

**The Commodities Crisis and the Global
Trade in Agriculture: Problems and
Proposals**

MARTIN KHOR

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1

General Background and Rationale for Dealing with the Issues

TWO of the world's most urgent problems are the global commodities crisis, and the distorting nature of global agriculture trade. The two issues are of course interconnected, as a major part of commodities exported by developing countries are agricultural products. For many of these Third World commodities, a large part of the problem lies in the effects of distortions caused by continued high protection through subsidies and tariff peaks and escalation in the North. Thus, the two issues of commodities and agriculture trade can be fruitfully examined together.

These two issues are essential to deal with in any process aimed at eradicating poverty, establishing greater equity, and in bridging North-South divides. They have also been recognized as important issues to resolve in such international landmarks as the Millennium Development Goals process.

Commodities crisis

The commodities crisis has been a longstanding problem since developing countries attained their independence, and even before that. It used to be perhaps the major economic issue on the international agenda, and was a major impetus for the establishment and initial work of the United Nations Conference on Trade and Development (UNCTAD) when negotiations on commodities were the main item on the international trade agenda. However, from the mid-1980s, there has been a steady decline in the priority accorded to this issue in the international agenda. This has been unfortunate, as the decline in commodity prices in gen-

eral has continued, with devastating effects on many developing countries. The commodities crisis has been a major cause of the persistence or even increase in poverty in the developing world. The low levels of and decline in commodity prices decrease the incomes of rural producers, place a constraint on export earnings, increase trade deficits and keep many countries trapped in external debt. Resolving this problem is thus crucial.

In 2003, French President Jacques Chirac spoke of a “conspiracy of silence” on the commodities crisis and attempted to have an initiative on it adopted at the summit of the Group of 8 leading industrial countries in Evian. It was not accepted due to objections from some major countries. However, there are recent initiatives to revive the commodities issue, including a report commissioned by the UN General Assembly of eminent persons on commodities, and the decision at the UNCTAD XI meeting in June 2004 to establish a task force on commodities.

Global agriculture trade

Global agriculture trade is clearly an issue that is presently dividing North and South countries, particularly in the area of global trade negotiations. Indeed the collapse of the World Trade Organization’s (WTO) Cancun Ministerial Conference in September 2003 was significantly due to the North-South impasse on agriculture.

In July 2004, the WTO adopted a “framework agreement” on agriculture, as part of a larger “July package” of decisions. The framework is to guide the further discussions on the modalities for negotiations for revisions to be made to the WTO’s Agreement on Agriculture (AoA). Although the Cancun impasse has been broken, there are many ambiguities in the July 2004 framework, and much of the negotiations remains to be undertaken.

Problems with agriculture trade affect the largest number of developing countries and of poor communities worldwide, as agriculture is the economic sector providing livelihoods to the most people in a majority of developing countries.

This issue is also crucial to resolve, in order that there can be progress in achieving many of the Millennium Development Goals, in particular Goal 1 (eradicate extreme poverty and hunger), and Goal 8 (develop a global partnership for development).

The distortions and imbalances in agriculture trade have affected the prices, incomes and livelihoods of small farmers in developing countries; and removal of these imbalances is required if the goals of eradicating poverty and of target 12 of Goal 8 (i.e. develop an open, rule-based, predictable and non-discriminatory trading and financial system) are to be seriously tackled. The imbalance in agriculture is the most glaring adverse aspect of the trading system.

There are several inter-related aspects in the general problems facing many developing countries relating to global agricultural commodity trade. They include:

- (a) The trend decline in export prices of many of the developing countries' agricultural commodities, instability in the markets and also in some cases the falling share of developing countries in total exports.
- (b) The continued high protection of the developed countries of their agriculture sector, including the maintenance of domestic support measures and export subsidies. This prevents developing countries from having access to the agriculture markets of the North, and also facilitates export dumping into the South.
- (c) The limited capacity of many developing countries to export or to derive adequate benefits in export, including to climb up the "value chain" of the commodities they produce. This constrains the ability of these countries to benefit from agriculture trade.

- (d) The rapid liberalization of imports in developing countries and the effects of this on the prices, incomes and livelihoods of the farmers.
- (e) The global framework governing agriculture trade, which is presently imbalanced and creates disadvantages for developing countries.

This booklet describes the major problems in the areas of commodities and agriculture trade, reviews some recent developments, and makes some suggestions on measures to improve the situation.

2

The Developing Countries' Commodities Problem

AGRICULTURAL products form a large portion of the export commodities of many developing countries, especially the poorer ones. However, they face steep and in some cases catastrophic declines in the prices of these commodities. From 1980 to 2000, world prices for 18 major export commodities fell by 25% in real terms. The decline was especially steep for cotton (47%), coffee (64%), rice (61%), cocoa (71%) and sugar (77%) (World Commission on the Social Dimension of Globalization 2004: p83).

The effects of falling commodity prices have been devastating for many countries. According to UN data, in sub-Saharan Africa, a 28% fall in the terms of trade between 1980 and 1989 led to an income loss of \$16 billion in 1989 alone. In the four years 1986-89, sub-Saharan Africa suffered a \$56 billion income loss, or 15-16% of GDP in 1987-89. For 15 middle-income highly indebted countries, there was a combined terms-of-trade decline of 28% between 1980 and 1989, causing an average of \$45 billion loss per year in the 1986-89 period, or 5-6% of GDP (Khor 1993).

In the 1990s, the losses were higher. Non-oil primary commodity prices fell by 33.8% from the end of 1996 to February 1999, resulting in a cumulative terms-of-trade loss of more than 4.5% of income during 1997-98 for developing countries. Income losses were greater in the 1990s than in the 1980s (UNCTAD 1999: p85).

Among agricultural commodities exported by developing countries, some are in competition with the same commodities produced by developed countries, and some are not in such competition.

Developing countries' commodities that compete with developed countries:

There are agricultural commodities which developing countries produce which compete with the products of developed countries. In such cases, such as cotton and sugar, the world prices are lower largely because of the high domestic and export subsidies attached to the developed countries' commodity exports. The share of global export revenue accruing to developing countries has dropped in many cases, with the developed countries having an increased share. A large part of the problem facing developing countries is related to the subsidies of the rich countries, which give the latter an unfair advantage (see Chapter 3). The example of cotton is provided in Chapter 3.

Developing countries' commodities that do not compete with developed countries:

There are also agricultural commodities of developing countries which do not compete with the developed countries. Developing countries face a range of problems, including their products being at the lower end of the value chain with the lack of capacity (or the lack of market access) to climb the value chain through processing and manufacturing. Another problem is a situation of global over-supply in the case of some commodities, which exerts a downward pressure on prices. This is partly the result of too many countries being advised by international agencies to expand the export of the same commodities. Yet another problem is that the developing countries have little bargaining power when selling their products to monopsonist buyers, which are usually transnational companies, and thus they get lower prices. The case of coffee within this category of commodities is provided below.

Illustration: The case of coffee

The price of coffee beans has dropped sharply, and the share of the coffee market revenue accruing to producer countries has also declined sharply. The price

of coffee in December of the year fell from 127 US cents per lb in 1980 to 46 cents in 2001. In 1992, producer countries earned US\$10 billion from a global coffee market worth around \$30 billion; in 2002 they received less than \$6 billion export earnings from a market that has doubled in size. Their share of revenue fell from 33% to less than 10% (Oxfam 2002a).

The effect of the fall in coffee price has been very serious for many countries and the 25 million coffee growers around the world. Coffee accounts for over 50% of Ethiopia's export revenue and 80% of Burundi's. Coffee is linked to the livelihoods of a quarter of the population in Uganda, 10% in Honduras and 8% in Guatemala. In Brazil there are 230,000 to 300,000 coffee farmers and another 3 million are employed in the coffee industry, and in India 3 million are also employed in the coffee industry (Oxfam 2002a: p8). The price fall has had devastating effect on national export revenues and on communities alike. There has been much increased unemployment, reduced income and hunger among the coffee-growing communities in the developing countries (Oxfam 2002a: pp9-12).

The main reason for the fall in price is the increasing oversupply situation. Supply has grown by over 2% per year whilst demand growth has been lower at 1-1.5% per year, leading to stocks being built up to 40 million bags. Up to 1989, the coffee market was regulated by the International Coffee Agreement (ICA) made up of producer and consumer countries and managed by the International Coffee Organization (ICO). The ICA broke down in 1989, with opposition from the US (which left as a member) being a major factor. The Agreement remains but no longer has the power to regulate supply through quotas and the price band. Coffee prices are now determined by futures markets. After the ICA broke down, prices have fallen very low. Proposals to revive the Agreement have been impeded by lack of political will, with consumer countries not willing to restart their participation (Oxfam 2002a: pp17-18).

Another reason for the low prices is the expansion of production by some countries, including Vietnam (which is a relatively new major coffee producer) and Brazil, the largest producer. The increased overall supply has not been matched

by a similar rate of increase in demand, resulting in an imbalance between demand and supply that is depressing price levels. Moreover, there is a great imbalance in the global coffee supply chain, with small farmers at the lowest end being paid very low prices by their traders, the exporting traders in developing countries being paid little by the large roaster companies in the US and Europe that buy the coffee beans, and these companies reaping much of the benefits on their retail coffee business.

In a study of the stages and prices on the value chain, Oxfam found that the coffee farmer in Uganda received 14 US cents per kilo for his green beans, which pass through various traders to the roaster factory at a price of \$1.64 per kilo. It ends up at a UK supermarket shelf as soluble coffee at \$26.40 a kilo, which is 7000% higher than the price paid to the farmer. A similar journey into a pack of roast and ground coffee sold in the US involves a price rise of nearly 4000% (Oxfam 2002a: p22).

3

Global Agriculture Trade and Continued Protection in Developed Countries

Continuation of protection in developed countries

DESPITE the establishment of the Agreement on Agriculture in the WTO, aimed at reducing subsidies and protection, the developed countries have continued high protection of their agriculture. This is largely due to the weaknesses of the AoA and its implementation.

Firstly, the high tariffs on selected items of potential interest to the South have had to be reduced only slightly. In the first year of the agreement, there were tariff peaks at very high rates in the United States, the EEC, Japan and Canada. The AoA mandates the developed countries to reduce their tariffs by only 36% on average to the end of 2000, and thus the rates for some products remain prohibitively high.

Secondly, domestic support has increased rather than decreased. Although developed countries reduced their Amber Box subsidies (as the AoA has obliged them to), they also increased the exempted subsidies (under the Blue and Green Boxes), resulting in an increase in total domestic support. Organization for Economic Cooperation and Development (OECD) data show that the Total Support Estimate (TSE), a measure of domestic support, of the 24 OECD countries rose from US\$275.6 billion (annual average for base period 1986-88) to US\$326 billion in 1999 (OECD 2000).

Thirdly, export subsidies are still high as the AoA only obliges the developed countries to reduce the budget outlay by 36% and the total quantity of exports

covered by the subsidies by 21%. Thus, even in 2000 export subsidies were allowed to be as high as 64% of the base level in 1986-90.

Of the three aspects above, worldwide public criticism has focused most on the expansion of Northern domestic subsidies. The AoA has a loophole allowing developed countries to increase their total domestic support by shifting from one type of subsidy (price-based, which is directly trade-distorting) to two other types (direct payments to farmers, and other “indirect” subsidies) that are exempted from reduction discipline. In reality, the exempted Blue and Green Box subsidies also have significant effects on the market and trade. For the farmer, what is important is whether he can obtain sufficient revenue and make a profit. If a subsidy, in whatever form, is assisting the farmer to obtain revenue and to be economically viable, then that subsidy is having a significant effect on production and on the market.

Effects of Northern subsidies and protection

The effect of agriculture subsidies in developed countries is that their farm production levels are kept artificially high and their producers dispose of their surplus in other countries, by often dumping on world markets at less than the production cost. Farmers in developing countries incur losses in three ways:

- (a) They lose export opportunities and revenues from having their market access blocked in the developed countries using the subsidies;
- (b) They lose export opportunities in third countries, because the subsidizing country is exporting to these countries at artificially low prices;
- (c) They lose their market share in their own domestic market, or even lose their livelihoods, due to the inflow of artificially cheap subsidized imports.

High protection in developed countries and further liberalization in developing countries (under AoA and structural adjustment loan conditionalities) have resulted in surges of imports to many developing countries across the world. In many cases these imports were artificially cheapened by domestic and/or export subsidies. There are many cases of “dumping” in which the developed-country products’ export price is below the cost of production, and where the farms or companies in developed countries are still able to make a profit because their revenues are pumped up by subsidies.

As long as the subsidies continue, the dumping of artificially cheapened agricultural products to developing countries will continue. This has serious effects on rural livelihoods and food security in developing countries. Artificially cheapened products are being imported into developing countries. Often, the poorer countries may have more efficient farmers, but their livelihoods are threatened by inefficient farmers in rich countries because of subsidies.

The case of cotton subsidies

The case of cotton illustrates the effects of Northern subsidies on developing countries.

The President of Burkina Faso, Mr Blaise Compaore, at an address at the WTO in June 2003, called for a decision at the WTO’s Cancun Ministerial Conference in September that year to adopt measures to eliminate cotton subsidies, and until then, to pay financial compensation to the least developed countries that suffer losses due to the subsidies (Compaore 2003). He highlighted the plight of West and Central African cotton-exporting countries resulting from the developed countries’ agricultural subsidies and the hypocrisy of trade rules and structural adjustment reforms which influenced West and Central African states to eliminate their agricultural subsidies but these reforms were nullified by “multiform subsidies” by some WTO members “in total contradiction with WTO basic principles.”

In 2001, the rich countries' \$311 billion farm subsidies were six times the \$55 billion dispensed as aid. Mali received \$37 million in aid but lost \$43 million from lower export revenues caused by other producer countries' cotton subsidies.

African farmers produce cotton 50% cheaper than their competitors from developed countries, ranking them among the most competitive in the world. But cotton subsidies have caused a crisis, with Burkina Faso losing 1% of its GDP and 12% of its export income, Mali 1.7% and 8%, and Benin 1.4% and 9% respectively. Over 10 million people in West and Central Africa depend on cotton production and several million more are indirectly affected by the distortion of world prices due to subsidies.

Referring to a proposal by Benin, Burkina Faso, Chad and Mali (issued on 16 May), he suggested that the Cancun Ministerial "set up a mechanism to progressively reduce support to cotton production and export, with a view to fully suppressing all cotton subsidies at a defined deadline." Also, as an immediate and transitory measure in favour of least developed countries, he suggested that a mechanism be adopted to compensate their farmers for revenue losses incurred because of cotton subsidies.

The cotton issue received a priority status in the Cancun Ministerial. However, support for their cause was not forthcoming, especially from the United States. The Cancun draft Ministerial text of 13 September 2003 was seen by developing countries as very unsatisfactory. It ignored the two demands of the West African countries for developed countries to eliminate subsidies, and for financial compensation for losses due to the subsidies. Instead, the paragraph disperses the issue of cotton to be addressed by various negotiating bodies – agriculture, non-agriculture market access, and rules – and instructs the WTO Director General to consult with bodies like the World Bank and the UN Food and Agriculture Organization (FAO) to direct existing programmes and resources toward diversification of the economies from cotton dependency, thus sidestepping the main issue of eliminating subsidies.

Lack of capacity of developing countries

A major reason why developing countries are unable to benefit from trade is their lack of capacity to produce and market. Thus, even if there is market access for these countries, especially the least developed countries (LDCs), this “supply constraint” prevents them from being able to take advantage of the access. The supply and marketing constraints to trade span the range of stages, including formulating appropriate export strategies (including choice of products and markets), providing incentives, training, credit and technology assistance to enterprises, product design and production techniques, and marketing, as well as the government’s role in providing general health, housing and education facilities to citizens so that there would be skilled labour.

In fact, for large numbers of small farmers, the main problems remain the domestic structural factors such as lack of access to land, security of land, terms of tenancy, lack of credit, storage and transportation infrastructure. Resolving these basic problems is thus also important.

4

Effects of Import Liberalization on Developing Countries

PERHAPS the most serious problem facing developing countries' farmers is that they are exposed to excessive and rapid import liberalization. This has taken place mainly under loan conditionalities of the World Bank and International Monetary Fund (IMF), as well as the AoA. There are now many case studies of the incidence and damaging effects of import liberalization on local communities and rural producers in developing countries.

These studies show how farmers in many sectors (staple crops like rice and wheat; milk and other dairy products; vegetables and fruits; poultry; sugar) have had their incomes reduced and their livelihoods threatened by the influx of imports. The problems caused to small rural producers in developing countries are now very widespread.

A recent FAO paper, "Some trade policy issues relating to trends in agricultural imports in the context of food security" (March 2003), shows very high incidences of import surges in 1984-2000 for 8 key products in 28 developing countries, with the incidence rising after 1994. For example, Kenya experienced 45 cases of import surges, the Philippines 72 cases, Bangladesh 43, Benin 43, Botswana 43, Burkina Faso 50, Cote d'Ivoire 41, Dominican Republic 28, Haiti 40, Honduras 49, Jamaica 32, Malawi 50, Mauritius 27, Morocco 38, Peru 43, Uganda 41, Tanzania 50, and Zambia 41.

The import surges documented by the FAO were also accompanied in some cases by production shortfalls in some of the same products where there were import surges. For example, in Kenya, in wheat there were 11 cases of import

surges and 7 cases of production shortfall; in maize there were 5 cases of import surges and 4 cases of production shortfall. This indicates that the import surges were sometimes linked to declines in output by the farmers in the importing countries. The rise in imports led to declines in output and incomes of the farmers, affecting their livelihoods. As the FAO report concluded, “Given the large number of cases of import surges and increasing reports of the phenomenon from around the world, this could be potentially a serious problem.”

A major imbalance of the AoA is that the special safeguard (SSG) mechanism is not allowed for use except in cases where a country has tariffed a product in the Uruguay Round. Only 20 developing countries are eligible. Thus most developing countries have no proper instrument to counter import surges.

The FAO study also cites that several recent studies on import surges trace the problem to unfair trade practices (e.g., dumping), export subsidies and domestic production subsidies. Import surges are more common for products where there are high subsidies e.g., dairy/livestock products (milk powder, poultry parts), certain fruit and vegetable preparations and sugar.

5

The Global Framework Regulating Agriculture Trade

MANY of the problems raised above are linked to the global framework that regulates or influences agriculture trade, which in turn also affects domestic production.

This global framework in turn has two major aspects:

- (a) The WTO's Agriculture Agreement, which at the moment is imbalanced in favour of the developed countries, which are able to maintain high protection (mainly as they are able to pay for high subsidies) whilst exerting pressure on developing countries to liberalize (especially since they lack the funds to subsidize).
- (b) The loan conditionalities of the World Bank and IMF that relate to trade. These conditionalities have led many developing countries to sharply reduce their applied tariff rates for agriculture products. Due to these conditions, many of the countries have not been allowed to raise the applied rates even when cheaper imports affect local farmers, and even when the WTO rules allow these countries to increase their applied rates up to the bound rates.

There are concerns that in the current negotiations in the WTO, the developed countries have not yet offered to significantly reduce their subsidies. Yet there are strong pressures to get the developing countries to reduce their bound tariffs significantly.

This is an unhealthy combination, since tariff reductions in the South in the face of continued protection and subsidies in the North can result in the influx of artificially cheapened imports into the developing countries, thus threatening the livelihoods and incomes of their farmers.

6

Previous and Recent Efforts to Improve the Commodities Situation

Previous attempts to deal with commodities

IN the 1960s, 1970s and part of the 1980s, the need to resolve the low prices and volatility in prices and demand for commodities was a major part of international economic discussions and initiatives. The ‘unequal exchange’ suffered by developing countries, of having their commodities sold at low prices to the world market whilst having to import manufactured goods at high prices, and the declining terms of trade, were major factors that led to the formation of the United Nations Conference on Trade and Development (UNCTAD) in the 1960s.

Much of the work of UNCTAD in its first two decades focused on hosting negotiations between commodity-producing and -consuming countries, giving rise to several producer-consumer commodity agreements, and the establishment of the Common Fund for Commodities. In fact, a great deal of international trade negotiations took place within UNCTAD (and not GATT), and the major issues related to commodities.

The establishment of commodity agreements for products such as coffee, cocoa, rubber and sugar helped to stabilize the prices of the commodity concerned, as these prices were maintained within price bands agreed to by the producer and consumer countries. The agreements were managed by organizations set up for the purpose, and also involved the purchase of surplus stocks, aimed at smoothing the relation between supply and demand.

However, in the 1980s, major developed countries led by the US and UK decided that these commodity agreements clashed with their new free-market philosophy, and withdrew their interest and support for these agreements. As a result, by the end of the 1980s, the organizations running these agreements were unable to carry out their most important functions, relating to the purchase and maintenance of stocks, and the management of prices which were to remain within an agreed band. The removal of these functions left the prices of the commodities to be determined by the market. And with supply growth outstripping demand growth, most commodities have since then suffered a general decline in their price levels.

Following the collapse of the commodity agreements, there has been a big vacuum in the international arena, with an absence of international institutions or mechanisms to tackle the key concerns of low level and volatility in commodity prices and the mismatch between supply and demand.

In the absence of a coordinated framework of international cooperation, individual agencies such as the international financial institutions and UN organizations have suggested measures that individual producer countries can take to counter the fall in prices and to increase their export earnings. However, as pointed out by Peter Robbins (2003), most of these suggested schemes have not worked, as they did not tackle the root problem of excess supply and the absence of a regulated framework. 'They have suggested a number of solutions, including niche marketing, risk management, quality improvement, fair trade, sales promotion, and so on, but these strategies have often only intensified competition between producers.

Several major development agencies still support programmes to increase production of primary products using technical innovations to improve yields or implementing policy changes to offer incentives to farmers to grow a particular commodity. Side by side with the new doctrine of *laissez-faire* economics these agencies have been spending aid money to help some poor countries compete more aggressively with other poor countries ... It has now become obvious that

tropical commodity prices will continue to fall unless the root cause of oversupply is tackled head on' (Robbins 2003: pp22-23).

A detailed critique on how most of the suggested strategies (including technical fixes, such as achieving higher yields, cost-cutting, diversification, increasing quality and introducing genetic engineering; and market-linked schemes such as organic products, fair trade, niche marketing and risk management via hedging and derivatives trading) have failed or have been inadequate is also provided by Robbins (2003: pp38-60).

The falling off of commodities from the agenda of international cooperation, action or even discussion has been a major setback especially for the commodity-dependent developing countries. The problems they face remain and have actually significantly worsened, yet these problems were no longer recognized as worthy of priority or action at the international level. Each country was implicitly asked to deal with its commodity problem by itself. As this has not worked, the crisis has deepened.

In 2003, the French President, Jacques Chirac, made a public statement about the existence of a 'conspiracy of silence' on commodities. He attempted to launch a special initiative on commodities at the Summit of the Group of Eight leading industrial countries in Evian. However, this did not receive a favourable response from some of the other G8 leaders and there was subsequently no follow-up.

UN eminent persons' report on commodities (October 2003)

In December 2002, the United Nations General Assembly adopted a resolution which, among other measures, asked UNCTAD to convene independent eminent persons to examine and report on commodity issues, including the volatility in commodity prices and declining terms of trade and the impact they have on the development efforts of commodity-dependent developing countries.

The meeting of the eminent persons on commodity issues convened in September 2003 and their report was presented to the UN General Assembly in October 2003. The report came up with several proposals, categorized into short-term ones (involving urgent action in response to severe crises), medium-term ones (involving policy reorientation and proposals that are eminently feasible) and long-term ones (where discussions should start now but implementation of which could take time).

Among the major points and related proposals by the eminent persons' report are the following:

1. Trade and WTO-related issues: Developing countries are the victims of subsidy policies in the developed countries which harm producers of many agricultural commodities, who are facing unfair competition from developed-country farmers. The report called for the speedy resumption of negotiations leading to agricultural liberalization in the North. It also called for action to compensate developing-country farmers for the losses that they suffer as a result of current developed-country policies.

In line with a proposal by four African countries at the World Trade Organization's (WTO) Cancun Ministerial Conference in September 2003, the report called for an early elimination of subsidies provided in developed countries to cotton and for the compensation of the loss of earnings due to the supplies of cotton subject to subsidies. Research should be done on modalities for such a compensation mechanism. The report also called for further work on the appropriateness of extending the model of the 'cotton initiative' to other relevant commodities. It called for a special mechanism for developing countries to safeguard against the import of cheap subsidized commodities which could affect the output of their farmers.

2. Coffee: Given the crisis situation in coffee, the report suggested that the International Coffee Organization (ICO) consider imposing an export fee, using the proceeds of the fee to help alleviate poverty arising from low coffee

prices. Producing and consuming countries and international organizations should support such a programme and associated actions by the International Coffee Organization.

3. Debt relief: Debt servicing and repayment expenditures of many developing countries are financed by revenues from commodity exports. Because of low export prices, many countries cannot service their debts. The report called for mechanisms to be introduced as soon as possible to better tailor debt-relief efforts to the needs of commodity-exporting developing countries, in particular least-developed countries and heavily indebted poor countries.

4. Oversupply: Several sections of the report dealt with oversupply as a major problem. It stated that for several commodities there is a global situation of excess supply as output has increased at a faster rate than demand, and this has contributed to the decline in their prices. In the case of some commodities, a significant factor has been the high subsidization of production, mainly in industrialized countries. In other cases, global oversupply may be due to a number of factors such as several countries deciding to increase output at the same time; advice provided by international agencies and by financial assistance programmes; and over-optimistic projections of demand and prices (United Nations 2003: para 36).

For commodities facing structural oversupply, a concerted effort is necessary to bring demand and supply into balance at a point where prices are sufficiently remunerative for the average producer. Action on both the demand and supply sides can be envisaged. On the supply side, the report suggested medium-term measures such as diversification into other productive activities and research and development into new end uses of commodities (United Nations 2003: para 16).

In the short term, however, measures to reduce the supplies put on the market may be necessary. Producer countries that face a situation of oversupply are also encouraged to take national measures. Relevant institutions could be approached for organizing meetings to examine the experiences in this area. Coun-

tries that are not party to such schemes should agree to apply a favourable interpretation of Article XXXVI and other relevant articles of GATT and WTO and to forgo using competition policy measures against such schemes. Developed countries should eliminate subsidies, where feasible, to contribute to reducing oversupply (United Nations 2003: para 17).

Another part of the report (para 49) stated that: ‘It was agreed that, ideally, measures to limit supply should be undertaken in cooperation between producers and consumers. If that were not possible, however, producers would have to agree on methods among themselves. This would be facilitated if consumers were prepared to abstain from actions to block any such plans. If coordinated action by producers was not possible, production and/or export cuts would have to be implemented on an individual country basis.’ The report mentioned the recent cooperation between Indonesia, Malaysia and Thailand in relation to natural rubber as an example of successful cooperation among producing countries of a particular commodity.

5. Compensatory finance: The report proposed that compensatory financing schemes should be used to reduce price volatility and to insulate developing countries from the worst effects of such volatility. Existing schemes should be adapted and made operational. To be effective, such financing should operate on the basis of *ex-ante* rather than *ex-post* mechanisms (in other words, clearly link automatic payouts to specific occurrences) and should be easy to access in terms of technical requirements; there should not be conditionalities for receiving the finance; and there should be a pass-through mechanism to actual producers and consumers.

6. Capacity building for improving supply capacities and market entry: There should be international assistance to strengthen supply capacity in the commodity sector of commodity-dependent countries. This should include support to design and implement strategies, policies and measures for commodity-based development and diversification, the improvement of domestic research and development, and support to the organization of small-scale producers, processors and traders to enhance their capacities for technology absorption and

for marketing. The report emphasized the importance of assistance aimed at enabling small producers to meet quality and traceability requirements as well as market exigencies reflected in the specifications of importing firms.

7. Information and analysis: Developing-country governments, firms and farmers suffer from a lack of access to timely, comprehensive, accurate and user-friendly information and analysis, as well as the capacity to utilize it in decision-making at the government, firm and farm levels. Better strategic and organized information is needed at the international level for better decision-making (including in recognizing trends and real income losses resulting from terms-of-trade declines); and at the local level to give farmers the information they need, if possible on a real-time basis.

The report noted with concern the decline in resources devoted to the analysis of commodity issues in some international agencies. It called for the strengthening of the capacities of UNCTAD and other competent international organizations to regularly disseminate specialized information and analysis covering a broad range of commodities and commodity issues and establish networks so as to contribute to market transparency, and to develop collaborative tools to facilitate the use of this information, particularly by producers.

8. Exchange of experiences on commodity policies: The report noted the interesting experiences of developing countries in devising innovative approaches to strengthen their commodity sector and cope with negative aspects (e.g., volatility). There is a need for more exchange of experiences on commodity-related policy options, and scope for greater South-South cooperation, and the report urged UNCTAD to develop a proper forum for this.

9. International export diversification fund: A long-term measure proposed by the report is the establishment of an ‘International Diversification Fund’ linked to an existing institution, such as the Common Fund for Commodities. The Fund would be aimed at enabling countries to diversify their productive capacity (within the commodity sector, including through value addition, and out of the sector). In addition to strengthening the institution-building and other

relevant activities mentioned earlier, it would develop strong producer associations, with a proper role for the majority of producers (women); develop key infrastructure; and stimulate investments (e.g., by providing risk capital, or temporary compensation for certain infrastructural weaknesses).

The report urged the international community to have a new look at such a Fund, and in particular, consider a new mode of financing it. This would be justified given the long-term decline in the terms of trade for commodity exports from developing countries, which implies a real resource transfer to consuming countries.

Besides the above, the report also proposed measures relating to coffee, policy design and implementation, corporate social responsibility, institution-building, preferential schemes and South-South trade, fiscal management and revenue utilization, and risk management.

The eminent persons also made four concluding requests addressed to the UN system:

- (a) That the UN Secretary General distribute the report to the relevant UN organizations, international financial institutions and bilateral donors, suggesting that, in the light of the Millennium Development Goals and the importance of commodities for most of the world's poor, they should upgrade the priority that they accord to commodity issues; and informing them that he would contact them again in one year's time with a view to reporting to the General Assembly how they have adapted their policies and programmes to the needs of the commodities sector.
- (b) That UNCTAD explore the possibilities for a new partnership between governments, private business, producers' and traders' associations, civil society and international organizations in the commodity area, and announce such partnership and concrete steps to implement it at the UNCTAD XI meeting.

- (c) That the UNCTAD Secretary General convey to the heads of the European Commission and the IMF the importance of a properly functioning system of compensatory finance and invite them to work with UNCTAD to design a system that meets the criteria set out.
- (d) That the General Assembly assign to a competent organization the responsibility to lead discussions with stakeholders on the creation of a new International Export Diversification Fund.

Establishment of international task force on commodities at UNCTAD XI (June 2004)

At least one of the above “concluding requests” has been implemented, i.e., that UNCTAD explore the possibilities of a new partnership in the commodity area.

At the 11th session of UNCTAD (UNCTAD XI) held in June 2004 in Sao Paulo, the commodities crisis was one of the main themes. It was highlighted by the President of the UN General Assembly (the Foreign Minister of Saint Lucia, Julian Hunte), other leaders, the UNCTAD Secretary General Rubens Ricupero, and a well-attended UNCTAD-Common Fund for Commodities side event on commodities.

UNCTAD XI adopted a decision to establish an international task force on commodities. The decision is contained in an Annex to the Sao Paulo Consensus, entitled UNCTAD XI Multi-Stakeholder Partnerships. The section on commodities states that there is at present no comprehensive and systematic consultative framework to share information and use expertise among key actors in reviewing the commodity situation, and efforts of all interested stakeholders should thus be put together and focus on breaking the cycle of poverty in which commodity producers are now locked.

The decision in the Annex stated that: ‘An independent task force on commodities will be established in consultation with interested stakeholders to address

the above set of issues. The task force will function in an informal and flexible manner, with partners cooperating in a spirit of voluntary enterprise.’ Partners will include member states, international organizations (FAO, IMF, ITC, UNDP, the Common Fund for Commodities, World Bank), commodity-specific bodies (international commodity organizations and study groups), the private sector (in particular major corporations engaged in production, marketing and distribution of commodities), non-governmental organizations (NGOs) promoting action on commodity issues and the academic community researching into commodity problems and solutions.

The issues mentioned for the task force to address include: facilitating collaboration among stakeholders and achieving greater coherence in integrating commodity issues in development portfolios; collecting and sharing best practices and lessons learnt and maximizing the mobilization of resource flows; commodity sector vulnerability and risks; facilitating participation of developing-country farmers in international markets; distribution of value added in the commodity value chain; promotion of economically, socially and environmentally sustainable approaches to production and trade of individual commodities of interest to developing countries; mining and sustainable economic development; promoting business networks; and commodity information and knowledge management.

The establishment of the task force and the cautious list of issues it is to cover is mild and limited, when compared with the work done by UNCTAD in the 1960s to 1980s, when initiatives to attain fair prices for commodities and negotiations for establishing and maintaining commodity agreements were the bread and butter of UNCTAD’s work. Nevertheless, despite its mild and limited agenda, the decision to set up the task force on commodities at UNCTAD XI is a major positive step forward, given the absence of a venue or mechanism in the international system to discuss the problem, let alone address it.

The work of this new task force should therefore be fully supported by governments, international agencies, and civil society.

7

Suggestions for Measures and Action

THIS section provides a summary of the suggestions that are contained in the previous sections on various issues.

1. Placing high global priority on seeking solutions to the commodities crisis

- (a) National governments and international institutions such as the UN General Assembly and UNCTAD should give priority to seeking solutions to the crisis of commodities. The high global priority once given to attaining reasonable and stable prices should be restored. The commodities issue should be included as a priority issue on the agenda of meetings and organizations of the South (e.g., the G77, Non-Aligned Movement, African Union, etc.), of the North (the G8 process, the European Commission), and international agencies (e.g., the Millennium Development Goals process, the high-profile meetings of the UN in 2005, etc).
- (b) A good start was made by the establishment in 2003 of an eminent persons' group on commodities by the UN General Assembly. Its report and recommendations (United Nations 2003), the key points of which are summarized in the section above, should be followed up by the UN system, other international agencies and by the Helsinki Process.
- (c) A recent major development has been the establishment of an international task force on commodities through the UNCTAD XI meeting. The

work of this task force should be actively supported by governments, organizations of the South and North, international agencies, and the Helsinki Process.

- (d) To raise the profile of the commodities problem, there could be an international UN conference or convention on commodities, which would discuss a whole range of aspects of the problem, with institutional mechanisms to follow up on the conference. The Helsinki Process could initiate such a conference by creating the political conditions for it. The issues below could be part of the agenda of such a conference.
- (e) A review of the previous experience of joint producer-consumer commodity agreements should be conducted (for example, by UNCTAD and the Common Fund for Commodities), including examining the possibility and desirability of reviving such agreements. As the experience of the coffee agreement shows, there had been positive results in price stabilization, and its later failure was due to a political decision by some developed countries to withdraw from its fund, and the institutional vacuum (with no mechanism to align supply with demand) resulted in the subsequent collapse in prices. A revival of political will among the developed countries that are also major consumers could provide an opportunity for a new round of commodity agreements aimed at rationalizing the supply of raw materials, while ensuring fair and sufficiently high prices. The Helsinki Process could explore the possibility and feasibility of such a revival of political will among consumer and producer countries.
- (f) Although international cooperation is the preferred method of improving the commodity situation, and attempts should be made to revive it, this may not be feasible at present. In the absence of joint producer-consumer cooperation, producers of export commodities could take their own initiative to rationalize their global supply so as to better match global demand. Such initiatives by developing-country supplier countries should be encouraged, rather than frowned upon. Studies should be carried out on

some emerging producer-only supply arrangements, such as in the case of rubber, to see whether and how they work, and whether the same principles and operations can be applied to other cases.

- (g) The oversupply problem can also be addressed by regional groupings of developing countries, as well as by countries on an individual basis. Production levels can be reduced during periods of glut. Arrangements such as financing, compensation to affected producers and crop substitution, should be examined and good practices compiled.
- (h) UNCTAD, the UN Industrial Development Organization (UNIDO) and other agencies can assist commodity-producing developing countries to improve their capacity for increasing the value of their commodities by going up the value chain through processing and manufacturing as well as marketing. At the same time, developed countries should reduce tariff escalation and allow better market access for developing countries' processed and commodity-based manufactured products, and thus help commodity producers reap better benefits from the trading system.
- (i) In the case of developing-country commodities where developed countries are also producing and exporting, unfair competition from the latter in the form of export and domestic subsidies should be phased out as soon as possible (see below for more details).
- (j) Debt-relief measures (and measures of debt sustainability) should be expanded to take into account the financial problems faced by commodity-producing countries. Shortfalls faced by developing countries as a result of declines in commodity prices and earnings should be offset through debt relief.
- (k) Compensatory finance schemes to insulate developing countries from the effects of price volatility should be examined and its feasibility and implementation should be worked on.

- (l) A review can be made of the policy advice of the international financial institutions and donor agencies in encouraging developing countries to simultaneously produce export commodities, which could contribute to the oversupply situation and the resulting weakening of prices. More realistic projections of demand and prices, and better planning of supply, should be instituted.
- (m) The abolition of marketing boards and institutions and other support mechanisms in many developing countries (in many cases as a result of loan conditionalities) led to an institutional vacuum and weakened the bargaining power of developing countries' producers. This institutional vacuum should be filled. Methods to do this should be examined and followed up on. (See United Nations 2003: para 47.)
- (n) An international export diversification fund could be established to assist developing countries to move from excessive dependence on a few commodities, and to add value to their commodities through processing and manufacturing (United Nations 2003: para 27-29).

2. Reviewing the global framework which influences agricultural trade as well as developing countries' agriculture

The global framework within which agricultural trade is conducted should be reviewed in a comprehensive manner. The review should incorporate the loan conditionalities of the international financial institutions, as they relate to and have an effect on trade, the rules of the WTO and the new proposals tabled in the WTO negotiations, and the workings of commodity markets. A system of monitoring trends and developments in these areas could be set up.

3. Addressing the issues of Northern subsidies and import liberalization in the South in WTO negotiations

The problem of continued high subsidies and protection in developed-country agriculture, and the problems caused by excessive import liberalization in de-

veloping countries, can and should be addressed in the WTO negotiations on agriculture.

The capacity of policy makers and negotiators of the South should be strengthened. Moreover, there should be regular monitoring and analysis of the ongoing negotiations on agriculture in the WTO. This can be done by or arranged by international agencies with an interest in the conditions of rural producers, and by independent organizations as well as by the producers' organizations themselves. Information should be provided to the farmers' organizations and ways found to enable them to participate, at least in having their voices heard and their inputs considered. Information should also be provided to policy makers in developing countries, especially in the Agriculture Ministries and agencies dealing with agriculture and farmers.

In the negotiations on agriculture in the WTO, modalities should be developed which give the utmost priority to the interests of the small farmers in developing countries. The main principles for the modalities should be the reduction and removal of protection in the developed countries as soon as possible, and special and differential treatment for developing countries, especially for ensuring the maintenance or revival of conditions enabling the viability of small farmers' livelihoods. A more detailed proposal would be that:

- (a) The export subsidies (and concessional export credits) of the developed countries should be eliminated within a specific time frame.
- (b) On domestic support, for the developed countries, the Amber Box subsidies should be reduced substantially; the Blue Box subsidies should be re-categorized as Amber Box subsidies and subjected to reduction disciplines; whilst a reexamination of the Green Box subsidies can be made to tighten the criteria, cap the relevant subsidies and reduce them.
- (c) Developed countries should significantly reduce their high agricultural tariffs and tariff peaks, and an approach on market access be adopted to ensure this.

- (d) The imbalances in the WTO Agriculture Agreement that presently curb or limit the ability of developing countries to provide subsidies to their farmers should be corrected. For food products and the products of small farmers, domestic subsidies should not be limited, to take into account the food security and rural development needs of developing countries.
- (e) Special and differential treatment should be devised and applied to developing countries in the area of market access commitments. Developing countries should not be subjected to further tariff reductions for food products and products of small farmers, at least as long as the high subsidies in developed countries continue. For other products, an average tariff cut (on the lines of the Uruguay Round) may be considered.
- (f) A special safeguard mechanism (SSM) and the designation of special products (SPs) should be established for developing countries, to enable them to deal effectively with the incidence and problems of import surges. The SSM and SP mechanisms should be devised in such a way that they are simple and effective to operationalize and to serve their objectives.

Many of the above points are relevant to the discussions in the WTO in the post-July 2004 process to adopt modalities for the agriculture negotiations. Besides the above negotiating modalities, there could be established, within the WTO negotiations and elsewhere, a “transitional compensation mechanism” whereby countries that provide subsidies to their producers compensate developing countries for losses to their income and export revenues. This scheme had been proposed by the President of Burkina Faso to offset the losses of African cotton producers (Compaore 2003). It could be adopted generally for developing countries’ export commodities which have been affected by subsidies in developed countries. This proposal was contained in the report of the eminent persons on commodities (United Nations 2003) and in a recent UNCTAD report on Africa (UNCTAD 2004: pp58-59).

4. Reviewing the trade conditionalities linked to the loans of the international financial institutions

An ongoing review can be made of the appropriateness of the policies attached to loans of the international financial institutions, in the structural adjustment programmes and other recent forms such as the Poverty Reduction Strategy Papers (PRSPs). The recommendations of a report by the Structural Adjustment Participatory Review International Network (SAPRIN) as it pertains to the agriculture sector (SAPRIN 2004: p151) can be considered. For example: (i) policy should be reoriented to give priority to production for the domestic market and ensuring food security; (ii) trade policy in the sector should be nuanced, allowing countries to pursue some degree of self-reliance while stimulating production by marginalized farmers in order to support the rural poor in accessing affordable food; and (iii) the implementation of effective steps to support small producers and achieve food security should precede, and then be integrated with, the opening of the sector and promotion of exports.

In addition, there should also be an independent ongoing review of the trade aspects of the present and proposed conditionalities of present and future loans. Developing countries presently have flexibilities within the WTO rules to adjust their applied tariffs up to their bound rates, and even beyond the bound rates in certain circumstances. Loan conditionality should not prevent or constrain the developing countries from making use of these flexibilities. Moreover, these conditionalities should not oblige developing countries to undertake liberalization at a rate and scope that is beyond their capacity to cope, or which will be damaging to the livelihoods and incomes of rural producers. The approach to liberalization in developing countries should be re-oriented to be more realistic, especially since the developed countries are still maintaining high subsidies.

5. Improving supply capacity in developing countries

Several international and regional agencies already have programmes to assist developing countries to improve their productive and trade capacity, including

the International Trade Centre (ITC), UNCTAD, UNIDO and the multilateral and regional development banks. However, given the continuing weaknesses and deficiencies of many developing countries, these efforts are insufficient. It would be useful for developing countries to identify and assess the impact of programmes being conducted by the various agencies. These should include schemes that assist poor and small producers to increase their production, storage and marketing capacity, and diversification schemes to upgrade from production of primary commodities to enhancing value-added through processing and manufacturing based on the commodities.

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Suggestions are also made to resolve the two problems of commodities and agriculture trade. They include, once again placing high global priority on seeking solutions to the commodities crisis; reviewing the global framework which influences agricultural trade as well as developing countries' agriculture; addressing the issues of Northern subsidies and import liberalisation in the South in WTO negotiations; and reviewing the trade conditionalities linked to the loans of the international financial institutions.

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