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NATIONAL AND INTERNATIONAL STABILIZATION POLICIES IN NIGERIA

(Paper submitted by the Government of Nigeria)

Note by the Secretariat:

This paper was submitted in response to a note by the Executive Secretary inviting participating Governments to contribute papers on the topics included in the provisional agenda.

The letter transmitting this paper contained the following statement :

"Assuming that Africa in the ECA context be divided into three regions - West, Central and East then :

(a) Any scheme undertaken by all the countries in each of the three groupings set out above should be regarded as a regional scheme.

(b) Any scheme undertaken by some but not all the members of a region is to be regarded as a sub-regional scheme.

(c) Any scheme undertaken and operated within the confines of any individual country is to be regarded as a national scheme."

NIGERIA'S NATIONAL STABILIZATION SCHEME

Historical Background

When the war broke out in 1939 some of the traditional markets for Nigeria's produce were lost because these markets were in enemy or enemy-controlled territories. As a result, producers and traders were faced with a bleak prospect. Disposal of Cocoa was the most pressing problem and so the British Government undertook the purchase of the whole crop from producers at guaranteed prices. The Cocoa Control Board was formed in 1940 to effect this new arrangement. In 1942, after Japan had entered the war, supplies of Oils and Oil Seeds from the Far East were lost to the allies and so Nigeria's Groundnuts and Palm Produce became vital to the war effort and were needed in large quantities, and consequently these two commodities were added to the produce control arrangement guaranteeing stable prices to producers. From 1942 this arrangement became the responsibility of the West African Produce Control Board. When the war was over huge profits had been accumulated and it was decided to apply the same arrangement to peace time marketing of these produce. Consequently, Commodity Boards were set up to buy from the farmers produce on a Nigeria wide basis. This arrangement continued until 1954 when the Regional Marketing Boards were established and each Region became responsible for the purchase of controlled produce within its territory.

Controlled Produce

The following produce are under the control of the Marketing Boards : Cocoa, Palm Produce (Palm Oil and Palm Kernels), Groundnuts, Cotton, Cotton Seed, Benniseed, Soya Beans; Grapefruit and Lemon (from the Western Region), and Copra (from the Eastern Region).

Operation of the Marketing Boards

The Marketing Boards were set up by the Regional Governments and are responsible to a Minister charged with responsibility for the Marketing Boards affairs in each region. The Marketing Boards own and control the Nigeria Produce Marketing Boards Limited, the organization responsible for the export and sale of controlled produce. The Federal Government, although charged with responsibility for Nigeria's external trade, has no representation at the Board of Directors of the Nigeria Produce Marketing Company Limited, nor has it any control over the policy of the Company.

Before the commencement of the buying season for each produce, the Marketing Boards determine the price to be paid to producers by taking into consideration the estimated production, future market trend, etc. The producer price, which is an ex port of shipment price equated back to determine buying station spot price, invariably remains unchanged throughout the season. In 1961, however, the Western Region Marketing Board reduced the producer price of Cocoa in the middle of the Season.

The Nigerian Produce Marketing Company Limited exports and sells the produce bought from farmers at the current world market prices. Profits or losses are made depending in the margin between the world market price and the producer price. Funds are remitted to the Boards through the Nigerian Produce Marketing Company Limited after the sale fo produce, and as there is no distinction between produce emanating from the Regions the proceeds from any produce are shared in proportion to the tonnages originating from each Region under a system of what is popularly known as "Price Averaging System".

INTERNATIONAL STABILIZATION MEASURES

Cocoa is the only crop, as far as Migeria is concerned, for which an international stabilization sheme is being fashioned. The following is a brief history of the attempts made and still being made by both consumers and producers to conclude an agreement on Cocoa Price Stabilization. Between 1954 and 1956 there was a steady increase in the production of Cocoa, although prices compared with what they are now, were still high on account of the increase in demand. There was a decline in production in the 1957/58 season and prices soared from an average of £182 per ton in March 1957 to £355 per ton in February 1958. This geat fluctuation in the price of Cocoa precipitated discussions on the possibility of stabilizing Cocoa prices at the Second Session of the FAO Cocoa Study Group held at Ibadan in September 1957. These discussions were initiated by representatives of consuming countries.

2. In consequence, a Working Party under the chairmanship of Sir Hilton Poynton was set up. The Group in setting up this Working Party had recorded that "while there seemed to be general agreement that geater price stability in the cocoa market was desirable, discussion of a possible stabilization scheme did not imply that the Group had committed itself to the view that a stabilization scheme was desirable or even praticable. Nor should it be assumed, at this stage that a case for an international commodity control agreement for Cocoa could be established under the Havana charter". Discussion at the Group's session and subsequently in the Working Party was therefore at all stages on hypothetical basis.

3. The Working Party thus set up had the following terms of reference.

> "In the light of the discussions at the Second Session of the Study Group, to examine the different proposals referred to in the Report or any other proposals, and if possible put forward definite recommendations for limiting prices movements within agreed upper and lower limits without injury to the long-term interests of the industry, taking into account all relevant economic factors, including the basic causes of price instability."

4. In March 1958, the Working Party met in London to consider the specimen Draft International Buffer Stock Agreement prepared by Sir Hilton Poyton. During the discussions Nigeria and Ghana submitted a Modified Buffer Stock Scheme and Brazil proposed a Producers Deferred Stock Scheme. The Brazilian Scheme was rejected

(a) because it was likely to be too expensive;

(b) because it was in the nature of a producer's cartel and was accordingly likely to eliminate consumers' goodwill;

(c) because a fixed floor price which the scheme advocated was difficult to defend.

The modified Buffer Stock Scheme proposed by Nigeria and Ghana was well received by the Working Party. At the Third Session of the Cocoa Study Group in Hamburd in May 1958, to the surprise of producer countries, the consumer countries, maintained that no scheme was necessary to maintain stability in the price of Cocoa. It was however agreed that any country could revert to the subject of Price Stabilization if it wished.

5. The downward trend in Cocoa prices since 1958 made it imperative to reopen the subject of Price Stabilization during the meeting of the Working Party in Rome from the 6th to the 18th of February, 1961. The Modified Buffer Stock Scheme sponsored by Nigeria and Ghana was carefully examined during this meeting. The basis of the scheme was a provision requiring importing and exporting countries to subscribe about 5 % of the value of their annual imports or exports, during a base period, to finance operation of the buffer stock. When the price threatened to fall to the floor, the Buffer Stock Manager would start buying and he would be given discretion to use his resources to the best possible effect. Alternatively, he would start selling when the price threatened to reach the ceiling.

6. The Working Party was impressed with the cimplicity of this scheme. However, it was felt that the objective supply/demand conditions had changed fundamentally since 1958. Under the conditions then existing it appeared imprudent to introduce a scheme which relied on a buffer stock as its only weapon. If the buffer stock broke down the threat of unsold stocks overhanging the market would do serious damage. It was felt that

the purpose of the buffer stock, as presented, would be to hold up the price of Cocoa more or less continuously by taking cocoa off the market. Acceptance of higher prices would by itself represent a contribution by consumers, and it might be unreasonable to ask them to pay again for the stock withheld in order to raise the price of the supplies they purchase. The general view was held that the other schemes submitted were not likely to provide acceptable and effective agreement at the time. Some presented various practical difficulties in operation, others did not seem likely to secure acceptance by a majority of the governments concerned. Others were designed to give effective control in circumstances where a fairly long-term excess of production over demand would occur.

7. It was recognized that the export quota type of scheme was particularly suited where production was tending to be greater than demand over a period of years. The Cocoa Study Group came to the conclusion that such was the case for Cocoa and suggested that if governements entered into negociations of an Inter-governmental Agreement an export quota scheme would seem to offer a most feasible approach.

8. In April 1961, the Fourth Session of the FAO Cocoa Study Group met at Accra. After much discussion and debate it was agreed that an export quota scheme offered the best chance of success and accordingly a Drafting Committe was appointed to put up a Draff International Agreement based on the quota system. This Committee met in June in Rome and submitted a Draft International Agreement which was discussed fully at the Seventh Session of the Executive Committee of FAO Cocoa Study held in Rome in October, 1961.

9. A measure of agreement was reached on the draft but the following controvercial aspects of the agreement were remitted back to the participating governments for their comments:

(a) whether the quota system should be based on sales or the physical export of cocoa beans from producing countries;

(b) whether there should be a price range within which there would be fluctuations, or whether there should be a fixed price below and above which the rules of the game should apply;

(c) whether there should be a restriction of imports by consumers from non-participating producers countries.

These three points will be debated in Montreux, Switzerland when the Fifth Session of the Group meets to discuss, amongst other things, the International Agreement.

10. The above gives brief record of the attempt made at an international level to stabilize the price of cocoa. Success has not yet been achieved but producers and consumers are patiently negociating, and it is hoped that at no distant date an International Scheme for the stabilization of Cocoa will be concluded.

11. This paper will be incomplete without reference to the formation of Cocoa Producers' Alliance. On account of the reluctance of consuming countries to accelerate the pace of progress towards the conclusion of an International Cocoa Agreement, the producers decided to form an alliance. Much has been written in the press about the Alliance. It is to be noted that the Alliance is not a cartel of producers, aimed

at holding consumers to ransom. Indeed it would be foolish to do so. It is to the interest of both producers and consumers that the price of Cocoa should be stable in order to allow forward planning so essential to the industry to be undertaken. The Producers' Alliance aims at not only stabilizing the price of Cocoa but the Articles of Association explicitly advocates the undertaking of research in production and marketing, and the promotion of consumption. It would therefore be seen that the Producers' Alliance aims at making the Cocoa industry a healthy one.

12. Both at the negotiating table under FAO auspices and at rendezvous behind the scenes Nigeria played a prominent part. Chief Akin-Deko who led the Nigerian delegation on several occasions was indefatigable in his attempts to find a solution to the problem of Cocoa Price Stabilization.

POSSIBILITIES OF JOINT ACTION BY AFRICAN COUNTRIES IN PRODUCTION AND MARKETING

1. In considering the possibilities of joint action by African countries in production and marketing, it is necessary to define clearly the objectives which such action aims to achieve.

2. in the field of production it is recommended that joint action should be encouraged in the field of research, pest control, seed culture etc. In the field of marketing it is our opinion that joint action should take note of the following considerations.

3. In considering any joint marketing arrangement the following points must be borne in mind :

(i) Any scheme must include all producers or at least the majority of producers of the particular crop under consideration;

(ii) a near monopoly in production by African producers must exist. If producers in other parts of the world can supply the needs of consumers there is hardly any need for joint action in marketing;

(iii) the existence of substitutes is a real threat to the success of any stabilization scheme;

(iv) possibility of assessing the real cost of production of a unit of the produce at the regional, sub-regional or national level. This is necessary in order to determine at what market price continued production would be uneconomical;

(v) orderly marketing methods must be observed. All producers must share the good and bad days equally. No one producer country must be allowed to throw in or withdraw all its stocks in order to reap the benefits of a favourable market price or to avoid the consequences of a falling market price;

(vi) all producer countries must compete on equal terms in all markets. There must be non guaranteed markets or bilateral agreements in respect of the crop subject to any stabilization scheme;

(vii) for any stabilization scheme to be successful, the co-operation of producers and consumers is of the utmost importance.

4. The following tables show the quantities of some of the commodities produced in or exported from tropical Africa. In determining the possibilities of joint action in marketing let us examine the tables.

(a) Cocoa

Tropical African countries have since 1955 produced over 60 % of total world production except in 1957/58 season when production fell to 59 %. The 1960/61 figure is 74 %. Cocoa in terms of the conditions enumerated under paragraph 3 above satisfies most of the conditions. Stabilization scheme is therefore desirable and is likely to be a success.

(b) Palm Kernels

Although the tropical countries of Africa exported about 91 % of total world export, the existence of substitutes in form of whale oil, sunflower seed oil, cotton seed oil, soya bean oil is a great handicap. Technological science has made it possible to substitute hard oils for soft oils.

(c) Natural Rubber

Africa produces about 6 % of world total. No advantage can be derived in undertaking a stabilization scheme. Synthetic rubber now accounts for over 50 % of total consumption.

(d) Palm Oil

Although exports from Africa account for over 65 % of world total export, that is total quantity entering international trade, the existence of substitutes as in the case of palm kernel oil presents practical difficulties.

(e) Raw Cotton

African production accounts for only 8 % of world total. Stabilization measures for this commodity are not recommended.

5. GROUNDNUTS

Nigeria, Senegal and Niger produce over 60 % of groundnut and groundnut oil entering International Trade. However, the existence of substitutes in the form of whale oil, soya bean oil etc. and the existence of a guaranteed market in France for groundnuts and groundnut oil from ex French colonies are practical difficulties to be overcome.

6. COFFEE

It is understood that there exists an Inter-African organization on coffee. More should be known of this organization. However, the existence of large stocks of Brazilian Coffee is not an encouraging sign for any stabilization in this respect.

7. SISAL

There is little production of this commodity in Nigeria and it is felt that co-operation will be most profitable in the field of production and research.

TABLE I COCOA PRODUCTION (in '0000 of metric tons)

Country	1955/56	1956/57	1957/58	1958/59	1959/60	1960/61
N. & C. America:	69.6	76,7	80.9	80.4	85.4	82.8
S. America:	242.6	226.6	222.5	240.8	271.1	199.6
Asia:	5.9	5.8	5.2	5.7	6.5	7.2
Africa: (a)	517.6	583.4	451.1	566.2	659.5	869.3
Oceania:	5.5	6.7	9.0	9.9	11.4	11.5
Total: (b)	841.2	899.2	768.7	903	1,033.9	1,170.4
Percentage of (a) to (b):	62	65	59	63	64	74

TABLE II

EXPORT OF PALM KERNELS, 1960 (long tons)

Nigeria		418,040
Sierra Leone		54,525
Ghana		3,050
Gambia		1,625
Ex French West Africa		81,808
Ex French Equatorial Africa		7,702
Congo		22,000
	(a)	588,750
Malaya		24,637
		34,448
	(b)	647,835
Percentage of (a) to (b)		91

TABLE III PRODUCTION OF NATURAL RUBBER (in long tons)

Country	1955	1956	1957	1958	1959	1960
Malaya	638,748	625,972	637,537	662,872	697,766	710,485
Indonesia	737,088	686,667	684,515	667,561	721,359	595,253
Ceylon	93,830	95,389	98,164	100,196	91,695	97,277
Vietnam	65,289	69,122	68,556	70,524	74,183	75,401
Cambodia	27,368	31,576	31,183	33,089	33,924	36,523
India	22,481	23,444	23,767	24,327	23,396	24,794
Sarawak	39,233	40,726	40,982	38,917	43,424	49,658
Oceania	38,750	38,750	38,500	38,250	41,750	40,250
Africa (a)	98,000	113,000	116,250	124,000	141,000	135,500
Brazil	21,383	23,696	23,957	20,268	21,109	22,733
Other Latin America	6,000	6,000	6,000	6,000	7,000	7,000
(b)	1,788,070	1,754,342	1,769,411	1,786,004	1,896,606	1,794,874
Percentage of (a) to (b)	5.4	5.3	6.6	6.7	7.4	7.5

TABLE IV

PALM OIL

EXPORTS FROM THE MAIN PRODUCING COUNTRIES

TONS

COUNTRY	1959	1960
Ex British West Africa	183,676	183,366
Ex French West Africa	12,946	12,345
Ex French Equatorial Africa	2,756	3,572
Ex French Cameroun	776	1,086
Ex Belgian Congo	182,270	145,000
(a) ..	382,424	345,369
Angola	8,609	12,800
Indonesia	101,514	110,236
Malaya	77,370	95,439
(b)	569,917	563,844
Percentage of (a) to (b) ..	67.1	70

TABLE V

RAW COTTON

WORLD PRODUCTION (in '000 Bales)

COUNTRY	1955/56	1956/57	1957/58	1958/59	1959/60
Americas ..	19,808	17,805	16,243	17,061	19,682
Asia	15,419	16,482	20,893	22,896	22,417
Africa ..(a)	3,222	3,030	3,482	4,210	4,069
Europe ..	658	531	508	507	621
(b)	39,107	37,848	41,126	44,674	46,789
Percentage of (a) to (b)	8.2	8	8.4	9.4	8.6

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