

Overview of the debate

The purpose of these *Key Sheets* is to provide decision-makers with an easy and up-to-date point of reference on issues relating to the provision of support for sustainable livelihoods.

The sheets are designed for those who are managing change and who are concerned to make well-informed implementation decisions. They aim to distil theoretical debate and field experience so that it becomes easily accessible and useful across a range of situations. Their purpose is to assist in the process of decision-making rather than to provide definitive answers.

The sheets address three broad sets of issues:

- Service Delivery
- Resource Management
- Policy Planning and Implementation

A list of contact details for organisations is provided for each sub-series.

Internationally traded agricultural commodities, such as coffee, cocoa and cotton are, directly or indirectly, major sources of employment and income for millions of people in developing countries. Through taxation and redistribution, they make major contributions to the provision of basic services such as health and education in these countries. Commodity chains cover a range of steps from the primary producer to the final consumer, through collection, primary processing, wholesale, export and import, further processing or packaging, and retail. Producers receive a very small percentage of 'value added' within the chain. They have always had weak bargaining power in markets dominated by large (sometimes monopoly) purchasers, and have faced inelastic demand and severe price swings attributable to supply fluctuations.

With liberalisation in the 1990s, commodity producers in developing countries have largely been left on their own in their struggle with the demands of the market: governments have not introduced adequate policies to accompany liberalisation. Buffer stocks and quotas were never strong instruments, but with liberalisation they have been largely abandoned.

Commodity issues have now moved back onto the international agenda. The poverty implications of recent price falls have prompted the international community to make general commitments to take action (e.g. the Third UN Conference on the Least Developed Countries in Brussels, 2001; the Doha Declaration of November 2001; the Finance for Development Conference in Monterrey, 2002; the World Summit for Sustainable Development in Johannesburg, 2002; the United Nations General Assembly, 2002). Most recently, two groups of commodity-dependent countries (West/Central Africa and East Africa) have focused the attention of the Doha round trade community on their plight, arguing for special efforts to improve their situation. This *Key Sheet* examines the main issues of concern, and the options for policy action.

During recent years, the debate on commodity chains has focused on the following:

- International commodity markets are characterised by cyclical trends: relatively long (and increasingly deeper) periods of low prices, and short periods of high prices. The long-term downward trend in real prices requires producing countries to assess the competitiveness of their commodities.
- The prospects for forging workable international agreements among producers are negligible.
- The continuing protection of Western agricultural markets hinders exports from developing countries. Excessively high sanitary and phytosanitary (SPS) requirements in the EU act as a non-tariff barrier to trade.
- Consumers in Western markets increasingly require high-quality, safe, ethical and ready-made products. This has stimulated integration within the commodity chain, and a requirement for traceability.
- Integration within chains has resulted in increased scale of operations: transnational corporations are dominating most markets and prefer to work with large-scale suppliers.
- In developing and transitional countries, the private sector has replaced commodity-trading organisations such as marketing boards. However, enabling policies remain weak: producers and traders have great difficulty in e.g. accessing credits and other financial services.

Key issues in decision making

Areas in which policy options need to be explored include the following:

National commodity strategies Measures and actions need to be part of a long-term proactive strategy regarding commodities. This in turn should be located within a national development or poverty-reduction strategy.

Fostering transparency on competitiveness, trade and market concentration of commodities Analysis of costs, value-added, strengths, weakness, opportunities and threats needs to be undertaken for commodity producing countries and areas. Understanding the barriers to trade is crucial for their reduction, and international market concentration needs to be monitored closely if potential abuses of power are to be prevented.

Upgrading and up-scaling of producer organisations Boosting the capacity and power of farmer organisations is an essential step in boosting their value-added and in enhancing the capacity to exploit new market opportunities, e.g., for specific quality or organics. To federate or network these into businesslike co-operative organisations requires qualified management and a sound business policy, based on self-governance,

Commodity Supply Chains *continued*

DGIS experience

- Common Fund for Commodities
- Support to CRM, incl. pilots in Tanzania, Uganda, Nicaragua
- Support for W/C African cotton initiative in WTO Doha Round
- Assist in development of common EU policy on agricultural commodities
- Fair trade coffee label 'Utz Kapeh'
- Prevention of coffee mould

DFID experience

- Fair trade labelling and governance
- Trade and poverty programme for Africa
- Initiatives on product standards
- Africa beverage production studies

Expertise

- Agricultural Economics Research Institute (LEI), Wageningen
- Free University of Amsterdam, Economic Social Institute (VU/ESD)
- International Agricultural Centre, Wageningen UR
- Natural Resources Institute
- Oxford Policy Management
- Overseas Development Institute
- Rabo International Advisory Services

Websites

- www.common-fund.org
- www.fao.org
- www.icac.org
- www.icco.org
- www.ico.org
- www.ictsd.org
- www.itf-commrisk.org
- www.unctad.org

self-financing, and proportional allocation of proceeds, costs and voting rights amongst members. 'Proportionality' is one precondition for medium and large farmers to join and so enhance the prospects of success.

Risk control and access to international financial services Operating at a larger scale will also open the door to credit and insurance. Issues of this kind are being addressed by the International Task Force on Commodity Risk Management, under the leadership of the World Bank.

Enabling policies and good governance The continuing absence or weakness of institutions in the legislative, executive or judicial branches of government is one of the major constraints for successful business operations. Inadequate legislation over the ownership and leasing of land limits improvement in the productive capacity of land and access to credit. Transaction costs will remain high where transport and communications infrastructure is neglected.

Corporate social responsibilities within chains and development of public-private partnerships The direct links between consumers and producers permitted by strengthened commodity chains easily allow products to be traced to their origins. This in turn provides the opportunity for public-private partnerships that can focus on selective investment subsidies by customers, or joint ventures between customers and suppliers. One challenge is to use development assistance to leverage enduring market access by commodity producers.

Reducing Western protectionism Production and export subsidies in OECD countries, currently running at US\$ 1bn/day, seriously disadvantage developing country commodities. In addition, a number of commodities produced in developing countries are still subject to tariff barriers and quotas. Phytosanitary controls are emerging as an important non-tariff barrier. Much remains to be done to achieve WTO agreement (and implementation of such agreements) on such matters. The Western world should in particular acknowledge those proposals during the Doha Development Round that come from less-developed countries and are in line with WTO objectives, such as the West and Central African cotton proposal.

Managing macro-level commodity shocks Governments are beginning to consider hedging as an insurance against price or other shocks. Here, governments would receive an automatic payout by the provider of the instrument, once the export price drops below the insured threshold. The inclusion of a pass-through mechanism to the producers themselves is necessary.

Platforms for discussion among stakeholders in commodity chains There is considerable scope for stakeholders in commodity chains to share experience and discuss common interests. Existing international commodity bodies need to be reformed to this end.

Key literature

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