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Agenda item 8

**DRAFT REPORT OF THE COMMISSION ON TRADE IN GOODS AND
SERVICES, AND COMMODITIES ON ITS FOURTH SESSION**
(11-14 October 1999)

Rapporteur: Mr. Joshua Setipa (Lesotho)

Opening statements, agenda item 3 and organizational matters

Speakers:

Secretary-General
Colombia (for GRULAC) (paras. 10-12 and 36-37)
Finland (for the European Union)
Russian Federation
United States
UNCTAD secretariat
Egypt (for the African Group)
Islamic Republic of Iran (for the Asian Group and China)
Japan
China
South Africa
Common Fund for Commodities

Note for delegations

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

Requests for amendments to statements of individual delegations - to be submitted in English or French - should be communicated by **Friday, 22 October 1999**, at the latest to:

UNCTAD Editorial Section, Room E.8102, Fax No. 907 0056, Tel. No. 907 5654/5655

Chapter I

**AGREED CONCLUSIONS AND RECOMMENDATIONS ADOPTED BY THE
COMMISSION AT ITS FOURTH SESSION**

[To be completed]

Chapter II

OPENING STATEMENTS

1. The **Secretary-General of UNCTAD** said that the present session of the Commission was particularly important as it was taking place towards the end of the preparatory processes for the forthcoming World Trade Organization (WTO) Ministerial Conference in Seattle and for UNCTAD X. The usefulness of the session would be judged on whether it made a real difference in the debate on trade. It provided an opportunity for the Commission to evaluate its performance and to introduce incremental improvements, so as to make the intergovernmental machinery more useful to member States. The link between analytical work and negotiations should be strengthened, so that ideas arising from the analysis were reflected in negotiations in other organizations, particularly in WTO. Some such ideas – for instance, the positive agenda and the commercial diplomacy programme – were already at the implementation stage

2. In the area of commodities, there was a greater need than ever to go back to sound analytical work. The situation in that area continued to be a cause of concern, with prices having recovered for only a few commodities, such as oil, with recovery being achieved by means of supply management, or, in other words, production cuts. Many previous attempts to solve the problems of commodities had not been successful and there was a need for balanced and serious reflection. The recent Expert Meeting on the impact of changing supply-and-demand market structures on commodity prices and exports of major interest to developing countries had shown that the *problématique* was extremely complex and that there was no scope for simple remedies. The issue of commodities would have to be addressed at UNCTAD X and thereafter. Also, agricultural negotiations would be a part of the post-Seattle negotiations in WTO; their inclusion would be a step in the right direction.

3. He suggested that the Commission should address three pressing issues. The first was the classical problem of why the share of developing countries in world commodity exports had been declining while the share of developed countries had been growing. Some of the answers were related to market structures, while others were related to supply capacities. UNCTAD had to reinforce its analytical work on commodity markets as a matter of urgency in order to provide more precise answers. The publication and release of the *World Commodity Survey, 1999-2000* was a first positive reflection of that. Furthermore, the scope of generic and cross-cutting issues had to be determined, problems identified and potential solutions fully and thoroughly analysed by the secretariat in collaboration with other relevant institutions.

4. The second issue concerned the value-added chain. It was necessary to identify practical and useful ideas to enable developing countries to capture more of the value added in the processing and distribution chain. The role of know-how and technology should be clarified, as should that of support policies and subsidies in developed countries, and remedies should be identified.

5. The third issue had to do with the market instruments used to correct problems. In that respect, risk management was a subject that UNCTAD had been almost alone in developing. Market-based instruments such as structured commodity financing not only reduced potential risks but also corrected domestic market distortions. UNCTAD was a major partner in the risk management initiative recently launched by the World Bank. It was to be expected that, with the extensive resources of the World Bank available, more targeted and focused work would be accomplished in that area. At the same time, while UNCTAD's work should continue to have its own specificity, a greater impact could be achieved by developing strategic alliances with other relevant institutions.

6. The uniqueness of UNCTAD's approach to the international trading system, including trade in services, was its emphasis on the development dimension and on the centrality of the needs of developing countries. That emphasis was not to ignore the understandable and justifiable concerns of other countries, but to take into account the legitimate interests of all members of the international trading system and at the same time concentrate on the needs and aspirations of the weakest members. The existence of an effective and durable international trading system was in the interest of all members, but it could only be achieved through the full integration of more countries, so that the system was able to generate growth through trade in services and in goods.

7. It was with that basic concern for the development dimension in mind that the important issues of services and electronic commerce, which were currently among the most topical trade issues, should be addressed. International attention to trade in services was still very much in the early stages, and much work remained to be done, despite the conclusion of that very important agreement, the General Agreement on Trade in Services (GATS). More analytical work was needed on the possible contribution of the service sector to the development of developing countries. There had been some encouraging success stories in that sector. In the case of some small developing countries, services offered the possibility of modernizing their economies and generating trade without undergoing the whole historical process followed by industrialized countries of industrialization based on large domestic markets. To take some examples, the Dominican Republic was using telecommunication facilities to export data-processing services to major corporations in the United States; service industries, in the form of the recreation and music industries, were making an important contribution to the Jamaican economy; and the success of India in the production and export of software was well-known – and over a third of the new firms created in California's Silicon Valley had as directors and founders people of Indian or Chinese origin. Such people were instrumental in strengthening the commercial ties between the United States, with its growing demand for software products, and their countries of origin, which had significant comparative advantages in the supply of highly-qualified professionals.

8. However, aside from those few very promising and encouraging examples of the potential of trade in services for developing countries, it had to be noted that the participation of developing countries in trade in services had increased by only 6 per cent. Hence the work of the Commission and the intergovernmental expert meetings, in cooperation with other international organizations,

on examining success stories and identifying new opportunities in service sectors, especially in health, tourism, air transport and environmental services, was particularly useful. Work would also be useful in the field of construction and other professional services which depended to a large degree on improvements in regulations affecting the movement of natural persons, such as regulations on temporary residence and temporary visas, and the recognition of diplomas and professional qualifications awarded in developing countries. The pioneering work by UNCTAD and the International Telecommunication Union (ITU) on electronic commerce four years earlier had shown how useful such studies could be. In that connection, there was a need to address the problems both in terms of the requisite infrastructure (which was more in the domain of ITU) and in terms of economic analysis of the issues and the rules needed to ensure the orderly conduct of electronic commerce.

9. Clear directions were needed on UNCTAD's future work in services, in terms of its analytical and research activities in different sectors, the strengthening of the link between its analytical work and the negotiations on services, and more target-oriented technical cooperation programmes to provide countries with the input they needed to make good use of the results of the analysis.

10. The spokesperson for the **Latin American and Caribbean Group** (Colombia) said that the share of Latin America and the Caribbean in world commodity exports had fallen from 12.7 per cent during the period 1970-1972 to 11.7 per cent during the period 1996-1997, despite the comparative advantage of the countries in the region, the high level of development of human and physical infrastructure and the significant rate of investment in the sector. Tariff peaks and tariff escalation, as well as export subsidies by developed countries, were identified as the main reasons for the fall. According to some estimates, in 1998 the member countries of the Organisation for Economic Co-operation and Development (OECD) had devoted US\$ 335 billion to supporting their agricultural sector. That amount was equivalent to 20 per cent of the total gross domestic product (GDP) of Latin America and the Caribbean, and actually exceeded the GDP of all countries in the region except Brazil. The export subsidies granted by the developed countries to some agricultural products, such as meat and rice, were often much higher than the value of world trade in those products. Developing countries were also the victims of other unfair trade practices, such as unilateral trade measures, the extraterritorial application of laws, and conditions for preferential market access that were totally unrelated to trade. It would also be useful to revise the provisions of the Common Fund for Commodities for the financing of developmental measures and the promotion of market stability in the light of the new market situation.

11. The service sector was playing an increasingly important role in the economic development of developing countries and the current session of the Commission would be a good occasion to discuss the successful export strategies adopted by some developing countries, as well as the main barriers faced by them. UNCTAD's work in identifying trade barriers in the services sector would help developing countries to participate effectively in the forthcoming multilateral negotiations on services. Those negotiations would be of benefit for developing countries only if parallel actions were adopted to increase the supply capacity of developing countries, their

access to technology and the movement of natural persons. UNCTAD was encouraged to continue its work on specific service sectors in order to help developing countries to identify export opportunities and define their negotiating positions.

12. Finally, he expressed support for the conclusions reached by the three expert meetings held in 1999 under the auspices of the Commission on Trade in Goods and Services, and Commodities.

13. The representative of **Finland**, speaking on behalf of the **European Union**, while commending the secretariat for the high quality of the background documentation provided for the session, said it was not acceptable for the documentation to be issued at such a late date. It was difficult to have useful discussions without having had an opportunity to study the documents properly in capitals. The secretariat should improve the processing of documentation. The postponement of the session had also caused considerable problems to delegations.

14. Referring to the report by the secretariat on the world commodity economy (TD/B/COM.1/27), he agreed in principle that the problems in the commodity sector as a whole continued to persist and had in fact become more serious over time. The long-term decline in terms of trade, price instability and institutional factors emanating from economic policies, which had been emphasized in the *Trade and Development Report, 1999*, had been damaging. However, the developments differed significantly between commodity subsectors, with some showing a more positive consumption growth and trade performance than others. In that connection, the impact of changes on the composition of demand was indeed evident, especially in the case of food commodities. The *Report* also confirmed that there was a significant divergence of experience between different regions. It was possible for commodity-dependent countries to broaden their production base and to strengthen their export performance; foreign direct investment had an extremely important role to play in that respect. Another important core issue was greater horizontal diversification, as opposed to vertical diversification. The question was how UNCTAD could best assist commodity-dependent developing countries become less dependent on one or a few traditional commodities only; that question should be discussed in the run-up to UNCTAD X. He expressed appreciation for the important work of UNCTAD in the area of risk management.

15. With regard to agenda item 4, on the analysis of certain service sectors, he noted that the potential gains from further liberalization were huge, but its actual impact would depend on the implementation of adequate domestic policies.

16. The representative of the **Russian Federation** made a positive assessment of the work carried out in the Commission on Trade in Goods and Services, and Commodities. In particular, he emphasized the usefulness of the Expert Meeting on the impact of changing supply-and-demand market structures on commodity prices and exports of major interest to developing countries, held in July 1999. He agreed that the role of commodities in international trade had been declining. The major negative impact of that phenomenon was on countries that were dependent on exports of commodities, which experienced losses as a result of low commodity

prices and the widening gap between the price of commodities and the price paid by the consumer of manufactured products.

17. With regard to trade in services, he said that the most pressing concerns of the Russian Federation, which was still a net importer of services, were to develop its national services infrastructure and an adequate legislative basis, and to strengthen its export potential in services. Many developing countries and countries with economies in transition shared those concerns. He therefore supported UNCTAD's increasing work on services. Another factor to be considered in such work was the forthcoming new round of multilateral trade negotiations in WTO. Bearing in mind the need for complementarity in the work of international organizations and the need to exploit comparative advantages, UNCTAD was capable of providing an effective input through capacity-building and analytical support in the identification of the services-export capabilities of interested countries. UNCTAD should also be more actively involved in strengthening the negotiating potential of interested countries by providing assistance on issues related to negotiating strategy and tactics on trade in services.

18. He also supported UNCTAD's initiatives in the area of electronic commerce, although its work on the subject could be more focused on and related to trade in services in the context of the forthcoming round of multilateral trade negotiations.

19. He noted that the practice of considering the secretariat's reports on the implementation of previous conclusions and recommendations was a useful one.

20. The representative of the **United States of America** expressed serious concern about the late availability of the documentation for the session. She also regretted the last-minute postponement of the meeting, which had caused problems for many delegations. She also stated that it was not the role of the Commission to determine the direction of the future work of UNCTAD, particularly on the eve of the Third WTO Ministerial Conference and UNCTAD X.

Chapter III

ANALYSIS OF FACTORS AFFECTING THE PRODUCTION AND TRADE OF COMMODITIES, SUCH AS THE IMPLICATIONS OF FINANCIAL CRISES, THE REASONS FOR AND EFFECTS OF THE COLLAPSE IN COMMODITY PRICES, AND THE IMPACT OF CHANGING DISTRIBUTION AND MARKET STRUCTURES

(Agenda item 3)

21. For its consideration of this item, the Commission had before it the following documentation:

“The world commodity economy: recent evolution, financial crises, and changing market structures” (TD/B/COM.1/27).

22. The representative of the **UNCTAD secretariat**, introducing agenda item 3, said that prices were in a continuous downward trend in real terms; price volatility continued to be very high; developing countries were increasingly important as importers; non-traditional commodity exports had grown in importance; Africa and the least developed countries (LDCs) had not kept up with the general development of the commodity sector in developing countries; developing countries were losing market shares even in traditional commodities, largely due to a failure to capture more value-added on their commodities; and industry and market structures, as well as demand structures, were going through a period of rapid change. Regarding financial crises, the commodity sector was an important vector for the transmission of such crises. It was the most responsive sector to devaluations in many developing countries and had acted as a “saviour” for a major part of the economy in crisis situations, and the impact had been on both the demand and supply sides, depending on the economic structure of the countries affected.

23. The composition of world commodity trade was changing. Traditional commodities like cereals, sugar, coffee and cocoa were becoming less important in world trade. Developing countries’ earnings from traditional sectors were also losing importance. The dynamic growth sectors were now fish, fruits, vegetables, dairy products and commodities such as cut flowers. Developing countries, however, had a low market share in many of those dynamic commodity sectors.

24. There was also a changing regional balance in developing countries’ commodity trade. Africa, as well as LDCs and African, Caribbean and Pacific countries as a group, had been losing market shares. Major exporters of manufactures had increased their share of world commodity exports. Asia was now a major net non-fuel commodity importer. South-South trade was of increasing importance.

25. Consumers in developing countries, just like those in developed countries, were becoming increasingly interested in brand-name products – much of which were imported. The traditional export products of developing countries were processed and/or branded in developed countries, and re-exported. An important result was that developed countries were accounting for increasingly larger shares of world export values of tropical products.

26. Agricultural subsidies and subsidized exports from developed countries remained a very serious cause for concern for developing countries. Moreover, market access barriers for many commodity exports, in particular processed ones, and commodities for which there was a dynamic demand, were hindering the expansion of developing countries' commodity exports and their diversification efforts.

27. Meanwhile, world market structures were undergoing significant changes. At the national level in developing countries, there was widespread liberalization, a proliferation of foreign entrants, increased foreign product competition, and increased price risk exposure. Pressure to meet market exigencies (such as the Hazard Analysis Critical Control Point system) created new constraints. At the international level, there was a growing concentration of trade. It was no longer possible to trade successfully purely on price differentials. Cheaper finance and good logistics were now key factors. There was a crucial need for greater capital resources and enhanced skills. Changes on the consuming side that affected market structures included the increasing importance attached to supermarkets and brand names, as well as the emergence of new kinds of demand linked to production technology (e.g. for organic foods).

28. After summarizing the results of recent UNCTAD expert meetings linked to commodities, he indicated some policy proposals for the consideration of delegations. They included: to address as a matter of urgency the market access problems for commodities, and to end trade-distorting agricultural support measures; to enhance the competitiveness of developing countries' exports; to strengthen the effectiveness of producer/consumer bodies in improving market transparency and for the exchange of information and experiences, including by ensuring the participation of all stakeholders; to support the private sector in developing countries in taking on crucial trade and trade support functions; and to increase the resources available to the Common Fund for Commodities.

29. The spokesperson for the **African Group** (Egypt) said that the commodity sector could be an important basis for the development of African countries. Many African countries were heavily dependent on commodities for their export revenues. However, Africa's share in world commodity exports was declining continuously, and their participation in the high value-added and processed-product markets was very small. Supply-side and structural constraints were important factors in hampering the effective participation of African countries in the international trading system and in preventing them from diversifying into higher value-added commodity products in which they had a comparative advantage. Further external constraints to Africa's diversification and commodity-based industrialization were tariff peaks, tariff escalation and non-tariff barriers for commodities of export interest to these countries. Moreover, depressed world prices acted as a disincentive for investing in the upgrading of the commodity sector. In that

regard, he referred to the recent Declaration on UNCTAD X by African Ministers of Trade and to the document "Africa's Development Challenges" annexed to it, which underscored the need to pay particular attention to market shares, horizontal and vertical diversification, and the need to expand and improve the effectiveness of producer/consumer bodies with regard to the crucial importance of their activities in market transparency and information. An increase in funding, including through the Second Account of the Common Fund for Commodities, was needed to finance research and development. Moreover, the utility of establishing a supply management mechanism aimed at maintaining stable prices at remunerative levels should be considered. While risk management was an important element, new and innovative financing techniques could contribute to the generation of resources in the commodity sector. The void created by the withdrawal of marketing boards from the commodity sector needed to be filled urgently, particularly considering the increasingly oligopolistic market structures of transnational firms, and the inadequate provision of the local private sector for the functions traditionally performed by marketing boards. UNCTAD's analytical work and capacity-building activities were instrumental to these ends, and should accord a more focused treatment to commodities. UNCTAD's cooperation with the Common Fund for Commodities should be strengthened. The annex to the Declaration on UNCTAD X by African Ministers of Trade, referred to above, included a number of specific tasks for UNCTAD in the area of commodities considered vital by African countries.

30. The spokesperson for the **Asian Group and China** (Islamic Republic of Iran) said that in spite of the industrialization and economic diversification of many countries in the Asian region, the commodity sector remained crucially important for many of the region's countries. In fact, the process of industrialization had made Asia a very important importer of commodities, so much so that for many years before the Asian financial crisis it had been the region that provided the dynamism for world trade of many commodities. The region's share in world commodity exports had gone up from around 10 per cent in the 1970s and early 1980s to almost 15 per cent in the late 1990s. Its share in imports had shown a much more dramatic change, going up from less than 10 per cent in the 1970s to around 12 per cent in the early 1980s and to 20 per cent in the late 1990s.

31. The diversification, both horizontally and vertically, in some of the more advanced countries of the region should not hide the fact that several countries in the region depended almost exclusively on the exports of primary commodities for their exports. The importance of commodities, however, had been demonstrated during the Asian crisis, when the commodity sector in the affected countries responded very dynamically to measures such as devaluations, and provided the livelihood for large parts of the population, especially the poorer segments.

32. One lesson learned from the experience of the impact of the Asian crisis on commodities concerned the unstable nature of commodity markets and the crucial role that commodities played in the process of contagion. The lesson demonstrated the necessity for increased transparency and market information, as well as for early action to prevent such occurrences. Appropriate international cooperation to improve the functioning of commodity markets was also called for.

Such cooperation was crucial for commodity-exporting countries, particularly in the current depressed situation of the markets. Similarly, modern instruments for managing price risks and for generating investable resources were indispensable tools in the modern world.

33. Further development of the commodity sector in all developing countries depended crucially on increased market access, especially for processed products, and a reduction of support measures provided to the agricultural sector in industrialized countries. In that connection, there was an important gap in people's understanding of commodity markets, in particular in the operation of international commodity chains, the generation of the value added at different stages and the opportunities for developing countries to enter those chains so that they could maximize the value-added retained in the producing and exporting developing country.

34. The representative of **Japan** said that the Asian financial crisis of 1997 had had a profound impact on all economies. Although the prospects for economic growth were constrained, there were positive signs of faster-than-anticipated recovery in many of the former "Asian Tiger" economies. That recovery process had benefited from the provision of US\$ 80 billion in assistance from the Government of Japan.

35. The representative of **China** stressed the importance of commodities in commodity-dependent developing countries and LDCs. He suggested that three specific interventions were necessary if a liberalized and globalized trading system was to operate successfully. They were: the timely adjustment of domestic policies in developing countries; the opening up of developed countries' commodity markets and the provision of timely, relevant and affordable information and technology by those countries to commodity-dependent developing countries; and a global effort to reduce trade and non-trade barriers in order to make the playing field level for all parties.

36. The spokesperson for the **Latin American and Caribbean Group** (Colombia) said that the countries in that region, like other developing countries, had been astonished to note how their participation in world agricultural trade had remained unchanged since the Uruguay Round, contrary to the optimistic predictions that had led them to ratify the outcome of the negotiations and to carry out trade policy reforms. The countries in the region were convinced that it was necessary to place agricultural trade under the same rules that governed other products. Practical measures were also necessary with regard to special and differential treatment, including with respect to aspects such as access to developed countries' markets for agricultural products, improvement of agricultural productivity, food security, protection of small farmers against price fluctuations and distorting practices in international distribution. The erratic fluctuations and distortions in commodity markets in recent years required concrete action at the international level with a view to improving the transparency of international markets, eliminating tariff escalation and promoting diversification.

37. UNCTAD should strengthen its capacity to assist Latin American and Caribbean countries with analytical work on those priority aspects, as well as on the nature and extent of anti-competitive distortions which had led to the formation of "hard-core cartels" with negative effects on consumers all over the world. The Asian crisis had demonstrated that commodity trade was

a key element in the external vulnerability of developing countries. In spite of that, the theme of commodity exports appeared to have disappeared from the multilateral agenda. UNCTAD should continue to help developing countries face the difficulties created by their dependency on commodities and in that respect should analyse international markets on a regular basis, as well as prepare statistics and other data to enhance market transparency. He emphasized the importance of the support given by UNCTAD to the examination of policies to improve the efficiency and productivity of commodity sectors and to promote diversification and development of processing chains. It was also important to assist developing countries in the use of market-based risk management instruments.

38. The representative of **South Africa** said that agricultural support measures of developed countries should be reduced. There was a clear causal link between those measures and the loss of market shares by South Africa following trade liberalization. UNCTAD should study such causal links further, and also examine ways to close the gap in competitiveness that had been opened up by liberalization, including with regard to the role of the private sector.

39. The representative of the **Common Fund for Commodities** said that while movements in commodity prices were obviously important, it was also important to develop initiatives concerning other aspects of the commodity value matrix, such as horizontal and vertical diversification and new quality standards, including sanitary and phytosanitary standards and non-tariff trade barriers. Those aspects were significant elements in operations under the Second Account of the Fund, as were research and development. The Fund had participated in the International Task-Force on Risk Management and was committed to further cooperation with international commodity bodies on the development of risk management. In that connection, the Common Fund's Executive Board had approved five projects under the First Account Net Earnings initiative, which focused on the development and testing of structured trade finance and warehouse receipt financing for coffee, cotton, cocoa and grains in Africa and Eastern Europe.

Chapter ..

ORGANIZATIONAL MATTERS

A. Opening of the session

40. The fourth session of the Commission on Trade in Goods and Services, and Commodities was held at the Palais des Nations, Geneva, from 11 to ... October 1999. The session was opened on 11 October 1999 by Mr. Sándor Simon, Chairperson of the third session of the Commission. In the course of the session, the Commission held ... plenary meetings (10th to ... meetings) and a number of informal meetings.

B. Election of officers

(Agenda item 1)

41. At its 10th plenary meeting, on 11 October 1999, the Commission elected its Bureau as follows:

Chairperson:	Mr. Federico Alberto Cuello	(Dominican Republic)
Vice-Chairpersons:	Mr. Abdul Mannan	(Bangladesh)
	Mr. Eduardo Michel	(Argentina)
	Mr. Iouri Afanassiev	(Russian Federation)
	Mr. Mark Jones	(United Kingdom)
	Ms. Gudrun Graf	(Austria)
Rapporteur:	Mr. Joshua Setipa	(Lesotho)

C. Adoption of the agenda and organization of work

(Agenda item 2)

42. At the same meeting, the Commission adopted the provisional agenda circulated in document TD/B/COM.1/24. Accordingly, the agenda for the fourth session was as follows:

1. Election of officers
2. Adoption of the agenda and organization of work

3. Analysis of factors affecting the production and trade of commodities, such as the implications of financial crises, the reasons for and effects of the collapse in commodity prices, and the impact of changing distribution and market structures
4. Analysis of certain service sectors, including analysis of successful experiences in those sectors, particularly those which enhance the export capacity of developing countries (such as professional and business services and access to transport services), including the development implications of electronic commerce
5. Reports of the subsidiary bodies of the Commission
6. Progress report on the implementation of agreed conclusions and recommendations of the Commission
7. Other business
8. Adoption of the report of the Commission to the Trade and Development Board

D. Other business

(Agenda item 7)

[To be completed as appropriate]

E. Adoption of the report of the Commission

(Agenda item 8)

[To be completed]