

Commodities Trade, Poverty Alleviation and Sustainable Development

The Re-emerging Debate

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Author's Note:

Views presented in this paper are those of the author and not necessarily those of the Common Fund for Commodities.

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Summary

In the face of worldwide prosperity many of the poorest countries have continued to grow poorer. Among the explanations is the dependence of most of them on a narrow range of primary commodities for their export revenues. This paper explores the connections and asks what, if anything, can be done about this as part of a wider strategy of poverty reduction.

Despite some cyclical recovery over the last year or so, prices of commodities on world markets have in recent years been at all-time lows. Real commodity prices have declined since the late 1970s at an average rate of around 3 per cent a year.

Mineral prices fell especially sharply after 1990, accompanied by a decline in actual exports by the poorest countries. Among tropical beverages, a particularly sharp fall in prices reflects persistent international surpluses. Production of cocoa exceeded consumption by 20 per cent or more in several years. Surpluses lie behind long-term declines in price in many other agricultural commodities too.

The commodities crisis, with its devastating impact on poor people's lives, can largely be attributed to international policies and practices and the inattention given to commodities in influential quarters over recent years. Where policies have been recently proposed to address the issue, it has been done timidly and they have mostly concerned developing countries' own domestic policies. If the core problem lies in global markets, that approach can do no more than ameliorate it; it will not solve it.

Price issues

It was recognised long ago that the commodity markets have inherent features which inhibit them from performing their economic function properly. Price volatility, time-lags, deteriorating terms of trade and market concentrations can prevent demand, supply and price signals from interacting with any degree of efficiency.

Five areas of price problems that need to be addressed are described below.

- Prices tend to fluctuate sharply over both the short and medium terms.
- Over the long term there is a trend - first identified as long ago as the 1940s - for commodity prices to decline vis-à-vis manufactures and other prices.
- In recent years farmers have received a declining share of final prices, as a result of high levels of market concentration in agricultural processing and distribution further down the value chain.
- In consequence of falling export prices, the terms of trade of commodity-dependent developing countries have deteriorated markedly.
- In the background lies a "fallacy of composition," as developing countries were widely encouraged to concentrate on commodity export products: this led to higher production overall, resulting in global surpluses and a reduction in world prices.

Policy measures

Numerous policy measures have been advocated to deal with the commodities crisis. This paper favours those listed below, although without necessarily excluding others which are not mentioned.

- The underlying problems justify a reconsideration of market intervention, including modified versions of forms employed in the past. In particular the use of supply management should be pragmatically re-examined, with a view to what has been shown to work in the past and what has not. Where reintroduced, supply management should take more varied forms than the international commodity agreements of the past. Controls on actual production are seen as potentially more effective than the manipulation of exports or stocks.
- An expansion to more producers in developing countries of price insurance facilities using futures markets may have some role to play.
- A development-friendly outcome to the Doha Round of negotiations at the World Trade Organisation is essential to enable the commodities trade to serve the needs of the poorest people. In particular, tariff escalation and developed countries' agricultural price supports and subsidies, especially export subsidies, need to be attended to, while the WTO should also directly address issues relating to the commodity markets.
- On global markets competition policy should have a global basis. In view of the "value chain" problem, this appears to be an indispensable part of the solution to the commodities crisis. This is not the same as recent proposals under the heading of competition policy at the WTO.
- Shortfalls in export earnings should be attended to by a revamped system of compensatory finance to the poorest countries from the international community. It should be made easy to use, quick-disbursing, based on known, automatic rules without policy conditions, and passed through to actual producers and consumers.
- In commodity-dependent developing countries' domestic policy, the first requirement is to establish strategies for trade overall and commodity sectors in particular, and include those strategies in overarching policy documents such as Poverty Reduction Strategy Papers.
- Lessons should be learnt from any recent cases where developing countries have succeeded in using a commodity export basis to stimulate broader development. National cases cited are Malaysia and Botswana.
- Diversification has been widely promoted as a leading solution to the commodities crisis, and consideration should be given to the proposal for an international fund to support both horizontal and vertical diversification. Besides further processing of agricultural crops and minerals, vertical diversification strategies to pursue include higher value-added "niche" markets such as those for fair-trade, organic and other environmentally favourable forms of produce.

Constraints

The policy measures proposed above face formidable constraints which will inhibit their effective implementation. All of these need to be addressed too; removal of

them could prove more effective in resolving the crisis than most of the the measures themselves.

- In agricultural commodities, the priority given by foreign donors over recent decades to export orientation is seen to have led poor countries into a downward economic spiral, partly due to the fallacy of composition, mentioned above. In view of deteriorating terms of trade and the nutrition problems of the most commodity-dependent developing countries, food security is seen as a better goal on which to base policies for poverty reduction and, probably, overall development.
- Blanket trade liberalisation has hampered the prospects of many farmers, especially where it eases foreign entry to food markets in the most vulnerable developing economies. A more nuanced approach is needed, finding a mix of policies that is appropriate to each particular case.
- Supply management is inherently complicated in both technical and political respects, although the depth of the price crisis suggests that these are no longer adequate reasons to dismiss it out of hand.
- Wider access to futures markets will only provide insurance against short-term price fluctuations, and then for individual clients rather than a market as a whole. It will not remove price fluctuations themselves or overcome other price problems.
- Both vertical and horizontal diversification is seriously hampered by rich countries' border protection and numerous other barriers to market entry.
- Among the most serious of these are agricultural subsidies, especially export subsidies but also any others that enable exports at below-cost prices or reduce world prices. This affects developing countries' exports to third countries and trade within their own borders as much as market access in the countries which use the subsidies.
- The trade preferences provided by some of the most powerful developed countries can be very selective and fail to adequately assist the very poorest countries. Most of the latter depend on exports of commodities in which the free market faces the fewest barriers but prices have fallen the furthest.
- Experience shows that successful commodity diversification is very hard to achieve, and much depends on getting it right locally. In the least developed countries the recent trend has been away from vertical diversification. In the face of such constraints it is important to identify all feasible means along the supply chain to diversify commodities production.
- By their nature, niche product markets will only favour a limited number of producers, and not solve the crisis on the mass markets.

Part 1 The Situation in 2004

i. Introduction

In the face of growing worldwide prosperity many of the poorest countries have continued to grow poorer, a substantial number of them over the last 20 years or more as a whole. Numerous reasons are advanced for this. Some people see the main problem as lying in processes of governance or other internal features of the countries. In many cases there will be truth in this. But there are also clearly identifiable external factors. Among the most telling is a widespread dependence on primary commodities for export revenues. Despite some cyclical recovery over the last year or so (much of it an accounting effect due to the decline of the U.S. dollar), prices of commodities on world markets have in recent years been at all-time lows in real terms. This paper will explore what connections there may be in this combination of circumstances and what, if anything, can be done about it as part of a wider strategy of poverty reduction.

It should be stated at the start that little of this paper's argument will be entirely new. The set of problems has been known since the 1950s at least; in recent years it has tended to be neglected, but not resolved. In earlier years the trade in commodities was universally understood as a fundamental issue of development. Yet throughout the 1980s and 1990s it was widely ignored as foreign debts and market-oriented reforms took centre-stage. The Millennium Development Goals adopted in 2000 do not even mention commodities or related issues.

There are grounds for thinking that this very neglect - however benign its intent - may have seriously exacerbated the problem. Given the gravity of the current crisis in commodity prices, a change in mood can now be detected and numerous initiatives have been launched. They may have yielded little yet by way of significant policy change, but at least the question is being addressed. It is above all fitting to examine it at a conference of the Common Fund for Commodities held in the wings of an UNCTAD conference in one of the world's leading commodity-exporting countries.

Structure of this paper

This paper is divided into three parts. The first part describes the situation at the time of writing in 2004, with data on world poverty, price and supply on leading commodity markets of interest to the developing world, and some indications of the links between the two. The nature of those links is explored in Part 2, first with a discussion of the history of thinking and policy on commodities and development, and then an extended analysis of the present situation in the light of that history. The third part discusses the various policy solutions which have been proposed to improve the situation of the poorest people in response to this crisis.

ii. Commodities, Poverty and Development

Recent incomes data

It is a controversial question whether the number of poor people in the world has increased or decreased in recent years. It is said that the rapid growth of the

Chinese and Indian economies has reduced the total numbers in absolute poverty. However, others doubt the statistical basis on which this claim is founded.¹ But whatever the extent of poverty within those two countries, neither of them is now among the very poorest or most underdeveloped in the world.

For those countries which are among the poorest, the picture is not reassuring. The U.N. Development Programme's annual *Human Development Report* shows strikingly different patterns for countries at either end of its Human Development Index (HDI) list. It shows that the developed world has been growing consistently richer: in 25 of the 30 countries with the highest human development indicators, gross domestic product per capita, offset for the different purchasing powers of currencies by the "purchasing power parity" (PPP) method and for inflation, reached its highest point in the latest year shown (2001). In the other five, it was in the year before that. (See Table 1 on p. 28 of this paper for details.)

That fact will surprise few people. However, even to those given to pessimism about trends in the poorest countries, the pattern at the other end of the scale can come as quite a shock. In only seven of the 30 countries with the lowest HDI scores did real GDP per capita reach its peak in 2001, while in 11 it was *before 1980*. In two (Madagascar and the Democratic Republic of the Congo) the most prosperous year was the very first in the series, nearly three decades ago today. The Congo's real GDP per capita fell by 76 per cent over the 26 years starting in 1975.²

Now, over that time many of those 30 countries have achieved impressive advances in other aspects of human development, according to the UNDP's data. But in the central area of poverty and incomes, the contrast between steady economic growth in the most advanced countries and stagnation or decline in three-quarters of the least advanced ones should give serious pause for thought. What development policies were advocated over that period? Were they appropriate? We need to examine those policies and draw lessons from them, for in this central area for development there would seem to be serious reason to doubt how effective they were.

Trade in commodities and the poorest countries

Table 1 illustrates the links between international poverty and a country's trading pattern, especially the nature of its exports. The recent collapse of many commodity prices has given rise to a new category, the "commodity-dependent developing countries" (CDDCs). Used in a recent paper by the European Commission which referred specifically to agricultural commodities,³ it means those developing countries in which at least 20 per cent of total exports are taken up by no more than three such products. Of the 30 countries with the lowest HDI indicators in 2001, 26 were among either the 54 agricultural CDDCs identified by the European Commission or the 25 most mineral-dependent or 25 most oil-dependent countries in the world.⁴ They included the country (Burundi) which was at the top of the list of agricultural CDDCs, the second and third most mineral-dependent countries (Sierra Leone and Zambia respectively) and the most oil-dependent (Angola).

By contrast, in countries at the top of the HDI list the share of primary products in exports is generally much lower, falling below 10 per cent in Japan, Ireland, Germany and a few others. Interestingly, this ratio is high (between 65 and 86 per cent) in three of the four countries with the highest HDI ratings. Two of these (Norway and Australia) export mostly minerals or oil. However, they are low down the lists of mineral and oil dependence, which measure the ratio of such exports to

GDP, which in their cases is much more broadly based than among the least developed countries.

Two columns which were intended for Table 1 were eventually removed, since they applied almost universally among the 30 countries at the bottom of the HDI list. Firstly, they are all classified as least developed countries (LDCs); no doubt it would be surprising if that were not the case. The second removal is more revealing: all except the Yemen are among the 64 which the U.N. Food & Agriculture Organisation classifies as “low-income food-deficit countries:” they import food to a greater nutritional value than the food they export. The implications of this will become apparent later.

Price collapse

Since the 1970s the international prices of commodities exported by developing countries have declined, in many case sharply. Numerous series of figures demonstrate this. Table 4 quotes data from UNCTAD⁵ which indicate that over the 24 years from 1977 to 2001, prices declined for 41 out of 46 leading commodities, after adjustment for general inflation. The real dollar price of cocoa fell by as much as 6.9 per cent per year over the length of those 24 years; that of tin, by 7.5 per cent. The average decline (expressed in U.S. dollars) was 2.8 per cent per year; it was even higher - at 3.7 per cent per year - when expressed in the IMF's Special Drawing Rights (SDRs), which are more representative of countries around the world as they are based on an average of numerous currencies' values.

According to the World Bank, between 1990 and 2003 the prices of non-energy commodities fell by 8.5 per cent overall for low- and middle-income countries (which more or less means developing countries). Prices of agricultural commodities fell by 5.3 per cent and those of minerals by 18.0 per cent (see Table 3). The particularly severe blows felt by mineral-dependent countries will be discussed on pp. 11-13. It should, however, be noted that there has been some recovery in minerals prices since 2002, at least when quoted in U.S. dollars - to a greater extent than in agricultural commodities.

The biggest gain over 1990-2003 was of 26.3 per cent in energy prices - which largely reflects today's high oil price. But over a longer period, UNCTAD's data show crude petroleum prices sharing in the wider decline from 1977 to 2001, falling on average by 3.4 per cent per year over that period.

Yet more evidence is found in a recent book which studied tropical agricultural products.⁶ It shows that the international prices of 12 such products fell from 1980 to 2002 by between 50 per cent and 86 per cent, after accounting for inflation. The greatest fall was in coffee, which has the largest market among them and is produced in more than 70 developing countries. The 2002 coffee price, adjusted for inflation, was just 14.2 per cent of that of 1980. The study calculated that in 2002 developing countries would have earned US\$243bn more if the real prices of 10 of those products⁷ had remained as high as in 1980. That is almost five times the world's annual aid budget.

It is not only farmers and mineworkers in developing countries that suffer from the collapse in commodity prices. Agriculture is in crisis in much of the rich world too; in the United Kingdom, where farms are highly capitalised and among the largest in Europe, the average farmer's income has fallen to half the national average wage. There are several reasons for this, but among them is a chronic oversupply of many crops. The particularly sharp fall of prices in tropical beverages (cocoa, coffee and tea), which we see in Table 4, reflects persistent international surpluses over many

years. (This is amplified in Table 2.) Production of cocoa exceeded consumption by 20 per cent or more in each of the years 1990, 1995 and 1996, while the coffee surplus in 2000 was also more than 17 per cent.

Commodity dependence and Africa

As we have seen, the countries with the lowest human development indicators are in general extremely dependent on exporting primary goods; in 16 of the 20 countries right at the bottom of the UNDP's table they account for more than 70 per cent of exports, according to the data in Table 1. Two further common features deserve some comment. The first is that every one of the 25 countries with the lowest HDI is in continental Africa (the 26th, 27th and 28th being Haiti, Madagascar and the Yemen respectively). There is much discussion of the particular difficulties of that continent, and it could be said that the set of problems discussed in this paper are typically African. However, it is not our task to look for "African" explanations. After all, the problem of commodity dependence applies to very many developing countries; the differences are matters of degree and, as we shall see, to a certain extent of kind. This paper will examine the economic aspects of the commodities trade and poverty, not those ascribed to any other factors; and they can apply whichever continent a commodity-dependent country may be in.

A corollary of this is to see if Africa's difficulties arise from that continent's economic characteristics. It may be observed in Table 1 that 11 of the 18 countries with the lowest human development scores are landlocked, while only three of the 30 with the highest scores are. Many countries with very low GDP per capita on other continents are also landlocked, for example Kyrgyzstan, Laos, Moldova, Mongolia, Nepal and Tajikistan. Others, such as the Solomon Islands, are remote. Many African countries are quite small in population, as are all of the seven just named on other continents. The problems of commodity dependence and poverty may arise as much as anything from distance from world markets and a lack of economies of scale; those just happen to be characteristics of many African countries,⁸ setting them apart from vast, populous countries like China and India.

Secondly, if a similar list to Table 1 were to be drawn up on the basis of GDP per capita alone (whether on a PPP basis or not), the 30 poorest countries would come from a wider geographical range: in unadjusted dollar GDP per capita, for example, the countries added to it would include Bangladesh and Moldova, while on a PPP basis they would include Tajikistan and Laos. However, the indicators show that the countries joining the list on that basis are less commodity-dependent than the 30 at the bottom of the human development list. The latter relies on a composite calculation which takes life expectancy and education into account as well as GDP per capita (on a PPP basis). Certain countries with low GDP per capita, such as Tajikistan and Laos, perform better in life expectancy and education than in GDP, and therefore achieve higher scores in human development all told.

This suggests that commodity export dependence has an even closer association with low life expectancy and low educational attainments than with low national incomes. At first sight this seems paradoxical since both commodity dependence and GDP are economic concepts while the others are not. However, a high level of dependency on commodities is a sign of low economic development in general since it indicates a lack of both economic diversity and more complex forms of activity. So perhaps it is less surprising if it is associated with other indicators of generally low development. This paper will not pursue that line of inquiry further, but it would seem a worthwhile topic for further research.

Part 2 Why the Commodities Crisis?

i. Commodities in Development Thinking

Prebisch/Singer and the origins of development economics

One of the oldest theories in development economics is the “Prebisch/Singer Hypothesis,” named after two economists who originated it simultaneously in the late 1940s. Writing after the deflation and depression of the 1930s, Raúl Prebisch and Hans Singer both theorised that there was a long-term tendency for the prices of primary commodities to fall in relation to those for manufactured products. If true, this was bad news for countries which export primary products and import manufactures since it means their terms of trade will also tend to decline, requiring greater amounts of the first to be exported over time in order to import a given amount of the second. Insofar as developing countries are exporters of primary commodities and importers of manufactures, this would pose a clear problem for development and increase the importance for them of diversifying into other sectors of activity.

This theory has always been controversial. In verifying its predictions, much depends on the beginning- and end-years chosen for a price series. Thus, if one starts in 1950 during the Korean War and ends in the mid-1980s, the results would appear to support Prebisch and Singer’s idea; but if you go from the mid-1950s to the mid-1970s, the price trend would probably be rising. It is a measure of the decline in commodity prices since the 1980s that the Prebisch/Singer Hypothesis is not only still current, but has become more widely accepted as reflecting the evidence. However, controversy still surrounds how to explain the phenomenon and what it means for development policy.

Commodity policies from the Depression to the NIEO

The last great collapse in commodity prices, during the 1930s Depression, led to major innovations in policy. The government of Brazil - then, as now, the leading coffee-producing country - purchased coffee to burn it in order to sustain international prices.⁹ The first international agreements to manage supplies on commodity markets were made in that decade and J.M. Keynes argued for the stabilising economic influence of international buffer stocks in the run-up to the Bretton Woods conference in 1944.¹⁰ This is related to his ideas about countercyclical fiscal policy. Such ideas were supported at Bretton Woods by various Latin American countries as well as Iraq, and the United Nations’ Havana Charter in 1948 resolved to establish an International Trade Organisation, which, among other things, would oversee programmes to stabilise commodity prices.¹¹

The ITO was stillborn when the U.S. failed to ratify it. However, the U.N. oversaw the introduction of price-stabilising supply-management agreements in coffee, sugar, tin and wheat during the 1950s and 1960s, while the Commonwealth Sugar Agreement of 1951 guaranteed prices for raw cane sugar imported to the U.K. from some of its colonies and fellow Commonwealth members. By the early 1960s the idea of stabilising commodity prices was spreading, with a view to providing more secure incomes for exporter countries and predictable prices for the importers. The International Coffee Agreement was established in 1963 and the first U.N. Conference on Trade and Development (UNCTAD) took place a year later, to become a permanent organisation with Raúl Prebisch as its first Secretary-General.

The continuing frustration of developing countries over their weak trading position later led to negotiations to establish a “New International Economic Order,” as mandated by the U.N. General Assembly in 1974. At its heart would lie an Integrated Programme for Commodities (IPC) including international commodity agreements between producer and consumer countries (ICAs) on 18 markets, aiming both to stabilise prices on the markets and make them “more remunerative” for the exporters. This programme would be financed by a newly created Common Fund for Commodities.¹²

The CFC was eventually established in 1989, but without the access to finance required to support such a range of ICAs as originally envisaged. Price-stabilisation activities carried out under its “First Account” use market-based instruments rather than market intervention. Other activities vital for commodity producers are supported under a “Second Account,” with the aim of improving the structural conditions in markets and enhancing the long-term competitiveness and prospects of particular commodities.¹³

“Getting the prices right” and the collapse of the ICAs

The economic situation of developing countries meanwhile suffered a sharp downturn in the early 1980s, and with it the strength of their negotiating position with the developed world. After the heady days for other primary commodity exporters of OPEC’s oil price rises of 1973 and 1979 came the International Debt Crisis, starting with Mexico’s moratorium on foreign debt repayments in 1982. Developing countries became supplicants requesting better repayment terms, a necessary requirement for which was to reach financing agreements with the IMF. These were only forthcoming on stringent policy conditions.

The World Bank in turn rethought its lending criteria, deciding that the economic difficulties of developing countries were the consequence of inward-looking strategies which obstructed market processes. The Bank launched a programme of “structural adjustment” with the slogan of “getting the prices right:” domestic prices for goods and services should be in line with international prices and as close as possible to those obtained under free market competition. The widespread strategy of “import-substituting industrialisation,” often conducted behind high tariff barriers, was to be replaced by “export orientation.” Developing countries’ markets would be opened up for imports to enter, giving the necessary discipline for them to develop their economies in close alignment with international markets and thereby become internationally competitive. This meant giving priority to earning foreign exchange through exports, rather than substituting domestic production for imports as under the previous doctrine.

The economic impact of trade liberalisation of this sort has been widely researched and almost as widely disputed. On its impact on poverty UNCTAD has argued:

For the least developed countries, available evidence shows that trade liberalization has so far not been closely associated with poverty reduction... Poverty is increasing unambiguously in those economies that have adopted the most open trade regime and in those that have continued with the most closed trade regime. But in between these extremes, there is a tendency for poverty to be declining in those countries that have liberalized their trade regime to a lesser extent, and for poverty to be increasing in those countries that have liberalized their trade regime more.¹⁴

This would seem to support a careful pragmatism, applying a mix of trade policies that is appropriate to a country's circumstances, without any doctrinaire insistence.

The evidence on specific aspects of trade liberalisation policies within developing countries also points in various directions. In the field of agricultural commodity exports, the policy was felt keenly in a wave of abolitions of national export marketing boards, which were criticised in the 1980s for, in effect, taxing the producers of export crops as they did not pass on full value of the export price to them. There is evidence from many countries that after they went, the prices received by farmers did increase as a proportion of the export price. In the case of coffee, this can be checked from data on the International Coffee Organisation (ICO)'s website (www.ico.org). On the other hand, the marketing boards provided other necessary benefits to farmers such as credit, inputs and extension advice, and on the price side, they mobilised a country's market power in selling the crop internationally. In their place there frequently arose an institutional vacuum.

Meanwhile the worldwide economic downturn, itself a proximate cause of the Debt Crisis, led to great weakness on commodity markets. With demand in industrial countries falling, stocks built up and prices fell. Even purely commercial supply management arrangements were affected: in 1984 world aluminium prices ceased to be based on the fixed price of the largest aluminium-producing company, Alcan, and the recently launched contract in aluminium of the London Metal Exchange became the price basis instead.¹⁵ By 1985 even the International Tin Agreement, the doyen of commodity agreements, reached collapse as its buffer stock operations were pushed beyond the financial limits allowed. The underlying causes were overoptimism in the price ranges agreed under the Sixth ITA in 1992, coinciding with the same shortfall in demand as in other commodities.¹⁶ By the 1990s there was almost no concerted international intervention in minerals or tropical commodities left since consumer countries, led by the United States, withdrew from price-intervention and supply-management clauses one after the other.¹⁷

Meanwhile, in 1986 a new round of negotiations to revise the General Agreement on Tariffs and Trade began in the Uruguayan town of Punta del Este. Nine years later, in 1995, it led to a great expansion of universal rules on international trade with the formation of the World Trade Organisation, encompassing more than a dozen new international agreements alongside the GATT. Many developing countries which had never previously been involved with the GATT were persuaded to join. Unlike the Havana Charter, the newly formed WTO had nothing to say about the commodities trade; but its guiding philosophy of economic liberalism strongly inhibited any thought of large-scale market intervention.

ii. Markets and Crisis

Terms of trade make a reappearance

Since the start of the new millennium interest in the commodities problem has re-emerged, in the wake of the collapse in prices. It is already becoming apparent that the last 20 years, when the question was largely ignored, were an anomalous period in recent times. There is irony in the fact that this was just the period when the prices of primary commodities exported by developing countries fell to their lowest ever level in relation to other products. We saw in the previous section that over the last quarter-century real commodity prices have declined at

an average rate of around 3 per cent a year. This has had a devastating impact on the economics of dozens of developing countries, especially the poorest and those with the weakest development indicators. The macroeconomic impact is spelt out in the report of a group of “eminent persons” called to discuss the issue by UNCTAD in September 2003:

*When principal petroleum and manufactured goods exporters are excluded, the terms of trade of developing countries have declined by more than 20 per cent since 1980. For African countries, which comprise the most commodity-dependent group, the decline is more than 25 per cent.*¹⁸

In other words, the prices of Africa’s exports have fallen by more than one-quarter in relation to its import prices: a change in the ratio from 100:100 to less than 75:100. As a result, African countries must increase the volume of their exports by *more than one-third* if they want again to import as much as they did in 1980. We are back to Prebisch and Singer and their analysis of the commodities crisis of the 1930s.

In another recent report UNCTAD explained what this means for the “real” economy of physical output and sales:

*The volume of commodity exports from LDCs increased by 43 per cent between 1986 and 1999... But the [nominal] value of LDC commodity exports increased by only 26 per cent over this period, and the purchasing power of commodity exports increased by only 3 per cent between 1986 and 1999.*¹⁹

Put at its simplest, in recent years the poorest countries have had to run ever faster in order to stay where they are.

Minerals and extractive industries

Since the 1980s debates on the meaning of commodities for development have not disappeared but they changed in focus. Where the emphasis had been on the markets themselves, and how prices affect developing countries’ export revenues, the creation of the Agreement on Agriculture in the WTO led to an interest in the rules governing trade, including agricultural subsidies as well as tariffs, and especially their impact on smallholder farmers and landless rural people. Concerns about minerals turned to the ecological and social impact of their production in developing countries; that debate came to have much in common with that on other large projects such as dams. Where previously there was a single debate about trade in both agricultural and mineral commodities, these now diverged.

Oil and mining companies have a great deal more choice which mines or oilfields to invest in and develop than in agriculture, and in recent years their judgments of costs and risks have made them noticeably less willing to operate in the poorest countries. It is partly for this reason that the mining sector is a less important part of poor countries’ economies than it used to be. That in itself has been an important creator of poverty in countries that used to depend on such industries. By the late 1990s, among six categories of LDCs by export specialisation, mineral exporters showed the highest incidences of poverty, with 82 per cent of the people living in 1997-99 on less than US\$1 a day and 94 per cent on less than US\$2 a day. In 1981-83 the respective figures in mineral-exporting LDCs had been 61 per cent and 87 per cent.²⁰ Among the six categories of LDCs, the mineral exporters were the only countries in which real exports actually declined between the 1980s and the 1990s, at a rate of 1.9 per cent per year. Among agricultural exporters, by contrast, real exports expanded at 6.3 per cent per year.²¹

To cite one major market, among developing countries it is Chile that came to dominate copper mining in recent years while other, poorer but equally long-established mining countries such as Zambia and the Congo were eclipsed. While Chile increased its share of an expanding world copper market from 13 per cent in 1978 to 29 per cent in 1997, Africa's mine production of the metal fell by 52 per cent in the same period. In 1960, Africa was the second continent for copper mine production after North America; by 1997, it was equal fifth with Oceania, a long way behind North and South America, Asia and even Europe.²²

This largely explains why the recent debate on commodities has centred on agricultural crops, while minerals are studied alongside oil, coal and other energy sources as "extractive industries." However, the decline in both production and prices of export metals and minerals explains many of the recent difficulties of countries traditionally dependent on them; Zambia, for example, fell into a spiral of economic decline earlier than agricultural exporters, since it was mistakenly assumed on its independence in 1964 that copper would continue to provide a reliable source of foreign exchange and a basis for development.

A recent report from Oxfam America argued:

*In the 1940s, 1950s, and 1960s, many economists believed that developing states could prosper by extracting and exploiting their oil and mineral wealth. Fifty years of development experience has refuted this belief. States that depend on oil and mineral exports are among the most troubled states in the world today: they suffer from exceptionally slow rates of economic growth; their governments tend to be weak and undemocratic; and they more frequently suffer from civil wars than resource-poor states.*²³

Moreover,

*Our study finds a strong negative correlation between a country's level of mineral dependence and its HDI ranking: the more that states rely on exporting minerals, the worse their standard of living is likely to be.*²⁴
(Emphasis in the original.)

Minerals investments generally produce only limited opportunities for the poor, in themselves they do nothing to improve health care, nutrition or education, they tend to increase economic inequality and make a country more vulnerable to economic shocks, including those to the terms of trade. Oxfam America's report also argues that the oil, gas and minerals industries can have harmful effects on government accountability and responsiveness. These are complex issues and considerable judgment must go into forming any view on them. However, the widespread occurrence of such problems in oil-producing countries is widely accepted; given the similarities with oil in many other minerals operations, it would not be surprising to find the same in those cases, and the experience of several poor mineral-dependent countries would seem to bear it out.

However that may be, the frequent adverse impact of minerals operations on the environment should also be borne in mind.

There is also the phenomenon of "Dutch disease," in which a flurry of foreign investment or export income arising from minerals exploitation can force up the value of a country's currency, leading to the stagnation or decline of other sectors of the economy. Although minerals projects are themselves industrial, they tend to operate as separate enclaves in a country, giving little to development other than foreign exchange income and some employment; the larger the mine, the more likely that is to be the case. Hence they can be even less successful at

generating wider development than agricultural commodities. As an example of what can happen with enclave projects in adverse circumstances, the vast opencast Panguna copper and gold mine on the island of Bougainville in Papua-New Guinea, controlled by the Rio Tinto company, became the focus of separatist activism in the 1980s. Its installations were eventually burnt by local people and the mine was closed in 1989.²⁵

Vertical diversification through mining is also hampered by rich countries' industrial protection. Nowadays that mainly takes the form of "tariff escalation," according to which the more highly processed a product is, the higher the import tariff a developed country will impose on it. This gives an incentive to producers in a developing country to limit their operations to the basic commodity while further processing and manufacturing are done in the developed-country markets. This can also apply to agricultural commodities such as cocoa and rubber, but because of their industrial nature it is more pervasive in minerals.

The Export Orientation trap

Nearly 20 years ago, in the early days of the World Bank's structural adjustment policy, economists warned of a "fallacy of composition" or "adding-up problem" in the new mantra of export-led growth. One country facing balance of payments difficulties could do well out of advice to export more of its main traded product. However, if the same advice was heeded simultaneously by several countries on the same market, it would get flooded with supplies and the price could collapse. The severity and rapidity of that collapse would vary only with the elasticity of demand. If demand is inelastic, or other negative factors intervene along the supply chain, exporters' total earnings on a market will fall even as export volumes increase.

This is precisely what happened in several cases. Thus, while the total volume of coffee exports increased from 3.7m tonnes in 1980 to 5.9m tonnes in 2000, their total value declined from US\$12.5bn to US\$10.2bn. Likewise in cocoa: export volumes increased over the same period from 1.1m tonnes to 2.5m tonnes but, with persistent production surpluses, they fell in value from \$2.8bn to \$2.5bn.²⁶ According to UNCTAD, "World Bank research has shown that this adding-up problem (or fallacy of composition) affects a number of agricultural commodities, notably bananas, cocoa, coffee, cotton, tea and tobacco... These commodities constituted 42 per cent of the total non-fuel primary commodity exports of LDCs in 1997-1999."²⁷

This explains the decline in the poorest countries' terms of trade. It is especially problematic when we recall that 29 of the 30 countries with lowest HDI are food-deficit countries,²⁸ importing more food than they export. If a country relies on agricultural commodities for its export revenue and that revenue is falling, what should it do to maintain a given level of imports and also pay off its debts? Should it increase those exports further? With prices already falling, its farmers probably cannot afford the extra inputs necessary to generate higher yields; in countries like Ethiopia and Tanzania, for example, coffee farmers do not apply any chemicals to their coffee trees in any case. But in that case, the only alternative may be to plant more of that crop. That will take up land which could otherwise grow food for domestic consumption (including the farmer's own); in which case, either food imports must also increase (possibly at a greater cost in foreign exchange than the added exports will generate) or food shortages and malnutrition will rise instead. We see in the third column of Table 1 the present extent of malnutrition in the poorest CDDCs.

The greater priority given by foreign donors in recent years to export orientation than food security has led many poor countries directly into that trap. This explains much of the downward economic spiral which is evident in Table 1. This looks all too like a new form of beggar-my-neighbour policies - with the added twist that the country pursuing them is beggared too. Faced with a similar dilemma at household level, some farmers have responded by replacing crops like coffee with the more remunerative coca, if they live in Colombia, or another narcotic, chat, in Ethiopia.

Free markets or specific preferences?

At least 70 per cent of those who live on less than US\$1 per day live in rural areas, usually directly or indirectly from agriculture. What will most relieve their poverty is higher prices for marketed crops.

An examination of the list of agricultural CDDCs shows interesting results when the main commodities in which they specialise are analysed according to the terms on which they are able to export them to the European Union or the United States (see Table 5). Three broad categories can be identified:

1. Commodities in which particular countries have had preferential access to the EU's market with import quotas (accompanied in sugar's case by a guaranteed price which is some three times the world market price). The two commodities in this category are bananas and sugar.
2. Commodities produced in both tropical and temperate (or Mediterranean) climates, in which developing countries' exports are handicapped by the existence of significant public support or protection of the EU's or US' own farmers, without any countervailing advantage in the form of preferential quotas or guaranteed import prices. The commodities are cotton (heavily subsidised in both the EU and the US), groundnuts and soybeans (subsidised or protected in the US) and tobacco (strongly supported in the EU).
3. Tropical crops in which the international market now operates almost entirely freely. These are the main tropical beverages: coffee, cocoa and tea. For climatic reasons, none of these commodities can be produced in either the EU or the US.

There is also a fourth, miscellaneous category of crops which are sold in smaller quantities and involve smaller numbers of developing countries.

In Table 5, it is noticeable that the countries in group 1 are better off for both human development and GDP than the others. Those which have long enjoyed large preferential import quotas in the EU tend to be very small countries (they do not include Ecuador for bananas or Cuba for sugar). The countries in group 3, which rely on completely free export markets, are in many cases the very poorest as well as the most commodity-dependent; in five of them, either cocoa or coffee accounts for more than half of all exports. They also include the largest countries in the list of CDDCs, starting with Ethiopia and Colombia. The countries in the second group (which compete with EU or US farmers that enjoy substantial state support) are similar in kind, except that they are generally smaller.

No trade concessions are made to those countries, in group 3, which might appear most in need of them, beyond general preferences such as the EU's Everything But Arms scheme and some compensatory finance. This is in contrast to the generous, commodity-specific support accorded to certain members of group 1.

Commodities and market failure

In investigating how any market works, the big questions revolve around the price system: how prices change, what signals they give to supply and demand, and how those signals are transmitted to producers and consumers. These essential mechanisms are deficient on many commodity markets. This will not be resolved by removing obstacles to the markets' free operation: it was recognised long ago that the markets themselves have inherent features which prevent them from performing their functions effectively. Wherever that leads to harmful consequences, policy should seek a way to remedy it.

A well-known feature of many commodity markets lies in the volatility of prices. This can take two forms: short-term fluctuations during the course of the year, resulting from changes in the weather or forecasts of the supply and demand balance; and medium-term disturbances over the business cycle. The former can occur very suddenly, for example when there is news of a frost in Brazil which might affect the coffee harvest, or a strike in an important mine.

Price fluctuations are frequently exacerbated by a time-lag between initial changes in price and consequential adaptations of supply or demand. With tree crops such as coffee, cocoa and rubber it can take several years for supply to expand or contract sufficiently in response. The same applies to the metals and mining industries, which require expensive, "lumpy" investments that take many years to develop; and they can be equally slow to cut back or close when demand falls off. As long as such adaptations do not occur, the market remains out of balance and prices will be excessively high or excessively low. Where futures markets or other arrangements facilitate it, price movements in either direction can be further exaggerated by speculative buying and selling; futures exchanges welcome speculative activity as it increases liquidity.

Table 4 includes an index of the instability of prices for 46 commodities since the 1970s, as calculated by UNCTAD. The higher the number on it, the more volatile or unstable the price has proven to be. The most unstable markets of all have been pepper and sugar; and among minerals, crude petroleum. Other unstable prices include those for coffee, copra, nickel and silver, while among the most stable are soybeans, tobacco, phosphates and iron ore. The last two operate with long-term price agreements between buyers and sellers, which do not exist on most international commodity markets.

There can be serious macroeconomic consequences for a country which relies on an unstable market for its foreign revenues. For example, Ethiopia is renowned for the quality of its arabica coffees and in the late 1990s up to 70 per cent of its merchandise exports were accounted for by that crop. It exported US\$420m worth in 1997-98. But three years later, Ethiopian coffee exports fetched just US\$175m.²⁹ This was partly caused by a fall in volume but mostly by the collapse in price. It may reasonably be asked how any country can make rational economic plans when its foreign trade is so unpredictable.

Now, if a freely operating market does not perform its functions properly it is said to exhibit "market failure." Where the linkages between supply, demand and price are so slow as to prevent timely responses, then some degree of failure must exist. This is the first of three price issues to be addressed in the functioning of commodity markets: sharp fluctuations in the price over the short or medium term.

We have already discussed the second, which was identified by Prebisch and Singer: the secular tendency of commodity prices to decline vis-à-vis other prices. This is the long-term price issue. According to Prebisch/Singer, the price will decline eventually even if the market retains a balance between supply and

demand. But a chronic oversupply will exacerbate any decline in prices. It indicates a market that is not making demand increase or supply decline sufficiently when prices have fallen, and so is also not doing its job properly.

These difficulties with commodity markets have been widely discussed by economists for more than 60 years. But a third price issue - especially relevant to agricultural markets - has come to the fore only in recent years. It is the subject of the next section of this paper.

Value chains and market power

It is not only declining prices overall but the farmers' declining share of final retail prices which has led to crisis. Response on the demand side to price signals can be even slower than on the supply side, at least when those prices fall. This is the third issue of commodity market structure that needs to be addressed. It is the result of an imbalance in market power which arises from growing market concentration among the processors and distributors of agricultural commodities, be they grain-trading companies, dairies, coffee roasters or supermarkets.

We have already seen that between 1980 and 2000 the total value of coffee exports declined from US\$12.5bn to US\$10.2bn in spite of an increase in volume from 3.7m to 5.9m tonnes. The ICO further points out:

*In the early 1990s earnings by coffee producing countries (exports f.o.b) were some US\$10-12 billion and the value of retail sales of coffee, largely in industrialised countries, about US\$30 billion. Now the value of retail sales exceeds US\$70 billion but coffee producing countries only receive US\$5.5 billion.*³⁰

Similar stories are told on many agricultural markets, and not only about tropical crops; a good example would be that of prices paid to British farmers by the supermarkets. On the coffee market this is easily explained. According to the International Trade Centre, competition in coffee "has shrunk to a point where in 2000 it is estimated that five leading green coffee trading companies accounted for over 40% of the total volume of green coffee imports worldwide."³¹ The degree of worldwide concentration in coffee roasting is similar. Following a wave of international mergers in the 1990s, the biggest roaster companies now buy about 15 million bags of 60 kgs each per year, while the average farmer has less than five bags to sell. This creates a colossal imbalance in market power. Surely all free-market economists should be worried by it, since it seems bound to distort market prices and lead to allocative inefficiency.

A recent study examined the supply chains on six different markets and in each one it found similar "bottlenecks" in the linkage between farmers and consumers. For example, the supply of bananas to nearly 60 million people in the U.K. is provided by 2,500 plantations, 15,000 small-medium farmers and 400,000 plantation workers in the export sector. However, in the trade just five banana companies have more than 80 per cent of the global market, five companies or alliances have 88 per cent of the U.K. market for banana ripening and distribution, and five retailers command 70 per cent of the country's grocery market.³²

A further illustration is found on the British retail coffee market, one of the most highly concentrated with Nestlé alone enjoying a 51 per cent share. Between a cyclical trough in August 1992 and a peak in May 1997, international coffee prices rose from 45.89 U.S. cents per pound to 180.44 c/lb (as measured by the ICO's composite indicator). At the next low point in September 2001 they fell to 41.17 c/lb, some 10 per cent below the 1992 low. The average British retail price

meanwhile increased from 817.90 c/lb at its equivalent trough in December 1993 to a peak of 1,600.03 c/lb in November 1997. But at its next low point, in February 2002, it was at 1,154.96 c/lb - still 41 per cent above the 1993 low.³³ As a multiple of the international price, it rose from 11.4 times in 1993 to 26.1 times in 2002.

“Getting the prices right” revisited

If commodity dependence is associated with underdevelopment, it may be fairly asked whether the poorest countries are underdeveloped because they remain commodity-dependent, or commodity-dependent because they have failed to develop. Even if the answer is the latter, it is hard to see how, under present international policy, the countries that depend on commodity exports for survival can get out of the vicious cycle they are now caught in.

In its new policies adopted in the 1980s the World Bank aspired to a world in which all markets would be connected internationally, all markets would clear and there would be no barriers to trade. In this ideal world, price signals are expected to lead to the “right” results of allocative efficiency, advancing the general welfare of all concerned. An important condition of such a theory of free-market competition - but all too often overlooked - is that no participant is large enough to exert significant power over the market.

What in fact we find is a multi-layered case of market failure. Inherent features of commodity markets can prevent demand, supply and price signals from interacting with any degree of efficiency. Price volatility, time-lags, deteriorating terms of trade and market concentrations create enormous inefficiencies; and for anyone who believes in market efficiency, it should surely be the duty of public policy to correct that.

Markets, like economic processes of any sort, can only be means to development, not ends in themselves. Markets do not operate in a social or ethical void and in moral terms no price is either “right” or “wrong” in itself. One of the oldest questions in assessing development policies is: who gains, who loses? In answer to it, a price’s degree of rightness will depend on whose interests it best serves. The critical question should not be “Are the prices right?” but “Who are they right for?” The right prices for development are surely those which will enable the poorest countries, and the poorest citizens within them, to clamber out of poverty and begin to catch up with their more fortunate peers. Seen in that light, commodity prices over the last 20 years have gone very badly *wrong*, and with them the prospects of millions of poor people who depend on them directly or indirectly for their livelihoods.

Part 3 Policy Solutions

i. General Policy Issues

This paper argues that the commodities crisis, with its devastating impact on poor people's lives, can largely be attributed to international policies and practices and the inattention given to commodities in influential quarters over recent years. President Chirac of France, speaking to African leaders in February 2003, described it in a now famous phrase as a "conspiracy of silence." Where policies have been proposed to address the issue, it has been done timidly and they have mostly concerned developing countries' own domestic policies. However, if the core problem lies in global markets, that approach can do no more than ameliorate it; it will not solve it.

This final part of the paper will discuss the various policies that have been proposed. The first section will look at more general issues and the second will discuss the central question of the operation of commodity markets and prices on them. A final section is devoted to what the global trade institutions can do about the problem: first some initiatives already under way at the instigation of developing countries, then a final comment on UNCTAD's and the CFC's roles.

Developing countries' domestic strategies

It has been observed that the first generation of Poverty Reduction Strategy Papers (PRSPs) tended to ignore trade issues, even though so many of the HIPC countries (for which PRSPs are drawn up) are commodity-dependent and have suffered severe setbacks in their terms of trade, as we have seen. This poses a severe challenge to national policymakers. The first requirement is to establish strategies for trade overall and their commodity sectors in particular, and include those strategies in overarching policy documents such as the PRSPs.

Relevant issues for agricultural commodities include:

- placing commodities in a broader framework of rural development;
- quality incentives to enable producers to meet increasingly stringent requirements on final markets;
- measures to stimulate cost reductions and productive efficiency, where this does not have the effect of aggravating a chronic oversupply;
- investment in agronomic and marketing research;
- financial needs in the supply of credit and development of innovative forms of collateral such as warehouse receipts.

Efforts should be supported to find effective replacements for some of the functions of former marketing boards. This means fostering organisations that assist farmers with market intelligence, the development of cooperatives, extension advice, access to credit and physical inputs, and schemes to make the most of premium market niches. They should be farmer-based where possible, government-run where not. The relative resilience of the coffee sector in Colombia is partly due to the Bogotá government's heavy investment in farmers' organisations.

In mineral dependence, some countries have avoided the problems discussed earlier. The best-known case is Botswana, the most mineral-dependent country in the world with non-fuel minerals exports running to 35.1 per cent of GDP (compared with 28.9 per cent in Sierra Leone and 26.1 per cent in Zambia, the next most mineral-dependent).³⁴ The Botswana government took these dangers into account in its planning for diamonds exploitation, which began in the 1970s. Previously poor, Botswana is now one of the most prosperous and stable countries in Africa. Its GDP per capita in 2001 was calculated at US\$7,820 on a PPP basis, the highest on the African continent except for South Africa and, possibly, Libya.

One factor behind Botswana's success may be that even in 1975 it had higher human development indicators than many of its neighbours.³⁵ The government also judiciously taxed the industry according to its profitability, using the revenue accruing to finance national development in other fields. One feature of diamonds is that their exploitation is less dependent on investment by MNCs than in other mineral sectors; on the other hand, the market has been subject to more than a century of commercial supply management, using stocks of the gem to ration supplies and so keep prices both stable and high. All is strictly controlled by the De Beers company's Central Selling Organisation. Botswana's case indicates that with careful management, the development of minerals can be used to sponsor a broad advance in national development.

Diversification

Diversification is a broad concept which forms the very bedrock of economic development. Developed economies are by definition diverse, relying on industry and services as well as agriculture, with a wide variety of forms of employment and trading patterns, and mastery of many levels of technology, from the highest to the lowest. An underdeveloped economy has to rely on food and minerals pulled out of the ground to pay its way in the world. So economic development necessarily entails diversification, in either of two directions. Horizontal diversification adds new sectors to an economy (for example, the creation of a clothing industry in Bangladesh in the 1980s) or, at the household level, additional lines of produce on a farm. Vertical diversification adds further processes to the activities already carried out, such as refining and semi-fabricating metals as well as mining their ores, or selling fruit or vegetables in canned or frozen form rather than raw.

Much of the response to the commodities crisis from Northern governments and donors has emphasised horizontal diversification out of declining commodities into other products, and vertical diversification by such means as downstream processing. Both forms of diversification have laid successful routes to industrialisation in the past. For example, Malaysia spread its risks after independence in 1957 by horizontal diversification into commodities such as palm oil alongside older specialisations in rubber and tin. However, even where pursued successfully, this strategy does not always achieve such fruitful consequences as Malaysia achieved. For example, since the 1950s Kenya has had notable success in developing new agricultural specialities such as tea (of which it became the world's leading exporter) and cut flowers, and built a reputation for some of the highest-quality coffee. Yet unlike Malaysia, it remains dependent on agricultural commodities and retains severe problems of poverty.

There has been much talk recently about assisting coffee farmers to diversify. As final markets for many commodities become more variegated, there is often scope for diversifying vertically into variants of a product which can sell for higher prices:

in coffee, niche markets offering premium prices are growing, such as those for organic, fairtrade and bird-friendly origins.

On the other hand, a proximate cause of the collapse of coffee prices in 2000-01 lay in the expansion of Vietnam's production, which rapidly turned it into the world's second largest coffee-producing country after Brazil. That itself arose from an attempt to create a more horizontally diverse export economy, projections for which probably looked good in the mid-1990s, when coffee prices were higher and Vietnam's trees were planted.

One sign of the depth of the current commodities crisis is that in many of the poorest countries the recent trend has been *away from* vertical diversification, not towards it: among LDCs, processed primary commodities fell from 24.5 per cent of commodity-sector exports in 1981-83 to 11.1 per cent in 1997-99. Within that, "dynamic" agricultural products³⁶ fell from 9.4 per cent to 3.2 per cent of the commodity-sector exports of manufactures- and services-exporting LDCs, while processed minerals, metals and fuels fell from 20.8 per cent to 12.1 per cent of such exports among non-oil commodity-exporting LDCs.³⁷ This is partly the consequence of trade liberalisation, which exposed small-scale local processing industries to competition from imports, and many of them were not able to withstand it. The trade policy environment must be propitious if diversification is to succeed; this applies to both the import regime and commodity market structures and prices.

Experience shows that successful diversification is very hard to achieve, and much depends on getting it right locally. Each act of diversification is ultimately the farmer's own decision. Much depends on both the farmer's skills and their willingness. There must also be a market for the new product; many attempts at diversification into other export crops have fallen foul of open or disguised protection in the developed countries they were meant to sell into. Removal of such obstacles can help developing countries to acquire new markets for their export produce and defend their own markets, safe from the risk of cut-price imports.

There have been proposals for a global fund to help poor farmers in failing products to diversify into others. A meeting of "Eminent Persons" on commodity issues, convened by UNCTAD in September 2003, called for an International Diversification Fund to be set up, possibly under the auspices of the CFC, as one of its five priority recommendations. It would focus on developing private-sector capacity and strengthen institutions, including strong producer associations with a proper role for women as the majority of agricultural producers. It would develop key infrastructure and stimulate investments by providing risk capital or temporary compensation for infrastructural weaknesses.³⁸

Trade barriers and market access

If commodities are produced to earn export income, the first requirement internationally is that they should get sold on foreign markets. That is a truism. But as time goes on, finding ways into those markets becomes ever more difficult, especially for producers and traders in small and poor countries that are far from major world markets. Tariff arrangements that permit effective access to markets have long been a demand of developing countries; but we increasingly hear that market *entry* requires more than that. We will have more to say about that in due course.

Market access requires low tariff barriers and, for the sake of development, preferential tariffs for imports from the poorest countries. The latter concept has gradually made progress, from the Generalised System of Preferences developed during the 1970s to the E.U.'s recent "Everything But Arms" (EBA) initiative, which gave duty-free access to most products from LDCs.

However, there is still a long way to go, especially in tariffs on downstream products. As we have seen, these are often higher than tariffs on raw produce, reducing the opportunities to use commodities production in order to stimulate industrial development. For example, for countries that are not eligible for EBA, the E.U. gradually escalates its tariffs on cocoa products, from zero for cocoa beans to 9.6 per cent for cocoa paste (an intermediate stage), to mixed tariffs that can go up to 25 per cent on chocolate itself. This applies to some countries for which cocoa exports are very important, such as Ghana and Côte d'Ivoire.³⁹ A recently introduced brand of fairtrade chocolate sold in the U.K., using cocoa from a cooperative in Ghana, has the chocolate itself manufactured in Germany, partly because of these escalating tariffs.

Developed countries' border protection and subsidies to their own farmers often have the effect of reducing prevailing world prices. This naturally makes it harder for other countries to compete, even on third countries' markets, if they cannot employ similar policies. The current WTO dispute about the U.S.' cotton subsidies mainly concerns the ability to export cotton into markets other than the U.S. itself. We have emphasised the importance of developed countries' agricultural price supports and subsidies, especially export subsidies, in inhibiting opportunities for developing countries to diversify in the commodities sector. Changing WTO rules to remove the imbalance in agricultural subsidies between the rich North and the poor South is an essential part of the solution to low commodity prices and oversupply. Major progress in these areas of agricultural trade rules, as well as tariff escalation and tariff peaks for both agricultural and non-agricultural products, will be essential to any development-friendly outcome to the Doha Round.

Compensatory finance and debt relief

Financial measures to compensate producers for adverse movements in commodities earnings have a history of nearly 30 years. Such compensatory finance could in principle be used to combat declining prices as well as price volatility; however, over a long period this is expensive, so compensatory finance is more often seen as a mechanism to counter the effects of price volatility, providing relief when prices fall dramatically.

The biggest schemes of this sort have been the IMF's Compensatory Finance Facility and the EU's Stabex programme under the former Lomé agreements with African, Caribbean and Pacific countries. Many CDDCs are in the ACP group. However, they have at times been slowly disbursed and they have become much less generous over the years. UNCTAD's Eminent Persons' Meeting in 2003 called on the European Commission and the IMF to work with UNCTAD to design a common system that is easy to use, based on known, automatic rules without policy conditions, and passed through to actual producers and consumers.⁴⁰ It should also be quick-disbursing.

It is widely considered that FLEX (the successor of Stabex under the new Cotonou Agreement) is failing. This is due to its lack of an automatic link between adverse changes on specific export markets and financial relief, and the relatively high level of harm that has to be demonstrated before relief will be considered. To

give it a better chance, FLEX's access criteria should be eased, the threshold for eligible economic damage should be lowered, and it should be extended to other EU regional programmes besides Cotonou and the ACP. It should support domestic compensation schemes for farmers, such as those used in the coffee sector in Brazil and Colombia.

A related issue lies in debt relief for shortfalls in commodity earnings. Of 54 agricultural CDDCs, 25 are highly indebted poor countries (HIPC), which are subject to special debt relief by international agreement. Of those 25, 15 are among the 30 countries with the lowest human development scores. Commodity price shortfalls can make it more difficult to meet debt repayment schedules, without any fault on the part of the borrower. It would be a common financial reflex, but quite against the ethics of the HIPC programme, to punish a debtor country if this increased repayment delays. Debt relief under both HIPC and other systems (such as the Paris and London Clubs) should be made to provide greater, not lesser, relief in cases of commodity shortfalls.

Price insurance

The World Bank group supports a project to develop price-insurance instruments for farming cooperatives in poor countries, using international futures markets to "hedge" against the danger of adverse price changes. This is a standard use of those markets, although because of the variety of futures and options instruments now available, and the transactions costs that can be involved, it is not an easy technique to use to greatest effect. It is often difficult to judge how much of the purchases or sales of a commodity it is necessary to hedge; and if that judgment is wrong, the consequences can be severe.

However, this programme can at best be only part of the solution. Hedging on futures markets can only deal with short-term fluctuations in price, since the maximum time forward that is available on most markets is around two years. While, if properly used, this can be a useful and even necessary protection for individual businesses over that period, it can do nothing to help the market as a whole counter either the medium-term fluctuations of the business cycle or the long-term secular decline of prices. Unpredicted price changes over the medium term can be much larger and cause greater damage to investment possibilities and livelihoods. Medium-term volatility needs to be countered by other forms of action.

It has also been argued that the options contracts used under the programme are too complicated and expensive an instrument for the purpose. A hedging programme of this sort can only succeed if it is introduced slowly and carefully over a period of years, since good marketing channels need to be in place first to make it effective. To this end, the Common Fund's work in establishing an enabling environment for such instruments in developing countries needs to be well supported for as long as the programme continues.

ii. Market and price issues

Market forces in commodities

We have identified three price questions at the heart of the problem of commodities trade in the early 21st century: the widespread collapse in prices, price volatility and the distribution of value along the supply chain. Each one

arises directly from the free operation of market forces. The current fashion for seeking market-based solutions to all economic problems is found wanting here. Indeed, in some of its worst manifestations, such as on the coffee market, the crisis follows directly on the market liberalisation of the late 1980s; there is a strong case for saying that it is a direct consequence of it. We need the return of a more balanced approach, in which policies will be chosen for their practical benefits, not their closeness to some predetermined ideal of policy.

Where it can be clearly demonstrated that markets, left to themselves, will fail - *as frequently in this case* - even the most orthodox view of economics should accept the need for some form of intervention in order to correct or overcome that failure. This section of the paper will examine what international policies - including forms of market intervention where necessary - might best serve the development needs of suppliers on these markets in the future.

The intervention dilemma

The difference between various forms of price volatility is widely overlooked in the current debate, which has tended to discuss only the short-term variety. The policy implications are important since different kinds of volatility require quite different measures in response. Medium-term volatility has traditionally been eased by supply-management measures which take supplies off the market when prices are low and either destroy them or return them when prices are high.

Different mechanisms have applied to different markets. Some of these are purely commercial and controlled by corporations, for example that on the diamond market. Until their system broke down in the 1980s, the major aluminium producers used similar methods to keep aluminium prices stable - one of the means by which they gained a competitive advantage over less stable, exchange-priced metals such as copper. Another factor lay in the fact that the price was kept relatively *low* in comparison with competing materials.⁴¹ Producer countries can cooperate in a similar way, as OPEC does in the oil market.

Supply management can be undertaken in cooperation between the producer and consumer sides of the market under international commodity agreements (ICAs), such as that for tin until 1985 and the economic clauses of the International Coffee Agreement from 1964 to 1989. The European Commission has remarked that "the 1983 [Coffee] Agreement was largely successful in maintaining prices within the agreed range of 120-140 US cents/lb."⁴² The coffee market has entered its worst ever crisis since those economic clauses were abandoned.

Many object that market intervention has been tried before and has been seen to fail. The ICAs all lost their powers of market intervention during the course of the 1980s. There was a view at the time that the withdrawal from them by consumer governments, especially the United States, was motivated more by a turn away from market intervention as such than any failure of the ICAs themselves. That being said, it cannot be denied that such mechanisms are hard to make effective for both technical and political reasons.

There are political problems in ensuring the cohesion of all parties; the problems tend to be greater where the market's participants are more numerous or more diverse, as in the case of coffee (although the strong Latin American element in that market helps to provide cohesion). OPEC has met its members' aims on the oil market in large part because of the sense of solidarity among key oil-producing states on the Arabian peninsula. The tin agreement was helped by the relatively small number of countries producing tin and the geographical proximity of some of

the most important (Indonesia, Malaysia and Thailand). On the other hand, attempts to set up a producers' bloc to control the copper market in the 1960s met with limited success; one reason lay in the relative size and degree of volatility of the copper market itself, but another factor lay in the disparate nature of the CIPEC organisation's membership, which lacked a cohesive core like the Middle Eastern states on the oil market or even the Latin Americans in coffee.

ICAs face technical difficulties in identifying the price ranges to be defended (in effect by international treaty), the moments to intervene in the market and the size of the national quotas or international buffer stock required. As we have seen, the first and most visible failure of an ICA - that of the International Tin Agreement in 1985 - was the result of a spectacular technical failure, not a political withdrawal.

It is necessary to be clear-sighted about the aims of any market intervention. The Integrated Programme for Commodities proposed in the 1970s aimed to promote both stable and remunerative prices. Each of these is an important objective, referring to two of the three price problems on commodity markets that we have identified. While at that time price instability was seen by many as the bigger problem, by now it is the actual level of prices.

During its lifetime the tin agreement was widely lauded as the model of a successful commodity agreement, because it apparently succeeded in meeting both objectives: prices were kept relatively stable but on a rising curve. However, this had two consequences when the prices of other raw materials were not rising as fast. Firstly, the tin market stagnated as other materials, such as aluminium, used a growing price advantage to take over some of its main areas of use. Among eight major metal commodities, world exports of tin grew at the slowest rate, 0.5 per cent, between 1961 and 1982;⁴³ it can be seen in Table 2 that even today, tin consumption has grown much more slowly over a long period than that of other commodities. Secondly, the high price kept high-cost producers in a market which they would otherwise have left. There was a case for this with a landlocked mountainous country like Bolivia, but it also allowed the United Kingdom's underground mines to stay in operation and attracted new market entrants like Brazil. Eventually, the need for the ITA's buffer stock to take tin continuously off the market in order to support a rising price proved too expensive to sustain.

If keeping a price close to its trend level is technically difficult, intervention to push it on to a higher trend would appear to be even more so; as a long-run policy it will be impossible in many commodities by means of a buffer stock, as used in the former tin agreement, or export quotas, as in the coffee agreement. If the main aim of any revived commodity agreements will be to boost prices on the markets, it may therefore be essential for them to control actual production rather than market supply or exports. This is done by OPEC - in a commodity in which admittedly demand is more inelastic while supplies can be more rapidly turned on or off than in many others. But despite that added difficulty, it should be investigated for other markets too.

Opening the ICO's 40th anniversary meeting in Cartagena in September 2003, President Uribe of Colombia called for guaranteed minimum prices for coffee farmers, to be financed by producer and consumer governments jointly. Support for producer countries to undertake supply management without consumers' involvement is also required. In some cases producers can cooperate effectively to align supply with demand over the long term. It is generally accepted that this is permitted under current WTO rules. A recent modelling exercise at UNCTAD indicated that a restraint of coffee supplies could work with only four producing countries taking part:

Results of our base scenario indicate that a 10 per cent reduction of exports in the four major coffee-producing countries would increase world prices by 17 per cent and increase these countries' export revenues by 6 per cent in the long run. Other coffee exporters would increase their exports and therefore would gain proportionally more.⁴⁴

Whatever the difficulties may be, they are no longer adequate reasons to dismiss supply management on commodity markets out of hand. On the coffee market, the liberalisation cure since 1989 seems to have been worse than the disease. Several markets might well benefit from such agreements, even if they are not a universal panacea. What is needed is a pragmatic search, looking for what will serve each market best.

Corporate power and competition policy

There is plenty of evidence of grave consequences arising from imbalances in market power between small farmers and highly concentrated commercial or industrial sectors purchasing their produce. This arises from the competitive process itself and does not require any deliberate abuse of market power or anti-competitive practices. Caused largely by the free operation of market mechanisms themselves, it is unlikely to be amenable to purely market-based solutions.

Supply chains for food products are becoming ever more tightly controlled by small numbers of large companies at the processing and retailing stages, usually based in developed countries. As we have seen, this has consequences for the proportion of the final retail price that is received by the growers of the crop. Such corporations increasingly take their supplies from closed chains so as to control the nature and quality of their purchases more easily, often using complex computer-integration systems. European supermarket chains now have no more than 110 buying desks between them, and they are expanding rapidly into Eastern Europe, Latin America and Asia. More slowly, other chains are spreading across parts of Africa.⁴⁵

At the same time, regulations applied to foodstuffs in developed-country markets have become more demanding in the face of consumers' concerns about food quality and safety, animal welfare and the impact on the environment. Farmers have to match these requirements, or their produce will not be permitted to enter major import markets. This requires an increasing commercial sense on their part. Their counterparts in developed countries face the same hurdles and also have difficulty in adapting to these circumstances, and for large, export-oriented agricultural businesses in the more prosperous developing countries it is very demanding. For small and subsistence farmers in smaller and more remote developing countries the task can be daunting indeed.

But these developments need not be meekly accepted as a "given" factor in modern international trade. They are a consequence of the imbalance of power within agrifood markets and the failure of policymakers to address global concentrations of corporate power. If the power relations between farmers and those they sell to could become more equal again, the farmers could negotiate ways to market their produce that they could live with more easily than at present.

Traditionally since the 19th century, this sort of problem has been addressed by competition policy: legal measures that prevent concentrations of market power, or break them up when they have occurred. On global markets that policy should have a global basis. This is markedly different from the sort of competition policy which has been proposed for the WTO (and repeatedly rejected by the majority of its members, most recently at Cancún in September and then in Geneva in

December 2003). At present there is little sign of a political basis for competition policy of this sort, but in the meantime developed countries could deal with excessive concentrations in the processing and retailing of commodities within their own borders.

iii. Institutional Responses

Developing countries' international initiatives

The mood of international trade negotiations has changed markedly since the WTO ministerial meeting in Cancún, Mexico in September 2003. The formation of the "Group of 20" developing countries, and its close cooperation at Cancún with other developing-country blocs such as the African, Caribbean and Pacific countries and the LDCs, has gone some way towards restoring the negotiating balance on trade issues and reviving the global South's confidence. This is accompanied by other initiatives by developing countries, several of them directly related to commodity markets. Brazil has launched official complaints at the WTO, including the one already mentioned about the U.S.' annual US\$2.3bn of cotton subsidies, which gained the support of 13 other WTO members including Benin, Chad, China, the EU, India and Paraguay. In April 2004 the WTO disputes panel made an interim decision to uphold the complaint, in what will be the first successful challenge at the WTO of a wealthy nation's domestic agricultural subsidies if it is later upheld.

Benin and Chad were joined by Burkina Faso and Mali in introducing the cotton issue into the WTO negotiations under the Doha Round. They argued that these subsidies harm their own farmers by lowering world prices and capturing third-country cotton markets for the USA. This was the second group of African countries to succeed in raising matters of commodities trade, even though the WTO has no mandate to deal with commodities questions as such. Three countries from East Africa (Kenya, Tanzania and Uganda) raised broader issues of the trade earlier in 2003, and both initiatives were mentioned in the draft declaration for the WTO's ministerial meeting at Cancún. It was an important breakthrough for poor developing countries to push proposals on subjects of specific concern to themselves through the WTO's machinery in this way.

The East African proposal led to para. 26 of the draft Cancún declaration. This was headed "Commodity Issues" and wanted to take into account "the dependence of many developing countries on a few commodities and the problems created by long-term declines and sharp fluctuations in the prices of these commodities." It would instruct the WTO to work on this issue in cooperation with other organisations. The paragraph also recognised that various trade-related aspects of the issue could be addressed in the ongoing negotiations.⁴⁶ However, this topic was not reached at Cancún before the conference collapsed in disarray.

It arose from a so-called "Non Paper" on commodities, tabled at the WTO in May 2003. It analysed the commodities crisis and its impact on developing countries, ending with an "illustrative list of elements" for discussion at the WTO. Elements requiring priority action in the Doha Round were: tariffs (including tariff escalations), both domestic and export subsidies to agriculture, assistance for technology transfer, and rules on export taxes and export restrictions. Elements requiring review and further examination before they are included in the WTO's work programme were:⁴⁷

- international commodity agreements, with a view to regulating structural oversupply, including systems of supply management by producing countries;

- the impact of the liberalisation of internal trade in producer countries;
- the functioning of compensatory finance for commodity-related export losses, specifically the IMF's facility and the EU's scheme under the Cotonou Agreement;
- market-based risk management; and
- steps to improve small farmers' competitive position vis-à-vis large foreign firms.

UNCTAD and the Common Fund for Commodities

UNCTAD and the CFC were both established, a quarter of a century apart, largely to confront the commodities problem. Now that that problem has so strongly reasserted itself, with the decline in prices and sharp deterioration in the poorest countries' terms of trade, they must be allowed to focus their energies on finding effective solutions to it for the 21st Century. Without UNCTAD's existing capacity for analysis and the CFC's technical support, the outlook for commodity-dependent developing countries would be even bleaker than this paper indicates.

The CFC needs stronger support for its widespread and varied work on commodities. Under the First Account this covers physical market development and infrastructure, private sector initiatives, market risk management and commodity trade finance, while research and development, productivity improvements, marketing and diversification are supported by the Second Account.⁴⁸ Finance for the CFC has always been much less than was originally envisaged but in view of the current crisis, the CFC's mandate for a commodity focus needs to be greatly enhanced with financial resources to match. Then it can provide more extensive support, enabling commodity-dependent developing countries to better tackle the imposing challenges described in this paper.⁴⁹

On a wider plane, UNCTAD is the right forum to address the commodities issue in order to help develop new multilateral mechanisms for commodity markets and to establish fairer prices. It has a critical role to play in providing analysis and advice in this respect, and its mandate to do so must be maintained and extended. Indeed, without UNCTAD's economic analysis it would not have been possible to complete this paper. The Bangkok Plan of Action, agreed at the UNCTAD X meeting in 2000, needs to be defended as the basis of UNCTAD's role, with a broad and comprehensive mandate on commodities, especially the trade and development aspect of the question. Defeating the commodities crisis is a vast task that will require the combined skills of many organisations. It must be led by extending further the complementary approaches and resources of both UNCTAD and the CFC.

Tables

Table 1 The 30 countries with the highest and 30 with the lowest human development indicators in 2001

Country and its UNDP human development ranking, 2001	Population in millions, 2001	% malnourished, 1998-2000	GDP per capita, US\$ (PPP)			Primary exports as % of merchandise exports, 2001 (<i>1997 if in italics</i>)	Agric. commodity dependent devg country			Mineral dependence (world ranking), 1995	Oil dependence (world ranking), 1995	Land-locked	HIPC country, 2004
			2001	Highest during 1975-2001	Year of highest value		Yes or no?	Leading export crop	Export % of 3 leading crops				
1. Norway	4.5	-	29,620	29,620	2001	75				2.5 (24)	13.5 (17)		
2. Iceland	0.3	-	29,990	29,990	2001	86							
3. Sweden	8.9	-	24,180	24,180	2001	10							
4. Australia	19.4	-	25,370	25,370	2001	65				2.4 (25)			
5. Netherlands	16.0	-	27,190	27,190	2001	29							
6. Belgium	10.3	-	25,520	25,520	2001	17							
7. USA	288.0	-	34,320	34,592	2000	14							
8. Canada	31.0	-	27,130	27,130	2001	31							
9. Japan	127.3	-	25,130	25,309	2000	3							
10. Switzerland	7.2	-	28,100	28,100	2001	8						Yes	
11. Denmark	5.3	-	29,000	29,000	2001	29							
12. Ireland	3.9	-	32,410	32,410	2001	8							
13. UK	58.9	-	24,160	24,160	2001	17							
14. Finland	5.2	-	24,430	24,430	2001	14							
15. Luxembourg	0.4	-	53,780	53,780	2001	-						Yes	
16. Austria	8.1	-	26,730	26,730	2001	13						Yes	
17. France	59.6	-	23,990	23,990	2001	16							
18. Germany	82.3	-	25,350	25,350	2001	9							
19. Spain	40.9	-	20,150	20,150	2001	21							
20. New Zealand	3.8	-	19,160	19,160	2001	67							
21. Italy	57.5	-	24,670	24,670	2001	10							

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Country and its UNDP human development ranking, 2001	Population in millions, 2001	% mal-nourished, 1998-2000	GDP per capita, US\$ (PPP)			Primary exports as % of merchandise exports, 2001 (<i>1997 if in italics</i>)	Agric. commodity dependent devg country			Mineral dependence (world ranking), 1995	Oil dependence (world ranking), 1995	Land-locked	HIPC country, 2004
			2001	Highest during 1975-2001	Year of highest value		Yes or no?	Leading export crop	Export % of 3 leading crops				
22. Israel	6.2	-	19,790	20,376	2000	6							
23. Portugal	10.0	-	18,150	18,150	2001	14							
24. Greece	10.9	-	17,440	17,440	2001	47							
25. Cyprus	0.8	-	21,190	21,190	2001	47							
26. Hong Kong, China	6.9	-	24,850	25,037	2000	4							
27. Barbados	0.3	-	15,560	15,560	2001	47	Yes	Sugar	22				
28. Singapore	4.1	-	22,680	23,804	2000	11							
29. Slovenia	2.0	-	17,130	17,130	2001	10							
30. South Korea	47.1	-	15,090	15,090	2001	9							
146. Kenya	31.1	44	980	1,079	1990	79	Yes	Tea	44				
147. Uganda	24.2	21	1,490	1,490	2001	93	Yes	Coffee	63			Yes	Yes
148. Yemen	18.7	33	790	790	2001	99					46.2 (4)		
149. Madagascar	16.4	40	830	1,195	1975	48	Yes	Coffee	21				Yes
150. Haiti	8.1	50	1,860	3,194	1980	-							
151. Gambia	1.4	21	2,050	2,105	1984	82	Yes	Ground-nuts	34				
152. Nigeria	117.8	7	850	1,084	1977	100					39.9 (7)		
153. Djibouti	0.7	-	2,370	4,436	1987	-	Yes	Cattle	24				
154. Mauritania	2.7	12	1,990	2,010	1976	100				18.4 (5)			Yes
155. Eritrea	3.8	58	1,030	1,149	1998	-							
156. Senegal	9.6	25	1,500	1,525	1976	71							
157. Guinea	8.2	23	1,960	1,960	2001	72				11.8 (11)			Yes
158. Rwanda	8.1	24	1,250	1,643	1983	98	Yes	Coffee	68			Yes	Yes

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Country and its UNDP human development ranking, 2001	Population in millions, 2001	% mal-nourished, 1998-2000	GDP per capita, US\$ (PPP)			Primary exports as % of merchandise exports, 2001 (<i>1997 if in italics</i>)	Agric. commodity dependent devg country			Mineral dependence (world ranking), 1995	Oil dependence (world ranking), 1995	Land-locked	HIPC country, 2004
			2001	Highest during 1975-2001	Year of highest value		Yes or no?	Leading export crop	Export % of 3 leading crops				
159. Benin	6.4	23	980	980	2001	94	Yes	Cotton	38				Yes
160. Tanzania	35.6	47	520	520	2001	84	Yes	Coffee	42				Yes
161. Côte d'Ivoire	16.1	15	1,490	2,581	1978	85	Yes	Cocoa	46		3.5 (25)		Yes
162. Malawi	11.6	33	570	593	1999	93	Yes	Tobacco	70			Yes	Yes
163. Zambia	10.6	50	780	1,345	1976	87				26.1 (3)		Yes	Yes
164. Angola	12.8	50	2,040	2,694	1988	98				3.6 (20)	68.5 (1)		
165. Chad	8.1	32	1,070	1,194	1977	100	Yes	Cotton	48			Yes	Yes
166. Guinea-Bissau	1.4	-	970	1,265	1997	-	Yes	Cashew	51				Yes
167. D.R. of Congo	49.8	73	680	2,804	1975	-				7.0 (12)			Yes
168. Cent. Af. Rep.	3.8	44	1,300	1,825	1977	57	Yes	Cotton	21	4.8 (16)		Yes	Yes
169. Ethiopia	67.3	44	810	811	1983	89	Yes	Coffee	75			Yes	Yes
170. Mozambique	18.2	55	1,140	1,140	2001	91							
171. Burundi	6.4	69	690	1,034	1991	96	Yes	Coffee	89			Yes	Yes
172. Mali	12.3	20	810	907	1979	84	Yes	Cotton	44			Yes	Yes
173. Burkina Faso	12.3	23	1,120	1,120	2001	74	Yes	Cotton	45			Yes	Yes
174. Niger	11.1	36	890	1,473	1979	95				12.2 (9)		Yes	Yes
175. Sierra Leone	4.6	47	470	1,070	1982	58 (1996)	Yes	Coffee	>32	28.9 (2)			Yes

Sources: UNDP, European Commission, Oxfam America, FAO, World Bank, U.N. Economic Commission for Africa.

Table 2 Worldwide balance of production and consumption in 12 leading commodities, 1970-2000
(millions of metric tonnes, unless specified)

Commodity		1970	1975	1980	1985	1990	1995	1996	1997	1998	1999	2000
Bananas	Production	31.8	31.7	37.0	40.1	46.9	56.5	55.2	58.9	57.2	62.7	64.6
	Consumption	31.6	31.6	36.7	40.4	46.5	56.1	55.0	58.0	56.5	62.7	64.8
	Surplus/deficit*	+0.6	+0.2	+0.6	-0.8	+0.9	+0.7	+0.4	+1.5	+1.2	-0.3	-0.3
Bovine meat	Production	38.3	43.7	45.6	49.3	53.4	54.1	54.6	55.3	55.1	56.0	57.2
	Consumption	39.6	45.3	47.1	51.2	55.8	56.7	57.4	58.1	58.0	59.0	60.5
	Surplus/deficit*	-3.2	-3.4	-3.2	-3.8	-4.2	-4.6	-4.9	-4.9	-5.1	-5.2	-5.5
Cocoa	Production	1.5	1.6	1.7	2.0	2.5	3.0	3.3	3.0	3.0	2.9	3.2
	Consumption	1.4	1.5	1.5	1.8	2.1	2.5	2.6	2.7	2.7	2.8	3.0
	Surplus/deficit*	+3.9	+4.8	+12.2	+12.6	+20.0	+21.5	+24.0	+11.8	+11.3	+6.1	+6.4
Coffee	Production	3.8	4.6	4.8	5.8	6.1	5.5	6.2	6.0	6.6	6.8	7.3
	Consumption	4.0	4.7	4.8	5.2	5.6	5.7	5.9	6.0	6.1	6.2	6.2
	Surplus/deficit*	-4.9	-2.4	+1.0	+12.5	+8.9	-2.2	+4.3	-0.3	+8.1	+11.0	+17.6
Cotton	Production	12.1	12.4	13.9	17.3	18.4	19.6	19.2	19.0	18.0	18.2	18.8
	Consumption	12.2	13.3	14.3	15.8	18.6	18.5	19.2	19.3	18.8	19.7	19.6
	Surplus/deficit*	-0.9	-6.5	-2.7	+10.0	-1.1	+6.0	-0.3	-1.6	-4.1	-7.7	-4.1
Sugar	Production	72.6	79.6	84.4	98.4	110.8	118.3	125.7	125.8	128.8	134.0	127.2
	Consumption	71.8	74.4	87.8	97.8	107.5	114.3	118.0	119.5	120.5	123.6	126.1
	Surplus/deficit*	+1.0	+7.0	-3.8	+0.6	+3.1	+3.5	+6.5	+5.3	+6.8	+8.4	+0.9
Tea	Production	1.3	1.5	1.9	2.3	2.5	2.6	2.7	2.8	3.0	2.9	3.0
	Consumption	1.3	1.5	1.8	2.2	2.5	2.5	2.6	2.7	2.9	2.9	2.8
	Surplus/deficit*	+0.6	+0.8	+2.4	+2.9	+2.7	+3.0	+3.8	+3.7	+6.4	+2.8	+5.4
Primary aluminium	Production	10.3	12.8	16.1	16.6	19.3	19.7	20.8	22.4	22.6	23.6	24.5
	Consumption	10.0	11.4	15.3	16.8	19.1	20.6	21.9	21.8	21.8	23.4	24.9
	Surplus/deficit*	+3.0	+12.4	+5.1	-1.6	+1.2	-4.2	-4.7	+2.4	+3.7	+1.1	-1.8

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Commodity		1970	1975	1980	1985	1990	1995	1996	1997	1998	1999	2000
Refined copper	Production	7.6	8.2	9.3	9.7	10.9	11.8	12.7	13.5	14.1	14.6	14.8
	Consumption	7.3	7.4	9.4	9.9	10.7	12.1	12.5	13.0	13.4	14.2	15.1
	Surplus/deficit*	+4.3	+10.1	-0.6	-1.8	+1.1	-2.6	+1.2	+4.0	+5.4	+2.8	-2.0
Unwrought nickel and nickel alloys, '000 tonnes	Production	585	693	731	777	861	941	960	1,016	1,043	1,029	1,102
	Consumption	575	580	743	767	835	980	899	927	997	1,054	1,141
	Surplus/deficit*	+1.7	+19.4	-1.6	+1.3	+3.2	-4.0	+6.8	+9.6	+4.5	-2.3	-3.4
Refined tin (primary and secondary), '000 tonnes	Production	227	228	244	215	239	212	226	229	227	231	247
	Consumption	217	214	219	213	245	236	236	242	239	245	272
	Surplus/deficit*	+4.6	+6.6	+11.5	+0.8	-2.3	-10.0	-4.4	-5.0	-5.0	-5.3	-9.1
Primary zinc	Production	5.3	5.6	6.3	6.5	6.7	7.2	7.4	7.5	8.0	8.4	9.1
	Consumption	5.0	4.9	6.2	6.3	6.7	7.6	7.6	7.7	8.0	8.4	8.7
	Surplus/deficit*	+5.6	+12.6	+0.1	+3.4	+0.1	-5.5	-2.0	-2.0	+0.6	+0.2	+4.5

* Annual production surplus (+) or deficit (-), as per cent of consumption. N.b. The percentages might not exactly match the production and consumption totals shown on this table, due to rounding.

Source: UNCTAD, *Commodity Yearbook 2003*; and the author's calculations.

Table 3 Commodity prices for low- and middle-income countries in 2003 as a percentage of 1990 prices

Commodity	Price index (1990 = 100)
Energy commodities	126.3
Non-energy commodities	91.5
Agriculture	94.7
Beverages	87.1
Food	96.4
Fats and oil	120.6
Grains	90.2
Other food	80.1
Raw materials	98.2
Timber	103.7
Other raw materials	94.4
Fertilisers	106.2
Metals and minerals	82.0

Source: World Bank

Table 4 Instability indices and trends in monthly market prices for selected commodities, 1977-2001

Commodity	Price instability indices (per cent variation)	Price trends (annual average rate of change, per cent)	
		Current US\$	Constant US\$
All commodities:			
in current dollars	11.6	-0.4	-2.8
in SDRs	9.4	-1.2	-3.7
Total food	13.0	-0.9	-3.3
Tropical beverages and food	13.2	-0.9	-3.3
Tropical beverages	20.8	-3.2	-5.6
Coffee	26.0	-2.7	-5.1
Cocoa	18.6	-4.5	-6.9
Tea	14.5	-1.1	-4.4
Food	15.7	-0.1	-2.6
Wheat	15.3	2.9	-2.6
Maize	13.0	1.3	-2.6
Rice	18.6	-1.2	-3.7
Sugar	34.5	-0.1	-2.5
Beef	12.5	-0.8	-3.2
Bananas	16.9	1.8	-0.6
Pepper	40.9	2.9	0.4
Soybean meal	13.0	-0.4	-2.8
Fishmeal	16.9	0.9	-1.5
Vegetable oilseeds and oils	19.7	-1.0	-3.5
Soybeans	11.9	-0.8	-3.3
Soybean oil	19.3	-1.0	-3.3
Sunflower oil	18.6	-0.8	-3.3
Groundnut oil	20.1	-0.1	-2.5
Copra	27.5	-1.3	-3.7
Coconut oil	28.6	-1.0	-3.5
Palm kernel oil	29.6	-1.3	-3.7
Palm oil	26.1	-1.3	-3.7
Cottonseed oil	14.2	-0.8	-3.3
Agricultural raw materials	11.7	0.4	-2.0
Cotton	16.0	-1.0	-3.4
Wool	23.7	-0.7	-3.2
Jute	20.5	-0.7	-3.1
Sisal	10.7	1.6	-0.9
Non-coniferous woods	10.5	3.8	1.4
Tropical logs	16.4	1.8	-0.6
Tropical sawnwood	21.6	4.5	2.1
Plywood	18.1	4.2	1.8
Linseed oil	21.9	-0.4	-2.8
Tobacco	8.1	1.5	-1.0
Hides and skins	23.3	-2.2	-4.8
Rubber	21.8	-1.2	-3.6

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Commodity	Price instability indices (per cent variation)	Price trends (annual average rate of change, per cent)	
		Current US\$	Constant US\$
Minerals, ores and metals	14.0	0.5	-1.9
Phosphate rock	10.6	0.4	-2.0
Manganese ore	25.2	2.2	-0.2
Iron ore	7.7	0.6	-1.8
Tungsten	23.4	-5.2	-7.7
Aluminium	18.8	0.9	-1.6
Copper	22.5	1.2	-1.3
Nickel	25.9	1.0	-1.4
Zinc	17.8	2.3	0.0
Lead	21.8	-1.1	-3.6
Tin	17.8	-5.1	-7.5
Gold	20.3	0.1	-2.3
Silver	25.5	-3.0	-5.4
Crude petroleum	29.3	-0.9	-3.4

Source: UNCTAD

Table 5 Agricultural CDDCs grouped by the character of trade access to the U.S. and E.U. of their leading commodity export

Leading export commodity	Country	Total population, 2001 (millions)	% of exports from leading commodity	Human development ranking	GDP per capita, US\$ (PPP), 2001
1. Preferential trade access (for some developing countries)					
Bananas	St Lucia	0.1	54	71	5,260
	St Vincent	0.1	37	80	5,330
	Dominica	0.1	27	68	5,520
	Ecuador	12.6	24	97	3,280
	Panama	3.0	23	59	5,750
	Costa Rica	4.0	21	42	9,460
Sugar	St Kitts & Nevis	(.)	35	51	11,300
	Cuba	11.2	35	52	-
	Belize	0.2	26	67	5,690
	Guyana	0.8	24	92	4,690
	Fiji	0.8	23	81	4,850
	Mauritius	1.2	20	62	9,860
	Swaziland	1.1	20	133	4,330
	Dominican Republic	8.5	13	94	7,020
	Barbados	0.3	12	27	15,560
2. Support for E.U. or U.S. farmers without quotas for the South					
Cotton	Burkina Faso	12.3	39	173	1,120
	Chad	8.1	37	165	1,070
	Benin	6.4	33	159	980
	Mali	12.3	30	172	810
	Togo	4.7	23	141	1,650
	Somalia*	9.1	23	-	-
	Central African Rep.	3.8	11	168	1,300
Groundnuts	Gambia	1.4	20	151	2,050
Soybeans	Paraguay	5.6	39	84	5,210
Tobacco leaves	Malawi	11.6	59	162	570
	Zimbabwe	12.8	22	145	2,280
3. Free market					
Cocoa	Niue	-	71	-	-
	São Tomé & Príncipe	0.2	69	122	-
	Côte d'Ivoire	16.1	36	161	1,490
	Ghana	20.0	24	129	2,250
Coffee	Burundi	6.4	75	171	690
	Ethiopia	67.3	62	169	810
	Uganda	24.2	54	147	1,490
	Rwanda	8.1	43	158	1,250
	Sierra Leone	4.6	32	175	470

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Leading export commodity	Country	Total population, 2001 (millions)	% of exports from leading commodity	Human development ranking	GDP per capita, US\$ (PPP), 2001
Coffee (continued)	El Salvador	6.3	24	105	5,260
	Guatemala	11.7	24	119	4,400
	Honduras	6.6	22	115	2,830
	Nicaragua	5.2	19	121	-
	Colombia	42.8	16	64	7,040
	Tanzania	35.6	15	160	520
	Madagascar	16.4	12	149	830
Tea	Kenya	31.1	26	146	980
4. Miscellaneous					
Cashewnuts	Guinea-Bissau	1.4	48	166	970
Copra	Vanuatu	0.2	43	128	3,190
	Kiribati	0.1	42	-	-
	Samoa	0.2	12	70	6,180
Ghee	Gaza Strip	3.3†	39	98†	-
Goatskins	Afghanistan*	22.1	14	-	-
Nutmeg	Grenada	0.1	38	93	6,740
Pumpkins	Tonga	0.1	44	-	-
Sesame seeds	Sudan	32.2	13	138	1,970
Vanilla	Comoros	0.7	34	134	1,870

* In Somalia 71 per cent of the population were undernourished and in Afghanistan 70 per cent in 1998-2000.

† Occupied Palestinian Territories.

Sources: European Commission, OECD, UNDP

Notes

- ¹ The question is discussed, among others, by Wade (2003).
- ² UNDP, *Human Development Report 2003*, Table 12, pp. 278-81.
- ³ European Commission (2003), p.
- ⁴ Ross (2001), p. 7.
- ⁵ UNCTAD (2003A), Table A.2.
- ⁶ Robbins (2003), p. 9. The products are: copra, coconut oil, palm oil, sugar, cocoa, coffee, tea, pepper, groundnuts, jute, cotton and rubber. The Federal Reserve Bank of Minneapolis is cited as the source.
- ⁷ Omitting coconut oil and pepper. *Ibid.*, p. 11, citing the U.N. Food & Agriculture Organisation and Public Ledger.
- ⁸ The issues which are specific to Africa are explored in UNCTAD (2004).
- ⁹ Pinheiro et al (2001), p. 12.
- ¹⁰ Keynes' "The International Regulation of Primary Products" (1942) is cited in Maizels (2000), p. 12.
- ¹¹ For an excellent summary of this history, see Love (2001).
- ¹² MacBean and Nguyen (1987), p. 12. More information about the CFC can be found on the internet at www.common-fund.org/facts/0311facts_uk.pdf.
- ¹³ Common Fund for Commodities (1980), p. 11, Article 18.3(a).
- ¹⁴ UNCTAD (2002), p. 115.
- ¹⁵ Lines (1990) gives an account of what this meant for the aluminium and bauxite markets, and especially their participants in developing countries.
- ¹⁶ An extended account of the tin crisis is given in Nguyen and MacBean (1987), pp. 196-99.
- ¹⁷ The last of the ICAs, with both producer and consumer countries as members, were those for cocoa and natural rubber. The former suspended its buffer-stock operations in 1990 while the latter was terminated in 1999. OPEC continues to regulate its members' supplies on the oil market.
- ¹⁸ UNCTAD (2003C), Chap. II, Para. 32.
- ¹⁹ UNCTAD (2002), Part 2, Chap. 4, p. 139.
- ²⁰ UNCTAD (2002), p. 124. The mineral-exporting LDCs are identified as the Central African Republic, the Democratic Republic of the Congo, Guinea, Liberia, Niger, Sierra Leone and Zambia. Three of these seven countries have suffered major civil wars in recent years.
- ²¹ *Ibid.*, p. 126. UNCTAD lists 21 LDCs as agricultural exporters.
- ²² Basic information is available on the internet from the International Copper Study Group at www.icsg.org/Factbook/copper_world/production_consumption.htm.
- ²³ Ross (2001), p. 5.
- ²⁴ *Ibid.*, p. 8.
- ²⁵ Accounts of the conflict can be found on the internet at www.converge.org.nz/watchdog/97/9.htm and carbon.cudenver.edu/public/fwc/Issue8/mining-2.html.
- ²⁶ UNCTAD (2003A). Available on the internet at r0.unctad.org/infocomm/comm_docs/cybframes.htm.
- ²⁷ UNCTAD (2002), p. 162, which cites World Bank, *Global Economic Prospects and the Developing Countries* (1996), and M. Schiff, "Commodity exports and the adding-up problem in LDCs: trade, investment and lending policy" in *World Development*, Vol. 23, No. 4 (1995).
- ²⁸ The countries are listed by the U.N. Food & Agriculture Organisation on the internet at www.fao.org/countryprofiles/lifdc.asp?lang=en.
- ²⁹ International Monetary Fund (2002), Table 21, p. 25.
- ³⁰ May be found on the internet at www.ico.org; click on "Coffee Crisis."
- ³¹ International Trade Centre (2002), p. 29.
- ³² Vorley (2003), p. 51.
- ³³ All the data was found on the ICO's website, www.ico.org.
- ³⁴ Ross (2001), p. 7.
- ³⁵ UNDP (2003), Tables 1 and 2, pp. 239 and 243.
- ³⁶ These "include items whose income elasticity of demand is greater than unity and much higher than that of traditional agricultural products. The group includes meat and meat products, fish and fish products, fruits, vegetables, nuts, spices and vegetable oils," according to UNCTAD.
- ³⁷ UNCTAD (2002), Table 35, p. 147.
- ³⁸ See UNCTAD (2003C), paras 27-29, p. 9.
- ³⁹ UNCTAD (2003B), Box 1, p. 6.
- ⁴⁰ UNCTAD (2003C), pp. 4-5 and 10.
- ⁴¹ See Lines (1990), p. 250.
- ⁴² European Commission (2003), Box 5, p. 22.
- ⁴³ MacBean and Nguyen (1987), p. 253.
- ⁴⁴ Gabriele and Vanzetti (2004).
- ⁴⁵ Vorley (2003), ch. 3, pp. 28-38.

⁴⁶ WTO (2003B), p.5, para. 26.

⁴⁷ WTO (2003A), pp. 9-10.

⁴⁸ Common Fund for Commodities (1980).

⁴⁹ Oxfam International (2004) makes some further proposals along these lines.

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