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Fostering Sustainable Trade in Agricultural Commodities: the Role of Standards and Traceability

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➤ Deforestation and Agriculture

- ▶ More than 420 M ha of forests were lost between 1990 and 2020, reducing biodiversity, increasing vulnerability and climate change (IPCC, 2022).
- ▶ FAO (2022) indicates that agricultural expansion accounted for **88.1% of global deforestation** in 2000-2018, and another study finds that **68% of deforestation was carried out by smallholders**.
- ▶ A key factor in understanding the economics of deforestation is the economic value of land use change.
- ▶ Important drivers identified by the literature include **agricultural prices, market access** (trade policy and infrastructure, including roads and ports), both **static** (e.g. forest services, including tourism) **and dynamic payoffs** (e.g. real options) **from conservation**, and others (Balboni et al, 2023).





➤ The Challenge: Asymmetric Information

- ▶ The environmental, social and economic impact of an agricultural product **is not observable** by the buyer, **even after consumption**.
- ▶ Producers know: a) workers' wages; b) whether they deforested to produce; c) whether child labour was used or not.
- ▶ Intermediaries and exporters know: d) how much they paid their suppliers; e) how they measured quality, and so on.
- ▶ Such '**asymmetric information**' can result in sustainable (i.e. 'good quality') products losing market share or disappearing to unsustainable (e.g. 'bad quality') products.
- ▶ The key is whether or not the average prices of both qualities lead to 'good quality' products being available. This problem of '**quality under-provision**' leads producers and consumers of sustainable products to use tools that facilitate vertical (i.e. quality) differentiation.

➤ Technical Regulations/Standards

- ▶ “Voluntary” vs mandatory standards.
- ▶ Voluntary standards allow **vertical differentiation**.
- ▶ They can become *de facto* a **market access requisite**.
- ▶ Due to differences in requirements across voluntary standards, they are vulnerable to “**standards arbitrage**” and **proliferation** issues.
- ▶ Mandatory ones prevent market access for non-compliant products.
- ▶ According to the WTO Technical Barriers to Trade Agreement, a Technical Regulation is a measure that:
 - is **mandatory** and involves some form of government intervention regulating **product characteristics** or **how they must be produced**.
 - introduces requirements that **may affect trade and market access** for the products covered by the regulation.

Table 1: Minimum harvested area certified by agricultural commodity in 2020–21

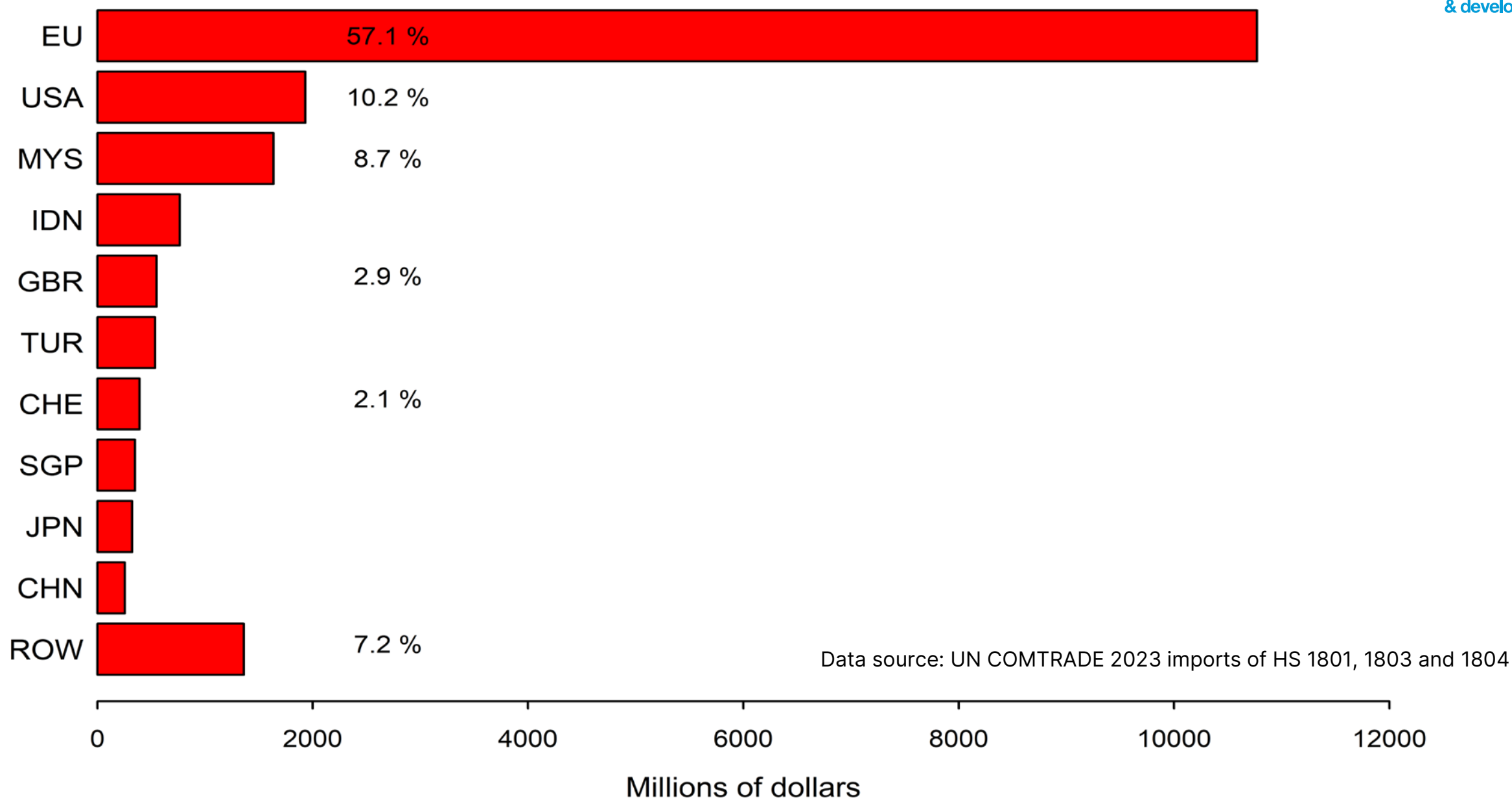
Commodity	Area harvested [ha]	Share of global area ⁸	Area growth 2020–21	Area growth 2017–21
Bananas	350,633	6.6%	-2.7%	5.4%
Cocoa	2,527,652	21.7%	-3.5%	-13.1%
Coffee	1,647,526	14.5%	-2.5%	-32.8%
Cotton	6,696,306	20.3%	17.3%	29.9%
Oil palm	3,366,257	11.6%	2.3%	32.8%
Soybeans	2,196,355	1.7%	6.5%	17.2%
Sugarcane	2,321,290	8.8%	10.2%	17.2%
Tea	760,890	14.5%	6.2%	13.8%
<i>Total based on minimum</i>	<i>19,866,909</i>	<i>7.9%</i>	<i>7.1%</i>	<i>11.0%</i>
<i>Total (based on maximum)</i>	<i>23,254,484</i>	<i>9.3 %</i>	<i>6.2%</i>	<i>10.2%</i>
<i>Total (based on average)</i>	<i>26,642,059</i>	<i>10.6%</i>	<i>5.6%</i>	<i>9.7%</i>

Source: International Trade Center (2024), The State of Sustainable Markets 2023. Statistics and Emerging Trends, pp. 8. Available online at <https://www.intracen.org/file/sustainablemarkets202320231220webpages02pdf>

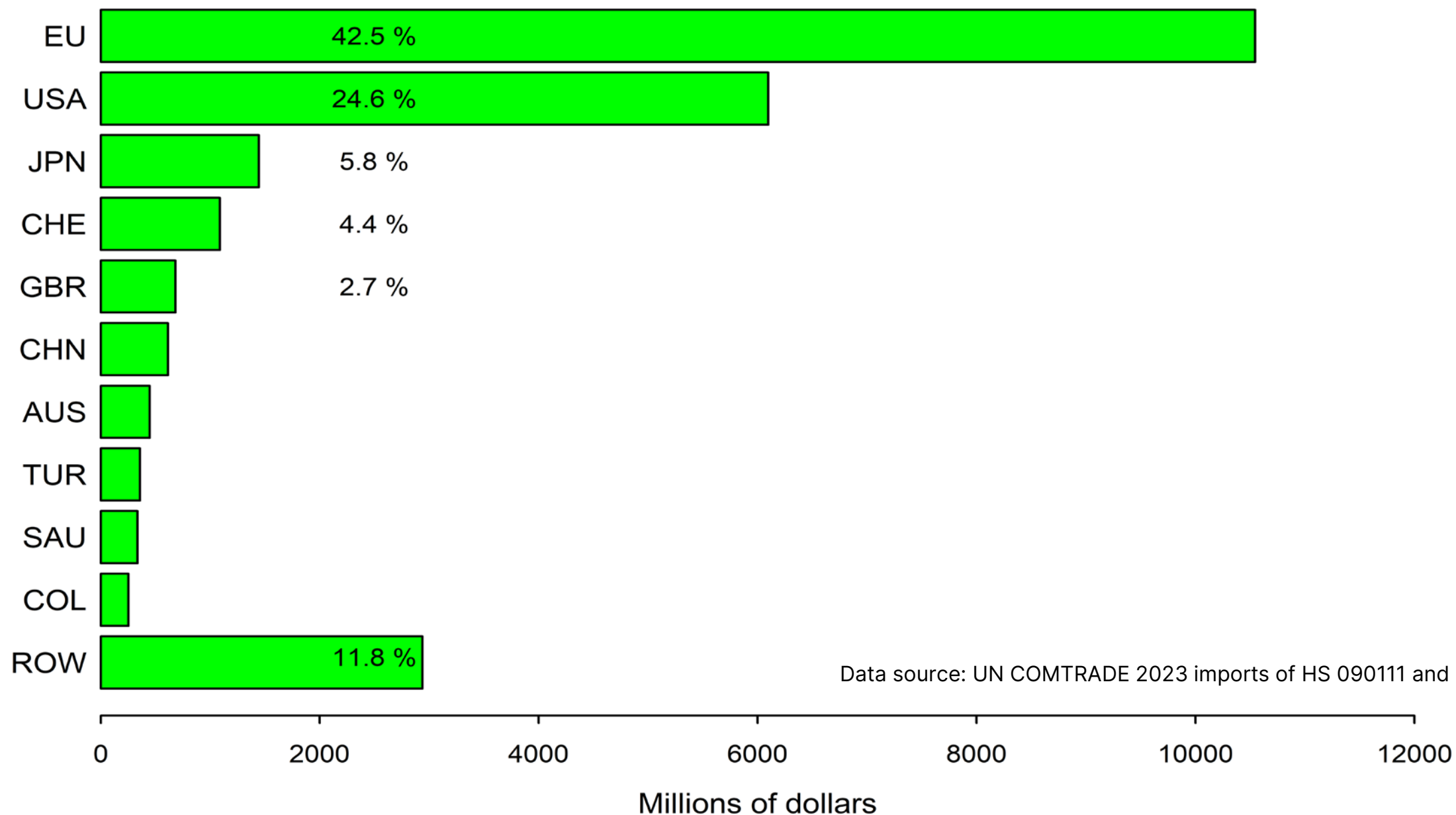
➤ Example: EU Regulation 2023/1115

- ▶ Importers must report on deforestation-free status (Dec 2020) and compliance with 'relevant' legal standards of the producing country.
- ▶ It applies to seven value chains: coffee, cocoa, oil palm, soy, timber, rubber and livestock, including their by-products.
- ▶ The operator has to perform risk estimation (Art. 10) and, if the risk is not considered 'minor' (negligible), risk mitigation (Art. 11).
- ▶ The EU published in Oct 2024 a new guidance document and a document to strengthen international cooperation on the issue.
- ▶ It acknowledges that certification “*may provide **useful information** on compliance with the Regulation in the risk assessment...by **supporting evidence that products are legal and deforestation-free**...subject to the condition that this information meets the relevant requirements*”.
- ▶ For “both **private** and **public** schemes, all applicable elements of their standards should be in line with the EUDR”.

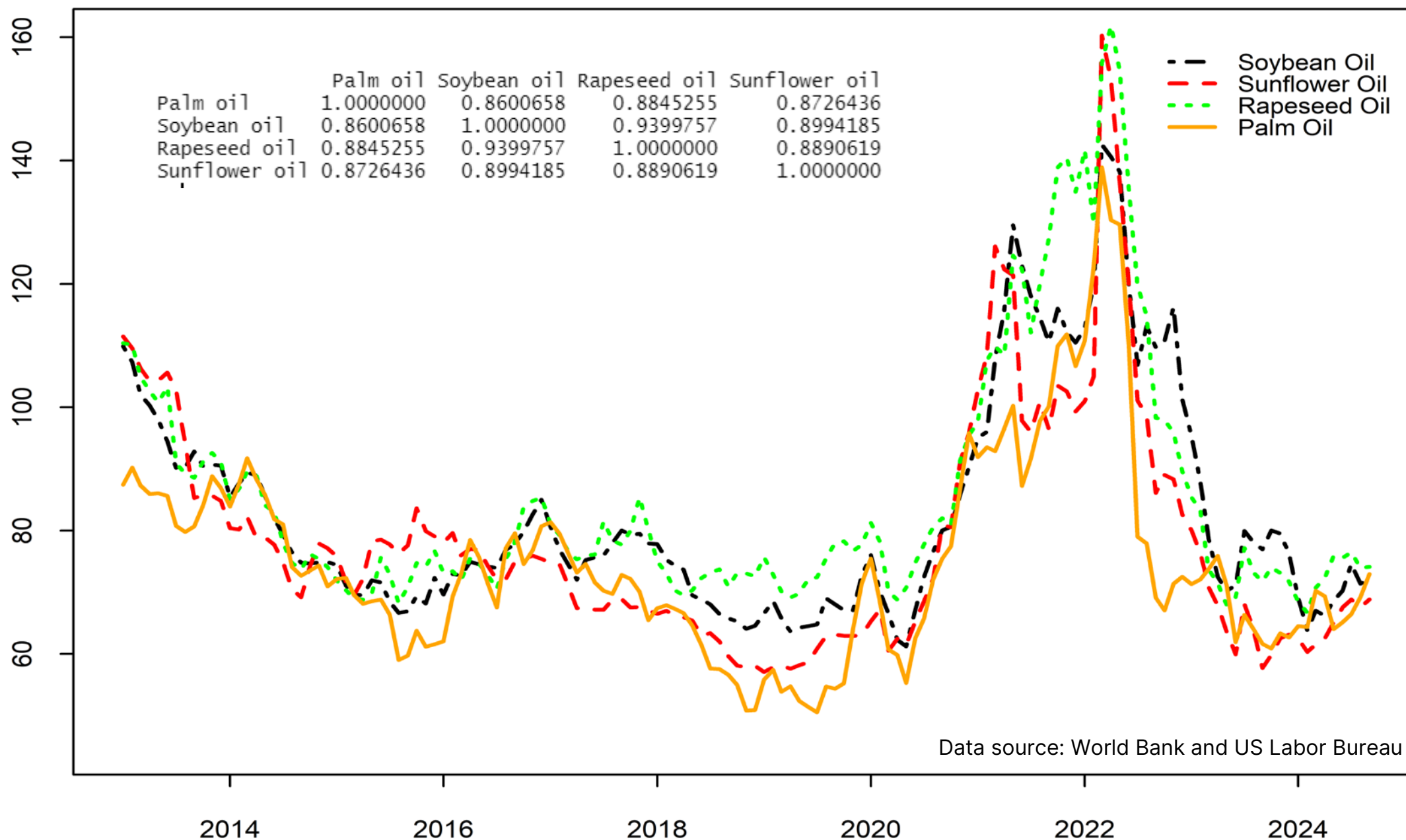
Imports of Cocoa beans, paste and butter, 2023



Imports of coffee (not roasted), 2023



Vegetable Oils Real Prices (Index 2010=100)

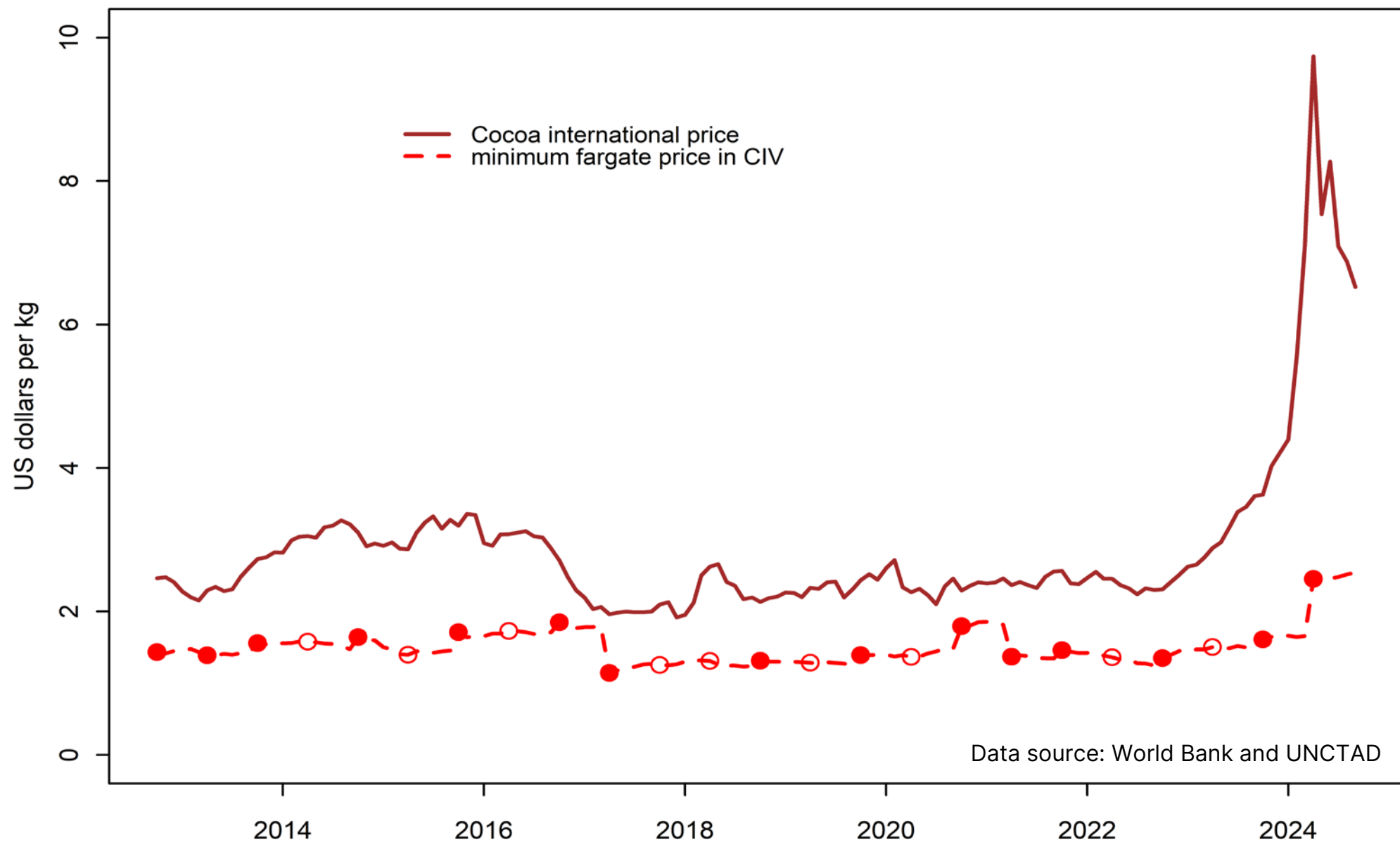


➤ Key Challenge: Maintaining Inclusivity

- ▶ Agricultural VCs are heterogeneous, and many have a large number of small producers and intermediaries (UNCTAD, 2020).
- ▶ This is the case for Value Chains like coffee, cocoa and oil palm.
- ▶ Many actors have **very small and volatile margins**. This makes it very **difficult to absorb certification costs**.
- ▶ Producers with **low productivity and access to capital, and high unit costs** are more likely to be excluded from high 'quality' markets (Swinnen et al., 2015).
- ▶ Such producers may: a) pay certification costs b) sell domestically or export to other markets; c) stop producing.
- ▶ Traceability solutions need to be adapted to **local conditions** and be **scalable**, and **inter-operable**.



Cocoa: International & Min. Farmgate Prices in Côte d'Ivoire



➤ The Role of International Cooperation

- ▶ More international discussions and cooperation on **setting** minimum standards and their **implementation** are needed.
- ▶ Environmental standards could learn lessons from international cooperation on food safety, but focusing on achieving economically, environmentally and socially sustainable agri VCs.
- ▶ Cooperation should also include issues like the technical characteristics of **traceability** solutions.
- ▶ There is a wide range of private, donor, corporate and public initiatives that are working to implement full traceability in value chains (e.g. Selo Verde, Brazil; WHISP, etc.).
- ▶ Intense investment is needed to **obtain data and to evaluate** the implementation of mandatory TR/standards, disclosure, as well as public and private traceability initiatives.

Thank you!

