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February 14, 1990

To: Members of the Executive Board

From: The Secretary

Subject: Possible Fund Financing of Natural Rubber Buffer Stocks Established Under the 1987 International Natural Rubber Agreement

Attached for consideration by the Executive Directors is a paper on possible Fund financing of natural rubber buffer stocks established under the 1987 International Natural Rubber Agreement, which will be brought to the agenda for discussion on a date to be announced. A draft decision appears on pages 19-21.

Mr. Kaibni (ext. 7721) or Mr. Menon (ext. 7731) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

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INTERNATIONAL MONETARY FUND

# Possible Fund Financing of Natural Rubber Buffer Stocks Established Under the 1987 International Natural Rubber Agreement

Prepared by the Research Department

(In consultation with the Legal and other departments)

Approved by Jacob A. Frenkel

February 9, 1990

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## Introduction

The Fund has been requested by the Executive Director of the International Natural Rubber Organization to consider the suitability of the 1987 International Natural Rubber Agreement (INRA), which entered into force in April 1989, for support under the Fund's buffer stock financing facility (BSFF). On the basis of the analysis contained in this paper, the staff believes that the terms of the 1987 INRA are consistent with the criteria for Fund assistance under the buffer stock financing facility. Accordingly, the staff recommends Board consideration of a draft decision in Section 4, proposing Fund financing of eligible members' contributions to the buffer stock of the 1987 INRA.

Under the BSFF, which was established in 1969, 1/ the Fund has approved purchases by members of the Fourth and Fifth International Tin Agreements, the 1977 International Sugar Agreement and the 1979 INRA. Purchases under the BSFF have totaled SDR 558 million; no purchases are currently outstanding under this facility (Table 1). In connection with the 1979 INRA, five exporting members--Côte d'Ivoire, Indonesia, Malaysia, Sri Lanka and Thailand--made use of the Fund's resources in 1983 for a total amount of SDR 132 million to finance their contributions to the buffer stock of that Agreement. All related repurchases were completed on schedule. Apart from the 1987 INRA, at present there are no international commodity agreements with buffer stock provisions that could qualify for support under the BSFF.

The purpose of this paper is to assist the Executive Directors in considering: (i) whether the terms of the 1987 INRA are consistent with the criteria for use of Fund resources under the buffer stock financing facility; (ii) the extent of possible Fund financing of members' contributions to the buffer stock of the 1987 INRA; and (iii) the terms governing members' access to Fund resources for that purpose. The paper consists of four sections: the first contains an overview of developments in the world natural rubber market and the related market intervention operations under the 1979 INRA; the second reviews the main operational features of the 1987 INRA; the third assesses the compatibility of the agreement with the criteria for assistance under the Fund's buffer stock financing facility; the final section provides a summary evaluation and staff recommendations, including a proposed decision for adoption by the Executive Board. Annex I sets out the Fund's decisions relating to the establishment of the buffer stock financing facility, and to the 1979 INRA. Annex II reproduces the criteria for Fund support under the buffer stock financing facility, as set out in Annex A of the 1969 report on "The Problem of Stabilization of Prices of Primary Commodities." The full text of the Agreement is attached as Annex III.

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1/ Decision No. 2772-(69-47), 6/25/69, as amended.

Table 1. Operations Under the Buffer Stock Financing Facility (BSFF), 1971-89

(In millions of SDRs)

| Year | Purchases: Tin 1/ | Cocoa 2/ | Sugar 3/ | Rubber 4/ | Total | Repurchases | Net Purchases | Outstanding End of Year |
|---|---|---|---|---|---|---|---|---|
| 1971 | 14.7 | ... | ... | ... | 14.7 | 0.0 | 14.7 | 14.7 |
| 1972 | 10.7 | ... | ... | ... | 10.7 | 2.1 | 8.5 | 23.2 |
| 1973 | -- | -- | ... | ... | -- | 8.8 | -8.8 | 14.4 |
| 1974 | -- | -- | ... | ... | -- | 9.3 | -9.3 | 5.1 |
| 1975 | 4.7 | -- | ... | ... | 4.7 | 5.1 | -0.4 | 4.7 |
| 1976 | -- | -- | ... | ... | -- | 4.7 | -4.7 | -- |
| 1977 | -- | ... | ... | ... | -- | -- | -- | -- |
| 1978 | -- | ... | 36.1 | ... | 36.1 | -- | 36.1 | 36.1 |
| 1979 | -- | ... | 37.6 | ... | 37.6 | -- | 37.6 | 73.1 |
| 1980 | -- | ... | -- | ... | -- | 73.7 | -73.7 | -- |
| 1981 | -- | ... | -- | ... | -- | -- | -- | -- |
| 1982 | 100.0 | ... | 43.9 | -- | 143.9 | -- | 143.9 | 143.9 |
| 1983 | 94.7 | ... | 81.7 | 131.6 | 308.0 | 78.6 | 229.4 | 373.3 |
| 1984 | -- | ... | 2.1 | -- | 2.1 | 14.3 | -12.3 | 361.1 |
| 1985 | -- | ... | ... | -- | -- | 182.2 | -182.2 | 178.8 |
| 1986 | -- | ... | ... | -- | -- | 131.2 | -131.2 | 47.7 |
| 1987 | -- | ... | ... | -- | -- | 38.7 | -38.7 | 9.0 |
| 1988 | ... | ... | ... | ... | -- | 9.0 | -9.0 | -- |
| 1989 | ... | ... | ... | ... | ... | -- | -- | -- |
| Total | 224.8 | -- | 201.4 | 131.6 | 557.7 | 557.7 | -- | |

Note: ... denotes period not covered by Fund decision to finance members' contribution to buffer stocks; -- denotes no purchase.

1/ Under Decision No. 31/79-(70/120), 11/25/70, relating to the Fourth International Tin Agreement, Decision No. 5127-(76/91), 6/23/76, relating to the Fifth International Tin Agreement, and Decision No. 7247-(82/147), 11/12/82, relating to the Sixth International Tin Agreement.

2/ Under Decision No. 3933-(73/42), 4/23/73, relating to the 1972 International Cocoa Agreement.

3/ Under Decision No. 5597-(77/177), 12/16/77, relating to the 1977 International Sugar Agreement.

4/ Under Decision No. 7246-(82/147), 11/12/82, relating to the 1979 International Natural Rubber Agreement.

1. The world natural rubber market and intervention operations under the 1979 International Natural Rubber Agreement (INRA)

a. The world natural rubber market

The world natural rubber market is highly concentrated in terms of both supply and demand. On the supply side, three countries in South East Asia (Malaysia, Indonesia, and Thailand) account for 75 percent of world production and nearly 90 percent of world exports of natural rubber. 1/ On the demand side, Western Europe, the United States, and Japan together account for nearly half of world consumption (Table 2).

The price elasticity of supply of natural rubber is quite low in the short run, owing to both the gestation (about 6 years) and the long lifespan (about 30 years) of the rubber tree. In almost all of its end uses, natural rubber competes directly with synthetic rubber, which is produced from petrochemical feedstocks. With abundant supplies of crude oil at relatively low and stable prices underpinning the development and growth of synthetic rubber in the 1950s and 1960s, the share of synthetic rubber in total elastomer consumption increased rapidly from 28 percent in 1950 to 66 percent by 1970. However, the onset of higher crude oil prices and their greater volatility since the early 1970s have had major consequences for natural rubber. The higher oil price has raised the production costs of synthetic rubber and thus supported higher prices and output growth of natural rubber. As a result, the earlier erosion of natural rubber's share in total consumption has been reversed--this share increased from 30 percent in 1980 to 34 percent in 1988. At the same time, greater volatility of crude oil prices since the early 1970s has imparted an additional element of instability in the short-term movements of natural rubber prices. In the short run, however, there are limits in the degree to which it is possible to switch from one type of rubber to another. This factor, together with a low share of natural rubber in the total cost of most final rubber products, results in a low price elasticity of demand for natural rubber.

Given the low price elasticity of demand for natural rubber, shifts in world demand over the last two decades have resulted in sharp movements in rubber prices. Roughly two thirds of the world demand for natural rubber is accounted for by the transportation sector--mainly for tires--and the rest largely in other industrial uses. Consequently, demand for natural rubber is highly correlated with the overall level of world economic activity and in particular, the transportation sector. Chart 1 illustrates the close relationship between changes in industrial output in major industrial countries and fluctuations in exports of natural rubber from the major producing countries. The chart also shows that large fluctuations in export unit values are associated with even larger movements in export values. In such circumstances, a buffer stock

1/ In addition, China, India, Sri Lanka, Liberia, and Nigeria together account for about 15 percent of world output.

Table 2. World Production and Consumption of Natural and Synthetic Rubbers

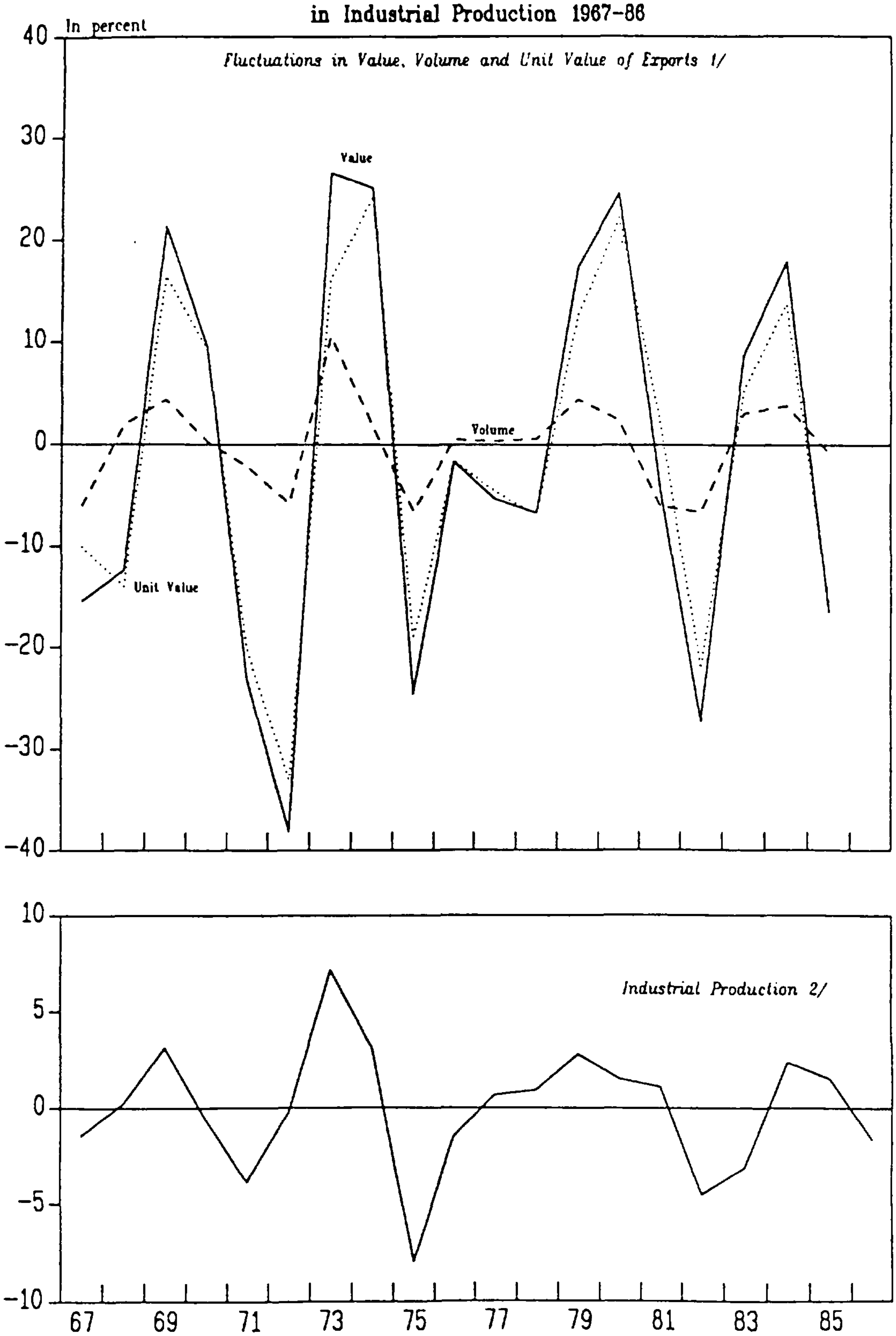
| | Annual Average | | | | | | Annual Rate of Change |
|---|---|---|---|---|---|---|---|
| | 1949-51 | 1959-61 | 1969-71 | 1979-81 | 1986-88 | 1988 1/ | 1960-88 |
| | (In 1,000 metric tons) | | | | | | (In percent) |
| Natural rubber | | | | | | | |
| Production | 1,745 | 2,071 | 3,061 | 3,788 | 4,755 | 5,020 | 3.1 |
| Indonesia | 648 | 669 | 838 | 950 | 1,163 | 1,235 | 2.1 |
| Malaysia | 657 | 791 | 1,285 | 1,552 | 1,593 | 1,660 | 2.6 |
| Thailand | 105 | 177 | 297 | 510 | 897 | 975 | 6.1 |
| Others | 335 | 434 | 641 | 776 | 1,102 | 1,150 | 3.4 |
| Consumption | 1,559 | 2,134 | 2,999 | 3,797 | 4,777 | 5,095 | 3.0 |
| United States | 583 | 495 | 588 | 655 | 788 | 833 | 1.8 |
| Western Europe | 318 | 749 | 889 | 898 | 988 | 1,020 | 1.1 |
| Japan | 51 | 169 | 282 | 417 | 575 | 623 | 4.6 |
| Eastern Europe | 123 | 377 | 468 | 417 | 337 | 290 | -0.9 |
| China | 57 | 106 | 206 | 332 | 528 | 600 | 6.2 |
| Others | 427 | 238 | 566 | 1,078 | 1,560 | 1,729 | 7.1 |
| Synthetic rubber | | | | | | | |
| Production | 627 | 1,878 | 5,879 | 8,860 | 9,597 | 10,110 | 6.0 |
| Consumption | 614 | 1,810 | 5,728 | 8,777 | 9,643 | 9,990 | 6.1 |
| Share of natural rubber in world consumption (percent) 2/ | 71.7 | 54.1 | 34.4 | 30.2 | 33.1 | 33.8 | |

Source: International Rubber Study Group: Rubber Statistical Bullentin, September 1989.

1/ Provisional.

2/ Refers to world consumption of elastomers (i.e., natural and synthetic rubber).

Chart 1. Natural Rubber: Export Fluctuations and Changes in Industrial Production 1967-86




1/ Deviations from a 5-year moving average trend for the major rubber exporting countries.
2/ Deviations from a 5-year moving average trend for 7 major industrial countries

scheme, under which supplies are withheld when demand is low and released when demand is high, could help reduce the instability of both prices and values.

### b. Market intervention under the 1979 Agreement

During the eight-year period between the 1979 INRA, which came into force in October 1980, and the 1987 INRA, the price of natural rubber fluctuated in tandem with world economic activity, but remained within the price stabilization range established under the Agreement, except for a brief period in 1988 when buffer stock supplies were exhausted. Two cycles were observed during the period: the troughs occurred during the recession of 1981-82 and the economic slowdown of 1984-85, while the peaks occurred during the world economic recovery of 1983-84 and the expansion of 1986-88. These movements and the related operations under the buffer stock are illustrated in Chart 2. Buffer stock purchases were made during the two periods of low prices, but the sale of the entire stock accumulated during these periods took place during the 1986-88 upswing that preceded the entry into force of the 1987 Agreement.

The precipitous fall in prices during 1981-82 provided an early test of the capacity of the Agreement to defend the lower boundary of the price stabilization range. From peak levels reached in early 1980, natural rubber prices fell by 40 percent before market support operations began in November 1981. In the course of the subsequent four months, the buffer stock had acquired 269 thousand tons of natural rubber, equivalent to nearly half of the total capacity of 550 thousand tons provided under the Agreement. As can be seen from Chart 2, with the commencement of purchases of natural rubber in November 1981, the fall in prices was halted and prices were stabilized within the "may buy" zone of the stabilization range for much of the following year. Market conditions were such that the removal of rubber equivalent to 7 percent of world exports from the world market helped avoid a sharper fall in market prices, possibly to levels well below the floor price. 1/

With the 1983 recovery in economic activity in the major industrial countries, the price of natural rubber rose sharply. By early 1984, the price reached the "may sell" zone for a brief period, although no sales were made from the buffer stock. From the second half of 1984 until the end of 1985, however, the natural rubber market weakened considerably and the market indicator price returned to the "may buy" zone by November 1984. The weakness was caused by a deceleration in the rate of economic growth in the United States, a fall in synthetic rubber prices resulting from lower crude oil prices, and an increase in world supply on account of a rise in production in Indonesia and Thailand. The price decline ushered

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1/ It has been estimated that, on average, prices in 1982 would have been 18 percent lower in the absence of buffer stock purchases (figure cited in U.S. Congressional testimony).

in the second phase of buffer stock support purchases, which lasted until January 1986. During this period, the buffer stock acquired an additional 90 thousand tons of natural rubber, so that by end-January 1986 the level of stocks held in the buffer stock amounted to 359 thousand tons, or two thirds of the maximum capacity stipulated in the Agreement. 1/ No further purchases were necessary in the remaining period of the 1979 INRA to defend the Agreement's floor price.

The last phase of buffer stock operations took place during a sustained upswing in rubber prices, which lasted from early 1986 until April 1989 when the 1987 INRA came into force. The price rise was largely attributable to an acceleration of demand for rubber products in industrial countries and to a reduction in the supply of certain grades of natural rubber. 2/ Buffer stock disposals started in September 1987, just before the expiry of the 1979 INRA in October. A continuation of these sales was authorized by a special Council resolution during the interim period between the expiry of the 1979 Agreement and the entry into force of the 1987 Agreement. A total of 100 thousand tons was sold in the closing months of 1987 and a further 329 thousand tons during 1988; the remaining 20 thousand tons were sold in the early part of 1989.

In spite of substantial buffer stock sales over a fairly short period, the market indicator price exceeded the ceiling level in May 1988 and remained above that level during the subsequent four months. Unlike buffer stock purchases, which tended to have an immediate uplifting effect on the market, buffer stock sales had a moderating effect on the market only after a lag of several weeks. This lag was due partly to logistical constraints, as the grade structure of the rubber stocks held in Europe (which were stored for more than five years) was not consistent with the changed consumption patterns in that region. Moreover, a considerable amount of rubber held in temperate climates had frozen or crystallized and had to be thawed before usage. Owing to a lack of thawing capacity in Europe, the bulk of the stocks held in Europe were sold to buyers in South East Asia and shipped back to the producing area for thawing. Similarly, the buffer stock stored in humid tropical areas, which had encountered problems of mold and oxidation, had to be reprocessed before being used. Consequently, it took several weeks (in some instances months) before rubber sold by the Buffer Stock Manager reached the market.

It is evident that the 1979 Agreement was largely successful in achieving its primary objective of stabilizing natural rubber prices

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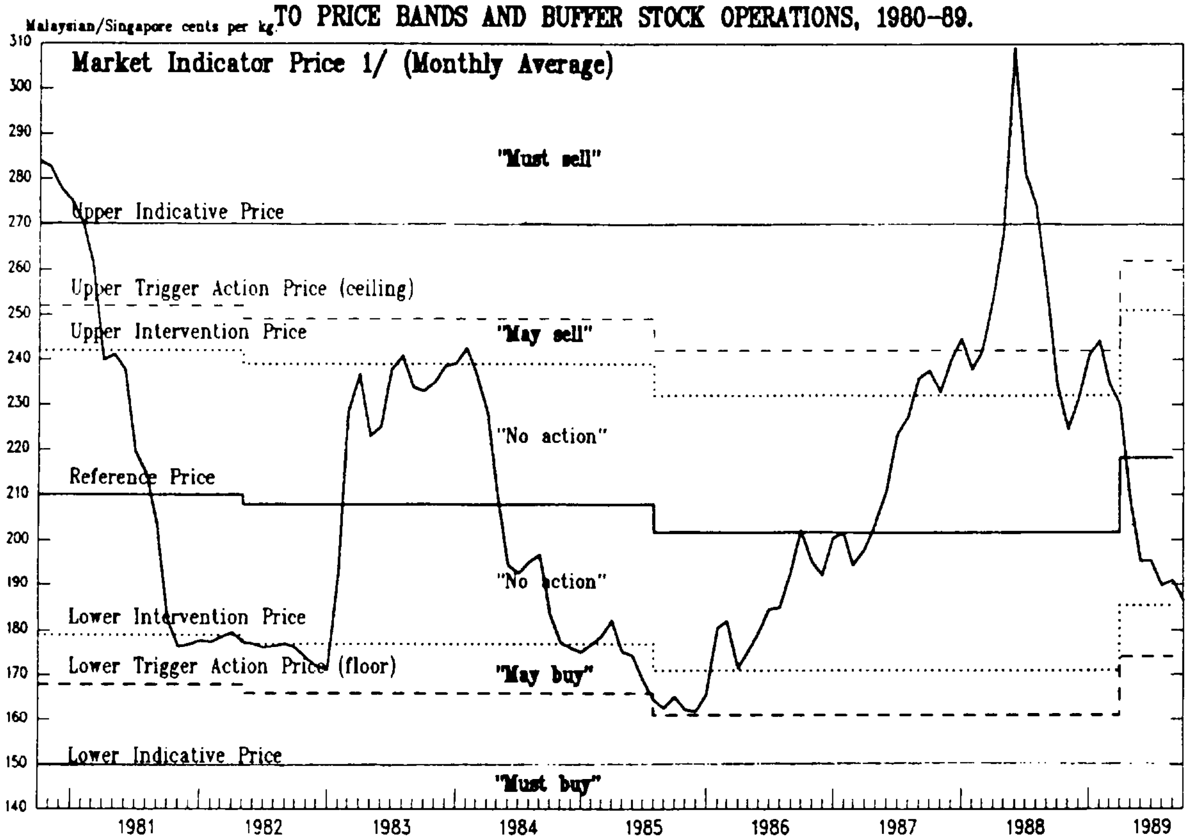
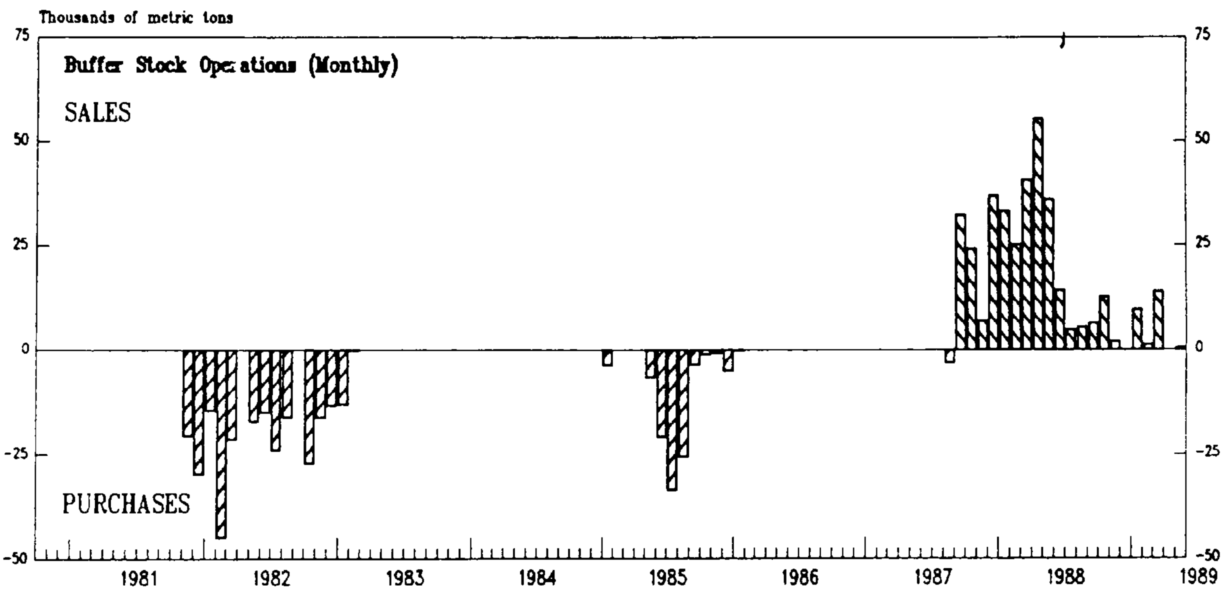
1/ In August 1985, the reference price was revised downward by 3 percent in accordance with Article 32 of the Agreement which stipulates an adjustment when buffer stock holdings exceed 300 thousand tons.

2/ In 1987, the supply of dry rubber grades was reduced by drought in Indonesia and Thailand and by increased conversion of dry rubber into latex grades for the manufacture of dipped rubber goods used for medical and other sanitary purposes.

CHART 2.

**INTERNATIONAL NATURAL RUBBER AGREEMENT: MARKET INDICATOR PRICE IN RELATION TO PRICE BANDS AND BUFFER STOCK OPERATIONS, 1980-89.**




Source: International Natural Rubber Organization.

1/ The market indicator price is the composite weighted average of official prices for RSS1, RSS3, and TSR 20 quality rubber on the Kuala Lumpur, London, New York and Singapore markets, expressed in equally weighted Malaysian and Singapore cents per kilogram.

within the agreed range. The ability of the Agreement to defend the agreed floor price is all the more noteworthy in view of the intensity and protracted nature of the 1981-82 recession, 1/ and of the large, broad-based decline in non-oil commodity prices during the 1984-86 slowdown. While the Agreement had less success in preventing prices from rising above the ceiling, albeit for a brief period, this failure was due largely to logistical constraints that were not anticipated in time for appropriate action. It is clear, however, that buffer stock sales in late 1987 and during 1988 prevented market prices from rising to much higher levels. Thus, by removing rubber from the market during periods of excess supply and by augmenting supplies during periods of excess demand, the buffer stock operations helped stabilize market prices, volumes, and therefore the earnings of the natural rubber exporting countries (Table 3).

Table 3: Instability of Value, Volume, and Unit Value of Natural Rubber Exports, 1980-85 vs. 1962-79 1/

| | Value | Volume | Unit Value |
|---|---|---|---|
| 1962-1979 | 253 | 61 | 181 |
| 1980-1985 | 103 | 13 | 93 |
| | | (Index: 1962-79 = 100) | |
| 1980-1985 | 41 | 21 | 51 |

1/ Average annual (absolute) percentage change from trend (5-year moving average) of aggregate export values, volumes and unit values for Malaysia, Indonesia, Thailand, and Sri Lanka.

All participants of the 1979 INRA benefited from the operations of the Agreement. Exporting members were better off because buffer stock purchases in 1981-83 and 1985-86 prevented prices from falling to much lower levels, thereby raising the level of their export earnings, which included sales to the buffer stock. In effect, the floor price in the Agreement served as a "safety net" which helped producers to maintain their output of natural rubber at higher levels than would have been possible with lower prices. Importing members of the Agreement also

1/ In 1982, non-oil commodity prices in real terms fell to their lowest level in the post-war period. World Economic Outlook: A Survey by the Staff of the International Monetary Fund (Washington, May 1983), p. 154.

benefited because stock sales moderated the sharp upward rise in rubber prices from late 1987 to end 1988, and helped increase the supply of rubber available to consumers during a period of relatively high prices.

Finally, the 1979 INRA proved to be viable on purely financial considerations. On distribution of the assets of the Agreement in 1988, the shares received by the 30 members of the Agreement were greater than their original contributions to the buffer stock account. This outcome, which is in contrast with the experience of other commodity agreements, occurred in spite of large operational costs associated with the long period during which the rubber acquired by buffer stock was stored. 1/

## 2. Main features of the 1987 Agreement

This section contains a brief summary of the main operational features of the 1987 Agreement, which, as discussed below, are virtually the same as those of the 1979 Agreement. 2/

### a. The buffer stock and financing provisions

As in its predecessor the 1979 INRA, the principal objective of the 1987 Agreement is to stabilize natural rubber prices within an agreed range (Article 1). 3/ To achieve this objective, the Agreement provides

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1/ Buffer stock operating costs have been estimated at about 30 percent of the initial contributions; net returns are based on values expressed in terms of Malaysian ringgits.

2/ A detailed discussion of the 1979 INRA is contained in SM/82/191 (9/22/81), "Possible Fund Financing of Natural Rubber Buffer Stocks Established Under the 1979 International Natural Rubber Agreement." SM/82/191, (9/22/81).

3/ Specifically, the objectives stated in Article 1 include the following:

(a) To achieve a balanced growth between the supply of and demand for natural rubber, thereby helping to alleviate the serious difficulties arising from surpluses or shortages of natural rubber;

(b) To achieve stable conditions in natural rubber trade through avoiding excessive natural rubber price fluctuations, which adversely affect the long-term interests of both producers and consumers, and stabilizing these prices without distorting long-term market trends, in the interests of producers and consumers;

(c) To help stabilize the export earnings from natural rubber of exporting members, and to increase their earnings based on expanding natural rubber export volumes at fair and remunerative prices, thereby helping to provide the necessary incentives for a dynamic and rising rate of production and the resources for accelerated economic growth and social development;

(d) To seek to ensure adequate supplies of natural rubber to meet the requirements of importing members at fair and reasonable prices and to improve the reliability and continuity of these supplies.

for an international natural rubber buffer of 550 thousand tons. This buffer stock, consisting of a normal buffer stock of 400 thousand tons and a contingency buffer stock of 150 thousand tons, (Article 26), is the sole mechanism for price stabilization--the Agreement does not provide for other instruments such as export quotas or production controls. The costs of the buffer stock are to be shared equally between exporting and importing members of the Agreement, with each member's contribution assessed on the basis of voting strength corresponding to its share in world trade of natural rubber. Contributions to both the normal and contingency buffer stock are to be valued at the lower trigger action price in effect at the time such contributions are called up (Article 28). The costs of both the normal buffer stock and the contingency buffer stock must be financed by direct cash contributions by members.

In contrast with the 1979 INRA, the 1987 INRA specifically prohibits borrowing from commercial sources to finance its buffer stock operations (Article 7). The 1979 Agreement provided for the possibility of borrowing from commercial sources to finance the contingency buffer stock of 150 thousand tons. 1/ The restriction on commercial borrowings was motivated by the collapse of the Sixth International Tin Agreement, which resorted to heavy commercial borrowings by using the tin held in the buffer stock as collateral. The elimination of the provisions relating to commercial borrowing in the 1987 INRA represents a strengthening of the Agreement's financial provisions in relation to those contained in the 1979 Agreement.

b. Price bands and buffer stock operation rules

The Agreement specifies a price range within which prices are to be stabilized through buffer stock operations. Within this price range, there are five price zones: "no action"; "may buy"; "may sell"; "must buy"; and "must sell" (Chart 2). Buffer stock operations are triggered by the movement of the market indicator price (MIP) 2/ in relation to the five zones. Thus, when the MIP is in the "no action" zone, the Buffer Stock Manager is not permitted to intervene in the market. The Buffer Stock Manager has discretion to buy or sell rubber when the MIP is in the "may buy" or "may sell" zones, respectively. If the MIP is at or below the lower trigger action price, the Buffer Stock Manager must buy rubber to defend the floor price. Similarly, the buffer stock manager must sell rubber to defend the ceiling price when the MIP is at or above the upper trigger action price. When buffer stock purchases (sales) have reached the 400 thousand ton level, the Buffer Stock Manager is required to bring the contingency buffer stock into effect in order to defend the floor

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1/ At the discretion of each member, the cost of the stock could be financed either through direct cash contributions or with cash borrowed from commercial sources upon the security of the member's share of stock warrants and its government's guarantee or undertaking.

2/ The MIP is the average of the daily market indicator price (DMIP) for five consecutive market days.

price (ceiling price) and the entire buffer stock of 550 thousand tons must be used for that purpose, unless the Council decides otherwise. 1/

c. Review and revision of the price band

By comparison with the 1979 INRA, the 1987 Agreement provides for price adjustments to be put into effect more quickly and with a greater degree of automaticity, when market conditions change.

The Agreement provides for review and adjustment of the price stabilization band (Article 31) to take account of market trends, including the accumulation or decumulation of stocks resulting from buffer interventions. For this purpose, the Council is required to review the reference price 2/ and the related trigger prices at 15-month intervals. (Under the 1979 Agreement these reviews were to be conducted at 18-month intervals.) If the average of the daily market indicator price (DMIP) during the six-month period prior to the review is in the "no action" zone, the reference price shall not be revised. If the six-month average of the DMIP is in the "may buy" zone, the reference price would be revised downward by 5 percent unless the Council decides by special vote on a larger downward adjustment. Similarly, if the six-month average of the DMIP is in the "may sell" zone, the reference price would be revised upwards by 5 percent unless the Council decides by special vote on a larger upward adjustment. In the 1987 INRA, the Council is not permitted to make an adjustment of less than 5 percent, as was possible under the 1979 INRA. In the event that net buffer stock purchases (or sales) amount to 300 thousand tons or more since the last revision of the reference price, the Council is required to revise the reference price downward (or upward) by 3 percent, unless the Council decides by special vote to change it by a higher percentage amount.

The Council is required to review the lower and upper indicative prices:

(i) at the first session of the Council after the entry into force of the Agreement and every 30 months thereafter;

(ii) at the request of a member or members accounting for 200 or more votes in the Council;

(iii) if the daily market indicator price for the 60 days subsequent to the last revision of the reference price is either below

1/ Purchases must commence when the MIP is 2 Malaysian/Singapore cents per kilogram above the floor price and sales must commence when the MIP is 2 cents below the ceiling price.

2/ The intervention prices are set at ± 15 percent of the reference price while the trigger action prices are set at ± 20 percent of the reference price.

the lower intervention price or above the upper intervention price, respectively.

d. Duration and transitional arrangements

The duration of the Agreement is for a period of five years from the date on which it entered into force, but the Council may extend the Agreement, by special vote, for a further period or periods not exceeding two years (Article 66).

The Agreement provides for the liquidation of the buffer stock account and the distribution of net proceeds to members in proportion to each member's net contribution (Article 40).

If the Agreement is replaced immediately by a new INRA, the Council is empowered to adopt, by special vote, procedures to ensure the transfer to the new agreement of the shares in the buffer stock account of members that intend to participate in the new agreement. Members not wishing to participate in the new agreement would be entitled to receive their shares of the buffer stock either from available cash in the account and/or from the net proceeds from the disposal of the buffer stock.

3. Compatibility of the 1987 Agreement with the criteria for Fund assistance

This section reviews the compatibility of the 1987 International Natural Rubber Agreement with the criteria for Fund assistance to members in connection with the financing of their contributions to international buffer stocks established under international commodity agreements. These criteria are set out in Part II of the 1969 staff study on "The Problem of the Stabilization of Prices of Primary Commodities" (see Chapter III, Section 2 and Annex A of the 1969 Report of the Executive Directors, which is reproduced in Annex II of this paper).

a. Participation

The 1969 staff study suggests that the widest possible participation by interested countries in the operation and management of a commodity scheme would be desirable, but it recognizes that "a scheme may operate effectively and equitably without the participation of all countries with a substantial interest in the commodity." 1/ In addition, it suggests that the conduct of negotiations and conclusion of international commodity agreements should be in accordance with the principles relating to nondiscrimination, openness, and equitable treatment established by the United Nations Economic and Social Council. 2/

1/ Annex II, page 3.
2/ These principles are explained in Annex II.

As was the case with the 1979 Agreement, negotiating conferences leading up to the conclusion of the 1987 Agreement were held under the auspices of the United Nations Conference on Trade and Development (UNCTAD). All major natural rubber exporting and importing countries participated in the negotiations, which were open to all members of the United Nations. The Agreement is registered as a treaty with the Secretary General of the United Nations.

Membership of the 1987 Agreement consists of four natural rubber exporting countries 1/ accounting for 90 percent of world exports, and 19 importing countries accounting for 69 percent of world imports (Table 4). This level of participation is somewhat less than that under the 1979 Agreement, whose membership comprised 7 exporting members (95 percent of world exports) and 23 importing members (78 percent of world imports).

While wider participation of importing countries would have been desirable, the present membership of the Agreement accounts for a substantial share of world trade in natural rubber and includes all the countries with a substantial interest in natural rubber. It is the staff's view that participation in the 1987 INRA, though slightly less than in the 1979 INRA, is sufficiently broad to enable achievement of the Agreement's objectives.

b. Discriminatory trade restrictions and the long-term restriction of supply

Fund members participating in buffer stock agreements are expected to seek to avoid any consequential trade discrimination in their trade with other Fund members. The agreement is not expected to lead to a long-term restriction of supplies of the commodity.

The 1987 Agreement does not contain any provisions that obligate members of the Agreement to adopt discriminatory trade restrictions against nonmembers. On the contrary, the provision concerning obstacles to trade (Article 49) requires the Council to identify obstacles to the expansion of trade in natural rubber and make recommendations for their removal. More specifically, the Agreement provides for an international buffer stock as the sole instrument for market intervention; it does not contain any mechanisms, such as production controls or export quotas that would have the effect of restricting supplies.

c. Financial arrangements

The criteria for Fund financing of buffer stock operations suggest that such financing should be short term in character and should be confined to new purchases of stocks and operating expenditures. In

1/ Comprising the three largest exporters, Malaysia, Indonesia, and Thailand, as well as Nigeria.

Table 4. 1987 International Natural Rubber Agreement--
Membership, Share in World Exports and Imports, and Votes

| | Share in World Exports or Imports 1/ | Votes 2/ |
|---|---|---|
| Exporting members | 89.8 | 1,000 |
| Indonesia | 27.4 | 309 |
| Malaysia | 40.6 | 467 |
| Nigeria 3/ | 0.9 | 11 |
| Thailand | 20.8 | 213 |
| Importing members | 69.4 | 1,000 |
| China | 6.5 | 95 |
| EC | 22.1 | 317 |
| Belgium-Luxembourg | 1.1 | 16 |
| Denmark | 0.1 | 1 |
| France | 4.4 | 64 |
| Germany | 5.4 | 79 |
| Greece | 0.3 | 4 |
| Ireland | 0.1 | 2 |
| Italy | 3.5 | 51 |
| Netherlands | 0.3 | 5 |
| Spain | 3.0 | 44 |
| United Kingdom | 3.6 | 51 |
| Finland | 0.2 | 3 |
| Japan | 14.9 | 215 |
| Morocco | 0.2 | 2 |
| Norway | 0.1 | 1 |
| Sweden | 0.3 | 5 |
| Switzerland | 0.1 | 1 |
| U.S.S.R. | 4.5 | 66 |
| United States | 20.4 | 295 |

Source: International Rubber Study Group, Rubber Statistical Bulletin, (various issues) for exports and imports; International Natural Rubber Organization, for votes.

1/ Average share in world natural rubber exports or imports for the period 1985-87.
2/ Votes in the International Natural Rubber Council for the financial year 1989/90 (November/October).
3/ Joined agreement by accession with effect from November 28, 1989.

addition, it is expected that an appropriate part of the capital and operating costs of the buffer stock would be met from sources other than international financial organizations.

Members of the 1987 Agreement are committed to finance the total cost of acquiring and operating the buffer stock of 550 thousand tons (Article 27); procedures for the payment of contributions by members are set out in Article 28. Initial contributions in cash, equivalent to a total of 70 million Malaysian ringgits (SDR 19.3 million), were due within 60 days after the date of the first Council meeting; these were met through transfers of members' shares from the 1979 Agreement to the 1987 Agreement. The Executive Director of the International Natural Rubber Organization (INRO) is empowered to call up contributions to the buffer stock account provided the Buffer Stock Manager certifies that such funds may be required for market intervention within the subsequent four months. No such call ups have been made so far.

If the Fund were to provide assistance to members in connection with their contributions to the buffer stock account of the 1987 Agreement, a substantial part of the capital and operating costs of the buffer stock would still be met from sources other than the Fund. First, while importing countries are, in principle, eligible for Fund assistance under the buffer stock financing facility, the amounts involved would be so small, both in relation to quotas and in terms of justifying a payments need, as to render this possibility unlikely. 1/ On the assumption that none of the importing countries would use the Fund's resources to finance their contributions, at least half of the cost of acquiring and operating the stock will be financed from sources other than the Fund. Second, not all the exporting members that potentially qualify for use of the buffer stock financing facility to finance their contributions would be eligible, because of lack of a payments need. Finally, since Fund financing is envisaged to cover only the cost of purchasing rubber for the buffer stock, all operating expenses relating to buffer stock transactions are to be met entirely by the members themselves.

On the basis of the above considerations, the extent of any Fund financing of the buffer stock under the 1987 INRA will be expected to cover only a part of the costs associated with acquiring and operating the buffer stock. Accordingly, the staff considers the financial arrangements provided in the 1987 INRA to be consistent with the criteria set forth in the 1969 staff study concerning Fund support under the BSFF (Annex II).

d. The stabilization of prices and export earnings

The 1969 staff study suggests that in order to ensure that the use of Fund resources is temporary, Fund financing should be confined to buffer stock schemes that aim to stabilize prices around a medium-term trend,

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1/ No importing country has made use of the Fund's buffer stock financing facility.

with the expectation that stock accumulation and decumulation would be roughly in balance over the lifetime of the Agreement. Given the difficulty in locating the trend ex ante, this objective can be met more readily if, during the course of the Agreement, the price stabilization range itself can be adjusted in line with movements in market prices and/or the size of buffer stock purchases or sales. Whether stock accumulation and decumulation will balance out over the medium term will also depend in part on the width of the intervention range, i.e., between the floor and ceiling prices. A narrow price range may entail frequent purchases and the rapid accumulation of large stocks which may exhaust the resources of the buffer stock. On the other hand, too wide a price range may delay sales from the buffer stock and result in the holding of stocks for long periods of time; in such cases, larger financial resources would be required.

As noted above, the 1979 Agreement was successful in stabilizing natural rubber prices, and the cycle of buffer stock purchases and sales broadly coincided with the life of the Agreement itself. Moreover, with the utilization of only 65 percent of the maximum buffer stock for that purpose, it may be concluded that the financial resources available for market stabilization were more than adequate to meet that Agreement's price objectives. Concerning the 1987 INRA, all the important economic provisions including the size of the buffer stock, the prices and financial arrangements, are almost identical to those incorporated in the 1979 Agreement. Improvements introduced in the 1987 Agreement, particularly concerning the review and adjustment of the price range, as well as the financial arrangements, should enhance the capacity of the Agreement to carry out the task of price stabilization.

Whether the task of stabilization will be greater under the 1987 Agreement than under the 1979 Agreement depends essentially on whether the amplitude of the price fluctuations in the rubber market will increase in the future. To the extent that variations in the level of world economic activity, the major factor influencing the rubber market, will continue to be tempered by policy coordination among the major industrial countries, a significant change in the future pattern of natural rubber price movements seems unlikely. Nevertheless, price fluctuations to levels outside the Agreement's price stabilization band could well occur during the lifetime of the Agreement, thereby entailing buffer stock purchases or sales to defend the price band. Against these considerations, the 1987 Agreement, with the improvements noted above, provides a reasonable assurance that it will contribute to the stabilization of natural rubber prices.

The 1969 staff study suggests that the temporary use of Fund resources could be further assured to the extent that the buffer stock scheme increases (or at least does not reduce), the stability of export earnings for a majority of participants in the scheme. Given that the instability in natural rubber prices results largely from demand shifts associated with fluctuations in world economic activity, large fluctuations in aggregate export value are much more closely related to fluctuations in export unit value than with fluctuations in aggregate export volume. An international natural rubber buffer stock helps offset a drop in market demand by the removal of supplies from the market into the buffer stock,--through purchases paid for in foreign exchange--and would meet any excess in market demand through releases of supplies from the buffer stock to the market. Consequently, the operation of the buffer stock would tend to have a stabilizing effect not only on export prices but also on export volumes, and therefore export earnings.

## 4. Summary evaluation and staff recommendations

This report, which has been prepared in response to a request from the Executive Director of the International Natural Rubber Organization, provides an analysis of the 1987 International Natural Rubber Agreement with a view to assessing the suitability of the Agreement for Fund support under the buffer stock financing facility.

The 1987 INRA entered into force in April 1989, succeeding the 1979 INRA, which was in effect for seven years (October 1980-October 1987). Except for a limited number of modifications, the new agreement is similar to the previous one. The basic objective of the agreement continues to be the stabilization of the price of natural rubber within an agreed range. The instruments developed for achieving this objective through market intervention under an international buffer stock also remain the same. Other economic provisions--the width of the price stabilization band, the size of the buffer stock (550 thousand tons), including its distribution into a normal stock (400 thousand tons) and contingency stock (150 thousand tons)--are identical.

The 1987 INRA introduced modifications in two important respects. First, a change in the provision relating to review of the price stabilization range, which allows price revisions to be made more promptly and with a greater degree of automaticity than was possible under the 1979 Agreement. Second, while the 1979 INRA provided for the possibility of financing the contingency buffer stock by commercial borrowings, under the 1987 INRA, the financing of both the normal and the contingency buffer stock is to be made exclusively by direct cash contributions from member countries. The staff believes that these modifications represent a strengthening of both the Agreement's market intervention mechanism and its financing arrangements.

Concerning the 1979 INRA, the Fund had decided in 1982 that the terms of that agreement were consistent with the criteria for use of the buffer stock financing facility. Pursuant to the relevant Fund decision, five exporting members of that agreement purchased a total of SDR 132 million in 1983 to finance their contributions to the buffer stock, which had been engaged in large purchases of natural rubber to support a market weakened by the 1981-82 recession. 1/ Together with further support purchases made during the 1984-85 economic slowdown, the amount of rubber held in the buffer stock was raised to 359 thousand tons. This tonnage, which represents some 65 percent of the maximum intervention stock provided under the agreement, was sufficient to prevent market prices from falling below the agreement's floor level during the lifetime of the agreement. The 1979 Agreement, however, was less successful in defending the ceiling price, as the market price breached that level for a brief period in 1988 in spite of the sale of the entire supply held in the buffer stock. The inability of the buffer stock to prevent prices from breaching the ceiling were largely related to unavoidable logistical and technical factors that had the effect of slowing the flow of the supplies released from the buffer stock to the intended markets. Overall, the staff considers that the buffer stock of the 1979 Agreement was largely successful in stabilizing prices.

The staff considers that the 1987 Agreement, which incorporates improvements over the successful 1979 Agreement, provides a reasonable assurance that the agreement will help stabilize the price of natural rubber. The staff also considers that the 1987 INRA provisions concerning participation, voting, and nondiscriminatory treatment are consistent with the Fund criteria set out in the 1969 staff study on "Stabilization of Prices of Primary Commodities." Moreover, since a significant part of the costs of acquiring and operating the buffer stock is likely to be met by the members themselves, the staff is of the view that the Agreement's financing arrangements are consistent with the Fund's criterion in this regard.

In conclusion, the staff believes that the 1987 INRA satisfies the terms of the Fund's decision on the buffer stock financing facility with respect to the criteria set out in Section 2 of Chapter III and Annex A of Part II of the 1969 staff study on "The Problems of Stabilization of Prices of Primary Commodities."

Accordingly, the staff recommends Executive Board approval of the suitability of the 1987 INRA for Fund financing under the buffer stock financing facility under the following terms:

(i) Fund financing would be available up to the full amount of each eligible member's compulsory contribution to both the normal and the contingency buffer stocks of the 1987 Agreement. Such financing would be subject to Fund

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1/ The five members and the purchases made by each are as follows: Malaysia, SDR 67.8 million; Indonesia, SDR 37.4 million; Thailand, SDR 19.6 million; Sri Lanka, SDR 5.8 million; and Côte d'Ivoire, SDR 1.0 million.

satisfaction that the requesting member has a need to make a purchase and would be within the access limit (45 percent of quota) for purchases under the buffer stock financing facility. If this recommendation were accepted, and if all the exporting members of the Agreement were to seek Fund financing of their contributions to the maximum stock of 550 thousand tons, the aggregate amount of purchases could reach a hypothetical maximum of about SDR 175 million. 1/ The access limit under the BSFF would not be a constraint on purchases by any of the members concerned.

(ii) Repurchases in respect of purchases under the facility would be made within the usual three-to-five year period after the purchase, or earlier by way of an expectation of prompt repurchase in respect of any outstanding purchases made under the facility when the International Natural Rubber Council makes distributions to members. If the 1987 Agreement is terminated without being replaced by a new agreement, members would be expected to make prompt repurchases in respect of purchases made under the facility at the time the buffer stock is liquidated and the proceeds are distributed to members.

1/ On the basis of the current "lower trigger action price" of 174 Malaysian/Singapore cents per kilogram, the aggregate amount of purchases under the facility would probably not exceed SDR 173 million.

The following draft decision is proposed for adoption by the Executive Board:

Buffer Stock Financing Facility:
International Natural Rubber Agreement, 1987

1. The Fund, having considered the text of the International Natural Rubber Agreement as established by the United Nations Conference on Natural Rubber on March 10, 1987 (hereinafter called "1987 International Natural Rubber Agreement"), finds that the international natural rubber buffer stock established under the terms of that Agreement is consistent with the principles referred to in Executive Board Decision No. 2772-(69/47), adopted June 25, 1969, as amended.

2. In view of Paragraph 1 above, the Fund will be prepared to meet, subject to the provisions of Executive Board Decision No. 2772-(69/47), as amended, a member's request for a purchase in connection with the financing by the member of its direct compulsory contribution towards covering the acquisition costs of the buffer stock established under the 1987 International Natural Rubber Agreement, if its request is received in the Fund not later than six months after the date of the contribution.

3. A member that has outstanding purchases under this decision,

(a) shall make repurchases in respect of these purchases in accordance with Paragraph 1 of Decision No. 5703-(78/39), adopted March 22, 1978, as amended, and

(b) will be expected to repurchase at an earlier date than would otherwise be required, when, upon termination of the 1987 International Natural Rubber Agreement without replacement by a new agreement providing for a buffer stock in natural rubber, transfers in liquidation are made to the member. Any transfer of natural rubber from the buffer stock to the member will be treated as a distribution in currency, valued at the lowest current price for each type or grade so transferred during the 30 market days preceding the termination of the Agreement.

4. If the 1987 International Natural Rubber Agreement is to be replaced by a new agreement providing for a buffer stock in natural rubber,

(a) a transfer of all or part of a member's share under the 1987 International Natural Rubber Agreement to the buffer stock account of the new agreement will not be treated as a distribution in currency for the purpose of repurchase, if within 180 days after the termination of the 1987 International Natural Rubber Agreement the Fund finds the terms of the new agreement to be consistent with the principles referred to in Executive Board Decision No. 2772-(69/47), as amended, and

(b) members that do not participate in the new agreement Paragraph 3(b)(i) above.

5. The staff will keep the Executive Board informed on the operation of the buffer stock and other developments in connection with the 1987 International Natural Rubber Agreement by reports that will be made at least once a year, and the Fund may make such review of this decision as is appropriate in the light of these reports.

(Decision establishing the Buffer Stock Financing Facility--Decision No. 2772-(69/47), June 25, 1989, as amended.

Buffer Stock Financing Facility: The Problem of Stabilization of Prices of Primary Products

1. The Executive Board, having considered the staff study on "The Problem of Stabilization of Prices of Primary Products," decides that the Fund will be prepared to extend assistance to members in connection with the financing of international buffer stocks of primary products in accordance with the principles and subject to the quantitative limits set forth in Chapter III, Section 2, and Annex A of Part II of the study.

2. In accordance with paragraph 1 above, the total of purchases outstanding pursuant to paragraph 1 of this decision shall not exceed 45 percent of quota.

3. In order to carry out the purposes of this decision, the Fund will be prepared to waive the limit on purchases that raise the Fund's holdings above 200 percent of quota, where appropriate.

4. When purchases are made pursuant to paragraph 1 of this decision, the Fund will so indicate in an appropriate manner.

5. * 1/.......................................................

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1/ *For paragraph 5, see paragraph 1 of Decision No. 5703-(78/39), 3/22/78, as amended by Decision No. 6862-(81/81), 5/13/81, reproduced below:

*REPURCHASE

1. (a) Repurchases of the outstanding amount of a member's currency that results from a purchase under the credit tranches and is subject to charges under Article V, Section 8(b), or under the decision on Compensatory Financing of Export Fluctuations (Decision No. 4912-3(75-207), as amended) or the decision on The Problem of Stabilization of Prices of Primary Products (Decision No. 2772-(69/47), as amended), or the decision on Compensatory Financing of Fluctuations in the Cost of Cereal Imports (Decision No. 6860-(81/81), shall be completed, pursuant to Article V. Section 7(c), five years after the date of the purchase, provided that the repurchase shall be made in equal quarterly installments during the period beginning three years and ending five years after the date of the purchase unless the Fund approves a different schedule.

(b) A member that has outstanding purchases under the decision on The Problem of Stabilization of Prices of Primary Products (Decision No. 2772-(69/47), as amended) will be expected to make a repurchase at an earlier data than would be required under (a) above when, and to the extent that, the international buffer stock for the financing of which the purchase was made makes distributions in currency to the member.

6. In view of the Fund's purposes which include the facilitation of "the expansion and balanced growth of international trade," the Fund, in its consultations with members, will pay increased attention to their policies in the commodity field.

Decision No. 2772-(69/47),
June 25, 1969, as amended by
Decision No. 4913-(75/207),
December 24, 1975, and
Decision No. 7602-(83/3),
January 6, 1984.

(Decision Concerning Use of the Buffer Stock Financing Facility by Members of the International Natural Rubber Agreement, 1979--Decision No. 7246-(82/147), November 12, 1982

1. The Fund, having considered the text of the International Natural Rubber Agreement as established by the United National Conference on natural Rubber on October 6, 1979, finds that the terms of this Agreement relating to the international natural rubber buffer stock established under the Agreement are consistent with the principles referred to in Executive Board Decision No. 2772-(69/47), adopted June 25, 1969, as amended.

2. In view of paragraph 1 above, the Fund will meet, subject to the provisions of Executive Board Decision No. 2772-(69/47), as amended, a member's request for a purchase in connection with the financing by the member of its direct compulsory contribution to the acquisition costs of the buffer stock established under the International Natural Rubber Agreement, if its request is received in the Fund not later than six months after the date of the contribution, or in respect of contributions made before the date of this decision, not later than 90 days after the date of this decision.

3. A member that has outstanding purchases under this decision

(a) shall make repurchases in respect of these purchases in accordance with paragraph 1(a) of Decision No. 5703-(78/39),

(b) will be expected to repurchase at an earlier date than would be required under (a) above,

(i) when, and to the extent that, the International Natural Rubber Council refunds net contributions in excess of those required to support buffer stock operations, and

(ii) if the current Agreement terminates without being replaced by a new Agreement providing for a buffer stock, when transfers in liquidation are made to the member. Any transfers of natural rubber from the buffer stock to the member will be treated as a distribution in currency, valued at the lowest current price for each type of grade so transferred during the 30 market days preceding the termination of the Agreement.

4. If the current Agreement is to be replaced by a new Agreement providing for a buffer stock,

(a) a transfer of all or part of a member's share under the existing Agreement to the buffer stock account of the new Agreement will not be treated as a distribution in currency for the purpose of repurchase, if within 180 days of the termination of the current account Agreement the Fund finds the terms of the new Agreement to be consistent with the principles referred to in Executive Board Decision No. 2772-(69/47), as amended,

(b) members that do not participate in the new Agreement will be expected to repurchase in accordance with paragraph 3(b)(ii) above.

5. The staff will keep the Executive Board informed on the operation of the buffer stock and other developments in connection with the International natural Rubber Agreement by reports that will be made at least once a year, and the Fund may make such review of this decision as is appropriate in the light of these reports.

ANNEX A *

## Criteria for Fund Assistance to Members in Connection with International Buffer Stocks

Criteria for appraisal of international buffer stock proposals are considered below under three categories relating respectively to (a) observance of certain general principles of intergovernmental relations as regards commodity agreements and international trade measures, (b) the temporary use of Fund resources and the appropriate operation of international buffer stocks, and (c) buffer stocks and price support measures.

### General Principles of Intergovernmental Relations in Commodity Agreements

(1) Participation. Certain general principles and rules have been adopted by the United Nations Economic and Social Council regarding procedures to ensure equity in the conclusion and conduct of international commodity agreements. The Council has recommended that members of the United Nations should continue to accept these principles as a general guide to intergovernmental consultation or action with respect to commodity problems. It is suggested that adherence to these general principles as they relate to participation, voting, equitable treatment, and duration, should be a necessary condition for the provision of Fund assistance.1/

1/ These general principles are those included in Articles 60(1), 63(b), and 65(1) of the Havana Charter for the then proposed International Trade Organization. Article 60(1) states:

> The Members shall observe the following principles in the conclusion and operation of all types of inter-governmental commodity agreements:
>
> (a) Such agreements shall be open to participation, initially by any Member on terms no less favourable than those accorded to any other country, and thereafter in accordance with such procedure and upon such terms as may be established in the agreement, subject to approval by the Organization.
>
> (b) Non-Members may be invited by the Organization to participate in such agreements and the provisions of sub-paragraph (a) applying to Members shall also apply to any non-Member so invited.
>
> (c) Under such agreements there shall be equitable treatment as between participating countries and non-participating Members, and the treatment accorded by participating countries to non-participating Members shall be no less favourable than that

* Extracted from The Problem of Stabilization of Prices of Primary Products, Report of the Executive Directors, Scope for Action by the Fund (Part II of a Staff Study), Washington, D.C., 1969.

General acceptance of the procedures dealing with the preparation, negotiation, and conduct of commodity agreements has been an important change by comparison with the interwar attempts to deal with difficult commodity situations mainly by producers alone. Most postwar agreements

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accorded to any non-participating non-Member, due consideration being given in each case to policies adopted by non-participants in relation to obligations assumed and advantages conferred under the agreement.

(d) Such agreements shall include provision for adequate participation of countries substantially interested in the importation or consumption of the commodity as well as those substantially interested in its exportation or production.

(e) Full publicity shall be given to any inter-governmental commodity agreement proposed or concluded, to the statements of considerations and objectives advanced by the proposing Members, to the nature and development of measures adopted to correct the underlying situation which gave rise to the agreement and, periodically, to the operation of the agreement.

The reference to Article 63(b) is as follows:

The Members shall observe the following principles governing the conclusion and operation of commodity control agreements, in addition to those stated in Article 60:

. . . . . . .

(b) Under such agreements, participating countries which are mainly interested in imports of the commodity concerned shall, in decisions on substantive matters, have together a number of votes equal to that of those mainly interested in obtaining export markets for the commodity. Any participating country, which is interested in the commodity but which does not fall precisely under either of the above classes, shall have an appropriate voice within such classes.

Article 65(1) states:

Commodity control agreements shall be concluded for a period of not more than five years. Any renewal of a commodity control agreement, including agreements referred to in paragraph 1 of Article 68, shall be for a period not exceeding five years. The provisions of such renewed agreements shall conform to the provisions of this Chapter.

have been concluded initially under UN auspices, they have been open to participation on the widest basis, and periodic reports on their operations have been submitted to UN bodies. In practice, the preparation and stages of negotiation of some agreements, especially those renewing existing agreements, have been conducted under the auspices of commodity councils, GATT, and FAO; the general procedures as laid down in the Havana Charter have been broadly observed in most negotiations, even where these have not been carried out under the aegis of the United Nations or UNCTAD.

The question of the extent to which interested countries take advantage of the opportunities presented to them of participating in the operation and management of a commodity scheme is also of importance. The widest possible active participation would, of course, be desirable. However, a scheme may operate effectively and equitably without the participation of all countries with a substantial interest in the commodity. Evaluation of schemes from this point of view should therefore be on a case-by-case basis.

(2) Trade restrictions. The successful negotiation and operation of a commodity agreement including buffer stock operations may necessitate provisions requiring members, in certain defined circumstances, not to trade in the product with countries not members of the agreement. The possibility of consequential trade discrimination among Fund member countries, while not a matter falling within the Fund's jurisdiction (unlike discrimination in payments arrangements) is nonetheless of concern to the Fund, having regard to its purposes. It could be expected that Fund member countries parties to a buffer stock agreement would seek to avoid any consequential discrimination in their trade with other Fund member countries. The procedures for consultation with members participating in buffer stock arrangements would afford an opportunity for discussion of any recourse to discriminatory trade practices in connection with the arrangements.

The Temporary Use of Fund Resources and the Appropriate Operation of International Buffer Stocks

It is proposed that drawings under the buffer stock financing facility should be temporary in character and subject to the repayment terms applicable to all Fund drawings including the standard three- to five-year rule on repurchases, with the addition of a special provision under which the member should repurchase from the Fund earlier to the extent that the buffer stock distributed cash to its members. Members that make use of the buffer stock financing facility will be expected to make the necessary provision, both inside the buffer stock agreement and in their own arrangements, to enable them to meet their repurchase commitments to the Fund.

Despite this partial separation of the member's obligations to the Fund from any arrangements it may have with the buffer stock, the Fund is concerned that the operation of the scheme should be such as to ensure that the member's use of Fund resources is no more than temporary. This fits well with the objective of the facility to foster the smoothing out of short-term price fluctuations round a medium-term trend. The following points are intended to meet these desiderata:

(3) Stability of export earnings. The relationship between price stabilization and the stability of a country's earnings from a commodity should be an explicit consideration in the drafting of commodity schemes. As indicated in Part I of the staff study on Stabilization of Prices of Primary Products,[2] the elasticity of demand might be such that price stabilization by a buffer stock agency could tend to destabilize rather than to stabilize export earnings in certain circumstances, namely, when price fluctuations are caused by supply fluctuations rather than by demand fluctuations.

From the Fund's point of view, there would be serious reservations with regard to any scheme which appeared likely significantly to destabilize export proceeds for any considerable proportion of individual countries, and thus, inter alia, to increase rather than to reduce the use of Fund resources in the form of drawings under the Compensatory Financing Decision. In practice, even where supply fluctuations are important, a variety of techniques might be used to secure full or partial stabilization of export earnings in association with some degree of price stabilization. These include adjustment of the price range in response to overall supply variations, partial postponement of payment for stocks acquired in glut years, and temporary quota arrangements. The Fund would wish to consider the extent to which the possibilities offered by such techniques have been utilized in the arrangements.

The Fund recognizes that even arrangements for price stabilization that tended to increase earnings instability might have longer-term benefits in improving the trend in demand and the allocation of resources in producing countries or might otherwise reduce real costs. Nevertheless, having in mind the difficulties which buffer stocking with a destabilizing effect on earnings could create for the repayment of Fund drawings used in the financing of the stocks, it would seem appropriate for the Fund to confine its assistance to schemes which appear likely to increase (or at least not to reduce) the stability of export earnings for the generality of the developing countries concerned.

Even where price stabilization measures may be expected to reduce earnings fluctuations for the majority of participants, the earnings of some individual countries may be destabilized. Where there appear to be wide-ranging benefits from the scheme for participants taking one year with another, this should not preclude Fund assistance to the scheme.

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2/ See pp. 44-49 and 158.

(4) The stabilization of prices. The type of buffer stock scheme for which Fund financing would generally be suitable would be one that aimed at stabilizing prices round a medium-term trend, i.e., one in which stock accumulation and decumulation could be expected to balance out roughly in the medium term without resort to abrupt ad hoc variation of export quotas or ceiling prices undertaken regardless of the stability of export earnings.

In order to meet these desiderata it is necessary that the intervention price range should itself be flexible within the period of operation of the scheme. For example, it might be fixed for a maximum of one year ahead in time and changed in the light of revisions in anticipated demand and supply conditions. It is not feasible to lay down a specific formula for determining the medium-term trend value of the intervention range from year to year. However, once the scheme had been in operation for some time, the intervention range for any year might be set at a level which, if maintained, would be likely to result in a balance of stock accumulations and decumulations over a reasonable medium-term period centered on the year with respect to which the range was fixed, with some allowance for any stock accumulation prior to the period in question and for other relevant circumstances.

An important question concerns the width of the range between the upper and lower intervention points. A fairly wide range, though it permits a greater degree of price variation, has considerable advantages in reducing the probable amount of stock accumulation and thus the danger that the buffer stock will exhaust its financial resources, and in increasing the profitability of the operation of the buffer stock and thus facilitating the building up of reserve funds. On the other hand, a wide range could delay disposals at the upper intervention level and lengthen the cycle of stock transactions. It would thus be important to provide for flexibility in revising the width as well as the level of the price range in the light of continual market appraisal.

In all matters having to do with the determination of intervention prices, it will clearly be important that careful preliminary studies be made employing the best available techniques for forecasting variations in demand and supply conditions affecting the commodity.

Procedures recommended under the UN Resolutions to which reference was made earlier, envisaged the establishment of specialized study groups as a first preparatory stage in the conclusion of commodity agreements. Under UNCTAD procedures extensive use has been made of preliminary consultations and exploratory meetings prior to the convening of formal commodity conferences for negotiation. Judgment by the Fund on specific commodity arrangements should be facilitated by such procedures.

(5) Supplementary techniques for medium-term stabilization. Most discussion of the role of buffer stocks envisages the use of supplementary

measures such as quantitative controls on exports or national commitments on internal stock levels. As already indicated, such measures could play a useful role particularly in mitigating short-term fluctuations in exports and export earnings induced from the supply side, leaving the buffer stock to take the impact primarily of demand fluctuations; and effective provisions permitting the temporary application of quotas for this purpose might be indispensable to protect the financial resources of the buffer stock. Where such resources are very limited, it might be necessary to apply such measures even where the effect was to destabilize export earnings. Too much recourse to this device, however, might be an indication that other features of the arrangement--the price range or the amount of financing available to the buffer stock--were unsatisfactory.

(6) Financial arrangements. The various features of buffer stock schemes discussed at (3) to (5) above should all make it easier for the buffer stock so to arrange its transactions with countries participating in the scheme as to make it easier for the latter to repurchase from the Fund any amounts they may have drawn under the proposed facility. However, certain aspects of the facility and of the financing of the scheme are also important in this connection.

In the first place, not all types of payments from participants to the buffer stock authority would qualify for financing by the Fund. For example, buffer stock expenditures for the construction of storage facilities are clearly of a long-term character and not suitable for indirect financing by the Fund. Again, use of the facility would presumably be confined to reimbursement of members' contributions for the financing of new purchases of stock or of operating expenditures or for refinancing of short-term indebtedness incurred for such purposes. Third, it is envisaged that in the event of the buffer stock distributing cash to its participants, these amounts would be used for repurchases of drawings on the proposed Fund facility. Any subsequent transfers of cash from Fund members to the buffer stock authority, provided it was for the acquisition of additional stocks and not for the refinancing of any temporary borrowing operation related to stocks previously financed through drawings on the Fund, would then give rise to a possibility of new drawings on the facility.

Moreover, it would be expected that an appropriate part of the initial and operating costs of buffer stocking would be met from sources other than international financial institutions. This could be achieved from the start by means of contributions by countries which would be unlikely to draw on the facility, or in appropriate cases by a restriction of drawings on the facility to some proportion less than 100 per cent of the amounts transferred from participants to the buffer stock authority. Lagged or phased systems of payment can also play an important part in appropriate market conditions in reducing initial foreign exchange costs; countries accepting lagged or phased payments would thus bear a proportion of the financial burden of the scheme. Such provisions might provide safeguards for the prudent operation of buffer stocks. Also the buffer stock might be expected to build up a reserve fund from non-Fund sources to minimize any danger that stocks might have to be sold at an inappropriate time merely to facilitate repurchases to the Fund. This could be achieved, for example, through the collection of a trade levy (which itself would of course not qualify for refinancing through the proposed facility), and by the accumulation of any operating profits earned by the buffer stock.

Buffer Stocks and Price Support Measures

(7) Long-term restriction of supply. Merely to provide, as has been suggested above, that the price and other provisions of commodity agreements involving buffer stocks should be such as to promote a balance between stock accumulation and decumulation in the medium term is not enough to ensure that prices will tend toward the level that would obtain in stable and liberalized trading conditions. Buffer stocking arrangements may be introduced as part of an agreement combining other and potentially restrictive elements such as export quotas, restrictions on output, or diversion of supplies into low value uses.

Provision for the possible application of temporary export quotas has been regarded above as a desirable function of such agreements in the interest both of price stabilization and of the short-term character of stock accumulation and decumulation. However, quotas can be, and frequently are, employed not temporarily but more or less continuously and for the purpose not merely of stabilizing the price of the commodity in question round a medium-term trend but also of maintaining prices in the medium and even in the long term above the level that would otherwise have obtained.

Articles 57(c) and 63(a) (in conjunction) of the Havana Charter provide that commodity control agreements (those involving trade or output control or regulating prices) should be designed to assure the availability of supplies adequate at all times for world demand at such prices as are fair to consumers and provide a reasonable return to producers, having regard to the desirability of securing long-term equilibrium between supply and demand.

This formulation would not appear to preclude agreements envisaging export quotas or restrictions on output that would be continuous throughout the lifetime of an agreement if these were required to prevent prices from being drawn down in the medium term to unreasonably low levels, as a result, e.g., of a past accumulation of national stocks, or overextension of production capacity, or other such cause. However, it would appear to preclude the use of such restrictions to maintain a price that would in all likelihood require the continuance of such controls in perpetuity.

In more recent years a concept has developed--largely in the context of the UNCTAD, but reflected in the request by a number of Fund Governors with reference to which the Rio Resolution was passed--according to which commodity agreements should aim at prices that are "remunerative"3/ to developing producing countries, even though this may involve a permanent real income transfer from consumers to producers.

In considering the relative merits of these not entirely compatible criteria of long-term price fixing, it should be taken into account:

(a) that if the agreement is negotiated in accordance with the principles laid down in (1) above and therefore includes provision for adequate participation of consuming countries, the latter may be deemed to have consented to any real income transfer involved in quantitative restrictions, concessional sales, etc.; and

(b) that if the provisions of the agreement relating to prices appear likely, despite the various controls proposed, to result sooner or later in a breakdown of the arrangement, the Fund, with its interest in stabilization, cannot afford to overlook this consideration in determining whether or not the buffer stock element in the agreement is worthy of Fund support.

It may be wise for the Fund not to decide in any general terms as between the different criteria of long-term price determination, but to judge on the merits of each case, whether "the expansion and balanced growth of international trade . . . and the development of the productive resources of all members" would be furthered by Fund assistance to such arrangements.

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3/ For a possible interpretation of this term, see Part I, The Problem of Stabilization of Prices of Primary Products, p. 117.

ANNEX III

UNITED NATIONS

# TD

United Nations Conference on Trade and Development

Distr.
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30 March 1987

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UNITED NATIONS CONFERENCE ON NATURAL RUBBER, 1985

# INTERNATIONAL NATURAL RUBBER AGREEMENT, 1987

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PREAMBLE

The contracting parties,

Recalling the Declaration and the Programme of Action on the Establishment of a New International Economic Order, */

Recognizing in particular the importance of the United Nations Conference on Trade and Development resolution 93 (IV), adopted at its fourth session, resolution 124 (V), adopted at its fifth session, and resolution 155 (VI), adopted at its sixth session, on the Integrated Programme for Commodities,

Recognizing the importance of natural rubber to the economies of members, particularly to the exports of exporting members and to supply requirements of importing members,

Recognizing further that the stabilization of natural rubber prices is in the interests of producers, consumers and natural rubber markets, and that an international natural rubber agreement can significantly assist the growth and development of the natural rubber industry to the benefit of both producers and consumers,

Have agreed as follows:

*/ General Assembly resolutions 3201 (S-VI) and 3202 (S-VI) of 1 May 1974.

## CHAPTER I - OBJECTIVES

### Article 1

### Objectives

The objectives of the International Natural Rubber Agreement, 1987 (hereinafter referred to as "this Agreement"), with a view to achieving the relevant objectives as adopted by the United Nations Conference on Trade and Development in its resolutions 93 (IV), 124 (V) and 155 (VI) on the Integrated Programme for Commodities, are *inter alia* as follows:

(a) To achieve a balanced growth between the supply of and demand for natural rubber, thereby helping to alleviate the serious difficulties arising from surpluses or shortages of natural rubber;

(b) To achieve stable conditions in natural rubber trade through avoiding excessive natural rubber price fluctuations, which adversely affect the long-term interests of both producers and consumers, and stabilizing these prices without distorting long-term market trends, in the interests of producers and consumers;

(c) To help stabilize the export earnings from natural rubber of exporting members, and to increase their earnings based on expanding natural rubber export volumes at fair and remunerative prices, thereby helping to provide the necessary incentives for a dynamic and rising rate of production and the resources for accelerated economic growth and social development;

(d) To seek to ensure adequate supplies of natural rubber to meet the requirements of importing members at fair and reasonable prices and to improve the reliability and continuity of these supplies;

(e) To take feasible steps in the event of a surplus or shortage of natural rubber to mitigate the economic difficulties that members might encounter;

(f) To seek to expand international trade in and to improve market access for natural rubber and processed products thereof;

(g) To improve the competitiveness of natural rubber by encouraging research and development on the problems of natural rubber;

(h) To encourage the efficient development of the natural rubber economy by seeking to facilitate and promote improvements in the processing, marketing and distribution of raw natural rubber; and

(i) To further international co-operation in and consultations on natural rubber matters affecting supply and demand, and to facilitate promotion and co-ordination of natural rubber research, assistance and other programmes.

# CHAPTER II - DEFINITIONS

## Article 2

## Definitions

For the purposes of this Agreement:

(1) "Natural rubber" means the unvulcanized elastomer, whether in solid or liquid forms, from Hevea brasiliensis and any other plant which the Council may decide for the purposes of this Agreement;

(2) "Contracting party" means a Government, or an intergovernmental organization referred to in article 5, which has consented to be bound by this Agreeement provisionally or definitively;

(3) "Member" means a contracting party as defined in definition (2) above;

(4) "Exporting member" means a member which exports natural rubber and has declared itself to be an exporting member, subject to the agreement of the Council;

(5) "Importing member" means a member which imports natural rubber and has declared itself to be an importing member, subject to the agreement of the Council;

(6) "Organization" means the International Natural Rubber Organization referred to in article 3;

(7) "Council" means the International Natural Rubber Council referred to in article 6;

(8) "Special vote" means a vote requiring at least two thirds of the votes cast by exporting members present and voting and at least two thirds of the votes cast by importing members present and voting, counted separately, on condition that these votes are cast by at least half the members in each category present and voting;

(9) "Exports of natural rubber" means any natural rubber which leaves the customs territory of any member, and "imports of natural rubber" means any natural rubber which enters the domestic commerce in the customs territory of any member, provided that for the purposes of these definitions, customs territory shall, in the case of a member which comprises more than one customs territory, be deemed to refer to the combined customs territories of that member;

(10) "Distributed simple majority vote" means a vote requiring more than half of the total votes of exporting members present and voting and more than half of the total votes of importing members present and voting, counted separately;

(11) *"Freely usable currencies" means the deutsche mark, the French franc,* the Japanese yen, the pound sterling, and the United States dollar;

(12) "Financial year" means the period from 1 January to 31 December inclusive;

(13) "Entry into force" means the date on which this Agreement enters into force provisionally or definitively in accordance with article 60;

(14) "Tonne" means a metric ton, i.e. 1,000 kilogrammes;

(15) "Malaysian/Singapore cent" means the average of the Malaysian sen and the Singapore cent at the prevailing rates of exchange;

(16) "Time-weighted net contribution of a member" means its net cash contributions weighted by the number of days during which the constitutent parts of the net cash contribution have stayed at the disposition of the Buffer Stock. In calculating the number of days, the day when the contribution was received by the Organization will not be taken into account, nor the day when the reimbursement was effected, nor the day when this Agreement terminates.

## CHAPTER III - ORGANIZATION AND ADMINISTRATION

### Article 3

### Establishment, headquarters and structure of the International Natural Rubber Organization

1. The International Natural Rubber Organization, established by the International Natural Rubber Agreement, 1979, shall continue in being for the purpose of administering the provisions and supervising the operation of this Agreement.

2. The Organization shall function through the International Natural Rubber Council, its Executive Director and its staff, and such other bodies as are provided for in this Agreement.

3. Subject to the requirement in paragraph 4 of this article, the headquarters of the Organization shall be in Kuala Lumpur, unless the Council, by special vote, decides otherwise.

4. The headquarters of the Organization shall at all times be located in the territory of a member.

### Article 4

### Membership in the Organization

1. There shall be two categories of membership, namely,

(a) Exporting; and

(b) Importing.

2. The Council shall establish criteria regarding a change by a member in its category of membership as defined in paragraph 1 of this article, taking fully into account the provisions of articles 24 and 27. A member which meets such criteria may change its category of membership subject to the agreement of the Council by special vote.

3. Each contracting party shall constitute a single member of the Organization.

## Article 5

### Membership by intergovernmental organizations

1. Any reference in this Agreement to a "Government" or "Governments" shall be construed as including a reference to the European Economic Community and to any intergovernmental organization having responsibilities in respect of the negotiation, conclusion and application of international agreements, in particular commodity agreements. Accordingly, any reference in this Agreement to signature, ratification, acceptance or approval, or to notification of provisional application, or to accession shall, in the case of such intergovernmental organizations, be construed as including a reference to signature, ratification, acceptance or approval, or to notification of provisional application, or to accession, by such intergovernmental organizations.

2. In the case of votes on matters within their competence, such intergovernmental organizations shall exercise their voting rights with a number of votes equal to the total number of votes attributed, in accordance with article 14, to their member States. In such cases, the member States of such intergovernmental organizations shall not exercise their individual voting rights.

## CHAPTER IV - THE INTERNATIONAL NATURAL RUBBER COUNCIL

### Article 6

### Composition of the International Natural Rubber Council

1. The highest authority of the Organization shall be the International Natural Rubber Council, which shall consist of all the members of the Organization.

2. Each member shall be represented in the Council by one delegate, and may designate alternates and advisers to attend sessions of the Council.

3. An alternate delegate shall be empowered to act and vote on behalf of the delegate during the latter's absence or in special circumstances.

### Article 7

### Powers and functions of the Council

1. The Council shall exercise all such powers and perform or arrange for the performance of all such functions as are necessary to carry out the provisions of this Agreement, but it shall not have the power, and shall not be taken to have been authorized by the members, to incur any obligation outside the scope of this Agreement. In particular, it shall not have the capacity to borrow money, without, however, limiting the application of article 41, nor shall it enter into any trading contract for natural rubber, except as provided for specifically in paragraph 5 of article 30. In exercising its capacity to contract the Council shall ensure that the terms of paragraph 4 of article 48 are brought by written notice to the attention of the other parties entering into such contracts, but any failure to do so shall not in itself invalidate such contracts, nor shall it be deemed to be a waiver of such limitation of liability of the members.

2. The Council shall, by special vote, adopt such rules and regulations as are necessary to carry out the provisions of this Agreement and are consistent therewith. These shall include its own rules of procedure and those of the committees referred to in article 18, rules for the administration and operation of the Buffer Stock, and the financial and staff regulations of the Organization.

3. For the purposes of paragraph 2 of this article, the Council shall, at its first session after the entry into force of this Agreement, review the rules and regulations established under the International Natural Rubber Agreement, 1979, and adopt them with such modifications as it deems appropriate. Pending such adoption, the rules and regulations established under the International Natural Rubber Agreement, 1979, shall apply.

4. The Council shall keep such records as are required for the performance of its functions under this Agreement.

5. The Council shall publish an annual report on the activities of the Organization and such other information as it considers appropriate.

## Article 8

### Delegation of powers

1. The Council may, by special vote, delegate to any committee established under article 18 the exercise of any or all of its powers which, in accordance with the provisions of this Agreement, do not require a special vote of the Council. Notwithstanding this delegation, the Council may at any time discuss and decide any issue that may have been delegated to any of its committees.

2. The Council may, by special vote, revoke any power delegated to a committee.

## Article 9

### Co-operation with other organizations

1. The Council may make whatever arrangements are appropriate for consultation or co-operation with the United Nations, its organs and specialized agencies, and other intergovernmental organizations as appropriate.

2. The Council may also make arrangements for maintaining contact with appropriate international non-governmental organizations.

## Article 10

### Admission of observers

The Council may invite any non-member Government, or any of the organizations referred to in article 9, to attend as an observer any of the meetings of the Council or of any committee established under article 18.

## Article 11

### Chairman and Vice-Chairman

1. The Council shall elect for each year a Chairman and a Vice-Chairman.

2. The Chairman and the Vice-Chairman shall be elected, one from among the representatives of exporting members and the other from among the representatives of importing members. These offices shall alternate each year between the two categories of members, provided, however, that this shall not prohibit the re-election of either or both, under exceptional circumstances, by special vote of the Council.

3. In the temporary absence of the Chairman, he shall be replaced by the Vice-Chairman. In the temporary absence of both the Chairman and the Vice-Chairman or the permanent absence of one or both of them, the Council may elect new officers from among the representatives of the exporting members and/or from among the representatives of the importing members, as appropriate, on a temporary or permanent basis as may be required.

4. Neither the Chairman nor any other officer presiding at a meeting of the Council shall vote at that meeting. The voting rights of the member he represents may, however, be exercised in accordance with the provisions of paragraph 3 of article 6, or paragraphs 2 and 3 of article 15.

## Article 12

## Executive Director, Buffer Stock Manager and other staff

1. The Council shall, by special vote, appoint an Executive Director and a Buffer Stock Manager.

2. The terms and conditions of appointment of the Executive Director and the Buffer Stock Manager shall be determined by the Council.

3. The Executive Director shall be the chief administrative officer of the Organization and shall be responsible to the Council for the administration and operation of this Agreement in accordance with the provisions of this Agreement and decisions of the Council.

4. The Buffer Stock Manager shall be responsible to the Executive Director and the Council for the functions conferred upon him by this Agreement, as well as for such additional functions as the Council may determine. The Buffer Stock Manager shall be responsible for the day-to-day operation of the Buffer Stock, and shall keep the Executive Director informed of the general operations of the Buffer Stock so that the Executive Director may ensure its effectiveness in meeting the objectives of this Agreement.

5. The Executive Director shall appoint the staff in accordance with regulations established by the Council. The staff shall be responsible to the Executive Director.

6. Neither the Executive Director nor any member of the staff, including the Buffer Stock Manager, shall have any financial interest in the rubber industry or trade, or associated commercial activities.

7. In the performance of their duties, the Executive Director, the Buffer Stock Manager and other staff shall not seek or receive instructions from any member or from any other authority external to the Council or to any committee established under article 18. They shall refrain from any action which might reflect on their positions as international officials responsible only to the Council. Each member shall respect the exclusively international character of the responsibilities of the Executive Director, the Buffer Stock Manager and other staff and shall not seek to influence them in the discharge of their responsibilities.

## Article 13

### Sessions

1. As a general rule, the Council shall hold one regular session in each half of the year. For the purpose of the review of the price range, the Council shall hold a session, within two weeks, after each 15-month or 30-month period mentioned in article 31.

2. In addition to sessions in circumstances specifically provided for in this Agreement, the Council shall also meet in special session whenever it so decides or at the request of:

(a) The Chairman of the Council;

(b) The Executive Director;

(c) A majority of the exporting members;

(d) A majority of the importing members;

(e) An exporting member or exporting members holding at least 200 votes;

or

(f) An importing member or importing members holding at least 200 votes.

3. Sessions shall be held at the headquarters of the Organization, unless the Council, by special vote, decides otherwise. If on the invitation of any member the Council meets elsewhere than at the headquarters of the Organization, that member shall pay the additional costs incurred by the Council.

4. Notice of any sessions and the agenda for such sessions shall be communicated to members by the Executive Director, in consultation with the Chairman of the Council, at least 30 days in advance, except in cases of emergency when notice shall be communicated at least 10 days in advance.

## Article 14

### Distribution of votes

1. The exporting members shall together hold 1,000 votes and the importing members shall together hold 1,000 votes.

2. Each exporting member shall receive one initial vote out of the 1,000 votes except that in the case of an exporting member with net exports of less than 10,000 tonnes annually the initial vote shall not apply. The remainder of such votes shall be distributed among the exporting members as nearly as possible in proportion to the volume of their respective net exports of natural rubber for the period of five calendar years commencing six calendar years prior to the distribution of votes.

3. The votes of importing members shall be distributed among them as nearly as possible in proportion to the average of their respective net imports of natural rubber during the period of three calendar years commencing four calendar years prior to the distribution of votes, except that each importing member shall receive one vote even if its proportional net import share is otherwise not sufficiently large to so justify.

4. For the purposes of paragraphs 2 and 3 of this article, paragraphs 2 and 3 of article 27 relating to contributions of importing members, and article 38, the Council shall, at its first session, establish a table of net exports of exporting members and a table of net imports of importing members which shall be revised annually in accordance with this article.

5. There shall be no fractional votes.

6. The Council shall, at the first session after the entry into force of this Agreement, distribute the votes for that year, to remain in effect until the first regular session of the following year, except as provided for in paragraph 7 of this article. Subsequently for each year, the Council shall distribute the votes at the beginning of the first regular session of that year. Such distribution shall remain in effect until the first regular session of the following year, except as provided for in paragraph 7 of this article.

7. Whenever the membership of the Organization changes or when any member has its voting rights suspended or restored under any provision of this Agreement, the Council shall redistribute the votes within the affected category or categories of members in accordance with the provisions of this article.

8. In the event of the exclusion of a member pursuant to article 64, or the withdrawal of a member pursuant to article 63 or article 62, resulting in the reduction of the total trade share of those members remaining in either category below 80 per cent, the Council shall meet and decide on the terms, conditions and future of this Agreement, including in particular the need to maintain effective buffer stock operations without causing undue financial burden to the remaining members.

## Article 15

## Voting procedure

1. Each member shall be entitled to cast the number of votes it holds in the Council and shall not be entitled to divide its votes.

2. By written notification to the Chairman of the Council, any exporting member may authorize any other exporting member, and any importing member may authorize any other importing member, to represent its interests and to exercise its voting rights at any session or meeting of the Council.

3. A member authorized by another member to cast the latter member's votes shall cast such votes as authorized.

4. When abstaining, a member shall be deemed not to have cast its votes.

## Article 16

### Quorum

1. The quorum for any meeting of the Council shall be the presence of a majority of exporting members and a majority of importing members, provided that such members hold at least two thirds of the total votes in their respective categories.

2. If there is no quorum in accordance with paragraph 1 of this article on the day fixed for the meeting and on the following day, the quorum on the third day and thereafter shall be the presence of a majority of exporting members and a majority of importing members, provided that such members hold a majority of the total votes in their respective categories.

3. Representation in accordance with paragraph 2 of article 15 shall be considered as presence.

## Article 17

### Decisions

1. All decisions of the Council shall be taken and all recommendations shall be made by distributed simple majority vote, unless otherwise provided for in this Agreement.

2. Where a member avails itself of the provisions of article 15 and its votes are cast at a meeting of the Council, such member shall, for the purposes of paragraph 1 of this article, be considered as present and voting.

## Article 18

### Establishment of committees

1. The following committees established by the International Natural Rubber Agreement, 1979, shall continue in being:

(a) Committee on Administration;

(b) Committee on Buffer Stock Operations;

(c) Committee on Statistics; and

(d) Committee on Other Measures.

Additional committees may also be established by special vote of the Council.

2. Each committee shall be responsible to the Council. The Council shall, by special vote, determine the membership and terms of reference of each committee.

## Article 19

## Panel of experts

1. The Council may establish a panel of experts from the rubber industry and trade of exporting and importing members.

2. Any such panel would be available to provide advice and assistance to the Council and its committees, particularly on buffer stock operations and on the other measures referred to in article 43.

3. The membership, functions and administrative arrangements of any such panel would be determined by the Council.

## CHAPTER V - PRIVILEGES AND IMMUNITIES

### Article 20

### Privileges and immunities

1. The Organization shall have legal personality. In particular, but without prejudice to the provisions of paragraph 4 of article 48, the Organization shall have the capacity to contract, to acquire and dispose of movable and immovable property, and to institute legal proceedings.

2. The Organization shall, as soon as possible, seek to conclude with the Government of the country in which the headquarters of the Organization is situated (hereinafter referred to as the host Government) an agreement (hereinafter referred to as Headquarters Agreement) relating to such status, privileges and immunities of the Organization, of its Executive Director, Buffer Stock Manager as well as other staff and experts, and of members' delegations, as are reasonably necessary for the purpose of discharging their functions.

3. Pending the conclusion of the Headquarters Agreement, the Organization shall request the host Government to grant, to the extent consistent with its laws, exemption from taxation on remuneration paid by the Organization to its employees, and on the assets, income and other property of the Organization.

4. The Organization may also conclude, with one or more Governments, agreements to be approved by the Council relating to such privileges and immunities as may be necessary for the proper functioning of this Agreement.

5. If the headquarters of the Organization is moved to another country, the Government of that country shall, as soon as possible, conclude with the Organization a Headquarters Agreement to be approved by the Council.

6. The Headquarters Agreement shall be independent of this Agreement. It shall, however, terminate:

(a) By agreement between the host Government and the Organization;

(b) In the event that the headquarters of the Organization is moved from the country of the host Government; or

(c) In the event that the Organization ceases to exist.

## CHAPTER VI - ACCOUNTS AND AUDIT

### Article 21

### Financial accounts

1. For the operation and administration of this Agreement, there shall be established two accounts:

(a) The Buffer Stock Account; and

(b) The Administrative Account.

2. All the following receipts and expenditures in the creation, operation and maintenance of the Buffer Stock shall be brought into the Buffer Stock Account: contributions from members under article 27, revenue from sales of or expenditure in respect of acquisition of buffer stocks; interest on deposits of the Buffer Stock Account; and costs relating to purchase and sales commissions, storage, transportation and handling, maintenance and rotation, and insurance. The Council may, however, by special vote, bring any other type of receipts or expenditures attributable to buffer stock transactions or operations into the Buffer Stock Account.

3. All other receipts and expenditures relating to the operation of this Agreement shall be brought into the Administrative Account. Such expenditures shall normally be met by contributions from members assessed in accordance with article 24.

4. The Organization shall not be liable for the expenses of delegations or observers to the Council or to any committee established under article 18.

### Article 22

### Form of payment

Payments to the Administrative and Buffer Stock Accounts shall be made in freely usable currencies or currencies which are convertible in the major foreign exchange markets into freely usable currencies, and shall be exempt from foreign exchange restrictions.

### Article 23

### Audit

1. Each financial year, the Council shall appoint auditors for the purpose of auditing its books of account.

2. An independently audited statement of the Administrative Account shall be made available to members as soon as possible, but not later than four months, after the close of each financial year. An independently audited statement of the Buffer Stock Account shall be made available to members not earlier than 60 days, but not later than four months, after the close of each financial year. The audited statements of the Administrative and Buffer Stock Accounts shall be considered for approval by the Council at its next regular session, as appropriate. A summary of the audited accounts and balance sheet shall thereafter be published.

## CHAPTER VII - THE ADMINISTRATIVE ACCOUNT

### Article 24

### Approval of the administrative budget and assessment of contributions

1. At its first session after the entry into force of this Agreement, the Council shall approve the administrative budget for the period between the date of the entry into force and the end of the first financial year. Thereafter, during the second half of each financial year, the Council shall approve the administrative budget for the following financial year. The Council shall assess the contribution of each member to that budget in accordance with paragraph 2 of this article.

2. The contribution of each member to the administrative budget for each financial year shall be in the proportion which the number of its votes at the time the administrative budget for that financial year is approved bears to the total votes of all the members. In assessing contributions, the votes of each member shall be calculated without regard to the suspension of any member's voting rights or any redistribution of votes resulting therefrom.

3. The initial contribution to the administrative budget of any Government which becomes a member after the entry into force of this Agreement shall be assessed by the Council on the basis of the number of votes to be held by that member and of the period from the date on which it becomes a member to the end of the current financial year. The assessment made upon other members for that financial year shall not, however, be altered.

### Article 25

### Payment of contributions to the administrative budget

1. Contributions to the first administrative budget shall become due on a date to be decided by the Council at its first session. Contributions to subsequent administrative budgets shall become due by 28 February in each financial year. The initial contribution of a Government which becomes a member after the entry into force of this Agreement, assessed in accordance with paragraph 3 of article 24, shall, for the financial year concerned, become due 60 days after the date on which it becomes a member.

2. If a member has not paid its full contribution to the administrative budget within two months after such contribution becomes due in accordance with paragraph 1 of this article, the Executive Director shall request that member to make payment as quickly as possible. If a member has not paid its contribution within two months after such request by the Executive Director, its voting rights in the Organization shall be suspended unless the Council decides otherwise. If a member has still not paid its contribution within four months after such request by the Executive Director, all rights of that member under this Agreement shall be suspended by the Council, unless the Council, by special vote, decides otherwise.

3. For contributions received late, the Council shall levy a penalty charge at the prime interest rate in the host country from the date the contributions become due.

4. A member whose rights have been suspended under paragraph 2 of this article shall in particular remain liable to pay its contribution and to meet any other of its financial obligations under this Agreement.

## CHAPTER VIII - THE BUFFER STOCK

### Article 26

### Size of the Buffer Stock

In order to achieve the objectives of this Agreement, an international Buffer Stock shall be established. The total capacity of the Buffer Stock shall be 550,000 tonnes, including the total stocks still held under the International Natural Rubber Agreement, 1979. It shall be the sole instrument of market intervention for price stabilization in this Agreement. The Buffer Stock shall comprise:

(a) The normal Buffer Stock of 400,000 tonnes; and

(b) The contingency Buffer Stock of 150,000 tonnes.

### Article 27

### Financing of the Buffer Stock

1. Members commit themselves to finance the total cost of the international Buffer Stock of 550,000 tonnes established under article 26, it being understood that shares in the Buffer Stock Account of the International Natural Rubber Agreement, 1979, of those members of the International Natural Rubber Agreement, 1979, which became members of this Agreement shall, with the consent of each member, be carried over to the Buffer Stock Account under this Agreement in accordance with the procedures determined under the provisions of paragraph 3 of article 41 of the International Natural Rubber Agreement, 1979.

2. The financing of both the normal Buffer Stock and the contingency Buffer Stock shall be shared equally between the exporting and importing categories of members. Contributions of members to the Buffer Stock Account shall be apportioned according to their shares of the votes in the Council, except as provided for in paragraphs 3 and 4 of this article.

3. Any importing member whose share of total net imports as set out in the table to be established by the Council under paragraph 4 of article 14 represents 0.1 per cent or less of total net imports shall contribute to the Buffer Stock Account as follows:

(a) If its share of total net imports is less than or equal to 0.1 per cent but more than 0.05 per cent, such member shall contribute an amount assessed on the basis of its actual share of total net imports;

(b) If its share of total net imports is 0.05 per cent or less, such member shall contribute an amount assessed on the basis of a share of 0.05 per cent of total net imports.

4. During any period in which this Agreement is in force provisionally either under paragraph 2 or subparagraph (b) of paragraph 4 of article 60, the financial commitment of each exporting or importing member to the Buffer Stock Account shall not in total exceed that member's contribution, calculated on the basis of the number of votes corresponding to the percentage shares set out in the tables to be established by the Council under paragraph 4 of article 14, of the totals of 275,000 tonnes falling to the exporting and importing categories of members respectively. The financial obligations of members when this Agreement is in force provisionally shall be shared equally by exporting and importing categories of members. At any time when the aggregate commitment of one category exceeds that of the other, the larger of the two aggregates shall be brought equal to the smaller of the two aggregates, each member's votes in that aggregate being reduced in proportion to the shares of votes derived from the tables to be established by the Council under paragraph 4 of article 14. Notwithstanding the provisions of this paragraph and of paragraph 1 of article 28, a member's contribution may not exceed 125 per cent of the amount of its total contribution calculated on the basis of its share in world trade as indicated in annex A or annex B to this Agreement.

5. The total costs of the normal and contingency Buffer Stock of 550,000 tonnes shall be financed by contributions by members in cash to the Buffer Stock Account. Such contributions may, when relevant, be paid by the appropriate agencies of members concerned.

6. The total costs of the 550,000-tonne international Buffer Stock shall be paid from the Buffer Stock Account. Such costs shall include all expenses involved in acquiring and operating the 550,000-tonne international Buffer Stock. In the event that the estimated cost, as given in annex C to this Agreement, cannot fully cover the total cost of acquisition and operations of the Buffer Stock, the Council shall meet and make the necessary arrangements to call up the required contributions to cover such costs according to percentage shares of votes.

## Article 28

### Payment of contributions to the Buffer Stock Account

1. There shall be an initial contribution in cash to the Buffer Stock Account equivalent to 70 million Malaysian ringgits. This amount, which represents a working capital reserve for buffer stock operations, shall be apportioned among all members according to their percentage shares of votes, taking into consideration paragraph 3 of article 27, and shall be due within 60 days after the first Council session after the entry into force of this Agreement. The initial contribution of a member due in accordance with this paragraph shall, with the consent of that member, be made wholly or in part by transfer of that member's share in the cash held in the Buffer Stock Account under the International Natural Rubber Agreement, 1979.

2. The Executive Director may at any time, and independently of the arrangements in paragraph 1 of this article, call for contributions provided that the Buffer Stock Manager has certified that the Buffer Stock Account may require such funds in the next four months.

3. When a contribution is called, it shall be due from members within 60 days of the date of notification. If requested by any member or members accounting for 200 votes in the Council, the Council shall meet in special session and may modify or disapprove the call-up based on an assessment of the need for funds to support buffer stock operations in the next four months. If the Council cannot reach a decision, contributions shall be due from members in accordance with the Executive Director's notification.

4. Contributions called up for the normal and the contingency Buffer Stock shall be valued at the lower trigger action price in effect at the time such contributions are called.

5. The call-up of contributions to the contingency Buffer Stock shall be handled as follows:

(a) At the 300,000-tonne review provided for in article 31, the Council shall make all financial and other arrangements which may be necessary for the prompt implementation of the contingency Buffer Stock including call-up of funds if necessary;

(b) At the 400,000-tonne review provided for in article 31, the Council shall ensure that:

(i) All members have made all necessary arrangements for financing their respective shares of the contingency Buffer Stock; and

(ii) The contingency Buffer Stock has been invoked and is fully primed for action in accordance with the terms of article 30.

## Article 29

## Price range

1. There shall be established, for the operations of the Buffer Stock:

(a) A reference price;

(b) A lower intervention price;

(c) An upper intervention price;

(d) A lower trigger action price;

(e) An upper trigger action price;

(f) A lower indicative price; and

(g) An upper indicative price.

2. On the entry into force of this Agreement, the reference price shall be initially fixed at 201.66 Malaysian/Singapore cents per kilogramme. In the event that the reference price applicable on 20 March 1987 is revised before the expiry of the International Natural Rubber Agreement, 1979, the reference price shall be adjusted upon the entry into force of this Agreement to the level applicable at the time of the expiry of the International Natural Rubber Agreement, 1979.

3. There shall be an upper intervention price and a lower intervention price calculated respectively at plus and minus 15 per cent of the reference price, unless the Council, by special vote, decides otherwise.

4. There shall be an upper trigger action price and a lower trigger action price calculated respectively at plus and minus 20 per cent of the reference price, unless the Council, by special vote, decides otherwise.

5. The prices calculated in accordance with paragraphs 3 and 4 of this article shall be rounded to the nearest cent.

6. On the entry into force of this Agreement, the lower and upper indicative prices shall be initially fixed at 150 and 270 Malaysian/Singapore cents per kilogramme, respectively. In the event that the indicative prices applicable on 20 March 1987 are revised before the expiry of the International Natural Rubber Agreement, 1979, the indicative prices shall be adjusted upon the entry into force of this Agreement to the levels applicable at the time of the expiry of the International Natural Rubber Agreement, 1979.

## Article 30

### Operation of the Buffer Stock

1. If, in relation to the price range provided for in article 29, or as subsequently revised in accordance with the provisions of articles 31 and 39, the market indicator price provided for in article 32 is:

(a) At or above the upper trigger action price, the Buffer Stock Manager shall defend the upper trigger action price by offering natural rubber for sale until the market indicator price falls below the upper trigger action price;

(b) Above the upper intervention price, the Buffer Stock Manager may sell natural rubber in defence of the upper trigger action price;

(c) At the upper or lower intervention price, or between them, the Buffer Stock Manager shall neither buy nor sell natural rubber, except in order to carry out his responsibilities for rotation under article 35;

(d) Below the lower intervention price, the Buffer Stock Manager may buy natural rubber in defence of the lower trigger action price;

(e) At or below the lower trigger action price, the Buffer Stock Manager shall defend the lower trigger action price by offering to buy natural rubber until the market indicator price exceeds the lower trigger action price.

2. When sales or purchases for the Buffer Stock reach the 400,000-tonne level, the Council shall, by special vote, decide whether to bring the contingency Buffer Stock into operation at:

(a) The lower or upper trigger action price; or

(b) Any price between the lower trigger action price and the lower indicative price, or the upper trigger action price and the upper indicative price.

3. Unless the Council, by special vote, decides otherwise under paragraph 2 of this article, the Buffer Stock Manager shall use the contingency Buffer Stock to defend the lower indicative price by bringing the contingency Buffer Stock into operation when the market indicator price is at a level 2 Malaysian/Singapore cents per kilogramme above the lower indicative price, and to defend the upper indicative price by bringing the contingency Buffer Stock into operation when the market indicator price is at a level 2 Malaysian/Singapore cents per kilogramme below the upper indicative price.

4. The total facilities of the Buffer Stock, including the normal Buffer Stock and the contingency Buffer Stock, shall be fully utilized to ensure that the market indicator price does not fall below the lower indicative price or rise above the upper indicative price.

5. Sales and purchases by the Buffer Stock Manager shall be effected through established commercial markets at prevailing prices, and all his transactions shall be in physical rubber for delivery not later than three calendar months forward.

6. To facilitate the operation of the Buffer Stock, the Council shall establish branch offices and such facilities of the Buffer Stock Manager's office, where necessary, in established rubber markets and approved warehouse locations.

7. The Buffer Stock Manager shall prepare a monthly report on buffer stock transactions and the Buffer Stock Account's financial position. Thirty days after the end of each month, the report for that month shall be made available to members.

8. The information on buffer stock transactions shall include quantities, prices, types, grades and markets of all buffer stock operations, including rotations effected. The information on the Buffer Stock Account's financial position shall also include interest rates on and terms and conditions of deposits, the currencies operated in and other relevant information on the items referred to in paragraph 2 of article 21.

## Article 31

## Review and revision of the price range

### A. Reference price

1. Review and revision of the reference price shall be based on market trends and/or net changes in the Buffer Stock, subject to the provisions of this section of this article. The reference price shall be reviewed by the Council 18 months after the last review pursuant to paragraph 1 of article 32 of the International Natural Rubber Agreement, 1979, or, in the event that this Agreement enters into force after 1 May 1988, at the first session of the Council under this Agreement, and every 15 months thereafter.

(a) If the average of the daily market indicator prices over the six-month period prior to a review is at the upper intervention price, at the lower intervention price, or between these two prices, no revision of the reference price shall take place.

(b) If the average of the daily market indicator prices over the six-month period prior to a review is below the lower intervention price, the reference price shall be automatically revised downwards by 5 per cent of its level at the time of the review, unless the Council, by special vote, decides on a higher percentage adjustment downwards of the reference price.

(c) If the average of the daily market indicator prices over the six-month period prior to a review is above the upper intervention price, the reference price shall be automatically revised upwards by 5 per cent of its level at the time of the review, unless the Council, by special vote, decides on a higher percentage adjustment upwards of the reference price.

2. Following a net change in the Buffer Stock of 100,000 tonnes since the last assessment under paragraph 2 of article 32 of the International Natural Rubber Agreement, 1979, or under this paragraph, the Executive Director shall convene a special session of the Council to assess the situation. The Council may, by special vote, decide to take appropriate measures which may include:

(a) Suspension of buffer stock operations;

(b) Change in the rate of buffer stock purchases or sales; and

(c) Revision of the reference price.

3. If net buffer stock purchases or sales amounting to 300,000 tonnes have taken place since (a) the last revision under paragraph 3 of article 32 of the International Natural Rubber Agreement, 1979, (b) the last revision under this paragraph, or (c) the last revision under paragraph 2 of this article, whichever is most recent, the reference price shall be lowered or raised, respectively, by 3 per cent of its current level unless the Council, by special vote, decides to lower or raise it, respectively, by a higher percentage amount.

4. Any adjustments of the reference price for any reason shall not be such as to allow the trigger action prices to breach the lower or upper indicative prices.

B. Indicative prices

5. The Council may, by special vote, revise the lower and upper indicative prices at reviews provided for in this section of this article.

6. The Council shall ensure that any revision of indicative prices is consistent with evolving market trends and conditions. In this connection, the Council shall take into consideration the trend of natural rubber prices, consumption, supply, production costs and stocks, as well as the quantity of natural rubber held in the Buffer Stock and the financial position of the Buffer Stock Account.

7. The lower and upper indicative prices shall be reviewed:

(a) 30 months after the last review pursuant to paragraph 7 (a) of article 32 of the International Natural Rubber Agreeement, 1979, or, in the event that this Agreement enters into force after 1 May 1988, at the first session of the Council under this Agreement, and every 30 months thereafter;

(b) In exceptional circumstances, at the request of a member or members accounting for 200 or more votes in the Council; and

(c) When the reference price has been revised (i) downwards since the last revision of the lower indicative price or the entry into force of the International Natural Rubber Agreement, 1979, or (ii) upwards since the last revision of the upper indicative price or the entry into force of the International Natural Rubber Agreement, 1979, by at least 3 per cent under paragraph 3 of this article and at least 5 per cent under paragraph 1 of this article, or by at least this amount under paragraphs 1, 2 and/or 3 of this article, provided that the average of the daily market indicator price for the 60 days subsequent to the last revision of the reference price is either below the lower intervention price or above the upper intervention price, respectively.

8. Notwithstanding paragraphs 5, 6 and 7 of this article, there shall be no upward revision in the lower or upper indicative price if the average of the daily market indicator prices over the six-month period prior to a review of the price range under this article is below the reference price. Similarly, there shall be no downward revision in the lower or upper indicative price if the average of the daily market indicator prices over the six-month period prior to a review of the price range under this article is above the reference price.

## Article 32

## Market indicator price

1. There shall be established a daily market indicator price which shall be a composite, weighted average - reflecting the market in natural rubber - of daily official current-month prices on the Kuala Lumpur, London, New York and Singapore markets. Initially, the daily market indicator price shall comprise RSS 1, RSS 3 and TSR 20 and their weighting shall be equal. All quotations shall be converted into f.o.b. Malaysian/Singapore ports in Malaysian/Singapore currency.

2. The type/grade composition weightings and method of computing the daily market indicator price shall be reviewed and may, by special vote, be revised by the Council to ensure that it reflects the market in natural rubber.

3. The market indicator price shall be deemed above, at or below price levels specified in this Agreement if the average of the daily market indicator prices for the last five market days is above, at or below such price levels.

## Article 33

## Composition of buffer stocks

1. At its first session after the entry into force of this Agreement, the Council shall name the internationally recognized standard types and grades of ribbed smoked sheets and technically specified rubbers for inclusion in the Buffer Stock, provided that the following criteria are met:

(a) The lowest types and grades of natural rubber authorized for inclusion in the Buffer Stock shall be RSS 3 and TSR 20; and

(b) All types and grades allowed under subparagraph (a) of this paragraph which account for at least 3 per cent of the previous calendar year's international trade in natural rubber shall be named.

2. The Council may, by special vote, change these criteria and/or the selected types/grades if that is necessary to ensure that the composition of the Buffer Stock reflects the evolving market situation, attainment of the stabilization objectives of this Agreement and the need to maintain a high commercial standard of quality of buffer stocks.

3. The Buffer Stock Manager should attempt to ensure that the composition of the Buffer Stock reflects the export/import patterns for natural rubber, while promoting the stabilization objectives of this Agreement.

4. The Council may, by special vote, direct the Buffer Stock Manager to change the composition of the Buffer Stock if the objective of price stabilization so dictates.

## Article 34

### Location of buffer stocks

1. The location of buffer stocks shall ensure economic and efficient commercial operations. In accordance with this principle, the buffer stocks shall be located in the territory of both exporting and importing members, unless the Council, by special vote, decides otherwise. The distribution of the buffer stocks among the members shall be effected in such a way as to attain the stabilization objectives of this Agreement, while minimizing costs.

2. In order to maintain high commercial quality standards, buffer stocks shall be stored only in warehouses approved on the basis of criteria to be decided by the Council.

3. After the entry into force of this Agreement, the Council shall establish and approve the list of warehouses and the necessary arrangements for their use. The Council may, if necessary, review the list of warehouses approved by the Council of the International Natural Rubber Agreement, 1979, and the criteria established by the said Council and maintain or revise them accordingly.

4. The Council shall also periodically review the location of the buffer stocks and may, by special vote, direct the Buffer Stock Manager to change the location of the buffer stocks to ensure economic and efficient commercial operations.

## Article 35

### Rotation of buffer stocks

The Buffer Stock Manager shall ensure that all buffer stocks are purchased and maintained at a high commercial standard of quality. He shall rotate natural rubber stored in the Buffer Stock as necessary to ensure such standards, taking into appropriate consideration the cost of such rotation and its impact on the stability of the market. The costs of rotation shall be brought into the Buffer Stock Account.

## Article 36

### Restriction or suspension of buffer stock operations

1. Notwithstanding the provisions of article 30, the Council, if in session, may, by special vote, restrict or suspend the operations of the Buffer Stock, if in its opinion the discharge of the obligations laid upon the Buffer Stock Manager by that article will not achieve the objectives of this Agreement.

2. If the Council is not in session, the Executive Director may, after consultation with the Chairman, restrict or suspend the operations of the Buffer Stock, if in his opinion the discharge of the obligations laid upon the Buffer Stock Manager by article 30 will not achieve the objectives of this Agreement.

3. Immediately after a decision to restrict or suspend the operations of the Buffer Stock under paragraph 2 of this article, the Executive Director shall convene a session of the Council to review such decision. Notwithstanding the provisions of paragraph 4 of article 13, the Council shall meet within 10 days after the date of restriction or suspension and shall, by special vote, confirm or cancel such restriction or suspension. If the Council cannot come to a decision at that session, buffer stock operations shall be resumed without any restriction imposed under this article.

4. As long as any restriction or suspension of buffer stock operations decided in accordance with this article remains in force, the Council shall review this decision at intervals of not longer than three months. If at a session to make such a review the Council does not confirm, by special vote, the continuation of the restriction or suspension, or does not come to a decision, buffer stock operations shall be resumed without restriction.

## Article 37

### Penalties relating to contributions to the Buffer Stock Account

1. If a member does not fulfil its obligation to contribute to the Buffer Stock Account by the last day such contribution becomes due, it shall be considered to be in arrears. A member in arrears for 60 days or more shall not count as a member for the purpose of voting on matters covered in paragraph 2 of this article.

2. The voting and other rights in the Council of a member in arrears for 60 days or more under paragraph 1 of this article shall be suspended, unless the Council, by special vote, decides otherwise.

3. A member in arrears shall bear interest charges at the prime rate in the host country beginning on the last day such payments become due. Coverage of arrears by the remaining importing and exporting members shall be on a voluntary basis.

4. When the default has been remedied to the satisfaction of the Council, the voting and other rights of the member in arrears for 60 days or more shall be restored. If the arrears have been made good by other members, these members shall be fully reimbursed.

## Article 38

### Adjustment of contributions to the Buffer Stock Account

1. When the votes are redistributed at the first regular session in each financial year or whenever the membership of the Organization changes, the Council shall make the necessary adjustment of each member's contribution to the Buffer Stock Account in accordance with the provisions of this article. For this purpose, the Executive Director shall determine:

(a) The net cash contribution of each member, by subtracting refunds of contributions to that member in accordance with paragraph 2 of this article, from the sum of all contributions paid by that member since the entry into force of this Agreement;

(b) The total net call-ups, by summing the consecutive call-ups and subtracting the total of refunds made in accordance with paragraph 2 of this article;

(c) The revised net contribution for each member, by apportioning the total net call-ups among members on the basis of each member's revised voting share in the Council pursuant to article 14, subject to paragraph 3 of article 27, provided that the voting share of each member shall, for the purpose of this article, be calculated without regard to the suspension of any member's voting rights or any redistribution of votes resulting therefrom.

Where a member's net cash contribution exceeds its revised net contribution, a refund of the difference minus any outstanding penalty interest on arrears shall be made to that member from the Buffer Stock Account. Where a member's revised net contribution exceeds its net cash contribution, a payment of the difference plus any outstanding penalty interest on arrears shall be made by that member to the Buffer Stock Account.

2. If the Council, having regard to paragraphs 2 and 3 of article 28, decides that there are net cash contributions in excess of funds required to support buffer stock operations within the next four months, the Council shall refund such excess net cash contributions less initial contributions unless it decides, by special vote, either to make no such refund or to refund a smaller amount. Members' shares of the amount to be refunded shall be in proportion to their net cash contributions, minus any outstanding penalty interest on arrears. The contribution liability of members in arrears shall be reduced in the same proportion as the refund bears to the total net cash contributions.

3. At the request of a member, the refund to which it is entitled may be retained in the Buffer Stock Account. If a member requests that its refund be retained in the Buffer Stock Account, this amount shall be credited against any additional contribution requested in accordance with article 28. The credit retained in the Buffer Stock Account at the request of a member shall bear interest at the average rate of interest earned on funds in the Buffer Stock Account, beginning the last day when the amount should normally be reimbursed to that member until the day preceding the actual reimbursement.

4. The Executive Director shall immediately notify members of any required payments or refunds resulting from adjustments made in accordance with paragraphs 1 and 2 of this article. Such payments by members or refunds to members shall be made within 60 days from the date the Executive Director issues such notification.

5. In the event that the amount of cash in the Buffer Stock Account exceeds the value of total net cash contributions of members, such surplus funds shall be distributed upon termination of this Agreement.

## Article 39

### The Buffer Stock and changes in exchange rates

1. In the event that the exchange rate between the Malaysian ringgit/Singapore dollar and the currencies of the major natural rubber exporting and importing members changes to the extent that the operations of the Buffer Stock are significantly affected, the Executive Director shall, in accordance with article 36, or members may, in accordance with article 13, call for a special session of the Council. The Council shall meet within 10 days to confirm or cancel measures already taken by the Executive Director pursuant to article 36, and may, by special vote, decide to take appropriate measures, including the possibility of revising the price range, pursuant to the principles of the first sentences of paragraphs 1 and 6 of article 31.

2. The Council shall, by special vote, establish a procedure to determine a significant change in the parities of these currencies for the sole purpose of ensuring the timely convening of the Council.

3. In the event that there is a divergency between the Malaysian ringgit and the Singapore dollar to the extent that buffer stock operations are significantly affected, the Council shall meet to review the situation and may consider the adoption of a single currency.

## Article 40

### Liquidation procedures for the Buffer Stock Account

1. On termination of this Agreement, the Buffer Stock Manager shall estimate the total expense of liquidating or transferring to a new international natural rubber agreement the assets of the Buffer Stock Account in accordance with the provisions of this article, and shall reserve that amount in a separate account. If these balances are inadequate, the Buffer Stock Manager shall sell a sufficient quantity of natural rubber in the Buffer Stock to provide the additional sum required.

2. Each member's share in the Buffer Stock Account shall be calculated as follows:

(a) The value of the Buffer Stock shall be the value of the total quantity of natural rubber of each type/grade therein, calculated at the lowest of the current prices of the respective types/grades on markets referred to in article 32 during the 30 market days preceding the date of termination of this Agreement;

(b) The value of the Buffer Stock Account shall be the value of the Buffer Stock plus the cash assets of the Buffer Stock Account on the date of the termination of this Agreement less any amount reserved under paragraph 1 of this article;

(c) Each member's net cash contribution shall be the sum of its contributions paid throughout the duration of this Agreement less all refunds made under article 38, penalty interest on arrears paid in accordance with paragraph 3 of article 37 shall not constitute a contribution to the Buffer Stock Account;

(d) If the value of the Buffer Stock Account is either greater or less than total net cash contributions, the surplus shall be allocated among members in proportion to each member's time-weighted net contribution share under this Agreement. Any deficit shall be allocated among members in proportion to each member's average number of votes held during its period of membership. In assessing the share of the deficits to be borne by each member, the votes of each member shall be calculated without regard to the suspension of any member's voting rights or any redistribution of votes resulting therefrom;

(e) Each member's share in the Buffer Stock Account shall comprise its net cash contribution, reduced or increased by its shares in deficits or surpluses in the Buffer Stock Account, and reduced by its liability, if any, for outstanding interest on arrears.

3. If this Agreement is to be immediately replaced with a new international natural rubber agreement, the Council shall, by special vote, adopt procedures to ensure efficient transfer to the new agreement, as required by that agreement, of shares in the Buffer Stock Account of members which intend to participate in the new agreement. Any member which does not wish to participate in the new agreement shall be entitled to the payment of its share:

(a) From available cash in proportion to its percentage share of the total net cash contributions to the Buffer Stock Account, within three months; and

(b) From the net proceeds from the disposal of the buffer stocks, by way of orderly sales or by way of transfer to the new international natural rubber agreement at current market prices, which must be concluded within 12 months; unless the Council decides, by special vote, to increase payments under subparagraph (a) of this paragraph.

4. If this Agreement terminates without being replaced by a new international natural rubber agreement which provides for a buffer stock, the Council shall, by special vote, adopt procedures to govern orderly disposal of the Buffer Stock within the maximum period specified in paragraph 6 of article 66, subject to the following constraints:

(a) No further purchases of natural rubber shall be made;

(b) The Organization shall incur no new expenses except those necessary to dispose of the Buffer Stock.

5. Subject to an election by any member to take natural rubber in accordance with paragraph 6 of this article, any cash which remains in the Buffer Stock Account shall be forthwith distributed to members in proportion to their shares as determined in paragraph 2 of this article.

6. In lieu of all or part of a cash payment, each member may elect to take its share in the assets of the Buffer Stock Account in natural rubber, subject to procedures adopted by the Council.

7. The Council shall adopt appropriate procedures for adjustment and payment of members' shares in the Buffer Stock Account. This adjustment shall account for:

(a) Any discrepancy between the price of natural rubber specified in subparagraph (a) of paragraph 2 of this article and the prices at which part or all of the Buffer Stock is sold pursuant to procedures for disposal of the Buffer Stock; and

(b) The difference between estimated and actual liquidation expenses.

8. The Council shall, within 30 days following final transactions of the Buffer Stock Account, meet to effect final settlement of accounts among members within 30 days thereafter.

## CHAPTER IX - RELATIONSHIP WITH THE COMMON FUND FOR COMMODITIES

### Article 41

### Relationship with the Common Fund for Commodities

When the Common Fund for Commodities becomes operational, the Council shall take full advantage of the facilities of the Common Fund according to the principles set out in the Agreement establishing the Common Fund for Commodities. The Council shall for this purpose negotiate with the Common Fund mutually acceptable terms and modalities for an association agreement to be signed with the Common Fund.

## CHAPTER X - SUPPLY AND MARKET ACCESS AND OTHER MEASURES

### Article 42

### Supply and market access

1. Exporting members to the fullest extent possible undertake to pursue policies and programmes which maintain continuous availability to consumers of natural rubber supplies.

2. Importing members to the fullest extent possible undertake to pursue policies which will maintain access to their markets for natural rubber.

### Article 43

### Other measures

1. With a view to achieving the objectives of this Agreement, the Council shall identify and propose appropriate measures and techniques directed towards promoting:

(a) The development of the natural rubber economy by producing members, through expanded and improved production, productivity and marketing, thereby increasing the export earnings of producing members while at the same time improving the reliability of supply. For this purpose, the Committee on Other Measures shall undertake economic and technical analyses in order to identify:

(i) Natural rubber research and development programmes and projects of benefit to exporting and importing members, including scientific research in specific areas;

(ii) Programmes and projects to improve the productivity of the natural rubber industry;

(iii) Ways and means to upgrade natural rubber supplies and achieve uniformity in quality specification and presentation of natural rubber; and

(iv) Methods of improving the processing, marketing and distribution of raw natural rubber;

(b) The development of end-uses of natural rubber. For this purpose, the Committee on Other Measures shall undertake appropriate economic and technical analyses in order to identify programmes and projects leading to increased and new uses of natural rubber.

2. The Council shall consider the financial implications of such measures and techniques and seek to promote and facilitate the provision of adequate financial resources, as appropriate, from such sources as international financial institutions and the Second Account of the Common Fund for Commodities, when established.

3. The Council may make recommendations, as appropriate, to members, international institutions and other organizations to promote the implementation of specific measures under this article.

4. The Committee on Other Measures shall periodically review the progress of those measures which the Council decides to promote and recommend, and shall report thereon to the Council.

## CHAPTER XI - CONSULTATION ON DOMESTIC POLICIES

### Article 44

### Consultation

The Council shall consult, at the request of any member, on government natural rubber policies directly affecting supply or demand. The Council may submit its recommendations to members for their consideration.

# CHAPTER XII - STATISTICS, STUDIES AND INFORMATION

## Article 45

### Statistics and information

1. The Council shall collect, collate and as necessary publish such statistical information on natural rubber and related areas as is necessary for the satisfactory operation of this Agreement.

2. Members shall promptly and to the fullest extent possible furnish to the Council available data by specific types and grades concerning production, consumption and international trade in natural rubber.

3. The Council may also request members to furnish other available information, including information on related areas which may be required for the satisfactory operation of this Agreement.

4. Members shall furnish all the above-mentioned statistics and information within a reasonable time to the fullest extent possible consistent with their national legislation and by the ways most appropriate for them.

5. The Council shall establish close relationships with appropriate international organizations, including the International Rubber Study Group, and with commodity exchanges in order to help ensure the availability of recent and reliable data on production, consumption, stocks, international trade and prices of natural rubber, and other factors that influence demand for and supply of natural rubber.

6. The Council shall endeavour to ensure that no information published shall prejudice the confidentiality of the operations of persons or companies producing, processing or marketing natural rubber or related products.

## Article 46

### Annual assessment, estimates and studies

1. The Council shall prepare an annual assessment on the world natural rubber situation and related areas in the light of the information supplied by members and from all relevant intergovernmental and international organizations.

2. At least once in every half year, the Council shall also estimate production, consumption, exports and imports of natural rubber by specific types and grades, if possible, for the following six months. It shall inform the members of these estimates.

3. The Council shall undertake, or make appropriate arrangements to undertake, studies of trends in natural rubber production, consumption, trade, marketing and prices, as well as of the short-term and long-term problems of the world natural rubber economy.

## Article 47

### Annual review

1. The Council shall annually review the operation of this Agreement in the light of the objectives set out in article 1. It shall inform members of the results of the review.

2. The Council may then formulate recommendations to members, and thereafter take measures within its competence to improve the effectiveness of the operation of this Agreement.

## CHAPTER XIII - MISCELLANEOUS

### Article 48

### General obligations and liabilities of members

1. Members shall for the duration of this Agreement use their best endeavours and co-operate to promote the attainment of the objectives of this Agreement and shall not take any action in contradiction to those objectives.

2. Members shall in particular seek to improve the conditions of the natural rubber economy and to encourage the production and use of natural rubber in order to promote the growth and the modernization of the natural rubber economy for the mutual benefit of producers and consumers.

3. Members shall accept as binding all decisions of the Council under this Agreement and will not implement measures which would have the effect of limiting or running counter to those decisions.

4. The liability of members arising from the operation of this Agreement, whether to the Organization or to third parties, shall be limited to the extent of their obligations regarding contributions to the administrative budget and to financing of the Buffer Stock under and in accordance with chapters VII and VIII of this Agreement and any obligations that may be assumed by the Council under article 41.

### Article 49

### Obstacles to trade

1. The Council shall, in accordance with the annual assessment of the world natural rubber situation referred to in article 46, identify any obstacles to the expansion of trade in natural rubber in its raw, semi-processed or modified forms.

2. The Council may, in order to further the purposes of this article, make recommendations to members to seek in appropriate international forums mutually acceptable practical measures designed to remove progressively and, where possible, to eliminate such obstacles. The Council shall periodically examine the results of such recommendations.

### Article 50

### Transportation and market structure of natural rubber

The Council should encourage and facilitate the promotion of reasonable and equitable freight rates and improvements in the transport system, so as to provide regular supplies to markets and to effect savings in the cost of the products marketed.

## Article 51

### Differential and remedial measures

Developing importing members, and least developed countries which are members, whose interests are adversely affected by measures taken under this Agreement may apply to the Council for appropriate differential and remedial measures. The Council shall consider taking such appropriate measures in accordance with paragraphs 3 and 4 of section III of resolution 93 (IV) of the United Nations Conference on Trade and Development.

## Article 52

### Relief from obligations

1. Where it is necessary on account of exceptional circumstances or emergency or *force majeure* not expressly provided for in this Agreement, the Council may, by special vote, relieve a member of an obligation under this Agreement if it is satisfied by an explanation from that member regarding the reasons why the obligation cannot be met.

2. The Council, in granting relief to a member under paragraph 1 of this article, shall state explicitly the terms and conditions on which, and the period for which, the member is relieved of such obligation, and the reasons for which the relief is granted.

## Article 53

### Fair labour standards

Members declare that they will endeavour to maintain labour standards designed to improve the levels of living of workers in their respective natural rubber sectors.

## CHAPTER XIV - COMPLAINTS AND DISPUTES

### Article 54

### Complaints

1. Any complaint that a member has failed to fulfil its obligations under this Agreement shall, at the request of the member making the complaint, be referred to the Council, which, subject to prior consultation with the members concerned, shall take a decision on the matter.

2. Any decision by the Council that a member is in breach of its obligations under this Agreement shall specify the nature of the breach.

3. Whenever the Council, whether as the result of a complaint or otherwise, finds that a member has committed a breach of this Agreement, it may, by special vote, and without prejudice to such other measures as are specifically provided for in other articles of this Agreement:

(a) Suspend that member's voting rights in the Council and, if it deems necessary, suspend any other rights of such member, including those of holding office in the Council or in any committee established under article 18 and of being eligible for membership of such committees, until it has fulfilled its obligations; or

(b) Take action under article 64, if such breach significantly impairs the operation of this Agreement.

### Article 55

### Disputes

1. Any dispute concerning the interpretation or application of this Agreement which is not settled among the members involved shall, at the request of any member party to the dispute, be referred to the Council for decision.

2. In any case where a dispute has been referred to the Council under paragraph 1 of this article, a majority of members holding at least one third of the total votes may require the Council, after discussion, to seek the opinion of an advisory panel constituted under paragraph 3 of this article on the issue in dispute before giving its decision.

3. (a) Unless the Council, by special vote, decides otherwise, the advisory panel shall consist of five persons as follows:

(i) Two persons, one having wide experience in matters of the kind in dispute and the other having legal standing and experience, nominated by the exporting members;
(ii) Two such persons nominated by the importing members; and
(iii) A chairman selected unanimously by the four persons nominated under (i) and (ii) of this subparagraph or, if they fail to agree, by the Chairman of the Council.

(b) Nationals of members and of non-members shall be eligible to serve on the advisory panel.

(c) Persons appointed to the advisory panel shall act in their personal capacities and without instructions from any government.

(d) The expenses of the advisory panel shall be paid by the Organization.

4. The opinion of the advisory panel and the reasons therefor shall be submitted to the Council which, after considering all the relevant information, shall, by special vote, decide the dispute.

## CHAPTER XV - FINAL PROVISIONS

### Article 56

### Signature

This Agreement shall be open for signature at United Nations Headquarters from 1 May to 31 December 1987 inclusive by the Governments invited to the United Nations Conference on Natural Rubber, 1985.

### Article 57

### Depositary

The Secretary-General of the United Nations is hereby designated as the depositary of this Agreement.

### Article 58

### Ratification, acceptance and approval

1. This Agreement shall be subject to ratification, acceptance or approval by the signatory Governments in accordance with their respective constitutional or institutional procedures.

2. Instruments of ratification, acceptance or approval shall be deposited with the depositary not later than 1 January 1989. The Council may, however, grant extensions of time to signatory Governments which have been unable to deposit their instruments by that date.

3. Each Government depositing an instrument of ratification, acceptance or approval shall, at the time of such deposit, declare itself to be an exporting member or an importing member.

### Article 59

### Notification of provisional application

1. A signatory Government which intends to ratify, accept or approve this Agreement, or a Government for which the Council has established conditions for accession but which has not yet been able to deposit its instrument, may at any time notify the depositary that it will fully apply this Agreement provisionally, either when it enters into force in accordance with article 60 or, if it is already in force, at a specified date.

2. Notwithstanding the provisions of paragraph 1 of this article, a Government may provide in its notification of provisional application that it will apply this Agreement only within the limitations of its constitutional and/or legislative procedures. However, such Government shall meet all its financial obligations pertaining to the Administrative Account. The provisional membership of a Government which notifies in this manner shall not exceed 12 months from the provisional entry into force of this Agreement. In case of the need for a call-up of funds for the Buffer Stock Account within the 12-month period, the Council shall decide on the status of a Government holding provisional membership under this paragraph.

## Article 60

### Entry into force

1. This Agreement shall enter into force definitively on 23 October 1987 or on any date thereafter, if by that date Governments accounting for at least 80 per cent of net exports as set out in annex A to this Agreement, and Governments accounting for at least 80 per cent of net imports as set out in annex B to this Agreement, have deposited their instruments of ratification, acceptance, approval or accession, or have assumed full financial commitment to this Agreement.

2. This Agreement shall enter into force provisionally on 23 October 1987, or on any date before 1 January 1989, if Governments accounting for at least 75 per cent of net exports as set out in annex A to this Agreement, and Governments accounting for at least 75 per cent of net imports as set out in annex B to this Agreement, have deposited their instruments of ratification, acceptance or approval, or have notified the depositary under paragraph 1 of article 59 that they will apply this Agreement provisionally and assume full financial commitment to this Agreement. The Agreement shall remain in force provisionally up to a maximum of 12 months, unless it enters into force definitively under paragraph 1 of this article or the Council decides otherwise in accordance with paragraph 4 of this article.

3. If this Agreement does not come into force provisionally under paragraph 2 of this article by 1 January 1989, the Secretary-General of the United Nations shall invite, at the earliest time he considers practicable after that date, the Governments which have deposited instruments of ratification, acceptance or approval or have notified him that they will apply this Agreement provisionally, to meet with a view to recommending whether or not such Governments should take the necessary steps to put this Agreement provisionally or definitively into force among themselves in whole or in part. If no conclusion is reached at this meeting, the Secretary-General of the United Nations may convene such further meetings as he considers appropriate.

4. If the requirements for definitive entry into force of this Agreement under paragraph 1 of this article have not been met within 12 calendar months of the provisional entry into force of this Agreement under paragraph 2 of this article, the Council shall, not later than one month before the end of the 12-month period mentioned above, review the future of this Agreement and, subject to paragraph 1 of this article, by special vote, decide:

(a) To put this Agreement definitively into force among the current members in whole or in part;

(b) To keep this Agreement provisionally in force among the current members in whole or in part for an additional year; or

(c) To renegotiate this Agreement.

If no decision is reached by the Council, this Agreement shall terminate at the expiry of the 12-month period. The Council shall inform the depositary of any decision taken under this paragraph.

5. For any Government that deposits its instrument of ratification, acceptance, approval or accession after the entry into force of this Agreement, it shall enter into force for that Government on the date of such deposit.

6. The Executive Director of the Organization shall convene the first session of the Council as soon as possible after the entry into force of this Agreement.

## Article 61

## Accession

1. This Agreement shall be open for accession by the Government of any State. Accession shall be subject to conditions to be established by the Council, which shall include inter alia a time limit for the deposit of instruments of accession, the number of votes to be held and financial obligations. The Council may, however, grant extensions of time to Governments which are unable to deposit their instruments of accession within the time limit set in the conditions of accession.

2. Accession shall be effected by the deposit of an instrument of accession with the depositary. Instruments of accession shall state that the Government accepts all the conditions established by the Council.

## Article 62

## Amendments

1. The Council may, by special vote, recommend amendments of this Agreement to the members.

2. The Council shall fix a date by which members shall notify the depositary of their acceptance of the amendment.

3. An amendment shall become effective 90 days after the despositary has received notifications of acceptance from members constituting at least two thirds of the exporting members and accounting for at least 85 per cent of the votes of the exporting members, and from members constituting at least two thirds of the importing members and accounting for at least 85 per cent of the votes of the importing members.

4. After the depositary informs the Council that the requirements for the amendment to become effective have been met, and notwithstanding the provisions of paragraph 2 of this article relating to the date fixed by the Council, a member may still notify the depositary of its acceptance of the amendment, provided that such notification is made before the amendment becomes effective.

5. Any member which has not notified its acceptance of an amendment by the date on which such amendment becomes effective shall cease to be a contracting party as from that date, unless such member has satisfied the Council that its acceptance could not be obtained in time owing to difficulties in completing its constitutional or institutional procedures, and the Council decides to extend for that member the period for acceptance of the amendment. Such member shall not be bound by the amendment before it has notified its acceptance thereof.

6. If the requirements for the amendment to become effective have not been met by the date fixed by the Council in accordance with paragraph 2 of this article, the amendment shall be considered withdrawn.

## Article 63

### Withdrawal

1. A member may withdraw from this Agreement at any time after the entry into force of this Agreement by giving notice of withdrawal to the depositary. That member shall simultaneously inform the Council of the action it has taken.

2. One year after its notice is received by the depositary, that member shall cease to be a contracting party to this Agreement.

## Article 64

### Exclusion

If the Council decides that any member is in breach of its obligations under this Agreement and decides further that such breach significantly impairs the operation of this Agreement, it may, by special vote, exclude that member from this Agreement. The Council shall immediately so notify the depositary. One year after the date of the Council's decision, that member shall cease to be a contracting party to this Agreement.

## Article 65

### Settlement of accounts with withdrawing or excluded members or members unable to accept an amendment

1. In accordance with this article, the Council shall determine any settlement of accounts with a member which ceases to be a contracting party to this Agreement owing to:

(a) Non-acceptance of an amendment to this Agreement pursuant to article 62;

(b) Withdrawal from this Agreement pursuant to article 63; or

(c) Exclusion from this Agreement pursuant to article 64.

2. The Council shall retain any contribution paid to the Administrative Account by a member which ceases to be a contracting party to this Agreement.

3. The Council shall refund the share in the Buffer Stock Account in accordance with article 40 to a member which ceases to be a contracting party owing to non-acceptance of an amendment to this Agreement, withdrawal or exclusion, less its share in any surpluses.

(a) Such refund to a member which ceases to be a contracting party owing to non-acceptance of an amendment to this Agreement shall be made one year after the amendment concerned enters into force.

(b) Such refund to a member which withdraws shall be made within 60 days after that member ceases to be a contracting party to this Agreement, unless as a result of this withdrawal the Council decides to terminate this Agreement under paragraph 5 of article 66 prior to such a refund, in which case the provisions of article 40 and paragraph 6 of article 66 shall apply.

(c) Such refund to a member which is excluded shall be made within 60 days after a member ceases to be a contracting party to this Agreement.

4. In the event that the Buffer Stock Account is unable to settle the payment in cash due under subparagraph (a), (b) or (c) of paragraph 3 of this article without either undermining the viability of the Buffer Stock Account or leading to a call-up of additional contributions from members to cover such refunds, payment shall be deferred until the requisite amount of natural rubber in the Buffer Stock can be sold at or above the upper intervention price. In the event that, before the end of the one-year period specified in article 63, the Council informs a withdrawing member that payment will have to be deferred in accordance with this paragraph, the period of one year between notification of intention to withdraw and the actual withdrawal may, if the withdrawing member so wishes, be extended until such time as the Council informs that member that payment of its share can be effected within 60 days.

5. A member which has received an appropriate refund under this article shall not be entitled to any share of the proceeds of liquidation of the Organization. Nor shall such a member be liable for any deficit incurred by the Organization after such refund has been made.

## Article 66

### Duration, extension and termination

1. This Agreement shall remain in force for a period of five years after its entry into force, unless extended under paragraph 3 or terminated under paragraph 4 or paragraph 5 of this article.

2. Before the expiry of the five-year period referred to in paragraph 1 of this article, the Council may, by special vote, decide to renegotiate this Agreement.

3. The Council may, by special vote, extend this Agreement by a period or periods not exceeding two years in all, commencing from the date of expiry of the five-year period specified in paragraph 1 of this article.

4. If a new international natural rubber agreement is negotiated and enters into force during any period of extension of this Agreement pursuant to paragraph 3 of this article, this Agreement, as extended, shall terminate upon the entry into force of the new agreement.

5. The Council may at any time, by special vote, decide to terminate this Agreement with effect from such date as it may determine.

6. Notwithstanding the termination of this Agreement, the Council shall continue in being for a period not exceeding three years to carry out the liquidation of the Organization, including the settlement of accounts, and the disposal of assets in accordance with the provisions of article 40 and subject to relevant decisions to be taken by special vote, and shall have during that period such powers and functions as may be necessary for these purposes.

7. The Council shall notify the depositary of any decision taken under this article.

## Article 67

### Reservations

No reservations may be made with respect to any of the provisions of this Agreement.

IN WITNESS WHEREOF the undersigned, being duly authorized thereto, have affixed their signatures under this Agreement on the dates indicated.

DONE at Geneva, this twentieth day of March, one thousand nine hundred and eighty-seven, the texts of this Agreement in the Arabic, Chinese, English, French, Russian and Spanish languages being equally authentic.

Annex A

Shares of individual exporting countries in total net exports of countries, as established for the purposes of article 60

| | per cent a/ |
|---|---|
| Bolivia | 0.063 |
| Burma | 0.381 |
| Cameroon | 0.494 |
| Côte d'Ivoire | 0.887 |
| Ghana | 0.009 |
| Guatemala | 0.273 |
| Indonesia | 27.363 |
| Liberia | 2.304 |
| Malaysia | 44.361 |
| Nigeria | 0.827 |
| Papua New Guinea | 0.107 |
| Philippines | 0.241 |
| Sri Lanka | 3.842 |
| Thailand | 17.253 |
| Viet Nam | 1.141 |
| Zaire | 0.454 |
| Total | 100.000 |

a/ Shares are percentages of total net exports of natural rubber in the five-year period 1981 to 1985.

Annex B

Shares of individual importing countries and groups of countries in total net imports of countries, as established for the purposes of article 60

| | per cent a/ |
|---|---|
| Argentina | 0.936 |
| Australia | 1.146 |
| Austria | 0.872 |
| Brazil | 1.732 |
| Bulgaria | 0.521 |
| Canada | 3.344 |
| China | 6.996 |
| Costa Rica | 0.076 |
| Czechoslovakia | 1.604 |
| Egypt | 0.274 |
| European Economic Community | 25.771 |
| Belgium-Luxembourg | 1.209 |
| Denmark | 0.123 |
| France | 5.257 |
| Germany, Federal Republic of | 6.480 |
| Greece | 0.299 |
| Ireland | 0.168 |
| Italy | 4.130 |
| Netherlands | 0.442 |
| Portugal | 0.343 |
| Spain | 3.251 |
| United Kingdom of Great Britain and Northern Ireland | 4.069 |
| Finland | 0.267 |
| India | 1.092 |
| Iraq | 0.077 |
| Jamaica | 0.023 |
| Japan | 17.540 |
| Madagascar | 0.000 |
| Malta | 0.000 |
| Mexico | 1.782 |
| Morocco | 0.195 |
| New Zealand | 0.222 |
| Norway | 0.110 |
| Panama | 0.030 |
| Poland | 1.735 |
| Romania | 1.472 |
| Sweden | 0.422 |
| Switzerland | 0.095 |
| Union of Soviet Socialist Republics | 6.821 |
| United States of America | 24.420 |
| Venezuela | 0.425 |
| Total | 100.000 |

a/ Shares are percentages of total net imports of natural rubber in the three-year period 1983, 1984 and 1985.

Annex C

Cost of the Buffer Stock as estimated by the President of the United Nations Conference on Natural Rubber, 1985

Based on the actual cost of acquiring and operating the existing Buffer Stock of roughly 360,000 tonnes from 1982 until March 1987, the cost of acquiring and operating a Buffer Stock of 550,000 tonnes might be calculated by multiplying this figure by the lower trigger action price of 161 Malaysian/Singapore cents per kilogramme and adding a further 30 per cent thereof.