
New Zealand	+ 179.6	..
Norway	+ 258.0	+ 107.3
Sweden	+ 243.3	+ 105.8
Switzerland	+ 124.2	+ 20.0
United Kingdom	+ 63.5	+ 3.4
United States	+ 12.8	— 33.8
Total DAC	+ 66.1	— 4.8

1. See Chapter III.

Source: OECD: 1975 Review of Development Cooperation

FOR OFFICIAL USE ONLY

Business Conditions Report

August 27, 1976

U.S. Department of Commerce
DOMESTIC AND INTERNATIONAL
BUSINESS ADMINISTRATION
Bureau of Domestic Commerce

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90 DAYS AFTER PUBLICATION

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BUSINESS INDICATORS

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LABOR

PRICES

PRICE INDICATORS

ISSUES

For further information contact:

Mr. Murray S. Scureman, 377-5711
Mr. Charley M. Denton, 377-5223

Enquiries and suggestions are welcomed.

INDUSTRY HIGHLIGHTS

MACHINE TOOLS: ORDERS CONTINUE UPWARD TREND DURING SLACK PERIOD

(Not for Release to Public Before August 30, 1976)

CURRENT

- ° July net new orders for machine tools reached $182.9 million, an increase of 6.2 percent over June orders. Increase is significant as July and August are historically slow order months. (See chart in Business Indicators.)
- ° Machine tool net new orders for first seven months 1976 were $1,087 million, an increase of 71.1 percent over same depressed 1975 period, but well below 1973 peak of $2,613 million.
- ° Net new orders for metal cutting machine tools in July were $126.6 million, a rise of 3.3 percent over June. Domestic orders increased more than 7 percent during month but were offset by softness in foreign bookings.
- ° July net new orders for metal forming machines reached $56.3 million, a 13.1 percent increase above June as this sector continued strong recovery trend.
- ° Shipments of machine tools in July were $150.2 million, a 17.7 percent drop from June. Output for the industry is historically slow during July and August due to vacation plant closings.
- ° Metal cutting machine tool shipments in July amounted to $98.7 million, a 23 percent drop from June. Shipments for year-to-date were $859.2 million, a decline of 24 percent from first seven months 1975.
- ° Metal forming machinery shipments for July were $51.1 million, down 5.2 percent from June. Shipments for first seven months 1976 were $240.7 million, off slightly less than 1 percent from comparable 1975 period.
- ° Machine tool order backlogs in July rose slightly to $1,168.2 million signalling an expected upward trend.

INDUSTRIAL HEATING EQUIPMENT: NEW ORDER ACTIVITY CONTINUES STRONG

CURRENT

- ° First half 1976 new orders for industrial heating equipment amounted to $372 million, an 11 percent increase over orders during same 1975 period.
- ° Increase is attributed to domestic new orders which rose 20 percent over 1975. Foreign orders fell 30

percent below 1975.

- Domestic and foreign shipments in first half 1976 remain at high levels, $424 million compared to $411 million shipped during first half 1975.

WHOLESALE TRADE: SALES GAIN SLIGHTLY AHEAD OF INVENTORIES

CURRENT
- Merchant wholesalers' sales (unadjusted) in June registered largest gain of year, $42.3 billion, bringing total for first half 1976 to $235 billion. First half 1976 sales are 9 percent above sales in same 1975 period.
- All but one of the 16 major trade lines posted increases from May to June. Gains ranged from zero in farm product raw materials to 15 percent in beer, wine and spirits, and 16 percent in electrical goods.
- Yearly gains were also made in all but one of the lines. 1975 to 1976 gains ranged from zero in metals and metal work to 25 percent in dry goods and apparel, and 30 percent in lumber and construction materials.
- Durable goods continued to register greater overall gains than nondurable goods, with May to June sales increases of 10 percent for durables and 6 percent for nondurables. 1975 to 1976 first half increases were 12 percent for durables and 8 percent for nondurables.
- Dollar value of inventories in June increased 1 percent and were up 7 percent from June 1975. June stock-sales ratio, however, fell to 119, down 2 points from May and 5 points from June 1975.
- These figures indicate that sales momentum continues to be slightly ahead of gradual buildup in stocks.

HOUSEHOLD APPLIANCES: GROWTH IN SHIPMENTS TURNS TO DECLINE

- Shipments of major household appliances in 1975 were down 24 percent, to 24.2 million units.

CURRENT
- During first 7 months 1976, major appliance shipments were 10 percent over same 1975 period. July shipments, however, were down 11 percent compared with July last year.
- Freezer shipments, only appliance not showing gain this year, continued downward trend in July, resulting in a 7-month decrease of 39 percent.

° Only 3 reported appliances showed increases in July over July last year. Ranges were up 16 percent, room air conditioners up 10 percent, and dishwashers up 7 percent. Although not reported, microwave ovens are estimated to be growing at a 20 to 25 percent rate over last year.

° Despite current slowdown, total 1976 unit shipments of appliances are expected to be 8 to 10 percent over 1975.

SCREW MACHINE PRODUCTS: MARKET STRONG BUT ORDERS AND SHIPMENTS DECLINE IN MAY

CURRENT ° Although May 1976 orders booked index dropped 7 percent and shipments were down 4 percent from April 1976 (see chart in Business Indicators), year-to-date levels for screw machine products are well above 1975.

° Index of orders booked for screw machine products reflected average monthly rate of 172 (1967=100) during January through May 1976 period, up 85 percent from average monthly rate of 93 during first five months 1975, and exceeded previous high of 171 achieved in 1973.

° January through May 1976 average monthly shipments index of 158 (1967=100) increased 27 percent from 115 monthly average for first five months 1975. Average is second only to peak of 165 registered in 1974.

PULP AND PAPER: EXPORTS UP SHARPLY IN FIRST HALF 1976

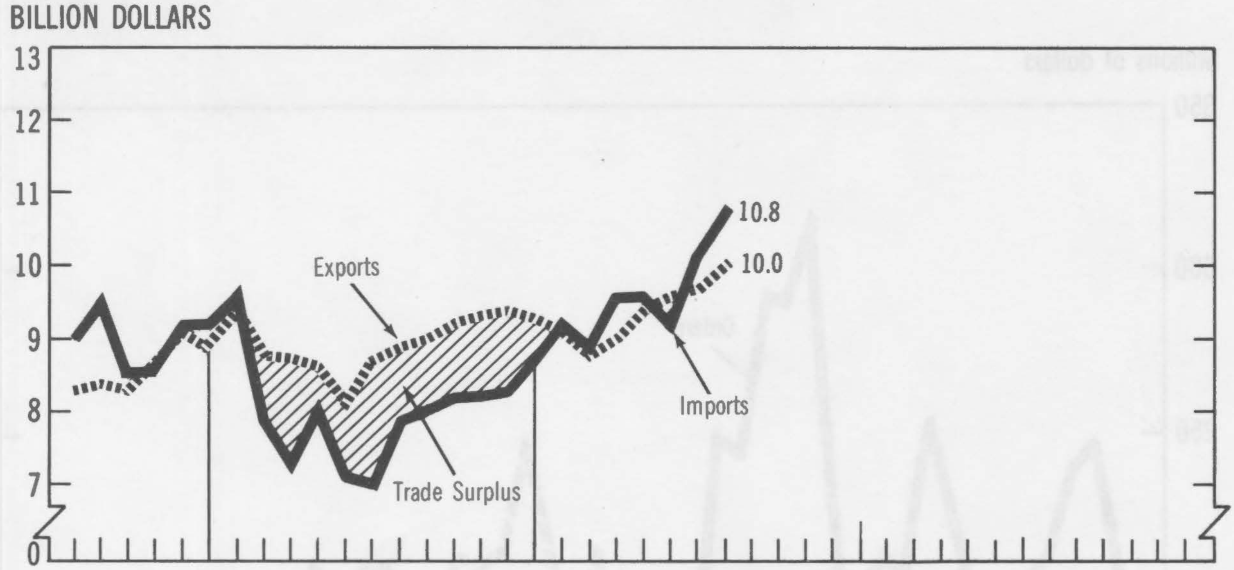
CURRENT ° First half 1976 pulp and paper industry exports have increased by 17 percent (quantity basis) compared to same 1975 period. Imports of similar commodities increased by only 1 percent (quantity basis).

° Substantial increases were recorded in shipments of two of industry's leading export items, as wastepaper was up 49 percent.and linerboard was up 39 percent from 1975.

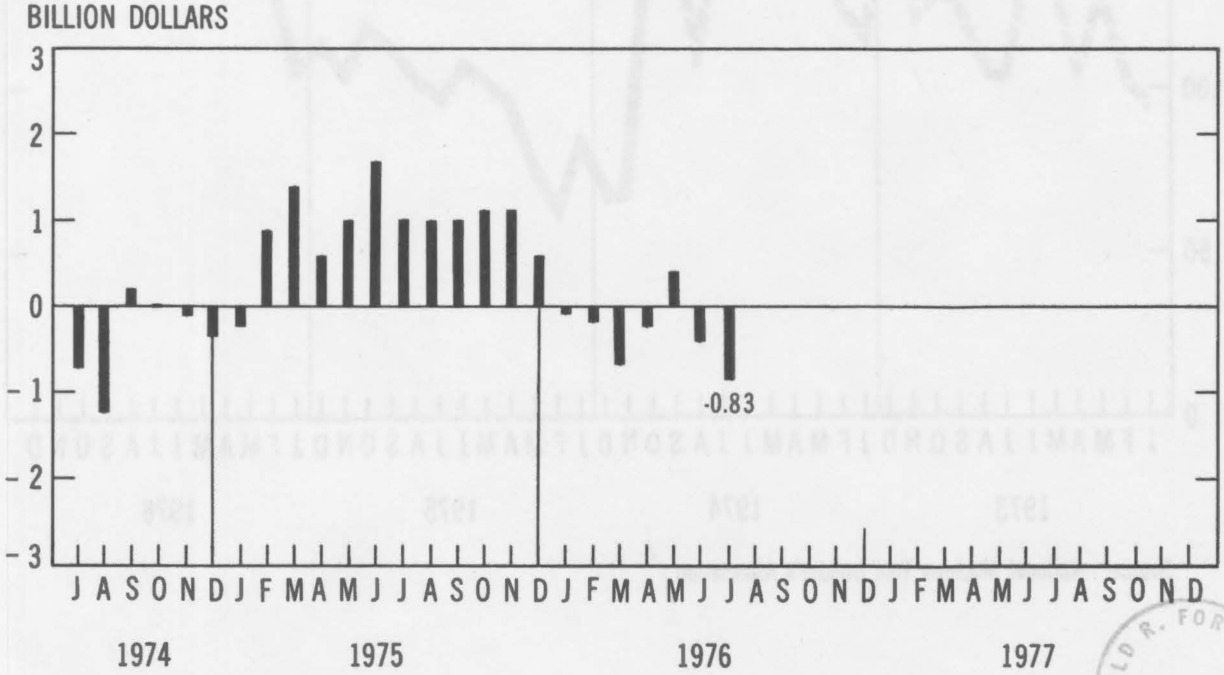
° Increase provides further evidence of substantially improved economic conditions in U.S. and abroad for first half 1976. Domestic paper and board output recorded 25 percent gain during first quarter 1976, compared to same 1975 period (six-month data not yet available).

MERCHANDISE IMPORTS AND EXPORTS

(Seasonally Adjusted)



TRADE BALANCE



Source: Bureau of the Census

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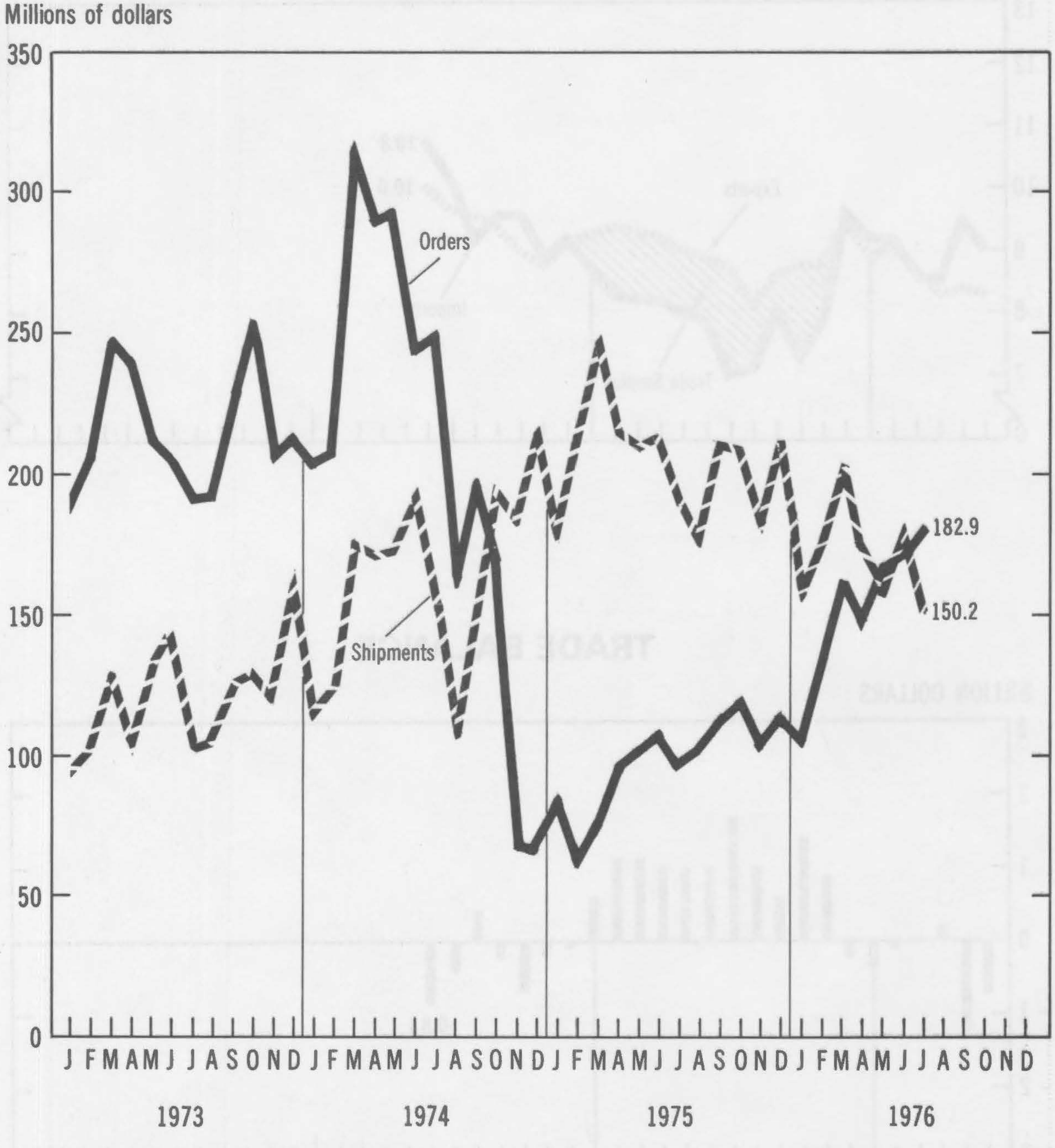
MACHINE TOOLS



Source: National Machine Tool Builder's Association

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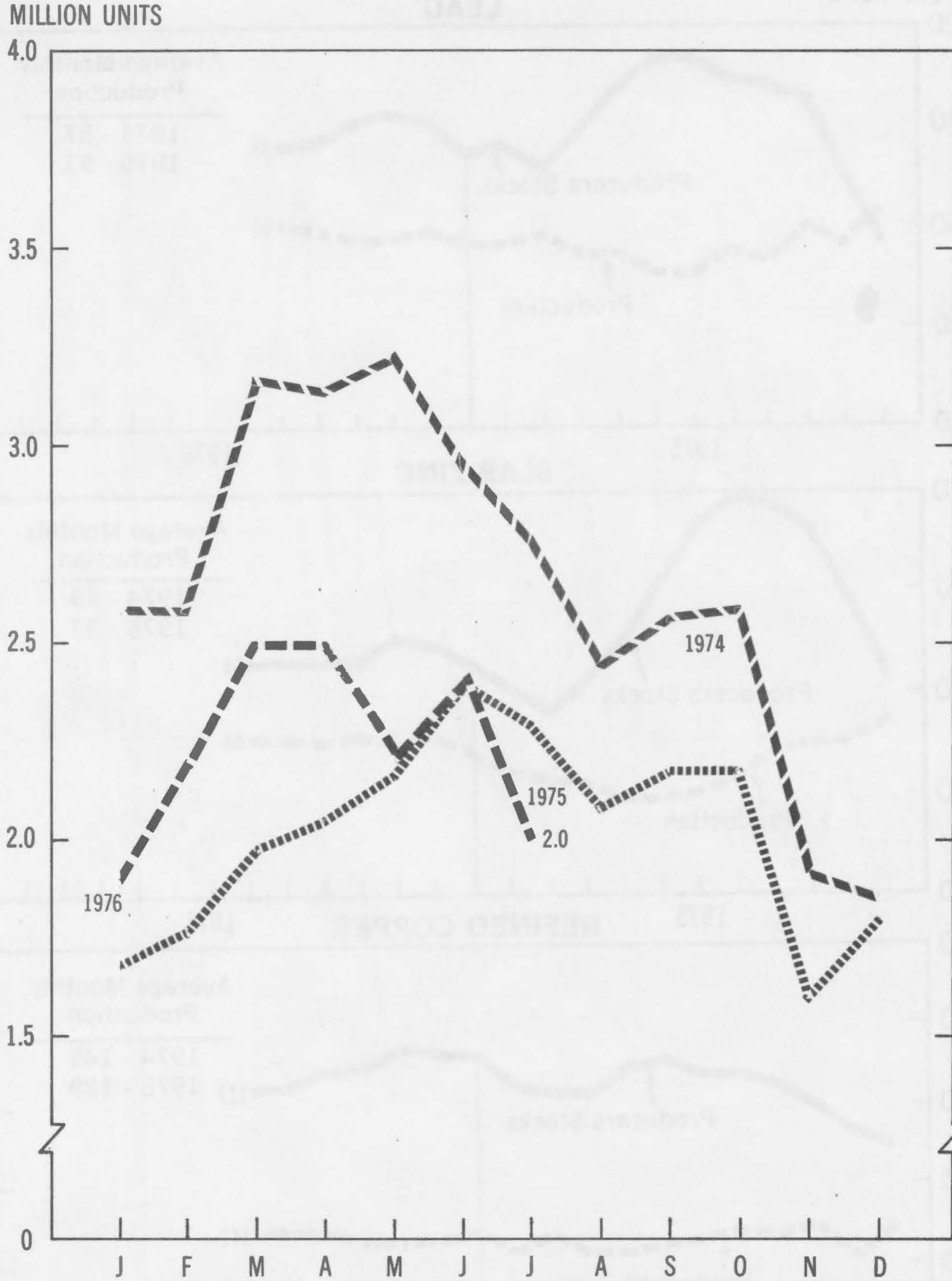
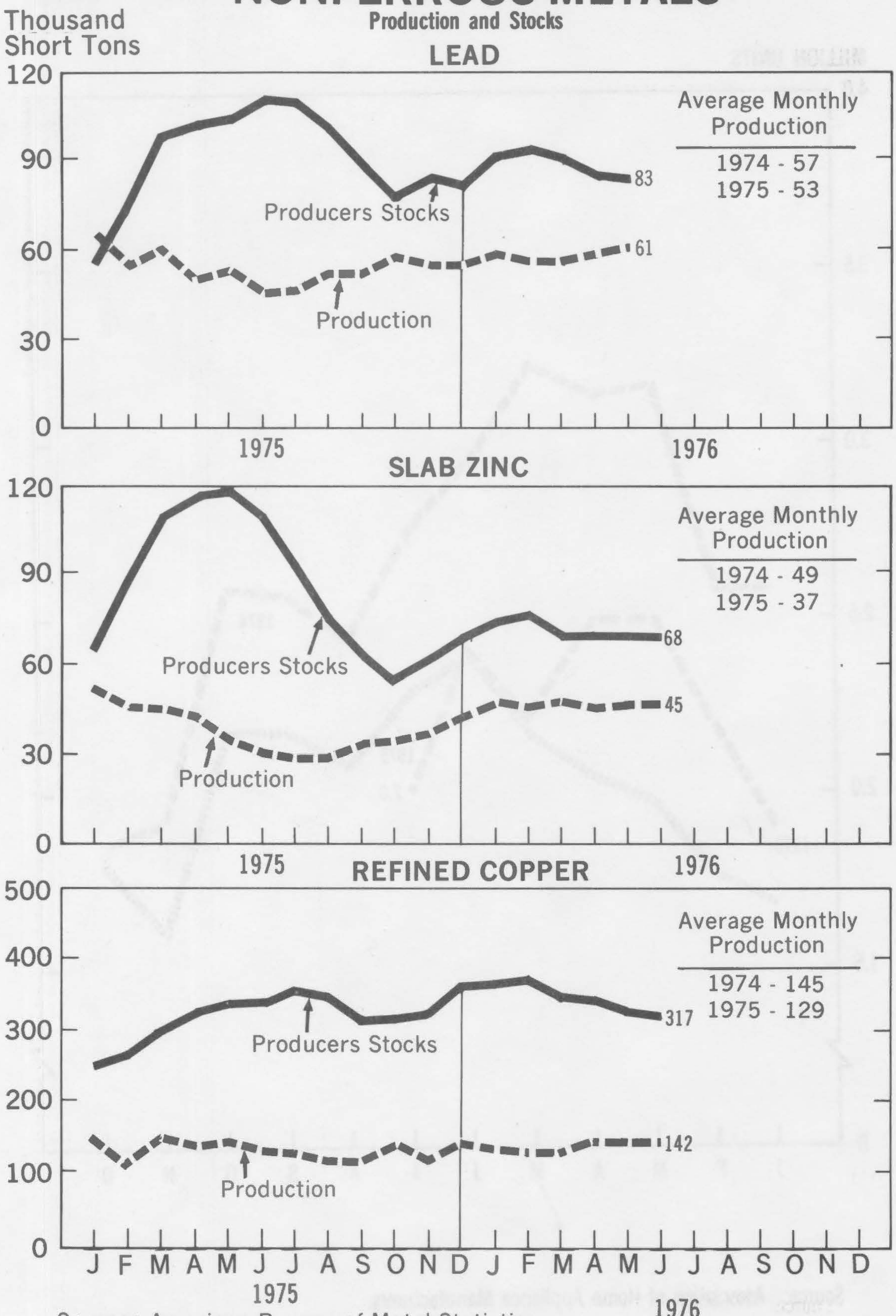
SHIPMENTS OF MAJOR HOUSEHOLD APPLIANCES



Source: Association of Home Appliance Manufacturers.

NONFERROUS METALS

Production and Stocks

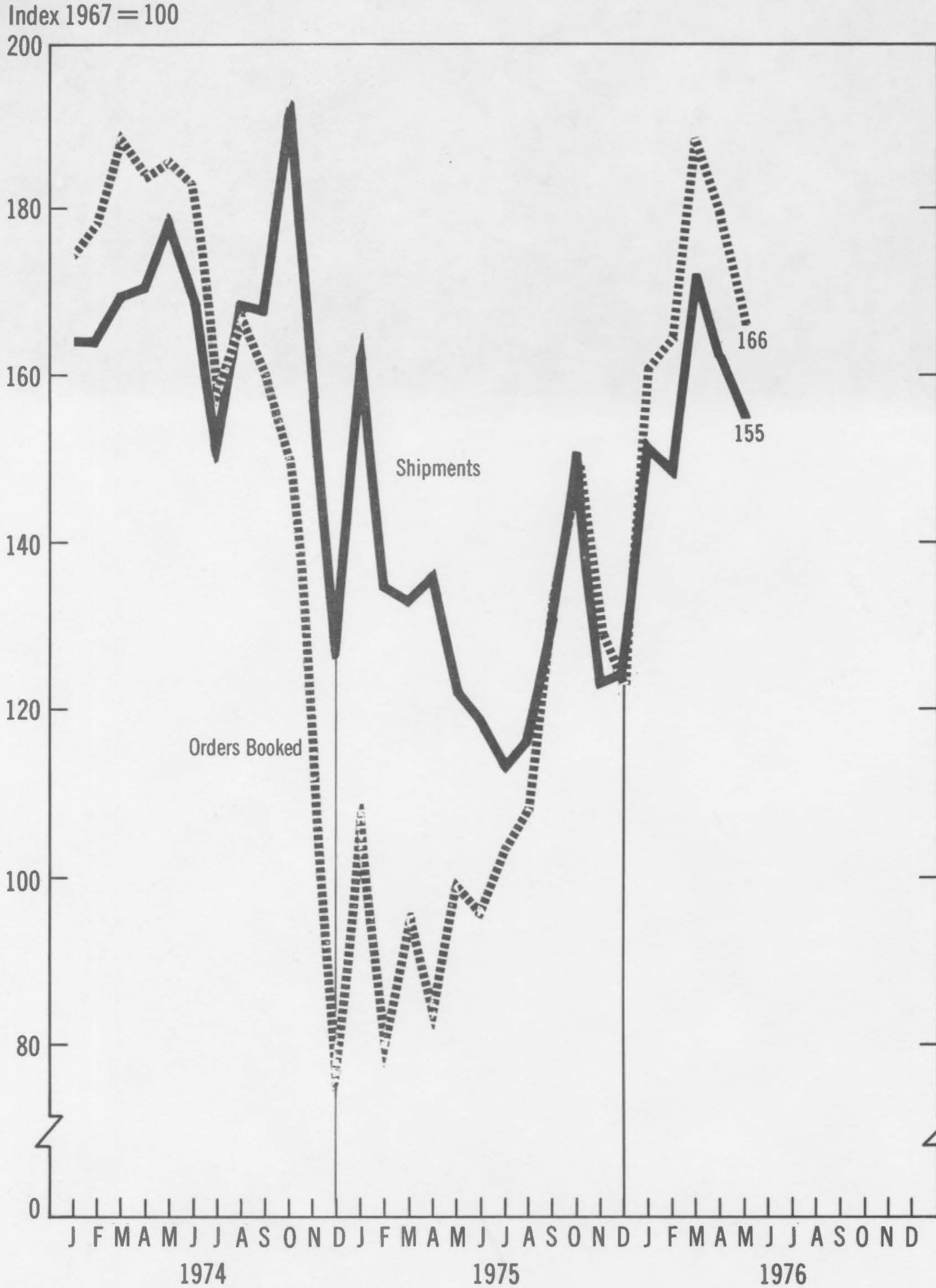


Source: American Bureau of Metal Statistics
Zinc Institute Inc.
Lead Industries Association Inc.

8/27/76

SCREW MACHINE PRODUCTS

SHIPMENTS AND ORDERS



Source: Office of Business Research & Analysis
U.S. Department of Commerce

ENERGY

GASOLINE AND PETROCHEMICALS: SHORTAGES IN 1977 MAY RESULT FROM LEAD REMOVAL

° Gasoline consumption in 1976 rose more than anticipated, and projected demand for 1977 is expected to rise even more.

° Expansion of U.S. refinery capacity has not been adequate to meet total anticipated demand increases, a result of the OPEC oil embargo, the 1974 to 1975 recession, and uncertainty over pending litigation and government energy policies.

CURRENT ° Gasoline supply situation is further complicated by Environmental Protection Agency (EPA) regulations requiring phased reduction in lead (tetraethyl lead) content of gasoline.

° Meeting lead reduction rquirements might result in shortages during 1977 of as much as 500,000 gallons of gasoline per day, with strong upward pressure on prices, according to National Petroleum Refiners Association (NPRA) consultants.

° As a result, NPRA is requesting consideration by EPA of deferring its regulations governing use of lead in gasoline.

° Removal of lead from a given blend of gasoline will reduce octane rating, which can be partially compensated by use of greater quantities of aromatics, including benzene, toluene, and xylenes.

° Benzene, toluene, and xylenes are essential raw materials for plastics, rubbers, synthetic fibers, coatings, and other petrochemical products.

° However, refinery production of aromatics is presently near maximum capacity, and additional quantities of aromatics used in gasoline would necessarily have to be diverted from petrochemical production.

° A spokesman for the chemical industry has stated that diversion of additional aromatics from chemicals to gasoline could have "drastic implications for the petrochemical industry."

° For example, a 20 percent reduction in aromatics for chemical production could lead to an estimated decline in Gross National Product of $2 billion, a decline in consumer spending of $1 billion, and a loss of 60,000 jobs.

NUCLEAR POWER: REGULATORY COMMISSION RESPONSE TO COURT DECISIONS

CURRENT

- In response to recent U.S. District Court of Appeals rulings (see Business Conditions Report, August 6, 1976) Nuclear Regulatory Commission (NRC) has suspended issuance of license or permits until December.
- By September, NRC staff will prepare an interim statement, based on existing literature, dealing with environmental impact of fuel reprocessing and waste management.
- Intervenors predict that NRC interim statement on waste management will lack depth to be legally defensible.
- Following interim environmental statement NRC will choose appropriate licensing procedures to cover period required to produce a more comprehensive waste management impact statement as required by the Court.
- NRC will continue to process applications and hold hearings but will not issue licenses or permits involving environmental impact statements.
- NRC named two hearing boards to determine whether contested Vermont Yankee operating license and the Midland construction permit should be continued, modified or suspended until an interim fuel cycle rule has been made effective.
- Steps taken by NRC will minimize licensing delays but do not reduce present uncertainties faced by U.S. nuclear power program.

SUPPLY

GASOLINE AND PETROCHEMICALS

CURRENT ° Shortages in 1977 may result from lead removal. See article in Energy Section.

ALUMINUM SHIPMENTS: STRONG FIRST HALF

CURRENT ° Net shipments of aluminum ingot and mill products in June amounted to 1,175 million pounds (preliminary), 4 percent less than May shipments of 1,221 million pounds, but second highest monthly shipments this year.

° June shipments were 28 percent higher than January shipments of 921 million pounds (lowest 1976 monthly shipments to date) and 40 percent above June 1975 shipments of 840 million pounds.

° June month-end inventories, including ingot, mill products and scrap at 5,525 million pounds were 3 percent less than May (5,676 million pounds), and 9 percent below June 1975 inventories (6,086 million pounds).

° Net shipments of aluminum ingot and mill products in first half 1976 were 6,517 million pounds, 43 percent above first half 1975.

° Aluminum industry, with appreciable recovery in its major consuming markets, anticipates further significant improvement in 1976 over low 1975 annual shipments. Operating rate of primary aluminum producers was 83 percent as of July 1, 1976, compared to 72 percent at year-end 1975.

JET ENGINE LUBRICANTS: POSSIBLE SHORTAGE OF STABILIZER CHEMICAL

° A stabilizer is required as an anti-oxidant in jet engine lubricants, which are subjected to high temperatures. Phenyl alpha naphthylamine (PAN) has been used as an essential stabilizer in lubricants used in all commercial and military jet planes.

CURRENT ° PAN is produced in U.S. by only one company, duPont, and may be in short supply in 1977. No adequate alternative appears to be available for use as a stabilizer.

- duPont is scheduling modification of its PAN production facility to meet current environmental and safety standards. During plant's partial modification, production of PAN for synthetic lubricants will be duPont's first priority.

- Following changes in the PAN facility, production will be continued in order to build up inventories for 1977, and duPont will then close the entire installation because of impractability of raising whole plant to required standards.

- Options for future sources of supply of PAN include imports (limited supply), a new U.S. producer, development of an alternative chemical (costly multiyear problem), and government and industry assistance to duPont through take or pay contracts for construction of a new duPont plant.

POTASH: SASKATCHEWAN BEGINS TAKEOVER

- Canadian province of Saskatchewan has previously announced its intention to expropriate some or all of the potash mines in the province.

- Some 70 percent of potash companies operating in Saskatchewan are U.S.-owned, and U.S. purchases approximately 70 percent of all potash mined in Canada (see Business Conditions Report April 30, 1976).

CURRENT
- Province of Saskatchewan has negotiated and completed its first purchase of a privately-owned potash mine, in keeping with its policy and intent to control the industry.

- Potash Corporation of Canada (Provincial Corporation) and the Duval Corporation, a subsidiary of Pennzoil United, recently completed negotiations for sale of Duval's mine for $128 million. Mine, located near Saskatoon, has a rated capacity of 1.2 million tons of potash.

- Provincial Government and Potash Corporation are reportedly negotiating with private companies, Sylvite of Canada and Alwinsal Potash Company, and hope to have purchase agreements with both by early fall.

- There is still resistance to the take-over of private plants, but expropriation remains a strong possibility for firms that refuse to sell.

- Province reports that it will take over only a percentage of the industry to establish control of production, prices and marketing.

LABOR

STRIKES

(Source: Federal Mediation and Conciliation Service)

CURRENT

- During week ending August 18 approximately 147,500 employees were involved in 414 work stoppages throughout the U.S.
- These totals include 26 work stoppages in construction industry involving 13,951 employees.
- 16 work stoppages were in major and/or significant category where 1,000 or more employees were in bargaining unit.
- During approximately same year-ago period, 377 work stoppages were in effect involving 125,971 employees. 25 work stoppages were in major and/or significant category.

NEW, SETTLED, AND CONTINUING MAJOR STRIKES

(Source: Federal Mediation and Conciliation Service)

- New: Southern California Rapid Transit and the UTU
  6,300 employees
  Southern California; began 8/23/76
- Settled: No work stoppages in major and/or significant category have been reported as settled since last week's report.
- Continuing (involving over 5,000 employees):

  Mechanical Contractors Association of Washington and the PPF
  Spokane, Washington
  8,300 employees; began 6/2/76

  Uniroyal, Inc. (16,000 employees);
  B. F. Goodrich Co. (10,000 employees);
  Firestone Tire & Rubber Co. (19,000 employees);
  Goodyear Tire & Rubber Co. (23,400 employees);
  and the URW Nationwide; began 4/21/76
  (Tentative agreement has been reached between URW and Goodyear, subject to ratification by all URW Locals. Agreement with Firestone "is near," according to URW spokesmen.)

NEW YORK CITY HOSPITAL STRIKE: EMPLOYEE CONCESSION PREVENTS LAYOFFS

- As reported earlier, 4-day strike against New York City's sixteen municipal hospitals by 18,000 non-medical workers ended on August 7.
- Employees received no wage increase and agreed to give up $10 million in cost of living increases in exchange for keeping the jobs of 1,350 persons scheduled to be laid off.

CONTAINER MANUFACTURERS: UNITED STEELWORKERS AND FOUR COMPANIES EXTEND AGREEMENT

CURRENT
- United Steelworkers of America reached agreement with four container manufacturing companies to extend contracts for 8 months.
- Contracts, which cover 24,000 employees, were scheduled to expire on February 28, 1977, and now will expire on October 13, 1977.
- Extended agreements call for wage increases of 17 cents to 23 cents an hour, effective March 1, 1977, and provide that any amounts above these granted in the first year of a subsequent contract will be retroactive to March 1, 1977.

MEATPACKING: FOUR MAJOR CONTRACTS EXPIRE AUGUST 31

CURRENT
- Master agreements between the Amalgamated Meat Cutters and Armour and Company, Swift and Company, Wilson and Company, and John Morrell and Company are scheduled to expire on August 31.
- Union is seeking a substantial wage increase, an improved cost-of-living provision and increased pension benefits. 45,000 employees are covered by the agreements.

PRICES

CONSTRUCTION MATERIALS: PRICES ROSE 1 PERCENT IN JULY

° Wholesale price index for all construction materials rose 8.1 percent in 1975 and 16.2 percent in 1974, despite construction slump which greatly reduced demand for these materials.

CURRENT ° 1 percent rise in index for construction materials prices in July brought total increase for first seven months of year to 5.9 percent. July 1976 index was 7.7 percent above July 1975.

° Component product indexes with greatest percentage increases in July were Douglas fir, 5.0 percent; softwood plywood, 3.3 percent; aluminum siding, 3.1 percent; enameled iron plumbing fixtures, 3.2 percent; water heaters, 2.5 percent; construction plastic products 2.2 percent; vitreous china plumbing fixtures 2.1 percent; and wire nails, 2.0 percent.

FERROUS SCRAP: PRICES EASE

CURRENT ° Published price quotes for No. 1 heavy melting scrap eased in weekly period ending August 23.

° 4.7 percent decline to $81.00 per gross ton in Pittsburgh price and 6.0 percent decline to $79.00 per ton in Chicago price brought 3-city Eastern composite price down 3.6 percent to $79.50 per ton. Philadelphia price was unchanged at $78.50 per ton.

° On West Coast, San Francisco price declined 1.6 percent to $61.50 per ton.

° On broader geographic basis, ferrous scrap prices eased in four major regions in week ending August 19.

-- In this period Eastern 3-city composite eased 2.0 percent to $80.83 per ton; and

-- reported prices were down 4.7 percent to $61.00 per ton in New England, 1.3 percent to $74.50 in the South, and 0.3 percent to $62.33 for Western composite.

RETAIL APPAREL: HIGHER PRICES ANTICIPATED

- Retailers attribute sluggish summer clothing sales to consumer resistance to prices which are up an average 10 to 15 percent over 1975. (See Business Conditions Report, August 20, 1976.)

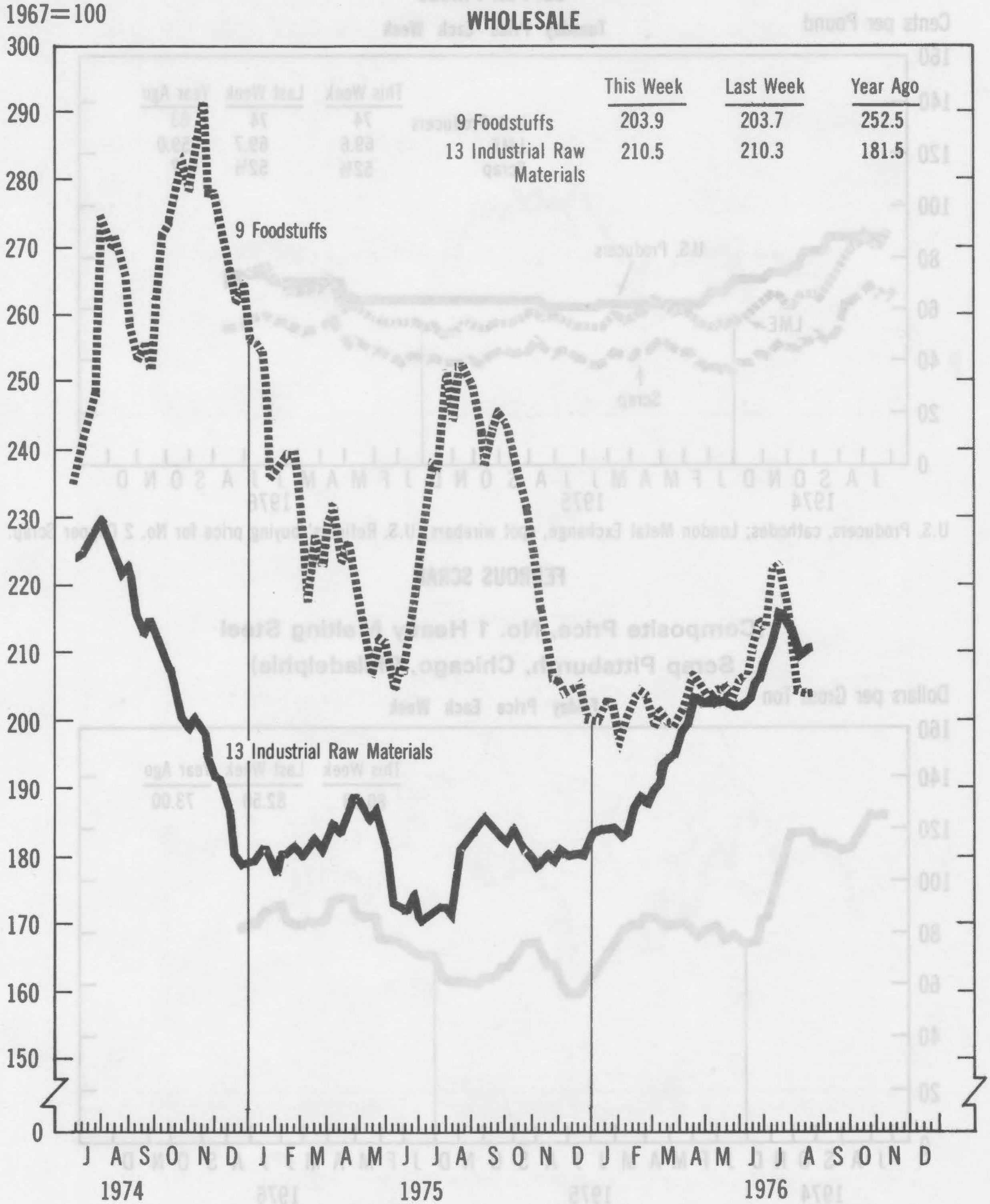
CURRENT
- Similar increases in 1977 retail apparel prices could result from increased textile prices at wholesale as reported in July Wholesale Price Index.

- 0.6 percent increase in July reflects both high cotton prices, which increased at an annual rate of 162 percent in April through June quarter alone, and lack of synthetics price activity during month.

- Resulting price increase in finished items with cotton content may limit strong consumer response beyond fall market and retailers are likely to counter expected diminished demand with reduced buying to maintain inventory balance.

PRICE INDICATORS

TUESDAY SPOT PRICES



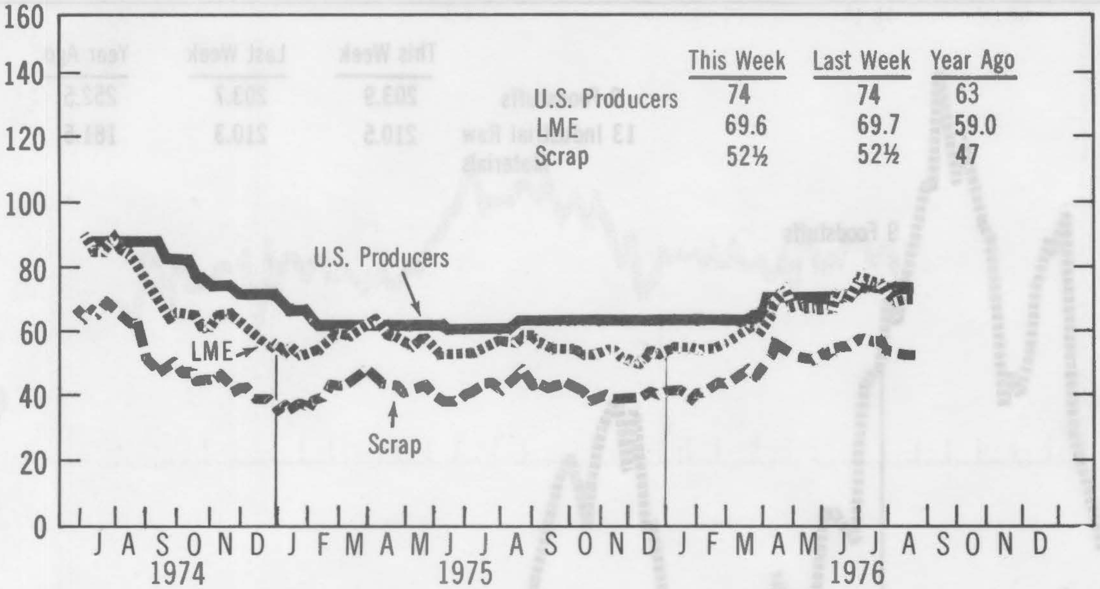
Source: Department of labor

KEY COMMODITY PRICES

COPPER PRICES

Cents per Pound

Tuesday Price Each Week



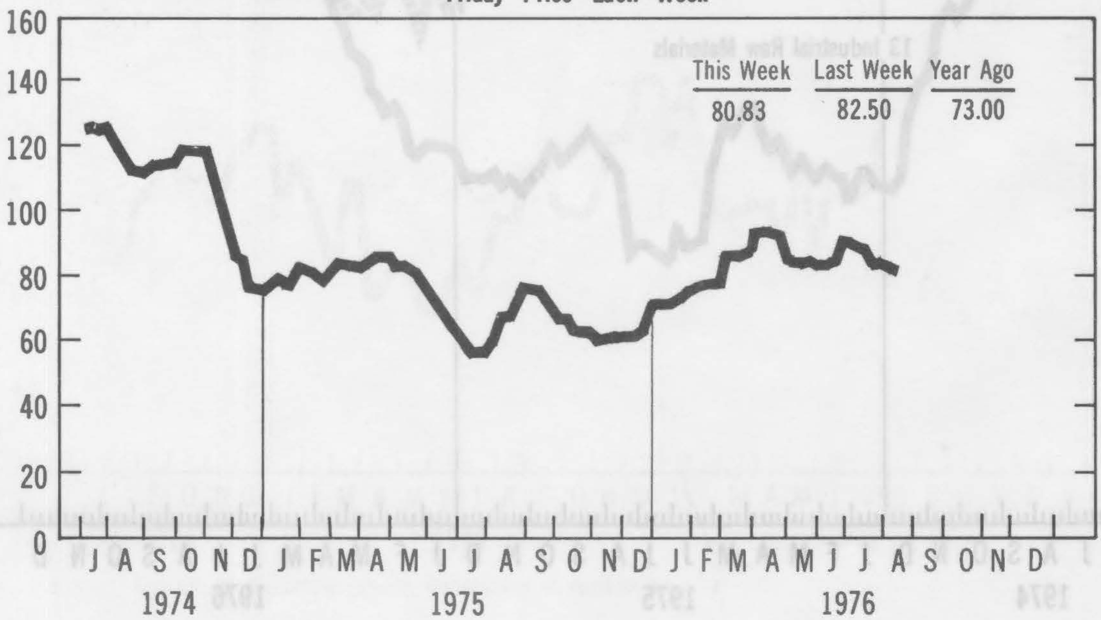
U.S. Producers, cathodes; London Metal Exchange, spot wirebars; U.S. Refiners' buying price for No. 2 Copper Scrap.

FERROUS SCRAP

(Composite Price, No. 1 Heavy Melting Steel Scrap Pittsburgh, Chicago, Philadelphia)

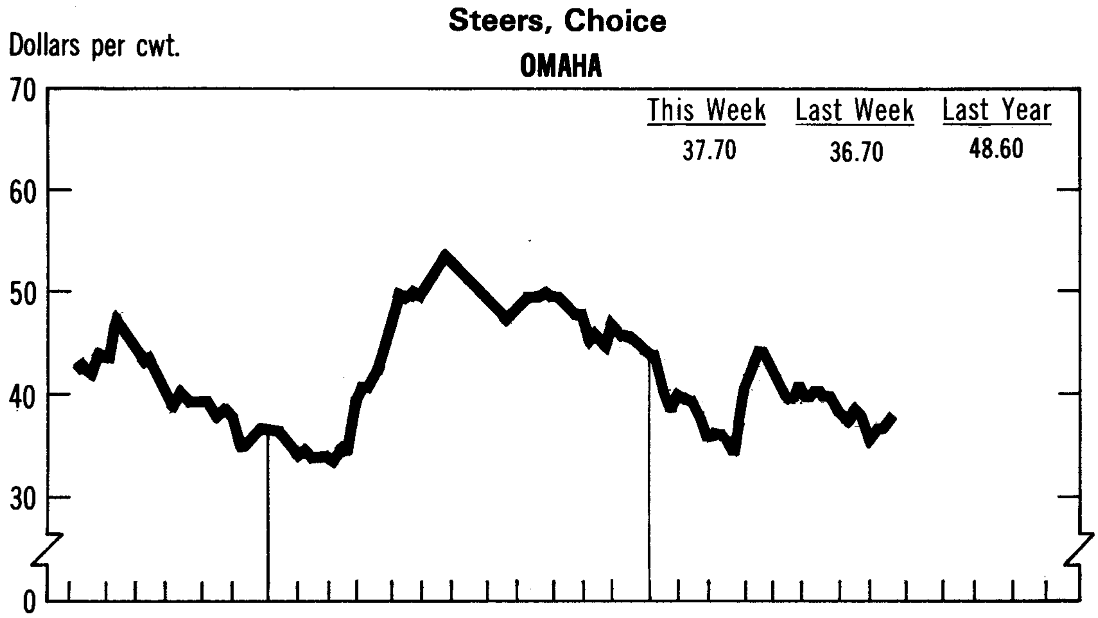
Dollars per Gross Ton

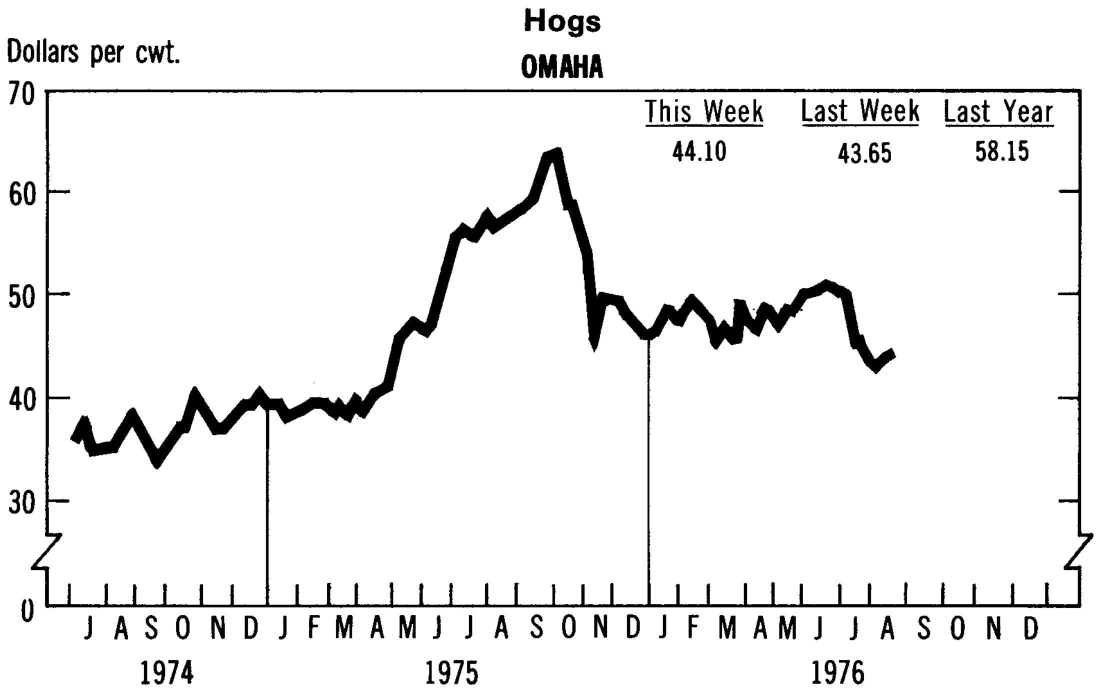
Friday Price Each Week



Source: American Metal Market

SPOT AGRICULTURAL PRICES

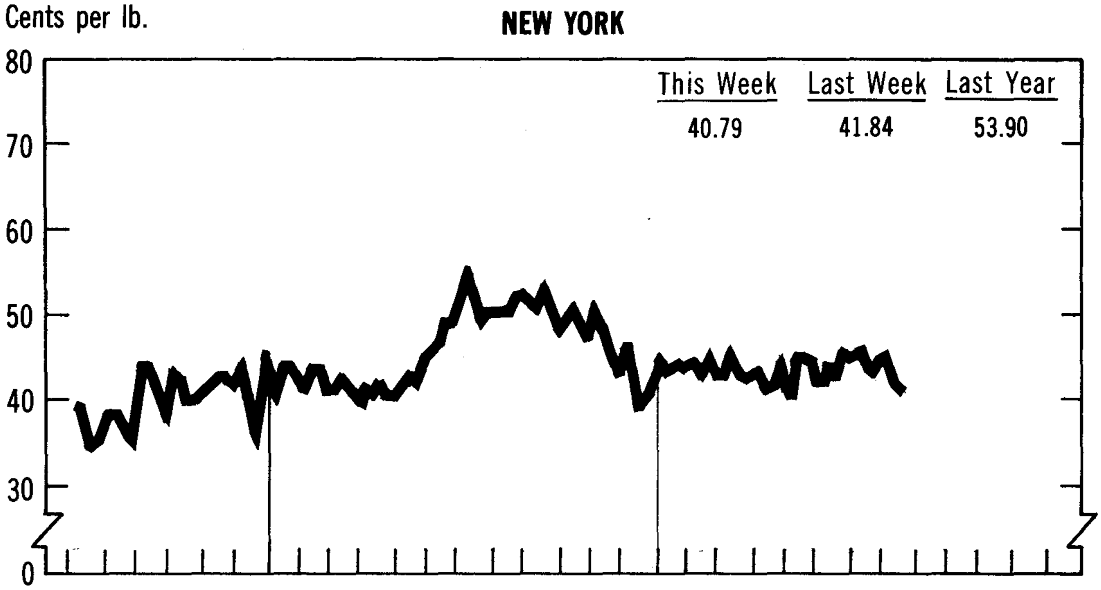




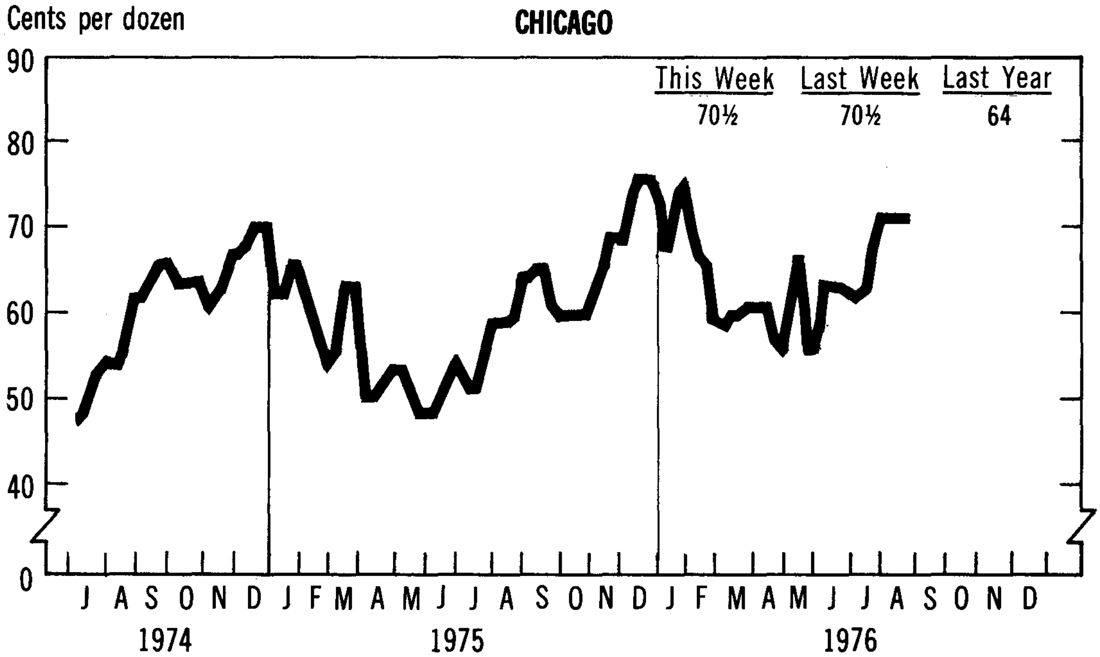
Source: Agricultural Marketing Service, Department of Agriculture.

SPOT AGRICULTURAL PRICES

Broilers, Dressed 'A'



Eggs, Large White



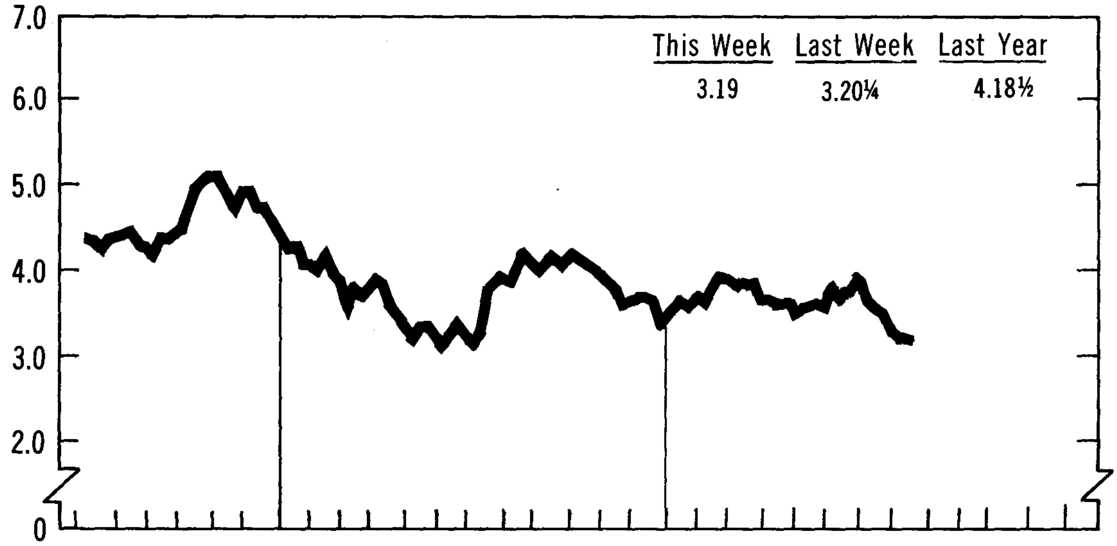
Source: Agricultural Marketing Service, Department of Agriculture.

SPOT AGRICULTURAL PRICES

Wheat No. 2 Ord. Hard

$ per bu.

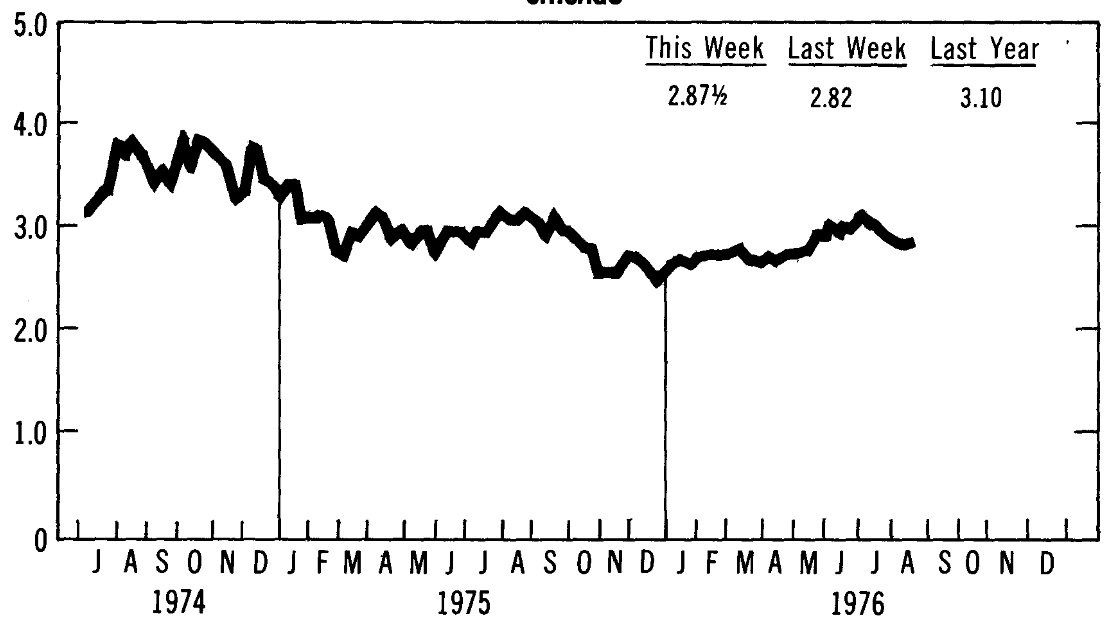
KANSAS CITY



CORN No. 2 Yellow

$ per bu.

CHICAGO



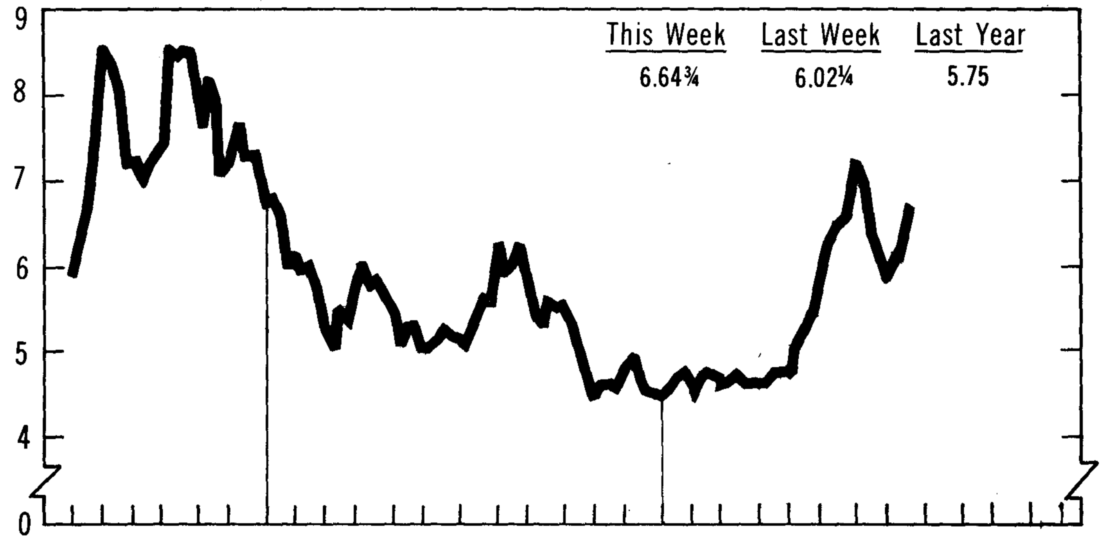
Source: Agricultural Marketing Service, Department of Agriculture.

SPOT AGRICULTURAL PRICES

Soybeans No. 1 Yellow

$ per bu.

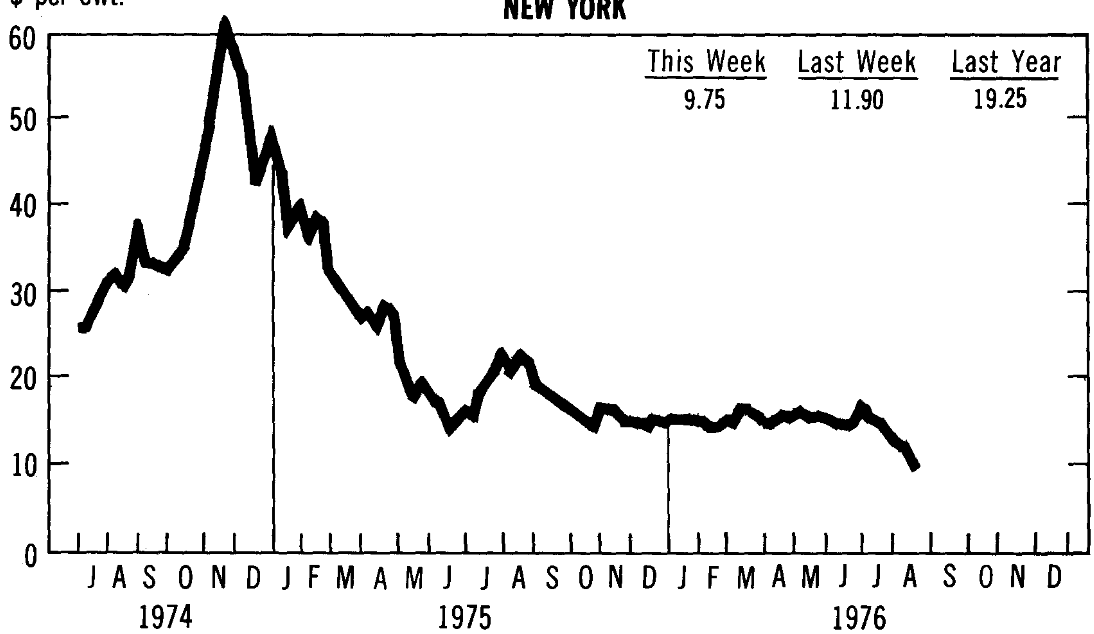
CHICAGO



Raw Sugar

$ per cwt.

NEW YORK



Source: Agricultural Marketing Service, Department of Agriculture

ISSUES

PHOSPHATE ROCK AND PHOSPHATE FERTILIZERS: U.S. EXPORT PRICES AND POLICY PROTESTED

- European Economic Community (EEC) and France have individually filed official complaints against U.S. industry's price and trade practices in phosphates and phosphate fertilizers, claiming specifically that EEC industry is being injured by U.S. dual pricing for foreign and domestic phosphate rock sales and low prices for U.S. fertilizer exports. Similar complaints were not lodged against Morocco's efforts to enlarge its export market.
- Complaints cite activities of Webb-Pomerene associations in phosphate trade as being unfair, and charge U.S. fertilizer firms with buying EEC production and distribution facilities. Specific activities criticized are unfair export sales, prices, and practices.
- Webb-Pomerene associations are legal under U.S. law and are exempt from antitrust actions.

CURRENT

- Interagency task force on fertilizers has considered complaints and agreed on seriousness and complexity of issues, but concluded that more information was needed on the complaints.
- On basis of information available, U.S. industry has not violated U.S. laws; however, Antitrust Division of Department of Justice and a Federal Grand Jury are conducting an investigation of the phosphate fertilizer industry.
- Price distortions cited in complaints are apparently due to recent shift from world shortages to surpluses in supply (with attendant price changes), competition, and technological changes.

- Government policies also influence prices. In EEC, French and Irish Governments own and operate fertilizer plants. These and other EEC countries desire to become self-sufficient in fertilizer production, and many of them keep prices low for farmers as a matter of policy.
- African producers, with government ownership, all seek to upgrade their exports by converting phosphate rock to fertilizer for export. Some African countries (notably Morocco) have preferential trade agreements with France and EEC.
- French complaint about U.S. firms buying production and distribution facilities gives no recognition to fact that their firms have bought interests in U.S. plants.
- Phosphate trade is expected to stabilize, with resultant equalizing of prices and elimination of official complaints.

FOREGOING RESTRICTIONS MAY BE REMOVED
90 DAYS AFTER PUBLICATION

MINUTES OF THE EPB/ERC EXECUTIVE COMMITTEE MEETING

August 25, 1976

Attendees: Messrs. Seidman, Richardson, Hills, Coleman, Lynn, Usery, Dunham, MacAvoy, Gorog, Barnum, Yeutter, Baker, Hill, Porter, Perritt, McGurk, Kearney, Schleede, Mitchell, Darman, Greenwald, Biller, Niehuss, Arena, Pasternack, Hormats, Rose, Herman, Sugrue, Leach, Hardy, Spaulding, Earl, Fisher, Walters, Lergo, Brands, Piper, Bliss

1. Tandem Financing for Multifamily Housing

The Executive Committee reviewed a memorandum from the Secretary of Housing and Urban Development recommending authorization of release of $2 billion in tandem mortgage purchase funds for multifamily housing. The discussion focused on the recent July drop in multifamily unit starts, the budget cost estimates of the proposed release of funds, and the effectiveness of the tandem mortgage program. There was general agreement that if the funds were to be released it should be done as quickly as possible.

Decision

The Executive Committee members were requested to provide their comments and recommendations on the proposal to release $2 billion in tandem mortgage purchase funds to Mr. Seidman's office by noon today. The Executive Committee requested OMB to also provide an analysis of the budgetary impact of the proposal.

A decision memorandum incorporating the recommendations of the Executive Committee members will be submitted to the President.

2. International Aviation Policy Agreement

The Executive Committee reviewed a memorandum from Secretary Coleman on a new international aviation policy statement. An earlier version of the statement was considered by the Economic Policy Board Executive Committee last February. Secretary Coleman reported that the statement had been substantially revised to incorporate changes recommended by several members of the EPB and to make improvements in both substance and presentation. The discussion focused on the subject of the timing of issuing a new international aviation policy statement. Secretary Coleman reviewed several reasons why he felt the Administration should issue a statement shortly as outlined in his memorandum. Mr. Seidman noted he had just received a memorandum from the Chairman of the CAB outlining his views regarding the timing of issuing a new policy statement. The discussion also focused on the level of precision with which several terms in the draft policy statement were defined. Secretary Coleman noted that since the preparation of the draft policy statement of July 26 he has made several changes to more clearly define certain terms as the result of discussions with CEA and the Department of Justice. The Executive Committee also discussed the utility of securing public comment on the document before its release in final form.

Decisions

The Executive Committee approved creation of a Committee on Style, including representatives from the Departments of Commerce, Transportation, State and Justice and the Council of Economic Advisers, to refine the language in the draft statement. Mr. Seidman will serve as the arbiter of any disagreements that the Committee on Style is unable to resolve.

Executive Committee members were requested to provide Mr. Seidman's office with their comments and recommendations on the issue of the timing of the release of a new international aviation policy statement by c.o.b. Monday, August 30, 1976.

3. Post-1980 Automobile Efficiency Goals Report

Deputy Secretary Barnum reported that all members of the ERC Motor Vehicles Goals Task Force recommended public release of the draft report. The discussion focused on the procedures for releasing the report and the utility of holding public hearings on it.

Decision

The Executive Committee requested the Task Force to prepare a memorandum for the President summarizing the Motor Vehicle Goals Report, outlining a press plan for its public release and providing a tentative schedule of public hearings.

The Executive Committee also approved including the names of Task Force members and other major contributors in the final report.

4. Natural Gas Curtailments

The Executive Committee reviewed a memorandum and report from FEA and the FPC on the natural gas curtailments situation and on possible legislative actions to deal with this winter's natural gas supply. The discussion focused on the current legislative situation with respect to pending natural gas legislation, the need for emergency standby authority, the gas supply outlook, and the effect of recent FPC rate increases on the gas supply.

Decision

FEA will explore the possibility of separating emergency authorities from the long-term provisions in the legislation currently pending in the Congress. If it is not possible to separate the emergency authorities, FEA will submit new legislation for standby authorities. Such legislation will not include authority for FPC allocations.

5. Lead Phase-Down

The Executive Committee agreed to defer consideration of the lead phase-down agenda item.

6. The Tax Bill

The Executive Committee went into executive session to discuss the current situation and strategy on the tax bill.