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TRADE AND DEVELOPMENT BOARD
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Expert Meeting on Diversification of Production and
Exports in Commodity-Dependent Developing Countries,
including Single Commodity Exporters, for Industrialization and
Development, taking into account the Special Needs of LDCs
Geneva, 26–28 June 2002

**REPORT OF THE EXPERT MEETING ON THE DIVERSIFICATION OF
PRODUCTION AND EXPORTS IN COMMODITY-DEPENDENT DEVELOPING
COUNTRIES, INCLUDING SINGLE COMMODITY EXPORTERS, FOR
INDUSTRIALIZATION AND DEVELOPMENT, TAKING INTO ACCOUNT THE
SPECIAL NEEDS OF LDCs**

Held at the Palais des Nations, Geneva
from 26 to 28 June 2002

<i>Chapter</i>	<i>Page</i>
I. Chairperson's summary	2
II. Organizational matters	8
 <i>Annex</i>	
Attendance	10

Chapter I

CHAIRPERSON'S SUMMARY

1. Experts stressed the need for commodity-dependent developing countries (CDDCs) to use the commodity sector as the basis for their development and to diversify their production and exports of commodities into areas where they possess comparative advantages and can develop competitive ones. To achieve this, countries need to add value to raw materials through processing, enter new areas with higher value added, position themselves better in global product chains and increase their participation in marketing and distribution networks. Upgrading and product differentiation, in particular through branding or an image of quality, are also crucially important since they increase competitiveness and retain value added. Thus, successful diversification is a function of economic, technical and institutional innovations. Achieving a significant degree of diversification in a dynamic and increasingly liberalized global marketplace is a challenge.
2. The process is more difficult for countries facing climatic or other physical constraints as well as systemic obstacles stemming from history. Such circumstances not only make the identification and implementation of strategic interventions along the profitable segments of the value chain more complicated and difficult but also raise the question: Is export diversification a desired policy response under such circumstances?
3. Some CDDCs, after implementing extensive market and institutional reforms, have found that their expectations that the liberalized trading system would bring greater benefits (e.g. market access, fair prices, trading opportunities) have not been fully realized. This outcome reflects the inability of many CDDCs to meet the diverse and frequently changing quality requirements (including in the context of WTO agreements on sanitary and phytosanitary measures (SPS) and technical barriers to trade (TBT)) and the stringent standards applied by importers in developed countries. There is also a need to reduce and/or harmonize burdensome trade documentation procedures.
4. Market concentration was also considered a major obstacle preventing CDDCs from benefiting from international trade. The distribution of gains among participants in the value chain prevents most operators in CDDCs, particularly small producers, from receiving their fair share. Additionally, trade-distorting measures (e.g. subsidies in developed countries) and tariff escalation hinder both production and exports of CDDCs. Subsidies not only affect the subsidized sectors but, through cross-price effects, contribute to oversupply in other sectors as well.
5. The WTO agreements pose serious challenges but also offer CDDCs opportunities to diversify out of traditional commodities into dynamic, non-traditional ones as well as the manufacturing and services sectors. Countries should assess and systematically use the options available through the WTO agreements. In the context of the WTO Agreement on Agriculture, greater attention by CDDCs to "green-box" measures is called for.

Implementation of tariff rate quotas needs to be improved, and they need to be better utilized by exporters.

6. Ideologies and methodologies for policies and strategies on commodity export diversification need to be reviewed. CDDCs need to design viable and coherent diversification strategies that enhance their comparative and competitive advantages. The possible new approaches should start with an analysis of which product advantages can be built on – for example, by targeting commodities according to agro-ecological zones. In doing so, there is a need to differentiate between food production and export crop production and not to impair food security. The latter is also affected by the various protection and support measures accorded to agriculture in developed countries. Support from international organizations such as UNCTAD, FAO and CFC would be useful in designing, implementing and assessing diversification strategies. In their support to CDDCs, international organizations should have an open mind and consider all projects and programmes with a positive developmental impact rather than exclusively emphasizing certain topics (e.g. the environment) or stressing lip service to certain ideals (e.g. poverty reduction), because these would be normal results of good projects anyway.

7. CDDCs' policies and strategies for diversification should include measures to disseminate high-quality seeds; enhance product promotion and quality; transfer appropriate and affordable technologies; improve the collection and dissemination of marketing information; reduce transaction costs and improve producer prices; upgrade physical infrastructure; encourage foreign and local investment; increase information, and local capacity-building in financial management; and enhance technical know-how as well as skills in marketing and trade negotiations. The labour intensity of alternative activities must also be taken into account. The experts recognized the importance of improving the skills and welfare of workers in commodity sectors. In this regard, they urged governments to ensure that vocational training programmes are accessible to workers and young people. The experts also recommended that UNCTAD provide training in product upgrading and differentiation and in research and development.

8. The Tea Mark initiative, through which a group of tea-producing countries will sell the “mark” to trading corporations, was considered a potentially useful programme. The experts expressed a wish to see this initiative replicated for other commodities of importance for developing countries. Financial support from the international community was also viewed as indispensable.

9. Experts highlighted the importance of local markets in starting the diversification process. It was pointed out that the development of technical know-how and design based on products needed by the *local* market, but taking into account the quality requirements of the *world* market, was a crucial first step. The middle link between the traditional producers and the international market is lacking in most cases. Experiences in several CDDCs show that the combination of “traditional” indigenous technology and modern management can lead to success. For instance, in Bangladesh, familiarizing village artisans with the quality characteristics and requirements of the world textile market has been a key to success.

Similarly, the mix of traditional artisanal skills and appropriate technology and machinery has been critical in successful exports of palm tree furniture from Fiji. This approach lessens the need for imported capital and technology. In many instances, modern technology could be adopted step by step. Local producers should be encouraged to use their creativity and design capacities to make the products they are best at. Intermediate technology that is reliable in terms of availability and maintenance and still meets quality standards would be rather inexpensive. It is possible to use locally available equipment. Opening storefronts in big industrial cities to sell quality products from CDDCs is one way to help promote producers' identity and the image and brands of their products, as well as those of the country.

10. Meeting participants emphasized the value of the exchange of experiences and products among developing countries, and of regional arrangements for doing this.

11. Regarding the oversupply problem faced by several commodities, one measure suggested (e.g. in the case of coffee) was to prevent low-quality goods from entering the market. The International Coffee Organization's initiative to set minimum quality standards for coffee in order to reduce the negative impact of low-quality supplies on the market was seen as a possible remedy to the oversupply problem. The experts recommended that UNCTAD and other international organizations investigate similar problems and provide the technical assistance needed to deal with the problem. It was also mentioned that international commodity agreements were not as bad as was often suggested.

12. The dominance of a market by large firms with well-established trademarks was seen as posing major obstacles for small players in CDDCs trying to enter the market. Although developing countries' enterprises need to compete with the technical efficiency of large firms, including their financial, political and market power, at the same time firms in developing countries may find potentially profitable points of entry into, and scope for effective participation in, international value chains for commodities. The entry of producers and exporters into the chain depends not only on the aspirations of interested firms but also on the characteristics of the product, the technical requirements, the market structure and the organization of trade. Experts recognized that in order to obtain market acceptance for their differentiated products (e.g. exotic fruits), entrepreneurs had to organize themselves into professional associations aimed at tackling local bottlenecks at various levels of the supply chain (logistics, handling and bureaucracy) and assuring quality.

13. Networking and acting in groups for information sharing and cooperation in design, production, marketing and provision of after-sales services can play a central role in overcoming problems of market access and entry. Simple tools such as mobile telephones and radio broadcasts are very effective for disseminating information. Dissemination of information on trade, markets and supermarkets, preferably on a real-time basis, and of commodity trends and analysis was regarded as a key element of the diversification process. In this connection, the usefulness of UNCTAD's INFOCOMM portal was acknowledged. It was suggested that UNCTAD strengthen its information provision services and coordinate its efforts with other sources.

14. It was recognized that exporters and traders in CDDCs needed increased competence in trade law, in the use of information technologies for trade and in finding specific market niches. It was recommended that UNCTAD and other international organizations provide the required technical assistance.

15. Partnerships with foreign corporations, which are more experienced in the area of R&D, the adaptation of foreign techniques to local needs, the design of new techniques to match local conditions and the testing of new export products, were considered essential for the pursuit of diversification. In this regard, the use of contract farming can be a good market organization tool at the local level. Flexible price contracts may improve the security of supplies to processors.

16. Diversification strategies must be country specific. Countries with a rudimentary private sector in the area of non-traditional commodities need to develop support systems, and Governments and international development agencies should assist in training and capacity-building, marketing, infrastructure improvement and financing.

17. Models such as fair trade can be useful for redistributing value added to producers, providing incentives to produce high-quality products and improve workers' welfare and linking local firms to foreign companies. However, fair-trade systems must take local conditions into account.

18. In order to compete and earn credibility with business and financial partners, companies may need to organize themselves into groups to guarantee producers' contracts with foreign firms and banks.

19. Any commodity-upgrading venture should be based on profitability in order to minimize reliance on government and the financial community and to ensure sustainability. Enterprises require international support to help them prepare business and marketing plans. Developing maximal utilization of by-products will result in the most efficient use of commodities, which could also help in import substitution and lead to eventual exports. For instance, all parts of a pineapple are usable; sugar cane can be used for furniture making, animal feed production and electricity generation; and senile palm trees can be used to make luxury furniture.

20. For quality improvement, the importance for developing countries of accessing knowledge on such internationally accepted standards as those of the International Organization for Standardization and the Hazard Analysis and Critical Control Point (HACCP) system of the United States Food and Drug Administration was stressed. In this context, it was recommended that UNCTAD in cooperation with other international organizations mobilize appropriate support for establishing information centres on packaging and technology for CDDCs.

21. It was noted that in some cases, transnational corporations, by establishing subsidiaries and joint ventures, had helped provide new technologies, modernize management

practices, improve quality and develop human resources. However, particularly attractive for such foreign direct investment are large markets with a significant skilled labour force and economies of scale. Insurance schemes for investments in developing countries are desirable.

22. The experts considered the situation of commodities such as groundnuts, cotton and cashmere, which in recent years had encountered problems of falling and sharply fluctuating prices, droughts and quality. It was noted that in some instances, entrepreneurs had spontaneously reacted by diversifying into animal feed production, ethnic products and spinning. However, given the limitations of these individual solutions, the formation of industry associations may be a more promising approach to tackling the problem. More analysis of this issue was requested from UNCTAD.

23. Lack of appropriate transport and communication infrastructures was regarded as a significant obstacle to trade, particularly for landlocked developing countries, many African countries and small island economies. Cooperation between the private and public sectors and the international community in the areas of financing and maintenance was considered essential for the development and sustainability of physical infrastructure. It was proposed that the special situation of landlocked countries be taken into account at the WTO.

24. Experts stressed the lack of quality-control infrastructures such as laboratories and inspection companies, which made it difficult for countries to fulfil the requirements of SPS and TBT agreements. In this context, the establishment and/or upgrading of national bureaux of standards as well as regional testing laboratories was recommended. It was pointed out that rules of origin were also often difficult to understand and satisfy.

25. The need for an adequate measurement system (both in quantitative and qualitative terms) has often been overlooked, although such a system is essential for accurate valuation of goods. It also reduces transaction costs and the incidence of disputes, improves collection of government revenues, controls fraud and improves export earnings. Experts supported the development of an international system and urged international organizations to contribute to its mainstreaming.

26. The experts underscored the usefulness of regional standards tailored to local specificities (e.g. a tropical climate). However, they added that these regional standards should be benchmarked to international ones to avoid regional isolation. In this connection, they recommended technical assistance to regional organizations, particularly in Africa, in order to facilitate effective participation by such organizations in international quality-setting forums such as Codex Alimentarius. They further called on developing countries' Governments to make use of national professional associations for this purpose. For instance, the establishment of committees on animal and plant health would help promote the quality of products upstream.

27. One successful example was a particular company's diversification from a soft commodity (coffee) to fresh tropical fruits (and, more recently, organic products), a process driven by international demand and advice from specialized regional agencies. That

experience was successful because the exporter was able to apply the quality standards requested by international buyers by performing regular audits, training farmers and using proper packaging. An additional factor contributing to this success was the assistance of promotion agencies in Switzerland, the Netherlands and the United States, which provided the linkage with importers and supermarket chains. It was noted, however, that in trying to replicate this example some countries might experience constraints such as quality issues, high freight costs and difficulty tracing a product “from field to plate”.

28. It was noted that in some cases preferential treatment for exports to certain regions (e.g. African, Caribbean and Pacific countries exporting to Europe or some Latin American countries exporting to the European Union and the United States) resulted in discriminatory trade practices for other regions. While one recommendation was that equal trade opportunities be given to all developing regions, the CDDCs benefiting from preferences stressed the importance of continuing this preferential treatment. An assessment of the impact of preferences on trade was suggested.

29. It was generally agreed that the importance of financing for diversification of commodity production and exports could not be overestimated. A programme in Veracruz in Mexico aims at replacing production in the low-quality coffee zones with reforestation and cultivating alternative products with comparative advantages. This approach requires long-term investment plans that need to bring together all financial actors (international finance institutions, bankers, investors, etc.) in cooperation with producer organizations.

30. Financing commodity diversification is not attractive for banks because of its inherent risks and barriers. However, financing could be made attractive by mitigating these risks through due diligence and proper structuring of both projects and the financial system.

31. The experts saw a need to look at alternative means of financing diversification programmes by using, for example, special development funds, joint venture capital or partners, revolving funds and schemes. It was felt that access to existing investment promotion agencies in developed countries and donors should be simplified. The experts suggested mobilizing national sources of finance by introducing new development partners, and they recommended that the role of agricultural banks be strengthened and insurance mechanisms be put in place. It was suggested that international organizations consider taking equity participation in diversifying firms.

32. Regarding the special case of mineral-dependent countries, experts noted that small- and medium-scale mining enterprises could make an important contribution to diversification in most developing countries and that they would usefully complement the existing structures dominated by a few large operations and artisanal miners operating in the informal sector. However, the development of small- and medium-scale enterprises is often hampered by lack of a supporting environment, capital, skills and infrastructure. Regional cooperation, as in the Southern African Development Community (SADC) region, could significantly facilitate the establishment of such enterprises. It was noted that regional cooperation was also an important means of improving infrastructure and could help in addressing problems faced by

other sectors such as agriculture. Experts also noted the importance of regional geological surveys and the need for technical and financial resources to support basic geological work.

Chapter II

ORGANIZATIONAL MATTERS

A. Convening of the Expert Meeting

33. The Expert Meeting on the Diversification of Production and Exports in Commodity-Dependent Developing Countries, Including Single-Commodity Exporters, for Industrialization and Development, Taking into Account the Special Needs of LDCs, was held at the Palais des Nations, Geneva, from 26 to 28 June 2002.

B. Election of officers

34. At its opening meeting, the Expert Meeting elected the following officers to serve on its bureau:

Chairperson: Ms. Rosediana Suharto (Indonesia)

Vice-Chairperson-cum-Rapporteur: Mr. Kari Laaksonen (Finland)

C. Adoption of the agenda

(Agenda item 2)

35. At the same meeting, the Expert Meeting adopted the provisional agenda circulated in document TD/B/COM.1/EM.18/1. The agenda for the Meeting was thus as follows:

1. Election of officers
2. Adoption of the agenda and organization of work
3. Diversification of production and exports in commodity-dependent developing countries, including single-commodity exporters, for industrialization and development, taking into account the special needs of LDCs
4. Adoption of the report of the Meeting

D. Documentation

36. For its consideration of the substantive agenda item, the Expert Meeting had before it a note by the UNCTAD secretariat entitled ‘Diversification of Production and Exports in Commodity-Dependent Countries, Including Single-Commodity Exporters, for Industrialization and Development, Taking into Account the Special Needs of LDCs’ (TD/B/COM.1/EM.18/2), a Statistical Annex to this note (UNCTAD/DITC/COM/Misc.44) and a document entitled ‘Food Quality Standards: Definitions and Role in International Trade’ (UNCTAD/DITC/COM/34).

E. Adoption of the report of the Meeting

(Agenda item 4)

37. At its closing meeting, the Expert Meeting authorized the Rapporteur to prepare the final report of the Meeting under the authority of the Chairperson.

Annex

ATTENDANCE*

1. Experts from the following States members of UNCTAD attended the Meeting:

Afghanistan	Madagascar
Angola	Mexico
Bangladesh	Mongolia
Bolivia	Morocco
Burkina Faso	Nepal
Burundi	Netherlands
Central African Republic	Niger
China	Nigeria
Costa Rica	Oman
Cuba	Paraguay
Democratic Republic of the Congo	Philippines
Djibouti	Russian Federation
Ecuador	Rwanda
Egypt	Senegal
Eritrea	Spain
Ethiopia	Swaziland
Finland	Switzerland
France	Syrian Arab Republic
Germany	Thailand
Greece	Togo
Guinea	Tunisia
Guinea-Bissau	Uganda
Honduras	United Kingdom of Great Britain and Northern Ireland
Indonesia	United Republic of Tanzania
Iran (Islamic Republic of)	United States of America
Italy	Zimbabwe
Jamaica	
Kenya	
Libyan Arab Jamahiriya	

2. The following intergovernmental organizations were represented at the Meeting:

African, Caribbean and Pacific Group of States

* For the list of participants, see TD/B/COM.1/EM.18/INF.1.

Common Fund for Commodities
Common Market of Eastern and Southern Africa
International Organization of Legal Metrology
International Coffee Organization
League of Arab States

3. The following specialized agencies and related organizations were represented at the Meeting:

Food and Agriculture Organization of the United Nations
United Nations Industrial Development Organization
World Trade Organization

4. The following non-governmental organizations were represented at the Meeting:

General Category

International Confederation of Free Trade Unions
Oxfam International

5. The following special invitees attended the Meeting:

Mr. Claude Auroi, IUED, Switzerland
Mr. John R. Cole-Baker, CSA Group, Ireland
Mr. Henry Lartey, Ghana
Mr. Marco Muñoz, Mexico
Ms. Bibi Russell, Bangladesh
Mr. Peter Ryan, Fiji