February 15, 1966

JT/SvW/G135

Mr. Perce R. Judd,
Director, Commodities Division,
UNITED NATIONS, Conference on
Trade and Development,
New York N.Y. 10027.

Dear Mr. Judd,

In reply to your request during our telephone conversation yesterday-morning, I am sending you some results of three calculations regarding the effect of buffer stocks. All of them assume that since 1950 there would have been a buffer stock authority buying cocoa whenever the price falls below the critical price and selling if it rises beyond that price.

Case 1 takes as the critical price the trend values of observed prices in the past.
Case 2 takes as the critical price the trend until it fell to $ 530 per ton and than maintains that price.
Case 3 takes $ 600 instead of 530.

For each case we calculated
(a) the stock for each year since 1950,
(b) the costs of buying additions to stock (minus selling out of stock) and the cost of handling these additions and of the maintenance of the stock,
(c) the total amount immobilized since 1950 if the buffer stock had been in existence all the time.

It seems to me that carrying a reserve stock (the new suggestion made) would in principle have consequences similar to cases 2 or 3 depending on what price had been taken as the critical one. Depending also on how much the consuming countries are willing to finance, a price could have been maintained somewhere between the lowest price observed and the ones taken for exercises 2 and 3.

The effects of an export levy can be calculated along different lines. If you want us to do so I would like to have a slightly more specific indication about the assumptions to be made.

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Mr. Perce R. Judd,
UNITED NATIONS,
New York.

I hope these provisional results give you some idea as to what we can do in the field of buffer stocks within the next few months, also for some more commodities.

Yours sincerely,
NETHERLANDS ECONOMIC INSTITUTE
Division of Balanced International Growth

J. Tinbergen

Prof. J. Tinbergen.

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