

## Commodities: bold solution needed

Two billion farmers in the world make a living out of agricultural commodities - and for many it is the only source of revenue. In most developing countries, commodities also play a major role in the economy. Coffee, for instance, accounted for 67% of Ethiopia's export income in 2000 and for 79 % of Burundi's in 2002. Out of 141 developing countries, 95 are more than 50% dependent on commodity exports, including oil. For most sub-Saharan African countries the figure is 80%. This dependence makes most countries particularly vulnerable to commodity market fluctuations and is a real handicap to economic development.

Commodity prices are declining steadily overall, although some are more volatile than others. The price of cotton, for instance, fell by 47% in 2001 (62.01 US cents per pound for cotton lint on 30 January 2001; 28.52 cents on 25 October) and coffee by nearly 68.5% between February 1998 and November 2001. Had coffee prices remained at their 1998 level, coffee-producing countries would have made US\$ 19 billion more between 1999 and 2002. According to Oxfam, producers receive on average only 6% of the value of a packet sold in the supermarket.

Between 1980 and 2002, terms of trade in the commodities sector declined by more than 50%, except for oil and manufactures. As a result, producing countries have become more vulnerable. In recent years many producers have had no choice but to sell their coffee beans at a price far below production cost. Given the difficulty of switching to other production sectors, 25 million workers and farmers in the coffee sector are now living in extreme poverty. Since the beginning of 2003, however, there appears to have been a slight improvement for some products. For cotton, for instance, prices rose by 35.3% in nominal terms during the first three quarters of 2003, due mainly to strong demand from China and the weakness of the US dollar.

Access to the global market promotes economic growth and development, but the entry conditions set by the importing countries and the protectionist measures applied are major obstacles that the majority of exporting countries find difficult to overcome. For instance, stringent health and quality standards and the subsidies paid by industrialized countries to their own producers make it harder for commodity-dependent developing countries to break into the market. European farmers can sell their cotton at a stabilized price of 1.06 euros per kilo of seed cotton, whatever the market price, whereas for farmers in Mali, Benin and Burkina Faso, the price is around 0.30 euros. The United States paid US\$ 4.2 billion in aid and subsidies to its cotton producers in 2000 - six times the annual budget of Burkina Faso.



## **UNCTAD mandate**

UNCTAD has a specific mandate in the area of commodities: to assist commodity-dependent countries in defining, formulating, implementing and adapting policies and strategies, as well as finding innovative solutions. Its work focuses on three basic aspects: risk management and finance; market information and transparency; and diversification and management of natural resources. UNCTAD also tries to facilitate cooperation between commodity producers and consumers.

## **Risk management and finance**

UNCTAD helps countries to acquire modern tools for risk management and financing in the commodities sector. The organization provides policy advice, conducts studies and training, and supports research and technical cooperation activities, which take into account the different needs of the public and private sectors. These include the development of commodity exchanges at the regional and national levels, the establishment of innovative mechanisms allowing access to credit on reasonable terms, and the organization of an annual conference on the trade and financing of oil and gas in Africa.

## **Market information and transparency**

UNCTAD provides as wide an analysis as possible, as well as clear information on current trends in the main commodities markets. Studies on market developments and prospects are available upon request. The electronic portal INFOCOMM (<http://www.unctad.org/infocomm>) posts essential information. In addition to providing figures and specific sectoral data (quality standards, marketing chains, pricing mechanisms, etc.), INFOCOMM is used as a platform to exchange key information.

UNCTAD also produces a number of publications on commodities: the World Commodity Survey analyses more than 80 products; the Handbook of World Mineral Trade Statistics gives statistics on 32 products; the Commodity Yearbook provides information on production, trade and consumption; and Iron Ore Statistics includes a market review and statistics.

## **Diversification and management of natural resources**

UNCTAD's aim is to encourage greater diversification in commodity-dependent countries by giving exporters and importers the means of responding to market opportunities. The organization helps countries to formulate and implement policies and measures to diversify and develop the sector. It identifies the specific needs and concerns of commodity-dependent countries and helps them to find ways of participating in international trade. What's more, UNCTAD is involved in devising and implementing systems to assist regional development in areas that are heavily dependent on natural resources. It also seeks to secure the type of resource management needed to ensure sustainable economic development.

*To find out more about UNCTAD's work in the commodities field, please visit the UNCTAD web site on <http://www.unctad.org/commodities/>, or contact Mr. Olivier Matringe (tel.: +41 22 917 57 74; e-mail: [olivier.matringe@unctad.org](mailto:olivier.matringe@unctad.org)).*