



## United Nations Conference on Trade and Development

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TRADE AND DEVELOPMENT BOARD  
Standing Committee on Commodities  
Third session  
Geneva, 31 October 1994  
Agenda items 3, 4, 5 and 7

Draft agreed conclusions submitted by the Chairman

1. The Standing Committee on Commodities noted that the prices of many commodities, after having fallen in previous years to historical lows in real terms, had risen sharply in nominal terms in 1994, driven by improved demand, reduced stock overhang, investor interest and currency movements. It nevertheless remained the case that this price development was uneven, the prices of some commodities stagnating, whilst those of others actually declined. Moreover, viewed in real terms, prices for certain commodities were still lower than they had been in the previous two decades.

2. The Committee looked forward to the ratification of the agreements of the Uruguay Round and its early entry-into-force, so as to trigger the benefits which could be expected to accrue to all countries, but especially the developing countries, from strengthened rules and institutions and from improved conditions of market access. Special mention had been made of the Uruguay Round agreement on agriculture, which is of particular importance in the context of commodities. It would lead to reductions in agricultural subsidies and, thus, surplus supplies in the industrial countries, but might also increase the costs of imports for net food importing developing countries on a temporary basis.

3. The Committee welcomed the agreed phased dismantling of the Multi-Fibre Agreement system as a result of the Uruguay Round, which would be highly beneficial to efficient developing country producers. It observed that tariff escalation would be reduced somewhat by the m.f.n. tariff reductions agreed in the Round, but noted that there remained problems created by non-tariff barriers which hindered the efforts of primary commodity exporters to diversify vertically into the export of value-added products.

4. The Committee examined in depth the linkages between competitiveness and diversification. Statistical analysis presented by the secretariat showed that while some generalisations could be made, policy approaches always had to be adapted to suit the particular circumstances of each country. Diversification could greatly contribute to overall economic growth particularly when undertaken in a manner appropriate to the needs of the country. Diversification should be considered as one important aspect of a policy approach to be pursued in the light of overall development possibilities and considerations of comparative advantage.

5. The Committee noted with concern that most of the countries which had very high levels of dependence on three commodities fifteen or more years ago, remained highly dependent. These countries in most cases were achieving lower than average growth rates, and were also for the most part countries with low GNP per capita levels. A strong commodity sector was a good basis for export diversification, both vertical and horizontal, and problems on the supply side and a lack of competitiveness in the commodity sector had been important impediments to the economic performance of many commodity-exporting countries, particularly in Africa, in recent years.

6. The Committee was of the view that appropriate macro-economic reforms, trade policy reforms, appropriate exchange rate policies, facilitation of access to foreign exchange for imported inputs, creation of a favourable investment climate, development of the domestic financial sector, efforts to improve infrastructure, export promotion measures, in particular South-South trade, encouraging research and development and human capital formation were all priority areas for public policy in commodity-dependent countries. The Committee was also of the view that liberalized market access, including reduction of tariff escalation, financial and technical support from the international community and overcoming and removing barriers to exit were necessary for the success of diversification efforts.

7. The Committee observed that improved marketing would also be an important tool for improving the export possibilities of commodity-exporting developing countries. Ability to make use of modern marketing instruments, improvement of access to trade-related information, commercial strength, presentation of products and effective export promotion were all necessary elements of a transparent marketing policy, as they could both open up new market opportunities and produce gains in terms of prices obtained. UNCTAD's work in the field of trade efficiency following the recent United Nations International Symposium on Trade Efficiency in Columbus Ohio would also be of help to developing countries in this regard. In this context, the division of labour among the various institutions providing trade-related technical assistance, including UNCTAD, GATT/WTO and International Trade Center UNCTAD/GATT, should be reviewed with the objective of fully utilising existing strengths, increasing the combined impact and avoiding unnecessary overlap.

8. The Committee observed that there had been examples where commodity production and processing had contributed to considerable local or global environmental damage. It was in the interest of both producers and consumers to identify policies and measures which could mitigate this damage. Commodity production could also, however, provide significant environmental services when carried out sustainably, for example by limiting erosion, acting as a carbon sink and reducing environmental stress by supplying products which have environmental advantages. Moreover, improved competitiveness and increased utilization of environmentally friendlier products could also help in increasing foreign exchange resources of developing countries from which many such products originate, be it through increasing exports or via the replacement of imports. Further work on these issues was necessary in UNCTAD and the secretariat should continue its excellent analysis in this area. In so doing, emphasis should be placed on theoretical and practical work regarding the internalization of environmental externalities, with particular focus on the impact on the environment of main distortions in price formation mechanisms, in particular the impact of subsidies and on experimental studies for some specific products where internalization would appear to be most readily addressed.

9. The Committee reiterated the importance of the agreements reached at the UNCED conference in Rio de Janeiro, particularly as regarded the changing of consumption patterns (chapter 4 of Agenda 21), and considered that market forces, assisted by growing consumer awareness of the advantages of environmentally friendly products, were likely to generate increased demand for such products over the next few years. This would be particularly the case to the extent that consumers were willing to pay a premium for products with environmental advantages. In cases where such demand shifts did not occur spontaneously, it could be expected that fiscal and pricing measures to

encourage the internalisation of environmental costs could result in significant changes in patterns of consumption.

10. The Committee considered that improved information about the environmental implications of production, reasonable logistical aspects in transportation, consumption and disposal of products as well as the links between economic policies and the environment would be of value and requested the UNCTAD secretariat to intensify its research in these areas. Increased efforts to stimulate awareness of the environmental advantages of products needed to be undertaken, and effective marketing would be essential. The Committee agreed that in the light of further research governments should consider promoting policies and measures to internalise environmental externalities and that cooperation on research activities to spread costs also be promoted. In this context, it was recognized that internalization had to be undertaken collectively in those sectors where negative externalities appear.

11. The Committee agreed that the international commodity bodies (ICBs) could play a positive role in promoting more attention to environmental issues and appealed to these bodies to take account of the accepted commitments with regard to sustainable development in the framework of UNCTAD (Cartagena) and UNCED (Rio) when developing their courses of action; particularly important in this respect was the application of lifecycle analysis to their specific commodities. The UNCTAD secretariat was also urged to undertake work to improve the applicability of lifecycle analysis to commodity issues. The Common Fund for Commodities and other international financial institutions had a role to play in providing assistance to developing countries in the development and promotion of environmentally preferable products and ICBs were encouraged to submit projects in this area to the Fund for financing.

12. The Committee considered that there was considerable scope for financial and technical cooperation between developed and developing countries for improving the environmental advantages of natural products. Technical cooperation among developing countries also offered important opportunities in this respect. The secretariat was requested to examine with FAO, International Trade Center UNCTAD/GATT and other relevant international organisations the feasibility of the establishment of a grouping of public and private sector entrepreneurs and commercially oriented research and development scientists, academicians and technologists to work towards the development and transfer of innovative technologies for environmentally sound commodity production.

13. The Committee, having heard a report by the Chairman of the Group of Experts on Risk Management, commended the Chairman for his presentation, and expressed its thanks to the Experts, who had devoted their time and energy to make the expert group meeting a success. The Committee noted with appreciation the policy recommendations made by the Group of Experts, noting that commodity price risk management was likely to be of increasing importance to commodity producing and exporting countries over the next several years. Wider reliance on modern risk management techniques and instruments among developing countries would necessarily be conditional on the availability of necessary policy, institutional, infrastructure, and human resource requirements. The Committee accordingly requested the UNCTAD secretariat to disseminate widely the very useful information it had assembled on the subject, through follow-up technical assistance activities or other appropriate modalities so that local awareness and understanding of these techniques and instruments could be enhanced. The Committee also urged the UNCTAD secretariat to continue its work on commodity risk management, particularly in regard to fundamental policy issues and institution-building in the developing countries and countries in transition.