46900

UNITED NATIONS
ECONOMIC AND SOCIAL COUNCIL

Distr.
LIMITED

E/CN.14/STC/CS/20
28 August 1962

ENGLISH
Original: FRENCH

ECONOMIC COMMISSION FOR AFRICA
African Meeting on Commodity Stabilization
Lagos, Nigeria, 30 July - 7 August 1962.

PROBLEMS OF AGRICULTURAL COMMODITY PRICE STABILIZATION

(Paper submitted by the Government of Ivory Coast)

<u>Note by the Secretariat:</u>

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.

62-2032

PROBLEMS OF AGRICULTURAL COMMODITY PRICE STABILIZATION IN THE IVORY COAST

I. THE IVORY COAST ECONOMY

PREDOMINANCE OF AGRICULTURAL ACTIVITY

Being a country of tropical Africa, the Ivory Coast has an essentially agricultural economy, and, despite the great strides made by its new industry, its external trade is still based on the export of the major tropical commodities: coffee, cocoa, bananas, wood and palm kernels, which represent 94 per cent of the value of its trade.

Agricultural activity involves 95 per cent of the population, and the income from agriculture, including activities subsidiary to it (factories for treating coffee: roasting; and the canning industry: pineapple, fruit juice; tobacco manufacture etc.) amounts to over 70 per cent of the total revenue.

Besides being an essential factor in the activity of the population and the formation of income, agriculture is, moreoever, one of the main factors in the budget revenue.

During the last few years, there has been a spectacular growth in the economy of the Ivory Coast. This has been due to the effect of favourable world economic conditions and to investment, which has made it possible both to improve the economic base (transport, harbour installations...) and to modernize the agricultural structure.

In ten years there has been the following percentage improvement in exports:

600 per cent for wood
400 per cent for bananas
350 per cent for coffee
100 per cent for palm kernels
25 per cent for cocoa.

This spectacular progress in the production and export of agricultural produce has had a beneficial influence on the development of internal trade, on marketing and commodity consumption, and has been

reflected in an increase in the people's incomes. Imports of capital goods have corresponded to the rate of increase in exports. The demand for consumer goods has considerably increased.

Some industries for processing agricultural produce have been set up inside the country (coffee roasting factories, pineapple canneries, tobacco manufacture, cotton weaving mills...).

However, there are signs that this progress is beginning to slow down.

In fact this development of the agricultural economy and the related processing industries, and also this social progress, are seriously threatened by the instability of prices of tropical products on the world raw material market.

The period 1950 - 1957 was an auspicious one for the suppliers of exotic products; the reconstruction of the world after the ruins of the last war, the absence of stocks, the increase in the buying power of the Western countries, were factors which gave a boost to the economy. The demand for commodities was then greater than the supply, and the rise in prices encouraged production.

But, for some years past there has been an increasing trend in the opposite direction; demand has been absorbed owing to the saturation of the market and prices have been progressively falling.

Although it can be said that the Ivory Coast economy has been maintaining its impetus, since the effect of the fall in prices was not felt immediately, there is nevertheless a threat of economic stagnation.

So far, the increase in production has absorbed the deficit due to the reduction in prices. Hence the producer's income has remained roughly the same. But the change in the economic situation has had an irreversible effect on buying power. The increase in earnings over the last few years does not always offset the continuing rise in the cost of imported capital goods.

If we take the index of prices in the franc zone, the base being

100 in 1949, the index of prices in 1958 becomes 180, i.e. an increase of 80 per cent. Yet during that same period the prices of African commodities declined sharply.

The most striking example of this is that of coffee.

In 1954, Ivory Coast coffee was quoted in New York at between 44½ cents and 62 cents - the highest rate - while in 1958 it fell to 38 5/8 cents, and in 1960 to 16 5/8 cents, the lowest rate.

In the corresponding period production rose from 60,000 tons to 185,000 tons for the 1960 - 1961 crop season.

Thus the discrepancy of roughly 3.5 between the prices of 1954 and 1960 was more or less absorbed by the 3 per cent increase in production.

The effect on domestic prices was as follows: the price of coffee per kilo unwrapped ex-scale Abidjan was quoted at CFA Fr. 159 in 1954 - its highest rate - and fell to 103 Fr. in 1956, and 70 Fr. in 1961.

That is why a policy of stabilization of raw material prices is vital for the African countries.

There are possible lines of action on the national and the international level.

The Republic of Ivory Coast has already been obliged to take steps to protect the producer's income, to stabilize his buying power and to prevent economic stagnation by diversifying production.

II. NATIONAL MEASURES

THE STABILIZATION FUNDS
(CAISSES DE STABILISATION)

It was this need to stabilize the producer's remuneration which originally led to the establishment of Stabilization Funds (Caisses de Stabilisation).

Two Funds were set up in the Ivory Coast in 1955. One was the coffee Price Stabilization Fund and the other was the Cocoa Price Stabilization Fund; each is administered by a Managing Council (Conseil de Gestion)

composed of representatives of the general interest (the Administration and the Legislative Assembly) and of private interests (producers, factory owners, exporters). Since February 1962 the two Funds have been merged into one single Coffee and Cocoa Price Stabilization Fund (Caisse de Stabilisation des Prix du Café et du Cacao).

The main resources of the Fund are derived from contributions, from rebates charged on the export value of the commodities, and from earnings resulting from interventions by the Fund in the marketing process.

The Coffee and Cocoa Price Stabilization Fund intervenes in the following ways:

For coffee:

It sets a guaranteed purchase price which is valid for the crop season. This price bears some relation to world coffee prices, but remains much higher than the actual price.

It has the right to purchase all the by-products.

It stockpiles, under contract, production in excess of export possibilities.

With regard to exports, the Fund intervenes:

In franc zone exports (France and Algeria), by charging a rebate payable to the Fund, since the support prices agreed by France are higher than the actual prices.

In other countries, by reimbursing from the Fund the difference between the actual price and the guaranteed price.

The amounts of these charges and payments depend partly on the price of coffee at the stage unwrapped ex-scale Abidjan, and partly on the prices obtainable on French and foreign markets.

Just as the prices unwrapped ex-scale Abidjan and c.i.f. France are set for the crop season, the amount of the charge made by the Fund is also set for the year. As to the amount of payment, it is determined on the basis of the current prices by a "Quotation Committee" which meets every day.

For cocoa:

The ways in which the Price Stabilization Fund intervenes do not include stockpiling, because of the commodity's perishable nature, but are based on offsetting operations: the Fund charges or pays the difference between the c.i.f. price obtained and the guaranteed crop season price to which the differential is added.

As in the case of coffee, a "Quotation Committee" calculates the average c.i.f. prices every day on the basis of the actual prices prevailing in the principal consumer centres, France, U.S.A., Netherlands.

The system established by the Stabilization Funds has the dual advantage of preserving freedom of selling on the part of the exporters while at the same time making them share with the private sector the responsibility for the local interventions which are deemed necessary. The Managing Committee calls upon the assistance of the representatives of the various professional classes, thus encouraging a spirit of co-operation between the Administration and the professions.

Despite their undoubted effect, the domestic interventions by the Coffee and Cocoa Price Stabilization Funds cannot be sufficient to solve the world problem of coffee and cocoa prices. Since the establishment of the Stabilization Funds, the guaranteed seasonal prices of coffee have increased slightly, reaching 120 Fr. in 1957/58. But the depreciation of prices on the world market has since led to a reduction in the guaranteed seasonal prices:

105 francs in 1959/1960
95 francs in 1960/1961
80 francs in 1961/1962
($32\frac{1}{2}$ cents).

There has beem the same trend in the case of cocoa. After a rise in the guaranteed prices - 95 francs in 1959/1960 - a readjustment had to be made in 1961/1962 and the guaranteed price is now only 70 francs (28.4 cents).

In any case the system of compensation is still imperfect; it is based solely on the preferential tariff granted by France, i.e. on over-payment by this consumer.

The crisis affecting these two commodities can only be remedied by international agreement.

Aware of the economic interdependance existing between the producing countries, the Coffee and Cocoa Price Stabilization Fund is in close contact with the liaison machinery of the producing states, such as the Inter-African Coffee Organization (IACO), consisting of the African producing countries, and the Managing Committee of the Producing Countries in the franc zone (Comité Directeur des Pays Producteurs de la Zone Franc) which fixes the export quotas to France of each producing country and the minimum support prices. These countries have signed an agreement by which they undertake to co-ordinate their sales and to maintain the prices set.

The Ivory Coast export quota to France fixed for the 1959/60 and 1960/61 seasons was 92,000 tons.

The support price, which in 1959/60 had been 345 metropolitan francs, was reduced to 320 metropolitan francs in 1960/61.

<u>Intervention of Specialized Funds</u>

Apart from the financial gains derived from market organization, mention must be made of the Specialized Funds, and in particular the National Fund for the Stabilization of Prices of Overseas Commodities (Fonds National de Regularisation des Cours des Produits d'Outre-Mer) which makes loans to the Stabilization Funds of the individual States.

When coffee prices slumped in 1960/61, the Fonds de Regularisation granted a loan of Fr. 1,250 million to the Coffee Price Stabilization Fund (Caisse de Stabilisation des Prix du Café) in the Ivory Coast to enable it to maintain the guaranteed producers' price for the season.

<u>The Cotton Stabilization Fund</u>

(Caisse de Stabilisation du Coton)

Cotton is one of the tropical commodities for which intervention is required to safeguard prices. Cotton is a new crop which needs to be encouraged, and the problem of price support also involves that of the improvement of growing methods and of plant production.

The question of cotton price stabilization was considered and settled at the inter-African level by the establishment of a Stabilization Fund (Caisse de Stabilisation) covering five producing countries: Mali, Niger, Upper Volta, Dahomey and Ivory Coast.

The "intervention" prices are fixed annually by the Advisory Committee of the Overseas Textiles Support Fund (Fonds de Soutien des Textiles Outre-Mer).

The Inter-States Cotton Price Stabilization Fund (Caisse de Stabilisation Inter-Etats du coton) comprises the Delegates from each of the five governments and the Representatives of the producers, uses and exports of those States. Its purpose is to stabilize the producer's purchase price and to cover cotton season deficits where they occur. It prepares and carries out a programme of direct action to promote the development and improvement of cotton growing (crop premiums - research costs - supervisory agricultural personnel - plant protection campaign etc....).

On the basis of the agreed "intervention" prices, the member countries propose an export price scale taking special local conditions into account; this scale is approved by the Fund (Caisse).

Subsequently each country sets the producers' purchase price.

For several years the "intervention" prices have remained stable, being roughly CFA Fr. 150,000 per ton f.o.b. Abidjan for the Allen variety and CFA Fr. 127,000 per ton f.o.b. Abidjan for the local variety known as Mono. The producers' purchase prices have been maintained at an average of 31.30 francs for Mono and 34.80 francs for Allen, the latter price including provision for purchases of plant protection equipment.

Now that the Inter-State Stabilization Fund (Caisse de Stabilisation Inter-Etat) has been maintaining the stability of cotton prices, progress in that branch of agriculture is being sought primarily in productivity. The high yields of the Allen variety, 1,000 to 1,200 kilos per hectare, representing an income of 38,000 francs per hectare, are the best possible propaganda for the grower who derives a substantial income from his plantation

whereas the coastal variety called Mono leaves him a profit of only 4,000 to 5,000 francs.

Moreover, the cotton production is sure of being sold on the Ivory Coast domestic market; the cloth factories of Bouaké absorb the whole of the crop (4,000 tons). If the capacity of these cotton mills is to be developed, there is a need for a rapid increase in Allen production. A programme which has been studied and submitted to the Inter-State Fund (Caisse Inter-Etats) provides for a future production of 50,000 tons of fibre of the Allen variety.

Edible Oil Products

For the specific products copra, palm kernels and palm oil, the world market situation has been adverse for a long time and trade has greatly declined. Apart from a few seasonal fluctuations, the prices of palm kernels and copra have dropped steadily. In 1959, palm kernels were quoted at 102 francs c.i.f., or CFA Fr.51. The price c.i.f. Marseilles is now in the neighbourhood of 66 francs, or CFA Fr. 33, which only leaves the African producer with an income varying from 14 to 18 francs per kilo, depending on the area where they are collected.

The possibility has been contemplated of establishing an Oil Product Stabilization Fund (Caisse de Stabilisation des Oléagineux) in the Ivory Coast, but in view of the present severely depressed prices, this would entail right from the start, a serious problem of financing.

For the moment the only feasible solution lies in an increase in the demand of local processing factories (oil and soap works).

The stabilizing machinery has achieved appreciable economic and social results:

Maintenance of domestic prices at a level acceptable to the producer.

Maintenance of the pace of economic activity.

At the same time, this machinery has had a favourable influence on marketing and on the quality of produce. A steady improvement in the quality of Ivory Coast cocoa is to be noted, the percentage of high-grade

cocoa exported rising from 13.75 per cent in 1956 to 78.8 per cent in 1960. For high-grade coffee, the figure rose from 4.25 per cent in 1955 to 69.33 per cent in 1960/61.

The regulations made to ensure the selling of high-quality produce also made it possible to re-organize the trading channels by gradually eliminating the middlemen (sub-contractors) who constituted a major burden on commodity prices.

Now that he receives information through modern means of news dissemination (propaganda, radio, newspapers), the planter has a better understanding of the role he is asked to play in order to ensure the economic progress of his country.

But the stability of the domestic prices guaranteed by the Stabilization Funds (Caisse de Stabilisation) can only be maintained if the domestic economy is growing, if crops are diversified, if industries for processing agricultural commodities are developed, and if the domestic market is strengthened.

In connexion with the domestic economy, there also arise problems of price protection, this time with regard to certain imported commodities where very low tariffs and large supply are a threat to production.

Rice is a typical case of this.

Rice is one of the commodities most appreciated by the local population. The Ivory Coast is a large importer:

An average of 35,000 tons in 1959 and 1960, and over 40,000 tons in 1961.

The rise in the people's level of living could not but lead to increased imports. Yet the Ivory Coast is at the same time a rice producer and has great opportunities for the development of irrigated crops. The varieties cultivated show good yields and are comparable to those of the Far East.

Production is increasing favourably, and, apart from the proportion consumed locally, there is an increasing marketable surplus.

In order to enable production to develop and at the same time to ensure the disposal of marketable surpluses on the Ivory Coast market, prices must

be stabilized at a level profitable for the producer and competitive with imported rice.

To stabilize the prices, an Equalization Fund (Caisse de Péréquation) has been set up. This Fund sets the official prices at the stage "unwrapped ex-scale Abidjan" and at the wholesale and retail stage. When the actual cost price is lower than the set price, the importer pays the difference to the Funds; on the other hand, when the actual cost price is higher, the Fund repays the difference to the importer.

The Rice Equalization Fund also plays a part in developing rice-growing by financing improvement work on the rice fields.

There are many other agricultural commodities which need direct intervention for the organization of marketing and consumption, since these commodities, in economically young countries, all too often fail to attract free enterprise owing to the limited profits accruing from the transactions.

In such cases the marketing and redistribution has to be done by co-operative bodies (for market garden produce and fruit for example), supported if necessary by a government marketing board (Office public d'achat et de vente).

INTERNATIONAL MEASURES

International agreements

We have said, in connexion with the Coffee and Cocoa Price Stabilization Funds that equilibrium between supply and demand must be brought about by international agreements. In order to be effective, such agreements must include all the producers and all the users, and at the same time be based on an accurate estimate of subsequent data.

With regard to coffee, the Ivory Coast has now acceded to the International Coffee Agreement, the Inter-African Agreement and the Inter-Franc Zone Agreement.

(See reference to International Agreements in the note on the Stabilization Fund (Caisse de Stabilisation)).

It has been impossible to implement the Cocoa Agreement. Since the first meeting at Ibadan in 1957, the opposition of the buyers has always prevented the conclusion of a Cocoa Charter.

The forthcoming meeting at Montreux should smooth out the differences of opinion between buyers and producers, who since 1961 have formed a Cocoa Producers' Alliance.

New Lines of Development

The Price Stabilization Funds and the International Agreements nevertheless remain mere palliatives to secure some price equilibrium - a fictitious equilibrium if we consider the ascending curve of the prices of capital goods.

However, it is essential for the African countries to pursue their economic development and their social progress by seeking new lines of development.

In the present world economic structure the market for the major exotic commodities is saturated. Supply exceeds demand. Whatever concerted international organization of markets there may be, it is the consumers who set the prices.

There is overproduction of coffee, since stocks exceed a year's consumption; there is beginning to be a surplus of cocoa. Bananas, cane sugar and edible oils may well reach the same stage of saturation in the near future. As Mr. Adlai Stevenson has said, science cannot distend the Western stomach so far as to enable it to absorb all the commodities which science may provide.

Moreover the pattern of exports is obsolete. While it is true that exports of the major classical tropical commodities will continue to provide a substantial income, they can neither increase in volume nor procure surplus currency. On the contrary, under present conditions there seems likely to be a fall in prices and hence an economic decline for the African countries.

As it is unlikely that new markets will be opened up to absorb production surpluses for a long time to come, the economic future can only be based on a reconversion of the domestic economy.

Africa offers both great opportunities for the production of various commodities and for the consumption of agricultural produce and manufactured goods.

A still new domestic market, rapidly expanding, can and must compensate for the deficit on the external market.

Steps to encourage this change-over should concentrate on:

The intensification of food production for local consumption: cereals, market garden produce, fruit.

The expansion of industrial crops such as cotton, sisal, castor oil plant, tobacco....

Industrialization, processing of agricultural commodities (tobacco manufacture, string and sack-making plants, cotton mills, soap factories, oil works etc...).

Organization of channels of distribution.

Modernization of techniques and services.

Education of the consumer.

A vast inter-state market

This development of the domestic economy cannot be restricted to one State alone. In order to be technically sound and profitable, it requires the establishment of very large economic units grouping together several African States.

Already the countries of the Entente are contemplating setting up an African common market.

- - - - -