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**DRAFT REPORT OF THE STANDING COMMITTEE ON COMMODITIES
ON ITS FOURTH SESSION**

Rapporteur: Mr. Tang Yufeng (China)

INTRODUCTION AND ITEMS 3, 4 and 6

Speakers:

Chairperson	Switzerland
Deputy to the Secretary-General of UNCTAD	Japan
Kenya (for African Group)	Bangladesh
Spain (for European Union)	China
Philippines (for Asian Group)	FAO
United Republic of Tanzania	Mexico
Côte d'Ivoire	Cuba
	Panama

Note for Delegations

This draft report is a provisional text circulated for clearance by delegations.

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INTRODUCTION

1. The Standing Committee on Commodities held its fourth session at the Palais des Nations, Geneva, from 30 October to 3 November 1994. In the course of the session, the Standing Committee held plenary meetings and a number of informal meetings.

Opening statements

2. The Chairperson said that the issue of commodities had been neglected in recent years, as the intergovernmental agenda had focused on other concerns. However, the fundamental problems raised by the heavy dependence of many developing countries on the production and export of commodities remained unsolved in a large number of these countries. The task of the Committee was to find solutions to these problems by focusing on the way the end-user, i.e. the Government or policy-maker, could benefit from improved policies. In this context, the experience of a number of countries which had managed to overcome these problems should also be looked into. With regard to the three main items on the agenda, she welcomed the organization by the UNCTAD secretariat of a round table on producer-consumer cooperation with the participation of a dozen international commodity organizations, as well as the participation of guest speakers at the informal sessions on each of the substantive topics on the agenda.

3. She did not share in the general pessimism that was so pervasive in the commodity sector. She believed that the strong growth of developing countries in Asia and Latin America, the ongoing reforms in African and Eastern European countries, the additional income growth which should arise from the implementation of the Uruguay Round, and population increases should lead to a surge in commodity demand in the next two decades. She was also of the opinion that, given the increasing general concern over the sustainability of current consumption patterns, a substantial increase in the trade of environmentally preferable natural products was likely. Finally, she held out the hope that, if countries could put in place the necessary preconditions for efficient and responsive commodity production, then reliance on the commodity sector could be an effective springboard to sustained growth.

4. The Deputy to the Secretary-General of UNCTAD stressed the importance which the Secretary-General of UNCTAD attached to the issue of commodities as an absolutely vital area of international concern given the heavy dependence of the world's poorest countries on the production and export of commodities. While international concern for commodity problems had waned in recent years, the

problems remained, compounding the danger of marginalization for commodity-dependent countries in the international division of labour. As one of these problems, he cited the level of commodity prices, which in real terms were at their lowest level in 90 years. The reasons for this were many. Although the demand factor had played a role, the supply factors had clearly predominated. The volume of commodity exports of industrialized countries and countries of South and South-East Asia had trebled in the past two decades and those of Latin America had more than doubled, while exports by Africa remained stagnant. Consequently, the real value of Africa's commodity export earnings had been reduced by half in the last two decades.

5. The Committee was the only forum where solutions to the problems of the world commodity economy could be sought, as well as the only forum in the international system which covered the whole gamut of commodities and their related problems. With regard to the area of producer-consumer cooperation, discussions with the executive heads/representatives of all relevant international commodity organizations were envisaged.

6. Finally, the Uruguay Round's Agreement on Agriculture was a major step forward, and for the first time this sector had been brought under the same rules as operated in other traded-goods sectors. UNCTAD was the only intergovernmental forum with broad membership where issues related to the complex and challenging area of the nexus between environmental costs and commodity prices were being actively discussed and debated. This type of dialogue should be pursued so that legitimate concerns could be fully debated and a consensus reached on new approaches which would enable developing countries to achieve the twin goals of economic growth and environmental protection. The secretariat was also increasingly being requested to ensure continuity of work in the area of mineral resources, following the demise of various intergovernmental bodies previously established outside UNCTAD.

7. The spokesman for the African Group (Kenya) said it should be underlined that many developing countries, especially in Africa, continued to depend on a few basic commodities for foreign exchange earnings, employment creation, and income generation. A viable commodity sector contributed significantly to good health and poverty alleviation in rural areas and could assist in curbing rural-urban migration. The African continent was aware of the need to reformulate macro-economic, trade and investment policies in order to increase its participation in the processing, marketing, distribution and transportation of commodities. In this respect, he stressed the importance of both improved market access internationally and support for such policy measures by the international community.

8. With regard to the question of the examination of the manner in which prices of natural commodities and their synthetic competitors could reflect environmental costs, he noted that the concept of internalization was still not well understood and that, even to those policy-makers who understood it, the fear of loss of competitiveness in international markets was real. Furthermore, the expectation that competing producers of the same or substitute commodities could cooperate so as to reflect environmental costs in commodity prices might be a bit too ambitious.

9. With regard to agenda item 4 and the study prepared by the secretariat, all the areas highlighted as requiring further action were of great interest to Africa, especially private barriers to trade stemming from restrictive practices, lack of access to technology on reasonable terms for developing countries and excessive brand advertising. Other problem areas which required additional efforts included improvement of market transparency, reduction of excessive price fluctuations, intensification of research and development, the possibility for developing countries to participate effectively in the revolution in the field of biotechnology and new materials, promotion of local processing and improvement of marketing systems and practices.

10. Some unfolding characteristics of the commodity sector were worth noting. The first had to do with the balance between producers and consumers, which was changing as a result of demographic and economic changes. The second was linked to the fact that the acceptance of liberalization and globalization had meant that the commodity sector was no longer a sector in which price regulation was managed through economic mechanisms. African countries were concerned that the abolition of their marketing boards had reduced their ability to deal with excessive price instability, which would continue to plague the commodity sector in the future. In order to monitor these and other developments, the secretariat's proposals for the development of a work programme on commodities in the post UNCTAD IX period deserved their support. When discussing these proposals, there was a need to prioritize those areas that would realize immediate benefits for commodity-dependent developing and least developed countries.

11. Finally, he underscored the comments of the Secretary-General of UNCTAD to the press concerning the likely marginalization of commodity economies, especially in Africa, as a result of ongoing globalization and liberalization. He shared the Secretary-General's surprise with regard to those decision-makers who dismissed commodities as a non-priority area of concern when addressing world development issues, and he welcomed the emphasis the Secretary-General of UNCTAD had placed on the commodity sector.

12. The representative of Spain speaking on behalf of the European Union, referring to agenda item 3, said that an understanding of such technically complex topics required a correspondingly high degree of expertise. More clarification was needed on the relationship between growth and internalization. In some instances, developing countries might be faced with a choice between implementation of internalization policies and economic growth. The concept of internalization needed more theoretical clarification in order to distinguish between the issue of internalization *per se* and the issue of reflecting internalized costs in prices. There was merit in the idea that, where producers could reach agreement on internalization of external environmental costs, importing countries could assist them by improving market access in order to make it possible to include these costs in prices. UNCTAD should focus on subjects which would require more empirical rather than theoretical research.

13. As regards agenda item 4 and UNCTAD projections of changes in trade revenues due to the impact of the Uruguay Round, he said that in the view of the European Union, it was unlikely that the so-called erosion of trade preferences due to the conclusion of the Round would destabilize ACP countries' export earnings. Studies had shown that countries did not benefit from preferences mainly because their industrialization was not sufficiently advanced to allow them to benefit from preferences on processed products. Commodities would remain the major source of foreign exchange earnings for ACP countries. General trade liberalization resulting from the Round would in the long run be more helpful than preferential trade arrangements. However, the recent review of the Lomé Convention had resulted in increased preferential margins for a range of products. At the same time, diversification of developing countries' exports away from traditional commodities should be encouraged.

14. With reference to chapter IV of the secretariat's report on the impact of the Uruguay Round, the European Union agreed that efforts had to be made in those areas where substantial barriers remained, notably with regard to subsidies given to domestic production in developed market economies. Ideas for measures described in the chapter were generally welcomed but needed to be made more precise and concrete. A range of measures and efforts would be needed.

15. With regard to agenda item 6, the European Union believed that the secretariat's document gave a good overview of matters relating to the work programme and that relevant work on commodities should continue in UNCTAD. Both the forthcoming Trade and Development Board review and UNCTAD IX would provide occasions to consider the issue of the work programme. UNCTAD should continue to play a role in technical assistance through well formulated and targeted projects. The idea of creating a standing body on mineral resources would have

to be seen in relation to UNCTAD's overall priorities and, while general issues might be considered regularly in UNCTAD, specific commodity issues might be addressed in the context of less formal expert groups.

16. The spokesman for the Asian Group (Philippines) said that, given the commitment of Asian developing countries to sustainable development and the importance of commodities in their economies in terms of foreign exchange earnings and government revenues, discussion under agenda item 3 was specially crucial. He warned that any decline in export earnings resulting from the internalization of environmental costs would be a serious if not devastating blow to the well-being and even survival of millions of people in the developing countries of Asia. While fully appreciating the importance of environmental protection and resource conservation, developing countries could not afford to bear the burden of environmental protection on their own. Surveys had shown that consumers were willing to pay higher prices to cover environmental protection, and environmental costs could be internalized successfully if producer-consumer cooperation, as well as cooperation among producers themselves, could be achieved. Developing countries could even benefit from the potential offered by their environmentally preferable products, and consequently implement sustainable development policies, if price-distorting subsidies were eliminated and if environmental costs were internalized in less environmentally friendly products. In this regard, he called for further examination of the issue, using both commodity-by-commodity and cross-commodity approaches, including the socio-economic impact of environmental policies. Given that the internalization of environmental costs in commodities had never before been discussed in any other international fora, he hoped that its consideration within UNCTAD would lead to international cooperation for sustainable development to all, especially commodity-producing developing countries.

17. Turning to agenda item 4, he reminded the Committee that, for the majority of Asian countries, international trade meant commodity exports. Commodities also remained important for countries that had diversified into manufactures, for the value added domestically for an agricultural or mineral commodity exported was generally higher than that of a manufactured product, which usually had a higher proportion of imported inputs. There was a need to arrest the decline in the share of developing countries in world commodity exports and to encourage diversification by developing countries as a desirable means for sustainable growth, and in that connection he expressed appreciation for the secretariat's analytical report on market access issues. While raising the Uruguay Round Agreement on Agriculture with its measures against domestic support and export subsidies, he pointed out that it had also resulted in the transformation of non-tariff barriers into high tariffs. In the year 2001, for

example, sugar would still face a tariff of from 80 to 150 per cent in the principal developed markets. For agricultural products not covered by the Agreement on Agriculture, tariff escalation and tariff peaks would continue to play a significant role and negatively affect the diversification prospects of developing countries. International trade in tropical products had not been fully liberalized, despite commitments at Punta del Este. Other access issues not addressed under the Agreement on Agriculture included private barriers stemming from, *inter alia*, restrictive business practices, lack of access to technology, and the escalation for developing countries of freight rates and marketing costs with the degree of processing.

18. Conceding that trade liberalization was not a panacea for all the problems of commodity-dependent developing countries, he said that additional efforts were needed in related areas such as supply management and rationalization to reduce excessive price fluctuations, research and development in respect of new end uses, effective participation of developing countries in the revolution in the field of biotechnology and new materials, and improvement in marketing systems and practices. However, the issue of market access remained of primary importance and should be continually reviewed in conjunction with monitoring of the implementation of the Uruguay Round. In this regard, the UNCTAD secretariat could also play a pivotal role in assisting developing countries in identifying specific proposals relating to improved market access and transparency for commodities, particularly tropical products and natural-resource-based products.

19. The representative of the United Republic of Tanzania underscored the crucial importance of the commodity sector to the economies of African countries. Diversification, improved market access conditions and more effective producer-consumer cooperation were the most important strategic objectives in resolving commodity-related problems. The provision of adequate financial resources and technical assistance designed to improve physical infrastructure, the skill level of the labour force, export marketing support services and the investment climate were required. Donor countries were called upon to support the measures undertaken by the concerned developing countries themselves.

20. The Common Fund for Commodities could play a significant role in assisting commodity-producing developing countries, in particular in diversification, through operations funded from its Second Account. He expected that the major contributors to the Fund would agree to allow the resources of the First Account to be used to fund commodity-related activities such as the promotion of physical market development, the enhancement of market infrastructure and support services, etc. However, least developed countries (LDCs) should be permitted to use these funds as grants, rather than as loans, as was the case with funds

from the Second Account. The Common Fund had to be maintained and strengthened, since there were no other commodity-specific funding mechanisms. Donors should also provide resources for the establishment of a diversification fund for Africa, as called for in General Assembly resolution 49/104 of 19 December 1994. In addition, multilateral organizations should give priority to financing diversification projects and programmes in African LDCs.

21. The revitalization of producer cooperation was crucial. Producers and consumers had come to realize that depressed prices discouraged production in the long run. It was therefore in their interest to support measures aimed at supply rationalization and ensure that remunerative prices were paid to producers. Recently developed techniques in the area of biotechnology could raise output in the production of food and commodities, which could be very useful for small farmers in the LDCs. However, these techniques had been used mainly in developed countries, which already suffered from overproduction, rather than in LDCs, which produced too little. In addition, in vitro production of basic food items and commodities could drive most traditional producers out of the market. The bio-technology revolution could cause a significant relocation of agricultural production out of the developing countries and worsen their already precarious economic situation. He urged UNCTAD to carry out an in-depth analysis of the negative impact of the biotechnology revolution, especially competition from new products, on the production of commodities in developing countries and to recommend a compensation mechanism. In the meantime, the international community should provide the resources and the technical assistance required to enable developing countries to acquire bio-technologies on favourable terms. Finally, he was pleased to note that measures concerning commodities would receive adequate focus in the deliberations of UNCTAD IX.

22. The representative of Côte d'Ivoire, referring to items 3 and 4, said that three considerations were of particular importance. First, notwithstanding the design and implementation of extremely costly diversification policies, many developing economies remained extremely fragile because of their dependence on revenues from commodities of agricultural or mineral origin. Second, the negotiations of GATT, including those of the Uruguay Round, had led to the liberalization of trade in primary commodities, without enhancing trade in processed commodities. This had led to enhanced protectionism in developed countries through tariff escalation, and the latter strongly compromised the diversification efforts undertaken by various developing countries. Third, developed countries had succeeded in considerably increasing their market share of commodities in total world trade, while both developing countries and economies in transition were confronted with a decline in their market share of world exports.

23. Even though the report of the secretariat concluded that the results of the Uruguay Round could have some positive impacts on trade in commodities, it should be borne in mind that these gains should be considered with caution, as they were often based upon hypotheses and probabilities rather than effective results. More attention should therefore be given to commodity-related problems and the functioning of the worldwide commodity market on the occasion of the Africa-hosted UNCTAD IX. The current world market was characterized by an almost complete failure of international commodity agreements, a malfunctioning of the Common Fund for Commodities, and chronic instability of commodity prices. He therefore fully supported the statement for the press made by the Secretary-General of UNCTAD, in particular with regard to his comments on the crucial importance of commodities for the African continent.

24. The representative of Switzerland expressed the view that one of the main tasks of the Standing Committee was to provide a major input to the process of preparation for UNCTAD IX. The secretariat's documentation for the session provided a solid basis for the Committee's deliberations. Her delegation was pleased that high priority was attached to reducing the instability and risks facing commodity producers, and it endorsed future work in this field. It also agreed that promotion of commodity diversification was of central importance to developing countries. The problem might, however, be one of commodity dependence rather than commodities as such, and a sectoral approach might be too limited in scope. A number of related elements were covered by UNCTAD, and UNCTAD should therefore be in a good position to make a valuable contribution. As regards efficient management of natural resources, her delegation had doubts as to whether UNCTAD provided the appropriate institutional framework for this important issue, and it would like to have a better understanding of what was being done by other relevant international organizations.

25. With regard to agenda item 3, since the quality of the environment had become an issue of great political concern, efficient solutions for the achievement of sustainable development had to be found. The implementation of internalization of environmental costs in the field of commodities might be difficult for commodity-dependent economies. The adoption of ecological production methods would not necessarily have an impact on prices. As to the question of how internalization of environmental costs might be best realized, measures could be taken at the multilateral, regional, national or producer level in order not to lose competitiveness. A possible solution could be the negotiation of new multilateral agreements on specific environmental standards for the production of commodities. At the national or producer level, diversification towards ecologically sound products could be achieved, since

there was a tendency, especially in developed countries, for consumers to prefer products that were ecologically produced, even though more expensive.

26. As regards agenda item 4, her delegation agreed that the Uruguay Round represented an important step towards improving the situation of commodity-dependent economies, but efforts would have to be made in the future to reduce the commodity-related trade barriers of high tariffs and tariff escalation. Trade liberalization, however, did not provide a solution to all the problems confronting commodity-dependent developing countries. Additional measures were required to allow developing countries, particularly the least developed among them, to benefit from the new opportunities. Switzerland was providing different forms of technical assistance to developing countries in this context.

27. The representative of Japan said that commodity issues had played an important role in the economies of the developing countries, as well as a leading role in the work of UNCTAD. The current session should give an indication to UNCTAD IX on the future role of the Committee. Regarding agenda item 3, he stressed that each country should strive for sustainable development, and to that end it was of the utmost importance to establish a system of mutually supportive trade and environment policies and to create effective mechanisms for the internalization of environmental costs. Such internalization should now, however, induce protectionist measures. Regarding agenda item 4, it was too early for an assessment of the implications of the implementation of Uruguay Round agreement. International organizations such as UNCTAD should provide technical assistance to developing countries on issues related to the Uruguay Round agreements. Regarding agenda item 6, he welcomed the secretariat's work undertaken since UNCTAD VIII, in particular the new approach with regard to organizing expert group meetings with a view to preparing practically oriented material for the sessions of the Committee on Commodities.

28. The representative of Bangladesh said that no comprehensive approach to commodity problems had been found and that countries had been reluctant to tackle these problems comprehensively in UNCTAD. Regarding pressures by some countries to re-orientate UNCTAD's work, the extent to which UNCTAD had helped to alleviate commodity problems needed to be taken into account. A number of objectives needed to be addressed to make UNCTAD's work more relevant in the area of commodities: (i) reducing instability in commodity markets; (ii) mobilizing resources for diversification; (iii) ensuring greater market access for commodities; (iv) adequately compensating for shortfalls in export earnings from commodities; and (v) undertaking a cost-benefit analysis of the integration of environmental aspects into the analysis of commodity issues.

29. The representative of China, referring to agenda item 3, said that the internalization of environmental costs was an important issue of practical relevance, in particular for developing countries. Increased trade and living standards, as well as economic development, should be achieved in conjunction with rational use of natural resources and enhanced care for the environment and the well-being of future generations. International trade and investment should be developed in a balanced way that took account of environmental concerns.

30. There were three issues of particular relevance. First, there was an urgent need for studies regarding the feasibility of internalization of environmental costs and for pilot projects based on the experience gained in this field. He underlined the importance of identifying the impact of internalization measures on variables such as production, economic growth, employment and the elasticity of demand for commodities, while paying due attention to country-related conditions. Second, a distinction should be made between policy aspects and technical aspects. Problems such as implementing internalization measures without negatively affecting poverty alleviation should be studied in a policy context. Technical aspects, however, should be studied by experts. Third, as regards international cooperation, developed countries were often ahead of developing countries in many environment-related matters, and the production of commodities tended to adversely affect the environment in developing countries. Developing countries should therefore assume greater responsibilities in facilitating the transfer of technologies and financial resources to developing countries where poverty was an overriding issue. He concluded that the work of the secretariat on these issues deserved considerable support.

31. The representative of the United Nations Food and Agriculture Organization (FAO) said that the general thrust of the secretariat's report on agenda item 3 was similar to ideas discussed by the FAO's Committee on Commodity Problems (CCP), which had identified the following approaches: (1) product differentiation via labelling; (2) formation of groups of producers that would undertake environmental policy simultaneously and would pass on some of the costs to importers; and (3) subsidies by Governments to producers to avoid loss of competitiveness. Since the 1993 session of the CCP, FAO had concentrated its efforts on these three lines of activity. He also drew attention to the work of a number of FAO's intergovernmental commodity groups, as well as to an FAO manual on the economic assessment of production-related environmental impacts.

32. As regards agenda item 4, FAO had prepared a document which summarized its assessment of the impact of the Uruguay Round on the main commodities. According to FAO estimates, world agricultural trade in constant prices could be expected to rise by almost US\$ 86 billion between 1987-89 and 2000, of which just under

US\$ 25 billion would be on account of the Uruguay Round. For the exports of the developing countries, the figures were almost US\$ 41 billion and over US\$ 8 billion respectively. He elaborated on the effects of the Uruguay Round on trade in a number of commodities and on the developing countries which would be most affected.

33. Concerning food-importing developing countries, FAO estimates pointed to a substantial increase in their food import bills due to a combination of higher prices and reduced trade on special terms. The assistance indicated under the Decision on Measures Concerning the Possible Negative Effects of the Reform Programme on Least-Developed and Net Food-Importing Developing Countries would be of considerable importance, and FAO was continuing to support the early implementation of this Decision. FAO was also planning to expand its work on the Uruguay Round, with an extension of its commodity coverage to include fibres, rubber and some horticultural and minor products, as well as on changes in tariff escalation for processed agricultural commodities.

34. The representative of Mexico, referring to agenda item 3, said that his country was interested in both protecting the environment and selling commodities at fair prices. The problem of internalization of environmental costs was a complex one which should be considered carefully in order to avoid an increase in commodity prices to the detriment of commodity producers, in particular the developing countries. He shared the view that a series of measures should be taken before making any decision on internalization and that cooperation among producers and between producers and consumers of specific commodities could play an important role. UNCTAD was the best possible forum to study in depth the possible implications of internalization of environment costs in commodity prices.

35. As regards agenda item 4, the results of the Uruguay Round were an important step forward in the liberalisation of international trade, although a number of agricultural products of interest to developing countries were not covered by these agreements. Measures should be developed to ensure the stability of prices of these products, and UNCTAD should continue its examination of the impact of the Uruguay Round on development prospects.

36. The work of the Committee has contributed to developing the ability of developing countries to analyse the situation on international commodity markets and should be continued. He expressed support for the future work of the Committee, in particular in the areas of: (a) instability and risks facing commodity producers; (b) promotion of commodity diversification; and (c) efficient management of natural resources.

37. The representative of Cuba said that commodity prices had declined to a level which did not allow developing countries to secure enough export earnings to meet their basic needs and that UNCTAD constituted the proper forum for finding appropriate solutions in the commodity field. With regard to the internalization of environmental costs, developing countries needed effective financial support. Although the Uruguay Round agreement would have some positive general impact, the level of domestic support, export subsidies and tariff escalation which would continue to prevail in developed countries even after implementation of this agreement did not bode well for developing countries, which would continue to be negatively affected by protectionism and decreasing resources.

38. He supported the continuation of the work of UNCTAD in the field of commodities. In this context, he cited in particular analytical studies of relevant national experiences, the provision of technical assistance and the risk management programmes undertaken by the secretariat.

39. The representative of Panama said that the internalization of external costs in commodity prices had led to concerns on the part of developing countries as regards risk of loss of competitiveness and markets. Even though the process of internalization was considered to be crucial for reaching the objectives of sustainable development, this process included many risks and variables which needed to be clarified. He encouraged UNCTAD to work on the formulation of a strategy aimed at increasing cooperation among producers and consumers, reaching compromises at the governmental level and promoting the participation of other stakeholders such as private enterprises. As the Earth was the common property of everyone and as pollution was occurring on a global scale, consumers must recognize their responsibility for and interest in saving the environment, and consequently should pay the necessary price, while producers needed to guarantee environmental cleanliness within their production chains, taking economic efficiency into account.

40. As regards item 4, even though the Uruguay Round offered several important advantages in the area of commodity trade, several serious constraints would remain in the short term, while a number of commodities were not adequately covered by the Round. With respect to agricultural products, account must be taken of the fact that the actual liberalization of trade as a result of the Uruguay Round could be less than expected, and that many developing countries were net food importers. Finally, he concluded that important items which needed more careful consideration by the Committee included the elaboration of strategies for diversification, the identification of new trading opportunities, and policy coordination and cooperation.