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World commodity trends and prospects

Note by the Secretary-General**

The Secretary-General has the honour to transmit, as requested by the General Assembly in its resolution 61/190, the present report on world commodity trends and prospects prepared by the secretariat of the United Nations Conference on Trade and Development.

* A/63/150.

** The submission of the present report was delayed by one week in order to include information on commodity market developments up to the end of the second quarter of 2008.

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World commodity trends and prospects

Report prepared by the secretariat of the United Nations Conference on Trade and Development

Summary

The broad-based rise in commodity prices since 2002 accelerated over the past 18 months in all major commodity groups. While these commodity price increases have improved the prospects for growth and development of the commodity-producing countries, soaring fuel and food prices are raising concern about the implications for global economic growth and poverty reduction.

Trade in commodities is of vital importance to both exporting and importing countries. A large number of developing countries, in particular the poorest, depend on primary commodity exports. Those exports, so critical to employment and income levels, are a major source of Government revenues, accounting for a large share of their resources to be used for financing development. On the other hand, importing countries need predictable and affordable access to supplies of raw materials in order to maintain and fuel industrial growth and satisfy the consumption demands of their populations. Other concerns, particularly food security and energy security, are also important both to importing and exporting countries. Finally, the recent turmoil in commodity markets has underlined the shared interest of all countries in ensuring that commodity markets do not become a source of global macroeconomic instability and social and political upheaval.

Despite the progress made in narrowing differences in the Doha Round of trade negotiations over the past 18 months, including through a series of "mini-ministerial" meetings, one of which was held in July 2008, members of the World Trade Organization have not been able to reach agreement to move the agricultural reform agenda forward. Meanwhile, the existence of high agricultural prices undercuts the rationale for large farm subsidies and protection.

The commodity problematique and agreed actions to address the key contemporary trade and development problems associated with the commodity economy were comprehensively considered at the twelfth session of the United Nations Conference on Trade and Development (UNCTAD XII). The outcome of the conference on commodity issues is summarized in the present report.

Finally, actions to address the global food crisis have gathered pace. Building on the High-level Conference on World Food Security, held in Rome in June 2008, in July the High-level Task Force on the Global Food Security Crisis (composed of the heads of United Nations specialized agencies, funds and programmes, the Bretton Woods institutions and relevant entities of the United Nations Secretariat, chaired by the Secretary-General) produced a comprehensive framework for action to address the global food crisis in a coherent and coordinated way.

Contents

I. Introduction

1. The present report has been prepared in response to General Assembly resolution 61/190, in which the Assembly requested the Secretary-General, in collaboration with the secretariat of the United Nations Conference on Trade and Development (UNCTAD), to report to it at its sixty-third session on the implementation of that resolution and on world commodity trends and prospects.

II. Commodity market developments

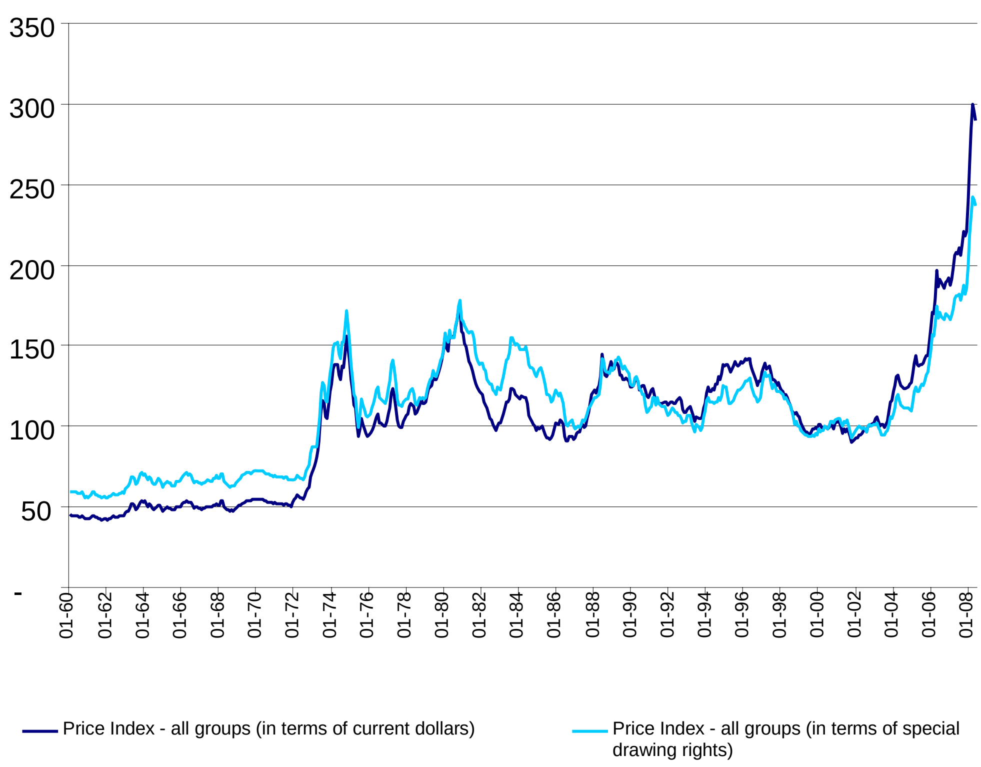
A. Price developments

2. Following the steep decline from 1995-97 to 2002, international commodity prices have been on a sustained upward trend since 2002. UNCTAD price index for non-fuel commodities has reached its highest level in current dollars since 1960 (see figure 1), rising 110 per cent between 2002 and 2007, and 71 per cent in the first six months of 2008 compared to the 2007 level.

Figure 1

Price indices of major commodity groups: January 1960-January 2008 (2000=100)

(In United States dollars)



3. The broad-based rise in prices has been led by the boom in metal and mineral prices, which, in the aggregate, have increased 226 per cent since 2002 (see table 1). Trading in non-ferrous metals has led the way, in particular lead and nickel, with price increases of over 400 per cent. The prices of copper, tungsten ore and zinc have increased more than 300 per cent, and tin over 200 per cent. Other metals have also seen a sustained increase in prices, notably, iron ore by 185 per cent, aluminium by 95 per cent and phosphate rock by 76 per cent. Most metals' prices, aside from aluminium, are at all-time highs. Although the advance in metal prices decelerated sharply in 2007 and some metals' prices actually declined in the first six months of 2008 (nickel (-27 per cent) and zinc (-30 per cent), for example), most metal prices have nevertheless continued to rise in the first half of 2008 and all (apart from aluminium) are above the levels of their historic highs in previous price cycles.

4. There has also been a sharp rise in the price of oil — from a 2002 average monthly level of $25 per barrel to an average of $108 per barrel in the first half of 2008. In July 2008, oil traded at up to $147 per barrel, although it subsequently retreated. However, even at $125 per barrel, the price of oil would be up 400 per cent compared to the average monthly price in 2002.

5. Among the agricultural commodities, there have been notable price increases over the period from 2002 to 2007 for agricultural raw materials: mainly rubber, with a price rise of 199 per cent; tropical logs with an increase of 64 per cent; and cotton with an increase of 37 per cent. There was, however, a decline in the price of hides and skins (-12 per cent) over the same period. The first half of 2008 has seen a continued rise in agricultural raw material prices (up 44 per cent over 2007 levels), with rubber and cotton prices advancing by 27 per cent and 20 per cent, respectively.

Table 1
World primary commodity prices: 2002-2007, 2008 (first half)
(Percentage change over previous years)

Commodity group	*2002-2007*[a]	*2006*	*2007*	*2008 (first half)*[b]
All commodities (excluding crude petroleum)	110	43	14	71
Food	62	24	13	84
Tropical beverages	59	8	14	35
Vegetable oilseeds and oils	109	7	78	124
Agricultural raw materials	76	20	17	44
Minerals, ores and metals	226	105	36	56
Crude petroleum	184	20	11	52

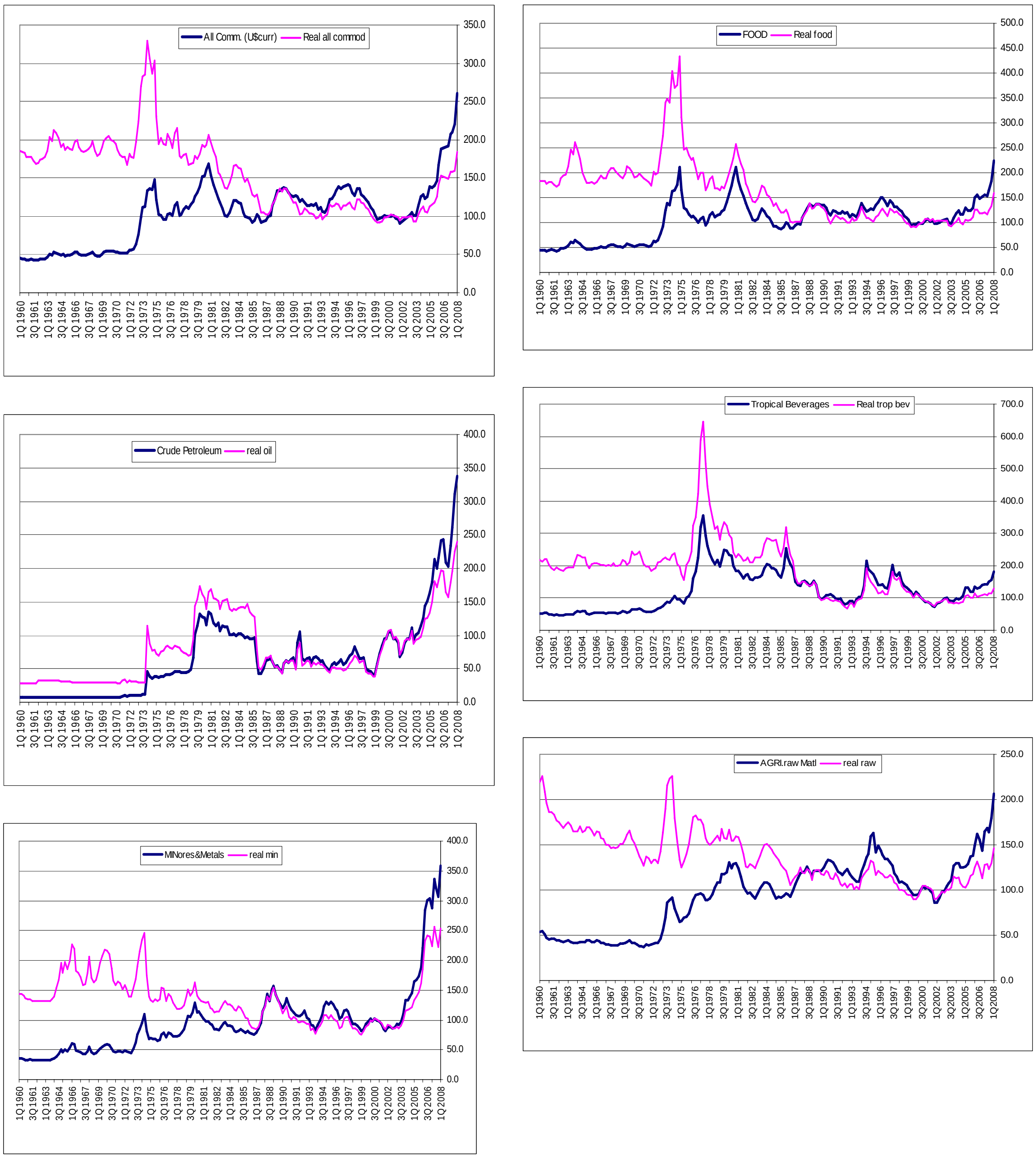
Source: UNCTAD secretariat calculations based on *UNCTAD Handbook of Statistics 2008* and *UNCTAD Commodity Price Statistics online*.
Note: Prices are in current dollars.
[a] Percentage change between 2002 and 2007.
[b] Percentage change between 2007 and first six months of 2008.

6. Tropical beverages, taken as a group, have experienced an almost 60 per cent increase in prices over the period from 2002 to 2007, mainly as a result of the rise in

the price of coffee (125 per cent). More modest gains were posted by tea (18 per cent) and cocoa beans (10 per cent), the prices of which have been more volatile. Tropical beverage prices have continued on an upward trend, rising 35 per cent in the first six months of 2008.

7. As a whole, the price of vegetable oilseeds and oils rose 109 per cent over the period from 2002 to 2007. After a drop of 15 per cent in 2005, there has been an accelerated rise in the price of these commodities since 2006, with an increase of 78 per cent in 2007 and a rise of 124 per cent in the first half of 2008. The main drivers of the rise in prices have been soybeans, soybean oil and palm oil, which rose by 80 per cent, 94 per cent and 100 per cent, respectively, in the period from 2002 to 2007 and by 49 per cent, 62 per cent and 51 per cent, respectively, in the first half of 2008.

Figure 2
Commodity prices: nominal and real
(1st quarter 1960 to 2nd quarter 2008, 2000=100)



Source: UNCTAD, *Commodity Price Statistics, online.*

8. The index of food prices is now at an all-time high, having risen 62 per cent during the period from 2002 to 2007 and 84 per cent in the first half of 2008. The rise in prices has been mainly in essential staples such as wheat, rice and maize, which rose by 78 per cent, 73 per cent and 69 per cent, respectively, during the period from 2002 to 2007. In the first six months of 2008, the price of those commodities rose again by 48 per cent, 121 per cent and 45 per cent, respectively.

Historical perspective

9. Although remarkable, it is useful to place the current boom in commodity prices in historical perspective. Figure 2 charts the prices of major groups of commodities from 1960 to the second quarter of 2008, in both nominal and real terms. As will be noted, that from around 1980 to about 2000-2002 the price index for all non-fuel commodities was on a declining trend in both nominal and real terms, with a sharper fall in real terms. All major commodity groups also experienced real price declines. In the case of most commodity groups, while the current boom brought about some improvement in prices in real terms, the current prices are not at all-time highs, as is the case with nominal prices. In fact, only in the case of petroleum and the minerals, ores and metals group are prices at all-time highs in both nominal and real terms. It is noteworthy that, despite the recent price increases, tropical beverage prices, in both nominal and real terms, are still below their historic highs of the late 1970s and their recent highs of the mid-1990s.

B. Causes of increasing prices

10. The driving forces behind the current boom in commodity prices have been a combination of strong global demand, owing to brisk economic growth worldwide, particularly in Asia, led by China, and a slow supply response, together with low inventories for a number of commodities, particularly oil, minerals and metals and grains. Commodity prices have also been influenced by speculation, fed by high liquidity in international financial markets and relatively low interest rates, seeking higher returns in comparison to equity and debt securities. The increase in dollar-denominated commodity prices is also partly explained by the depreciation of the dollar vis-à-vis other major currencies. A devaluation of the dollar reduces the foreign-currency price of dollar-denominated commodities and thus boosts demand. Finally, a major factor in the current rise in demand for and prices of some agricultural commodities, particularly maize and oilseeds, is the expansion in demand for biofuels, which is closely linked to developments in energy prices.

11. On the supply side, the response of production to rising demand has been sluggish, particularly for energy and metals and minerals. A prolonged period of low prices, coupled with the long lead times in mining investment, led to slow capacity growth for many years and meant that supply could not catch up with the sudden increase in demand. Consequently, inventories of metals have been drawn down and are now extremely low. In the case of oil, strong global consumption growth since 2003, largely accounted for (nearly two thirds) by China, India and the Middle East, has been met with only a sluggish supply response, which has been compounded by production shortfalls associated with geopolitical unrest in countries with large oil reserves. Production growth outside the member States of the Organization of the Petroleum Exporting Countries (OPEC) has been outpaced by world oil consumption growth every year since 2003. Thus, the gap has had to be filled by

OPEC production and/or inventories, which leave the organization's spare capacity at low levels and market conditions quite tight. These market conditions and the concentration of surplus capacity in a few countries have not only kept upward pressure on oil prices but have also increased volatility as prices have reacted strongly to actual or perceived supply disruptions.

12. In the agricultural sector, prices of commodities result from a number of factors, including supply constraints (i.e. production shortfalls due to weather conditions in major exporting countries and low world stocks of cereals) in the face of strong growth in consumption of food and feed owing to rising demand in rapidly growing Asian countries for high protein foodstuffs and the policy-driven high growth in demand for biofuels produced from coarse grains and vegetable oils, both of which have placed a strain on the grain and oilseed sectors.[1] The high costs of fuel and fertilizers have added to the cost of agricultural production and have also contributed to higher prices. High feed prices have, in turn, raised costs for animal production and resulted in an increase in livestock and dairy prices. Moreover, as a precautionary measure to ensure adequate supplies at stable prices on their own markets, some exporting countries, in reaction to bad harvests and dwindling stocks worldwide, have acted to restrict exports, thus further limiting the supply available to meet trade demands. This development has been particularly important in the case of rice, as evidenced in the huge spike in prices since 2007.

13. In the past three to five years, actual and projected tight market conditions in all major commodity markets (fuel, metals and food) have generated an expectation of further price increases and have brought about a significant increase in investment in commodity derivative markets from non-traditional commodity participants, whether for portfolio diversification or speculation. This has probably contributed to the rise in short-term commodity futures prices and is an additional factor in the current spike in spot market, or cash market, prices.

C. Impact on developing countries

14. Rising commodity prices have contributed to significant improvements in the external accounts of many developing countries that are dependent on primary commodities, as shown by large terms of trade gains for oil- and mineral-exporting countries. An estimate of the impact of changes in terms of trade in selected developing countries, by export structure, is presented in table 2.

Oil- and mineral-exporting developing countries

15. Between 2004 and 2006 income gains from changes in the terms of trade were high for oil- and mineral-exporting countries, exceeding 7 and 5 per cent of gross domestic product (GDP), while, on average, exporters of other commodities showed

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[1] For example, the Organization for Economic Cooperation and Development (OECD) estimates that support to the United States, European Union and Canadian biofuel supply and use in 2006 amounted to $11 billion per year (see OECD, *Economic Assessment of Biofuel Support Policies*, 2008). There has been a diversion of maize use due to ethanol support policies in the United States (the world's largest producer and exporter of maize) mainly from animal feed use and exports to ethanol production. Ethanol production now accounts for 30 per cent of maize utilization in the United States (up from 6 per cent in 1999/2000), while the share used for exports has dropped from 20 to 16 per cent and that for animal feed from 60 to 43 per cent.

losses. However, in some cases, the windfall gains have been partly offset by an increase in the remittance of profits by transnational corporations involved in the exploitation of natural resources. This has been the case particularly for oil- and mineral-exporting countries in Africa and Latin America where foreign companies account for a large proportion of their export-oriented production (especially in mining) and where the taxation system is favourable to private firms in the extractive industries. As shown in table 2, high income payments to non-residents drained most of the terms-of-trade-related income gains for mineral exporters between 2004 and 2006.

Table 2

Impact of changes in terms of trade and net income payments on national disposable income in selected developing country groups: average for 2004-2006

(Percentage of GDP)

	Effects from changes in terms of trade	*Effects from changes in net income payments*	*Net impact*
Oil exporters	7.3	-0.2	7.0
Exporters of minerals and mining products	5.7	-4.6	1.2
Other commodity exporters	-0.2	-0.1	-0.3

Source: UNCTAD secretariat calculations, based on United Nations Statistics Division, United Nations common database; International Monetary Fund (IMF), Balance of payments statistics database; Economic Commission for Latin America and the Caribbean, Balance of payments statistics database; national sources; and UNCTAD estimates of unit value and volume of exports and imports.

Other commodity-exporting developing countries

16. The record is mixed for countries exporting agricultural products. While those exporting vegetable oilseeds and oils, cereals, dairy products and some meat products have seen their terms of trade improve over the past few years, some countries exporting tropical agricultural products have seen the prices of their exports outpaced by those of imported goods (e.g. fuels and food), and thus are experiencing significant deterioration of their terms of trade. Tables 3 and 4 provide some indications of the impact on the cost of petroleum imports for selected low-income countries and on the food import bills of the low-income net food importing countries.

17. The current hike in world prices of nearly all major food and feed commodities is having a ripple effect, contributing to inflation of food prices and greater food insecurity, especially in poor countries. In recent months, food riots have broken out in several countries and a number of Governments around the world have implemented measures to limit the increase of domestic food prices and prevent a fall in consumption.

Table 3
Oil import costs as a proportion of total imports selected sub-Saharan African countries
(Percentage)

	1996-2000	*2001-2005*	*2006*
Benin	13	14	15
Central African Republic	9	12	14
Kenya	8	11	13
Madagascar	9	14	18
Rwanda	13	14	16
United Republic of Tanzania	8	17	24

Source: UNCTAD calculations.

18. The agricultural price boom has also been accompanied by much higher price volatility than in the past, especially in the cereals and oilseed sectors, increasing the degree of uncertainty of returns in agricultural markets. High and low price fluctuations are, however, typical occurrences in agricultural markets, and it can be expected that the current period of high prices will eventually end, even if the long-term trend is upwards. In that context, it is important to decide how to cope with the eventual "bust" phases, which are inevitable in the price cycle.

Table 4
Cereal import bill of low-income food-deficit countries
(In billions of United States dollars)

Region/type	*2002-2003*	*2007-2008*
Africa	6.5	17.9
Asia	7.0	19.3
Latin America and the Caribbean	0.3	0.9
Low-income food-deficit countries[a]	14.0	38.7
Wheat	7.8	22.7
Coarse grains	3.3	6.1
Rice	3.0	9.9

Source: Food and Agriculture Organization of the United Nations (FAO), *Crop prospects and food situation* (April 2008).
[a] Includes food-deficit countries with per capita income below the level used by the World Bank to determine eligibility for assistance from the International Development Association (i.e. $1,575 in 2004).

Conclusion

19. The extent to which commodity exporting developing countries will continue to benefit from high commodity prices will depend on how global demand and supply in the different commodity groups evolve. The long-term benefits for developing countries will depend on their ability to use their higher commodity

export earnings for diversification of production and industrialization. By reducing their dependence on commodities, they will also protect their export earnings from fluctuations in commodity prices.

III. The global commodity economy: continuing realities, emerging issues and long-term trade prospects

20. Although the current commodity boom has improved the situation of primary commodities in world trade and revived the potential role of commodity trade in contributing to sustained economic growth and poverty reduction in the globalized economy, key realities of the commodity economy remain. These realities, including emerging issues and the long-term prospects for commodity trade, are discussed in this section.

A. Continuing commodity dependence

21. Despite a marked shift over the past 30 years in the composition of the exports of developing countries (taken as a group) — from primary commodities to manufactures (which now account for around 70 per cent of their exports) — many developing countries are still highly dependent on commodity exports. As indicated in table 5, 92 developing countries currently depend on primary commodities for at least 50 per cent of their export earnings. If fuel is excluded, non-fuel commodities account for over 50 per cent of the average annual exports of 47 countries.

Table 5
Primary commodity dependence of developing countries
(2003-2005 annual averages)

Commodity group	*Number of developing countries that derive at least 50 per cent of export earnings from commodities*	*Number of developing countries that derive between 20 per cent and 49.9 per cent of export earnings from commodities*
All commodities	92	38
Non-fuel commodities	47	41
Fuel	25	18
Ores and metals	7	13
Agricultural raw materials	3	6
All foods	29	39

Source: UNCTAD calculation based on data from the United Nations Commodity Trade Statistics Database (COMTRADE).

22. The situation of commodity-dependent countries varies according to the commodities on which they rely. Petroleum exporting countries face an atypical demand and supply situation. The demand for oil is highly inelastic given the essential role of energy in the functioning of modern society and productive processes and the low degree of technical and economic substitutability of other sources of energy supply in the short term. At the same time, economically exploitable supplies are available only in a limited number of countries. To a degree,

the situation of mineral exporters is similar to that of oil on the supply side: supply is determined principally by the existence of mineral deposits. However, demand for minerals closely follows the business cycle and industrial demand growth in the industrialized and industrializing countries.

23. Exporters of agricultural commodities fall into two categories: low-income producing countries dependent on the export of one or a few agricultural commodities, such as the traditional tropical products produced by small-scale farmers; and dynamic, more diversified, middle-income agricultural exporting countries. The latter group includes a few developing countries such as Argentina, Thailand, Malaysia, Viet Nam and Brazil, whose export of certain bulk commodities (e.g. cereals and oilseeds) are highly competitive. These more agriculturally diversified developing countries have actually become less commodity-dependent over the past decade.

B. The low-income commodity dependency trap

24. In contrast, the low-income agricultural producing developing countries are mostly specialized in export of commodities (i.e. traditional tropical products), for which demand in traditional developed country markets has been sluggish in recent years. As a result, their share of world commodity trade has been stagnant or falling, along with their capacity to diversify into higher value commodities or manufacturing. Although specialized in agricultural exports, these countries are typically net importers of food. The largest single concentration of commodity-dependent countries in this category is in Africa.

25. With reliance on one — or a few — export commodities, low-income commodity-producing developing countries are highly vulnerable to trade shocks and face an unpredictable situation at both the micro and macro levels. Declining and volatile commodity prices adversely affect both the income of farmers and rural employment, creating uncertainty in rates of return on investment and reducing both the willingness and the capacity of farmers and entrepreneurs to invest. As a consequence, there is a lack of investment in improving productivity and adding value to production. At the macro level, declining and volatile commodity prices often have a direct negative impact on macroeconomic stability, fiscal balance, and balance of payment sustainability. Reduced foreign exchange earnings put further pressure on foreign exchange availability, limiting import capacity, reducing external creditworthiness and making foreign debt servicing less sustainable.

26. The low-income commodity-producing developing countries participating in international markets are confronted by a common set of challenges. These include structural oversupply for many of their traditional export commodities (and therefore declining prices), erosion of trade preferences as a result of multilateral and regional trade liberalization (contributing to difficulties in retaining international market shares), a proliferation of standards in their traditional markets in OECD countries and increasing concentration and reduced competition in global supply chains for products based on those primary commodities (which make value addition and greater participation in value chains more difficult). Some of these problems are related to the workings of the international trading system (see section C below).

27. Given the high incidence of poverty and low state of development in low-income agricultural commodity-dependent developing countries, the trade and development prospects of this category of countries require special attention. There is a need for urgent action in view of the limited progress they have made towards achieving the Millennium Development Goals at the midpoint (2000-2015).

C. Structural and systemic factors affecting the development and poverty reduction impact of commodity production and trade

28. Both internal and external factors have an impact on the extent to which commodity sectors can serve as an engine of growth in developing countries. Internal constraints include institutional, policy, infrastructural and human capital deficits as well as structural problems. For example, in the oil and mining sectors, linkages between those sectors and the rest of the economy are frequently not developed. The lack of appropriate strategies for investing oil and mining revenues has also limited the impact of those sectors on development. In the agricultural sector, supply-side constraints, in particular inadequate trade-related infrastructure, human capital and technological innovation, reduce opportunities for vertical diversification and value addition.

29. Trade barriers in the international trading system (market access and entry conditions, lack of regulation of anti-competitive practices in international supply/value chains, inability to comply with ever-changing trade standards) also limit opportunities for commodity-based development. For example, tariff peaks and tariff escalation mainly affect agricultural products. Moreover, large domestic support for agriculture and export subsidies in OECD countries have led not only to declines and greater instability in the prices of some agricultural commodities on world markets (cotton for example), but also to a crowding out of developing countries in export markets. Finally, by subjecting developing countries to most of the rules that hold for developed countries in the multilateral trading system, the policy flexibility of commodity-dependent developing countries to promote commodity-based development through targeted policy incentives is reduced.

D. Emerging commodity policy issues

30. Several emerging issues have a bearing on the extent to which stronger demand and higher prices for commodities will translate into sustainable growth and development and poverty reduction. These include: distribution of the gains from higher prices between foreign investors and host countries in the extractive industries; preservation of a competitive environment in commodity supply chains; energy security; and food security.

1. Distribution of rent from extractive industries

31. The Government share in the rent from export-oriented activities in the mining, oil and gas sectors is a potentially important source of revenue for financing development. The rise in the prices of oil, minerals and metals in the past few years has rekindled the debate on the distribution and use of windfall rents in the extractive industries. Fiscal incentives accorded to foreign investors have come under criticism, especially in a number of Latin American countries. The incentives,

which were mostly introduced during a period of persistently low mineral prices, are now seen by many as unnecessarily generous given the present, much higher, prices. In response, some countries have recently revised their fiscal and ownership regulations in the oil and mining sectors.[2]

2. Competition in commodity supply/value chains

32. Commodity trading companies, processors and retailers (for example, large supermarket networks) in major consuming markets control commodity supply chains, a situation that is reinforced by the ongoing concentration on the side of commodity buyers and the parallel fragmentation on the side of producers.[3] This makes most producers in commodity dependent developing countries "price takers", in other words they have little or no control over the price they may charge in the market. Increased concentration in commodity markets is a major reason for the widening spread between what consumers pay and what producers receive for their produce.[4]

33. How to deal with the phenomenon of mega-mergers in commodity sectors and competition issues in global supply/value chains is a pressing challenge. There is an urgent need to strengthen competition policy in commodity industries where, increasingly, the principal actors are a small number of large enterprises that dominate the trading and processing activities in those commodities around the globe.

3. Energy security

34. Access to affordable energy is indispensable for sustaining economic growth and improving the quality of life. While the impact of the current oil price increases on net oil-importing countries has in general been much smaller than in the two previous periods of oil price hikes (1973-1974 and 1979-1983), it has been greater for developing countries. Part of the reason is an increased reliance on oil imports in the developing world, largely as a result of industrialization and urbanization. Whereas in 1972 the oil import bill in developing countries (excluding OPEC) represented 0.8 per cent of their GDP, in 2004-2005 it exceeded 3.5 per cent, roughly twice the ratio in the main OECD countries. The ratio of oil imports to GDP remains the highest in Asia, followed by sub-Saharan African countries (excluding Nigeria and South Africa), despite a much lower level of industrialization. As noted in section II above, some low-income oil-importing developing countries have been particularly hard hit (see table 3).

35. In summary, oil dependency remains high in many developing countries, where 1.6 billion people still lack access to electricity. The prospect of sustained high oil prices will adversely affect economic growth and poverty reduction for countries not experiencing higher prices for their exports.

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[2] See UNCTAD, *World Investment Report 2007*, chap. 6.

[3] In the context of structural adjustment programmes, marketing boards have been dismantled in a large number of commodity-dependent developing countries.

[4] The increased profits of both trading and processing companies over the period of the price collapse of tropical products such as coffee and cocoa suggests that market concentration has benefited these companies.

4. Food security

36. Rising global food prices and the availability of food to meet the demand of net food importing countries have raised a host of food security issues. In many countries, and even in countries where the balance of payments has not been adversely affected, the impact of rising food prices has weighed heavily on the poor, especially in urban areas. The poor spend proportionately more of their income on food (between 60 to 70 per cent in many developing countries) and are thus the hardest hit when prices rise. Price increases for staple foods are associated with a significant rise in poverty. Food riots have already occurred in more than 30 countries in recent months.

37. In addition, recent restrictions of agricultural exports by exporting/producing countries have highlighted imbalances in the global food system wherein many net-food importing countries depend on a few exporting countries. This has raised issues of appropriate strategies to avoid a food crisis in cases of instability in exporting countries.

38. Finally, interest in long-term food security is being raised by the declining availability of arable land (including water resources) in some regions due to growing population and urbanization, as well as the competing uses of land for the production of food, animal feedstock and biofuels. The switch to biofuels, which is in part support by the surge in crude oil prices, is already having a significant impact on farmland use in major producer-exporting countries. For instance, increasing the land under maize production in the United States for ethanol production has displaced land for soybeans, the price of which has been rising sharply since mid-2006.

E. Long-term trade prospects: new demand for commodities

39. Commodity prices were on a declining trend in the last two decades of the twentieth century mainly because of sluggish demand growth from developed countries (the traditional importing countries) in relation to supply. However, since 2002, there has been a reversal in that trend, driven largely by fast growing demand from newly industrializing developing countries. The emerging new reality in this first decade of the twenty-first century is that developing countries are becoming major and growing consumers of commodities. The recent commodity price boom has been due largely to the rapid demand growth from developing countries in Asia, especially China.

40. The outlook is for strong economic growth in developing countries, especially in Asia, to continue at a fast pace for at least a decade. For example, after slowing somewhat during the period from 1997 to 2002 to single digit annual average growth rates due to the Asian financial crisis, China resumed its double digit growth in 2003 (see table 6). India is also approaching double-digit growth. The dynamism of growth is reflected in rapid industrialization and urbanization, accompanied by high rates of investment in housing and infrastructure. Continued strong growth in these two vast developing economies will impart a strong demand for commodities, especially because they are in a phase of development in which the intensity of use of energy, metals and raw materials is on the rise. Already China has become the principal consumer of a wide range of metals (steel, copper, aluminium, zinc and lead) and of several other commodities (cotton and rubber). Rising standards of

living will also increase demand for food imports, particularly because of the shift to a diet higher in proteins and rapidly rising consumption of items that have traditionally been considered luxuries, including coffee and cocoa.

Table 6
World output growth: 1995-2007
(Annual percentage change)

Region/country	*1995-2000*	*2003*	*2004*	*2005*	*2006*	*2007*
World	3.3	2.7	4.0	3.4	4.0	3.8
Developed economies	3.0	1.8	2.9	2.3	2.8	2.5
United States of America	4.2	2.5	3.6	3.1	2.9	2.2
Economies in transition	1.8	6.8	7.3	6.5	7.2	8.2
Developing economies	4.2	5.6	7.2	6.7	7.1	7.3
Developing economies: Africa	3.4	4.9	5.6	5.7	5.6	5.9
Developing economies: America	3.0	2.4	6.1	4.7	5.4	5.7
Developing economies: Asia	4.9	6.9	7.8	7.5	7.9	8.1
China	8.5	10.0	10.1	10.4	11.1	11.4
India	5.8	8.3	8.5	8.8	9.2	9.7

Source: UNCTAD *Handbook of Statistics* 2008, online (http://stats.unctad.org/Handbook/).

41. In table 7 it is shown that between 1995 and 1997 and 2003 and 2005 developing countries increased their share in world primary commodity imports in total and in every major commodity group. The largest increase in developing country world import shares occurred in ores and metals, agricultural raw materials and foods. Asia, particularly China, mainly account for the rise in these import shares. Although developed countries still account for at least 60 per cent of world commodity imports, industrializing developing countries are projected to continue to grow at a faster pace than developed countries in all major commodity groups and will consequently continue to underpin demand growth in raw material markets.

Table 7

Shares in world imports: 1995-1997 and 2003-2005

(Percentage of world imports of each category; annual averages)

	All commodities		*Fuels*		*Ores and metals*		*Agricultural raw materials*		*Forestry*		*All foods*		*Fish*	
Regions	*1995-1997*	*2003-2005*	*1995-1997*	*2003-2005*	*1995-1997*	*2003-2005*	*1995-1997*	*2003-2005*	*1995-1997*	*2003-2005*	*1995-1997*	*2003-2005*	*1995-1997*	*2003-2005*
Developed countries	69	67	68	67	69	60	68	62	77	70	70	69	84	80
Developing countries	28	30	28	30	28	37	31	36	22	29	27	29	15	18
Asia	20	23	21	24	24	32	24	29	17	25	17	17	12	14
China	2	6	2	4	3	13	5	13	2	12	2	3	1	3
India	1	2	2	3	1	2	1	2	1	2	0	1	0	0
Transitional economies	4	3	4	3	2	3	1	2	1	1	4	4	1	2
World imports (in billions of United States dollars)	1 236	2 189	437	1 087	182	302	141	160	168	78	476	639	53	71

Source: UNCTAD calculations based on COMTRADE data.

42. Given the growth in demand, which is centred mainly on fuels, metal and agricultural raw materials, exporting developing countries of these commodities are likely to benefit from strong demand and relatively high world prices for such commodities. Exporting developing countries are likely to benefit further from the fact that the developing countries have a rising share in each others' commodity trade (see table 8).

Table 8
Commodity trade, including fuels, among developing countries, by region
(1995-1997 and 2003-2005 averages)

	Exports to developing countries (Percentage of total commodity exports)		*Imports to developing countries (Percentage of total commodity imports)*	
Region	*1995-1997*	*2003-2005*	*1995-1997*	*2003-2005*
Africa	23	30	41	56
America	31	33	51	53
Asia	37	48	59	64
All developing countries	33	41	56	61

Source: UNCTAD calculations based on COMTRADE data.

43. It seems unlikely, however, that commodity trade growth to developing countries alone will be sufficient to permanently reverse the long-term decline in real commodity prices, given that the developed countries still account for between 60 to 80 per cent of world imports of all major categories of commodities. Nevertheless, a sustained increase in the demand for commodities by developing countries from each other, linked to their accelerating pace of industrial growth, will continue to provide additional opportunities for increased commodity exports by developing countries, including capture of value added in the new supply chains being developed directly from producing developing countries to new consuming markets in Asia. Thus, in the medium- to long-term, low-income commodity-dependent developing countries may be able to generate sufficient gains from commodity trade to help launch their economies on a sustained growth path of rising per capita income and progress in poverty reduction.

IV. Developments contributing to the implementation of General Assembly resolution 61/190

44. General Assembly resolution 61/190 on commodities addressed a wide variety of entities, ranging from developing and developed countries and their Governments to international organizations and the private sector. Activities have been undertaken in most areas referred to, sometimes going beyond the specific requests in the resolution. For example, the resolution reaffirmed the pledge to end hunger and poverty, reiterated the importance of maximizing the contribution of the commodity sector to sustained economic growth and sustainable development, recalled the potential of regional integration and cooperation to improve the effectiveness of traditional commodity sectors and support diversification efforts, reiterated the

importance of expanded South-South trade and investment in commodities, reaffirmed that an effective enabling environment at the national and international levels entails, inter alia, good governance and also reaffirmed the commitments to meaningfully integrate the developing and the least developed countries into the multilateral trading system. These are areas where UNCTAD has been particularly active since the sixty-first session of the General Assembly, although its activities in some areas, including fighting hunger and poverty and the multilateral trading system, intersect with the mandates of other international organizations such as the Food and Agriculture Organization of the United Nations (FAO) and the World Trade Organization.

45. UNCTAD has been active in providing assistance to developing countries in the context of the Doha round of trade negotiations on agriculture and in the efforts of non-member developing countries to accede to the World Trade Organization on terms and conditions that are appropriate to their situation. UNCTAD has also been active in addressing the global food crisis caused by soaring food prices and participates along with other United Nations agencies and the Bretton Woods institutions as a member of the High-level Task Force on the Global Food Security Crisis, which produced, in July 2008, a comprehensive framework for action to address the global food crisis in a coherent and coordinated way.

46. The comprehensive framework of action presents two sets of immediate actions to promote a comprehensive response to the global food crisis. The first focuses on meeting the immediate needs of vulnerable populations through: (a) the enhanced and increased accessibility of emergency food assistance, nutrition interventions and safety nets; (b) support for boosting smallholder farmer food production; (c) appropriate adjustments in trade and tax policies; and (d) management of macroeconomic implications. The second focuses on building resilience and contributing to global food and nutrition security in the longer-term through: (e) expanded social protection systems; (f) sustained growth in smallholder farmer-led food availability; (g) improved international food markets; and (h) development of an international consensus on biofuel. The global incremental financing requirements related to the food crisis and needed in order to maintain progress towards achievement of Millennium Development Goal 1 are estimated at between $25 to 40 billion per annum.

47. The General Assembly, in its resolution 61/190, called upon developed countries and developing countries declaring themselves in a position to do so to provide duty-free and quota-free market access on a lasting basis for all products originating from all least developed countries, consistent with the Hong Kong Ministerial Declaration. Since 2007, several countries, including China, India, Japan and Switzerland,[5] have improved, expanded or introduced new schemes covering least developed countries.

48. In the same resolution the General Assembly also called for “the successful and timely completion of the Doha round of trade negotiations with the full realization of the development dimensions”. Despite the progress made in narrowing differences in the Doha round of trade negotiations over the past 18 months, including through a mini-ministerial meeting held in July 2008, members of the World Trade Organization have not been able to reach agreement to move the

[5] For further details, see: UNCTAD, *GSP NEWSLETTER*, Number 9, July 2008.

agricultural reform agenda forward. One implication is that the distortions in agricultural markets will remain unchanged and continue to adversely affect the commodity-based development and diversification efforts of many developing countries. An issue of importance in the Doha process, particularly for the cotton producing countries of West and Central Africa, has been the sectoral initiative to address cotton-specific trade and development issues ambitiously, expeditiously and specifically. Progress on the cotton issue is linked to progress in agricultural negotiations. Although cotton prices have improved recently, distortions in the cotton market need to be reduced. Generally, across agricultural markets, the current high level of agricultural prices undercut the rationale for large farm subsidies and protection.

49. In its resolution 61/190, the General Assembly emphasized the need for developing countries that are highly dependent on primary commodities to encourage diversification and liberalization of the trade and export sectors and enhance competitiveness and encouraged developing countries, with the necessary support of donor countries and the international community, to formulate specific commodity policies so as to contribute to the facilitation of trade expansion, the reduction of vulnerability and the improvement of livelihood and food security. The Assembly also invited developing countries, in cooperation with developed countries and relevant international organizations, to establish medium- and long-term commodity development programmes geared towards enhancing research for product diversification and improving the production, productivity, value addition and competitiveness of developing countries' commodities.

50. The developing countries have made several efforts in this direction, including: efforts by the African Union to articulate a strategic vision (African Mining Vision 2050) for the management and use of Africa's natural resources for the accelerated economic and social development of the continent; efforts by several least developed countries to formulate strategies to strengthen their productive and trading capacities based on commodities, including in the context of aid-for-trade initiatives; and efforts of several oil producing developing countries to implement development programmes geared towards the diversification of their energy sectors and economies.

51. In resolution 61/190 the General Assembly also stressed the importance of, and called for: increased technical assistance and capacity-building support to developing countries, including by international organizations, developed countries and the private sector, in several areas: measures that are appropriate and necessary for meeting market requirements and standards; human and institutional capacity-building, as well as infrastructure development to enhance their commodity trade; agriculture and rural development and activities aimed at addressing commodity issues; and training and awareness-building programmes on the functioning of commodity exchanges. The Assembly also expressed the urgent need for supportive international policies and measures to improve the functioning of the commodity markets, including commodity exchanges.

52. A review of commodity-related activities of international organizations reveals that, to a large extent, they have responded to the various elements contained in the resolution that fall within their relevant programmes of work. For example, UNCTAD is a partner with the Common Fund for Commodities, FAO, the International Trade Centre UNCTAD/WTO (ITC), the World Bank and the European Union All ACP in

the Agricultural Commodities Programme. The programme seeks to strengthen the capacities of the targeted countries to develop and implement sustainable commodity strategies that improve their productivity and livelihoods and reduce income vulnerability through improved access to and use of markets, production factors and services, including enhanced access to market-based instruments to reduce producers' income vulnerability. UNCTAD has also implemented a broad range of capacity-building and technical cooperation activities on commodities, including projects to: help developing country exporters comply with the requirements of the Sanitary and Phytosanitary (SPS) Agreement and private sector standards (for example, in Guinea, Mozambique, the United Republic of Tanzania and the Pacific Islands) in order to assist small producers in achieving market acceptance by supermarkets (in cooperation, for example, with the Swiss supermarket chain Migros); develop information exchange websites (www.natural-resources.org/minerals) on best practices in mining with the United Nations Environment Programme (UNEP), the International Council on Mining and Metals and the UK Department for International Development (www.goodpracticemining.org) and with Latin American countries (www.redlieds.org) in order to assist African countries in formulating policies for marshalling their oil and gas wealth and restructuring their industries in the service of long-term development objectives (the eleventh UNCTAD-Africa Oil and Gas and Finance Conference was held in Nairobi from 23 to 25 May 2007); raise awareness of the functioning of commodity exchanges (for example the expert meeting on their developmental role, Geneva, 3 September 2007; and case studies of the development impact of existing commodity exchanges in developing countries); and provide technical support to the African Union in defining the concept and implementation plan of the Pan-African Commodity and Derivatives Exchange.

53. The General Assembly, in paragraph 17 of resolution 61/190, underlined the need to strengthen the Common Fund for Commodities and encouraged the Fund, in cooperation with the International Trade Centre UNCTAD/WTO, UNCTAD and other relevant bodies, to continue to strengthen the activities covered by its Second Account. The Common Fund for Commodities has continued to support developing countries in the areas mentioned in the resolution. At the meeting of its Executive Board in October 2007, the Board approved the largest number of projects in its history, including some presently getting off the ground and projects to launch its new 5-year action plan (2008-2012). In 2008, the Common Fund will commit roughly over $20 million to finance projects. All projects must be in line with commodity strategies that are fully supported by the international commodity bodies.

54. Finally, in its resolution 61/190 the General Assembly reiterated the role of UNCTAD in addressing commodities issues in a comprehensive way and called upon the donor community to provide the resources required to enable the Conference to undertake those activities. The role and mandate of UNCTAD on commodities issues were reconfirmed at its Twelfth Conference, which took place in Accra in April 2008. The outcome of the Twelfth Conference, the Accra Accord, stipulates that UNCTAD should (a) continue to play a key role, with appropriate coordination with other international and regional actors, including with relevant international commodity bodies, to address the trade and development problems associated with the commodity economy, giving due attention to all commodity sectors such as agriculture, forestry, fisheries, metals and minerals and oil and gas; (b) monitor developments and challenges in commodity markets and address links

between international commodity trade and national development, particularly with regard to poverty reduction; and (c) enhance its efforts, under the three pillars of its work (i.e. research and analysis, technical cooperation and consensus building), to help commodity-dependent developing countries to harness development gains from the current boom in commodity prices, as well as to deal with trade and development problems related to commodity dependence.

55. In this context, the Accra Accord provides that UNCTAD should:

(a) Assist commodity-dependent developing countries, particularly small commodity producers, in their efforts to:

- Develop national commodity strategies, including mainstream commodity policies into their national and regional development strategies;
- Build supply-side capacity and attain competitiveness;
- Move up value chains and diversify commodity sectors;
- Comply with public and private international trade standards;
- Access commodity information and databases;
- Take advantage of export opportunities for commodities in emerging markets;
- Assist developing countries, upon request, in building human and institutional capacities;
- Assist developing countries, on request, to promote and improve transparency and accountability in the public, private and corporate sectors in order to enable the countries concerned to maximize the benefits that accrue to them from the extractive industries, taking into account, where appropriate, the implementation of relevant initiatives on extractive industries;
- Establish effective marketing systems and support frameworks for small commodity producers, including economically viable safety net programmes;
- Develop commodity financing and risk management schemes (including commodity exchanges);

(b) Promote intergovernmental cooperation in the field of commodities and consensus-building on:

- Ways to integrate commodity policies into national, regional and international development and poverty reduction strategies;
- Trade related policies and instruments for resolving commodity problems;
- Investment and financial policies for accessing financial resources for commodity-based development, including with respect to official development assistance, Aid for Trade and other possibilities;

(c) Contribute to building effective multi-stakeholder partnerships with a view to identifying innovative approaches to resolving commodity-related problems.

56. The Accra Accord also mandated the Trade and development Board to establish a multi-year expert meeting on commodities. As provided for in the accord, multi-year expert meetings should provide “practical options and actionable outcomes”. In relations to commodities, this implies that such conclusions would

have relevance for addressing the opportunities and challenges relating to the long-standing commodity trade and development issues identified in the accord and to assuring development gains from the boom in commodity prices.

57. The Accra Accord also provided for a strengthening of secretariat arrangements in support of the implementation of the Accra mandate on commodities, as follows:

> In view of the current challenges in commodities markets, the Secretary-General of the United Nations is urged to transform the existing Commodities Branch into an autonomous unit reporting directly to the Secretary-General of UNCTAD, within existing resources of the Commodities Branch of the Division of International Trade in Goods and Services, and Commodities, while retaining the Branch mandate and taking into account, without duplicating, the work of other relevant organizations. Through the guidance and leadership of the Secretary-General of UNCTAD, this unit should contribute more effectively to developing countries' efforts to formulate strategies and policies to respond to the challenges and opportunities of commodity markets.

V. Conclusions

58. The current commodity boom has improved the situation of primary commodities in world trade and revived the potential role of commodity trade in contributing to sustained economic growth and poverty reduction in the globalized economy. However, key realities of the commodity economy remain, including high price volatility in the sector, declining long-term trends in some commodity prices and incomes in real terms, limited development gains from the production and trade of primary commodities for many developing countries (especially low-income countries) and continued difficulties in diversification. Several emerging issues have a bearing on the extent to which stronger demand and higher prices for commodities will translate into sustainable growth and development and poverty reduction. These include the distribution of the gains from higher prices between foreign investors and host countries in the extractive industries, the preservation of a competitive environment in commodity supply chains, energy security and food security.

59. The comprehensive framework for action released in July 2008 by the High-level Task Force on the Global Food Security Crisis (composed of the heads of the United Nations specialized agencies, funds and programmes, the Bretton Woods institutions and relevant entities of the United Nations Secretariat, chaired by the Secretary-General) provides a plan of action for addressing the global food crisis in a coherent and coordinated way, with a focus on immediate measures to boost global food and nutrition security in both short-term and longer-term. The outcome of the Twelfth United Nations Conference on Trade and Development, the Accra Accord, provides an effective framework for dealing with the other commodity issues reviewed in the present report. The General Assembly may wish to monitor progress in the implementation of actions in each of these frameworks.