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UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

PANEL DISCUSSION ON PRODUCER-CONSUMER COOPERATION

Held at the Palais des Nations, Geneva, on 2 November 1995

Informal summary of the discussion

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INTRODUCTION

1. The Standing Committee on Commodities held its fourth session from 30 October to 3 November 1995.

2. In the course of the session, a panel discussion on producer-consumer cooperation was held on 2 November 1995. It was agreed that a summary of the informal discussions on this issue would be published.

3. A set of papers reviewing, inter alia, market prospects and the state of producer-consumer cooperation was circulated to participants in the discussion. A list of these papers is provided in the annex.

I. COMMODITY REVIEW AND OUTLOOK

4. Reviews of commodity markets and outlooks were presented by the representatives of international commodity bodies, namely the **International Cocoa Organization** (ICCO), the **International Coffee Organization** (ICO), the **International Copper Study Group** (ICSG), the **International Cotton Advisory Committee** (ICAC), the **International Lead and Zinc Study Group** (ILZSG), the **International Jute Organization** (IJO), the **International Olive Oil Council** (IOOC), the **International Natural Rubber Organization** (INRO), and the **International Sugar Organization** (ISO), and by the representatives of the **Food and Agriculture Organization of the United Nations** (FAO) and the **Common Fund for Commodities** (CFC). A summary of these presentations is provided below:

5. The **Executive Director of the International Cocoa Organization (ICCO)** said that both production and consumption of cocoa were following an upward trend. However, world production had fluctuated considerably more than demand. In 1991, world production had reached a ceiling of 2.5 million tons, compared to 1.2 million tons in the 1960s. Production had thus doubled in 30 years. Consumption had grown regularly and reached 2 million tons in 1993-94. On the whole, consumption had not grown as much as production. As a result, stocks of cocoa beans had accumulated. There had been considerable surpluses from 1960-61 to 1964-65, from 1977 to 1981-82 and from 1984 to 1991.

6. Cocoa prices had also evolved according to supply and demand. The highest nominal prices had been recorded in 1976-77, averaging 3,632 dollars per ton. The lowest had been 389 dollars in the mid 1960s. Today, the cocoa market was in transition. The structural surpluses recorded in the 1980s no longer prevailed. On the supply side, the market showed a structural deficit. ICCO's econometric projections gave reason to believe that price increases owing to the structural deficit would be gradual and would be spread over the entire decade of the 1990s leading up to the year 2000. However, prices were not expected to increase much, as the surplus stocks' dispersion was not expected to be as great and production deficits were small.

7. The **Executive Director of the International Coffee Organization (ICO)** said that coffee had experienced very low prices since 1989, when negotiations on a new agreement had broken down. One of the reasons was that the Agreement had been successful in stabilizing prices in a range that was very remunerative for producers, and as a result, a lot of stocks had been built up. In 1989, after the break-down of the negotiations, all countries had tried to make some money by selling their stocks, and this had led to a fall in prices. However, in 1994, one of the main producers, Brazil had experienced a frost and a drought, with the result that prices were now at a reasonable level, and in the future, he expected that prices could probably increase a little bit more next year, as a shortfall in supply was expected. The coffee tree needed two to three years to recover from certain weather phenomena.

8. What worried the ICO were the numerous changes occurring in the structure of the producing countries. Price setting in the coffee market was not following the same pattern as in the last 20 years, as new actors were involved in the scenario. It was very difficult for the producing countries to estimate or forecast a level of prices so that they could programme their production or the

selling of their product on the market. This was currently being discussed within the ICO. He envisaged that, in the next few years, coffee prices would experience a new period of boom and bust.

9. The **Secretary-General of the International Copper Study Group (ICSG)** focused his analysis of the copper outlook on the historical per capita consumption of this commodity. Copper was one of the most important materials in the development of civilization, and it had been used for at least 6,000 years. The modern history of copper had begun with the discovery of electricity and the multitude of electricity-based inventions. He drew a close correlation between the level of the standard of living in the world and the rate of copper consumption. In 1994, while the per capita consumption of North America had been 22 pounds of copper and that of Europe 15, that of the less developed countries in the regions of Latin America, Asia and the Middle East and the former Soviet Union did not exceed 3 pounds per capita. These examples showed the close relationship between the level of development and modernisation of a country and the rate of copper consumption.

10. In the past 25 years, per capita copper consumption in North America had remained relatively stable, rising from 20 pounds of copper in 1980 to only 22 pounds in 1994, but it had almost doubled in Latin America, Asia and the Middle East. He expected copper demand to continue to grow faster than demographic expansion, in particular in those developing countries that were developing quickly, such as in Latin America and Asia. World consumption of copper had increased from 6.8 million metric tons in 1970 to 11.5 million metric tons in 1994.

11. In 1998, he expected potential demand of some 14 million metric tons of refined copper. For mine capacities, projections indicated a potential increase from 10.8 million metric tons of copper in 1994 to around 14.5 million metric tons in 1999. For refined copper capacities, including primary and secondary i.e. recycled copper, projections indicated an increase from 13 million metric tons in 1994 to 15.6 million metric tons in 1999. He concluded that these projections gave an optimistic outlook for continued growth of both consumption and production of copper. Nevertheless, as a critical industrial input, copper was subject to strong competition from alternative materials such as alumina, aluminium, ceramics and fibre optics, so its competitiveness had to be increased by promoting alternative copper end-uses, developing low-energy technologies and more efficient means of production and promoting its prudent production and the use of recycling, taking into consideration health and environmental concerns.

12. The **Executive Director of the International Cotton Advisory Committee** (**ICAC**) said that, between 1950 and 1994, the average world cotton yield had risen at an annual rate of 2 per cent, or 8 kg per hectare per year. However, in the late 1970s and early 1980s, yield had increased little, as higher-than-average cotton prices had encouraged expansion into lower-yielding areas. Between 1983 and 1991, the world average yield had risen from 450 kg per hectare to nearly 600 kg, largely because of productivity gains in developing countries, especially China and Pakistan. Since 1991, world yields had declined, indicating that the most recent period of above-average gains and yields had passed. In 1995-96, the world average yield was estimated at 550 kg, or 25 kg per hectare lower than indicated by the regression line.

13. Between 1950 and 1995, the world cotton area had ranged between 30 and 35 million hectares, with no apparent tendency to rise above or fall below these limits. If the world area was 33 million hectares and yields grew at an average rate, he expected production to be about 20.5 million tons in 2000.

14. In the mid 1980s, world cotton consumption had increased rapidly, but it had barely risen since. The main factor was an association of rapid growth in cotton use in China and declines of over 50 per cent in the former CMEA area. In 1987, per capita world cotton consumption had reached 3.6 kg, but it had fallen to 3.2 kg in 1994. If per capita world cotton use was to return to the 1987 level and perhaps rise modestly to 3.7 kg, world use would need to rise to 23 million tons by the year 2000. However, to achieve 23 million tons of cotton use, the world cotton area would have to rise 2 million hectares above the record set in 1984-85 to 37 million hectares.

15. Consumer demand for cotton was growing, and with specific problems of disease, resistance to pesticides and difficult economic conditions in four of the five largest producing countries, prices needed to be above average during the 1990s to elicit the necessary supply. In the last 22 years, there had been two distinct periods of cotton prices. Between 1973 and 1983, the cotton A index had averaged 76 cents per pound and had been above the 22-season average of 73 cents eight times out of 11 years. However, in the 10 seasons between 1984 and 1993, the cotton A index had averaged 67 cents a pound and had been below 73 cents seven times. Higher cotton prices in the first period had coincided with slow growth in world yields, rising prices for most commodities and increased imports by China. After 1984, cotton prices had fallen because of record production in China, changes in the United States cotton programme to expand exports, and reduced cotton consumption in Eastern Europe and the former USSR. The development of the leaf curl virus in Pakistan and India, combined with economic difficulties in central Asia and bollworm resistance to pesticides in China, indicated that increases in world consumption during the 1990s might need to be met from expanded area and production in countries currently accounting for less than half of world output. In the past, above-average prices had been required to sustain increases in area and production in the western hemisphere and Africa. It was likely that average prices in the 1990s would be higher than in the 1980s, depending on competing crop prices and rates of growth in world cotton consumption. Prices in the 1990s could be similar to the 76 cents per pound average of the 1970s.

16. Estimates of world cotton supply and use during the next five seasons, made in conjunction with IMF forecasts of economic growth and the secretariat's model of end-use fibre demand, indicated that world cotton consumption would rise at an annual average rate of 2 per cent, a slower pace than estimated in 1987. Loss of market share resulting from supply constraints and higher prices for cotton, combined with reduced consumption in the former USSR and slower growth of demand in China, were the major reasons why use of cotton was growing more slowly than forecast. Cotton consumption continued to grow more rapidly in cotton-producing countries than in non-producing traditional importers. Consequently, increases in world consumption did not automatically lead to increases in cotton trade, as consumption growth was met by growing domestic production. In 1994-95, tight supplies in major producing countries had led to temporary import demand and growth in world trade.

17. World production was likely to increase by 2000 and was expected to match consumption. Increases in area in response to above-average prices and relatively modest increases in yields would result in increased cotton output. Market prices were expected to be lower on average in the late 1990s. Consequently, production in the United States was expected to peak in 1996-97. Increases in area and yields were expected to lead to increases in production in India, Pakistan and Turkey, as well as in smaller producing countries; because of a difficult period of economic restructuring, production in Central Asia was likely to remain at current levels but could decline if inputs became scarce. World cotton imports were expected to decline from 6.7 million tons in 1994-95 to 6.2 million tons in 1995-96 and to 5.9 million tons in 1996-97. World trade was expected to rise to 6.4 million tons by the year 2000.

18. The **Executive Director of the International Jute Organization (IJO)** said jute was the second most important natural fibre after cotton and was grown by some 10-12 million small and marginal farmers in several countries of Asia. It also provided employment to hundreds of thousands of others engaged in processing, trading and transportation activities. Jute was an important foreign exchange earner for the producing countries, all of which were either developing or least developed.

19. Jute, traditionally a low-cost packaging material, faced strong competition from synthetic substitutes. The International Jute Organization (IJO) had been set up in 1994 to improve structural conditions in the global jute economy. The strategy adopted aimed at improving the competitiveness of jute and jute products through research and development and expansion of the market through market promotion activities. Projects had been undertaken in the area of agriculture (research to develop high-yield varieties, improve agricultural practices to reduce the cost of cultivation, improve fibre quality and increase productivity), industry (to reduce costs, improve the quality of products and develop new and diversified uses of jute) and market promotion (to promote selected products in specific target areas). He expressed appreciation for the assistance and support provided to the IJO by UN agencies and other international organizations and financing institutions, in particular the Common Fund for Commodities (CFC), which had become the principal source of project funding.

20. Over the last decade, world production and consumption of jute and jute goods had been more or less stable at around 3 million tons per annum. Although there had been a decline in the use of jute in some developed countries, in Western Europe, a major jute market, demand had increased. The loss of market share in some developed countries had been offset by increased demand in developing countries, including jute-producing countries. Due to population pressure and the relative profitability of food crops, the total acreage under jute had declined, though this had been offset by marginal improvements in yield.

21. Most IJO projects in the area of agriculture and industry had started in the late 1980s and early 1990s and were still ongoing. There were already indications of the useful results that would be generated. Jute was being used for making soft luggage, footwear, household furnishing fabrics, dress material and pulp for paper. Being a natural fibre and a renewable resource, jute was environment-friendly compared to synthetic materials. However, a comprehensive life cycle analysis of jute to assess its impact on the environment was currently being undertaken by the IJO. In this context, an international workshop on jute and the environment was being scheduled in December 1995 in Dhaka.

22. He believed that collaborative research was more likely to produce better results than isolated research, and he regretted that some international agencies were financing jute development programmes in individual countries on a bilateral basis, completely bypassing the IJO.

23. In the medium term, jute was expected to face competition from substitutes, notably synthetics. However, jute's natural and technical advantages and its potential use in non-traditional sectors would allow it to meet the challenge, provided that it continued to receive the required support from the international community.

24. The **Secretary General of the International Lead and Zinc Study Group (ILZSG)** said that lead and zinc were highly dependent on the development of the business cycle in consumer countries. Like other commodities, the two metals experienced price fluctuations, but industry had adjusted to price swings.

25. With regard to lead, total world mine production was expected to fall in 1995 compared to 1994 but to increase in 1996 above the levels reached in 1994 and 1995. In contrast, metal production would increase in both 1995 and 1996. World lead metal consumption was expected to rise by 1.5 per cent in 1995 and by 1.9 per cent in 1996 to a new record level of 5.5 million tons. In 1996, the world lead market was expected to move into a small deficit, with a continuation of the draw-down of the considerable stocks held at the London Metal Exchange (LME). In 1994, prices had recovered from the low 1993 level, and they had further improved during recent months.

26. The lead market was expected to be influenced by environmental concerns. In this regard, the most recent initiative, was the debate in OECD on a Lead Risk Reduction Programme which could lead to the phasing-out of several uses of lead. Environmental considerations had also contributed to making lead increasingly dependent on one single use, i.e. in the lead-acid battery for starting, lighting and ignition of automobiles and similar applications. With the number of motor cars expanding, there would be an increasing need for lead-acid batteries. He did not expect a commercially viable substitute for the lead-acid battery to be on the market in the medium term. Other uses of lead, such as cable sheeting, pipe and sheet, ammunition and chemicals, had not kept pace or had declined. Finally, the use of lead as an anti-knock addition to gasoline had disappeared in many countries.

27. Over 50 per cent of lead came from recycled material. The Basel Convention on trans-boundary movements of hazardous wastes and their disposal forbade completely the export of secondary lead materials, which were considered hazardous, from OECD to non-OECD countries by the end of 1997. The ILZSG had noted that this ban had caused a delay in the expansion of secondary lead smelters in some developing countries due to a lack of feed, which needed to be imported.

28. As to zinc, he expected total world mine production to expand in 1995 and 1996 and Zinc metal production to continue a slight upward trend in both years. He expected zinc metal consumption to rise by 3.4 per cent in 1995 and 3.2 per cent in 1996, reaching a record high of 7.4 million tons. The apparent deficit in the zinc market in 1995 would further reduce the excessive stocks build up at the LME. Prices, which had reached a low point in 1993, had barely recovered because of the stock overhang. Zinc was a versatile material which was used

mainly to protect steel against corrosion through galvanizing. It was used for a wide range of die-cast products, to alloy copper with zinc to form brass, with its many applications, and for sheet for roofing in architectural applications, mainly in Europe. Zinc oxide was used as a stabiliser in tyre rubber. Galvanizing was the main use, accounting for almost 50 per cent of total zinc consumption. In the medium term, zinc was expected to have a bright future, with further growth mostly in galvanizing but also in other applications. However, other metals such as aluminium and materials such as plastics represented permanent threats to zinc.

29. Despite the fact that zinc was an essential element without which most organisms could not function, it was criticized by environmentalists for its alleged eco-toxicity. The recycling of zinc in developing countries, which depended on imports of secondary materials from developed countries, was affected by the Basel Convention.

30. The **Executive Director of the International Olive Oil Council (IOOC)** said that olive oil accounted for six per cent of the vegetable oils market. However, in certain member countries of the Council, particularly those in the South-East Mediterranean, it accounted for nearly 100 per cent of vegetable oil production. Together, the Council members produced 96 per cent of the world's olive oil. The activities of the Council basically covered technical cooperation, training, the transfer of technology and any other activities designed to improve the production and quality of olive oil, in addition to product promotion and advertising. He believed it was not sufficient to produce quality products; it was also essential to know how to sell those products.

31. According to recent forecasts made by the IOOC secretariat, there would be an upward trend in production and consumption to the year 2000. The olive tree was a perennial, and the surface area under the crop remained stable, although there were new plantations in certain countries like Morocco, Tunisia, Greece and Spain. The tree produced alternately. There were large medium-term fluctuations. On average, production was increasing in relation to consumption, and there was therefore a need to find new market outlets to retain the balance between supply and demand. Olive oil was an expensive product, but paradoxically it was produced in countries which sometimes did not have the resources to be major consumers. As it was not possible to reduce prices, there was a need to explain the reasons for the difference in price between olive oil and other vegetable oils. The Council was carrying out research on the biological value of olive oil and disseminating scientific information to make it better known and to give the consumer a better appreciation of the value of olive oil. This had proved effective in particular in markets outside the Mediterranean basin which had not traditionally consumed olive oil but which were health-conscious, particularly the United States of America, Canada, Australia and Japan.

32. One of the aims of the IOOC was to ensure that there was a good balance between supply and demand. However, he expected that the challenges to be faced in the future would include the Uruguay Round Agreements and the revision of the Common Agricultural Policy, which would be less protective of olive oil compared to the present. Nevertheless, he believed that some of the assets of olive oil as a product, such as its quality and health premium, could help to generate new outlets at the world level.

33. The **Executive Director of the International Natural Rubber Organization (INRO)** said that the high price of natural rubber in 1994 and 1995 as compared to 1990-1993 had led to significant production increases and hence to the perception that natural rubber production was very price-sensitive in the short term. In Malaysia, the Government's emphasis on industrialization and the labourer's preference for city life made it likely that small-holder production would continue to decline in the years ahead. Furthermore, with its increased level of industrialization, Malaysia's crude rubber exports were declining. Thailand was also industrializing rapidly, and it was likely that a scenario similar to that of Malaysia would develop. Of the big tree producers, only Indonesia was expected to maintain production growth in the next 10 years or so, but that growth would also be limited. Consequently, in view of the above trends, any significant rise in production would have to come from other sources.

34. Demand for natural rubber was expected to grow by 2 to 2.5 per cent per annum. Such a pattern would result in demand reaching 7.4 million tons by 2005, an increase of 1.8 million tons over 1994. Further growth sufficient to meet increasing demand would therefore have to come from the smaller producers in South-East Asia and West Africa. However, at present only Viet Nam had a viable programme to develop a large-scale natural rubber industry. Given this bleak scenario for future supply prospects, it must be asked how future demand growth would be satisfied. To answer this question, five factors had to be taken into account:

(1) The entry into force of the International Natural Rubber Agreement 1995 would give producers an assurance that prices would not drop below defined price levels. The security afforded by the INRA could in itself arrest the projected decline in exports from the big three producers and in the process buy time for natural rubber development elsewhere;

(2) Market prices were likely to remain at a more remunerative level than in the recent past, which could change the attitude of Governments, among others, and possibly even estates towards future development and replanting;

(3) Technological improvement, including the development of clones especially designed for rubber woods, should result in improved yields requiring less manpower;

(4) Financing to expand planted areas, as well as replanting in the potentially high-producing less developed countries, had to be provided by Governments and international organizations;

(5) Improvements shall be made in recycled rubber.

35. Finally, he expected synthetic rubber to make some inroads as a replacement for a small portion of natural rubber's share of the total elastomer market.

36. The **Executive Director of the International Sugar Organization (ISO)** said that, for decades, sugar had been one of the most volatile commodity markets. Since 1988, sugar prices had been much more stable compared to the previous 20 years. This could be explained by the composition of the import market, which had changed considerably. In 1974, when sugar prices had peaked at 64 cents per pound, an all-time record, two-thirds of sugar imports had been accounted for by high-income industrialized countries, led by the United States, Japan and the

EU, and only one-third had been accounted for by the developing countries. As a consequence of the very high price prevailing at the time, soft drink manufacturers, mainly in the United States and Japan, had turned to a new sweetener, namely high-fructose corn syrup (HFCS). Over the next 10 years, sugar consumption had fallen by 40 per cent in the United States and by one-third in Japan. Concurrent with this huge shift in imports of developed countries, developing countries' imports had expanded in the mid-1980s, encouraged by extremely low sugar prices that had fallen to three cents per pound. These two shifts meant that, by 1990, developing countries had accounted for almost two-thirds of imports, a complete reversal of the situation 15 years before. Developing countries, with strong financial constraints, were more price sensitive. When prices rose, they bought less, and this also explained the greater price stability over the last seven years.

37. As to the future, in 1992, ISO, in association with FAO, had published a study which made comprehensive projections for the world sugar economy up to the year 2000. Some of the results of this study were as follows: world consumption was expected to grow to 128.3 million tons by the year 2000, a rise of 20 million tons from the 1990 base. At the moment, with 107 million tons in 1995, the study was proving exactly on course. World imports were expected to reach 25.5 million tons by the year 2000, a healthy growth of 4 million tons from the 1990 base, and again growth was still in line with the projections of the study. Growth in imports was taking place entirely in developing countries and largely concerned white sugar. The predicted prices had been overtaken by events, since the model did not take into account weather, nor had it anticipated the severity of the adjustments in Cuba. Nevertheless, while prices were now down to 11.5 to 12 cents per pound in nominal terms, i.e. about 10.5 cents in real 1990 terms, predictions of a dip in the mid-decade were correct, and the analysts stood by their estimate of 10 cents per pound in 1990 terms in the year 2000. That would be approximately 12.5 cents per pound in nominal 2000 terms.

38. Seven key issues could be raised with regard to the sugar situation during and up to the end of the 1990s:

(1) Raw versus fine sugar: with the expansion of EU production in the mid-1970s, white sugar, which was relatively cheap, had taken an increasing share of the world market. Apart from its price, developing countries preferred white sugar. Recently, in the Middle East and in Arab countries, there had been a build-up of large refineries, which was an indication of the rejuvenation of raw versus white sugar;

(2) The Soviet break-up: the repercussions of developments in the former Soviet Union and the disruption they caused to established trade flows, would continue to be felt through the whole decade. Consumption in the former Soviet Union had fallen from a subsidized level of 55 kg to a normal level (for an industrialized country) of about 30 to 35 kg. Imports would never return to former levels. The downward adjustment in Cuban production might be permanent. Some improvement on current levels could be expected, but it was unlikely that production would ever return to the 8 million tons recorded by the end of the 1980s;

(3) Asia would remain the dynamo of the world sugar economy in terms of production, consumption and trade throughout the 1990s. Two key players in the world sugar economy would shape the future, i.e. India and China. India, an

exporter and importer, had a vast sugar industry subject to wide swings. The Indian sugar cycle was the ghost and the feast of the world sugar market. China had a very low per capita consumption of only six kg, compared to 35 kg in the industrialized world and 12 to 13 in developing countries. Consumption developments in rapidly growing China were critical to the future development of the sugar market. For alternative sweeteners, high-fructose corn syrup development was highly price-related, and unless sugar prices were consistently above the production cost level of HFCS, which was around 12 to 13 cents, it was unlikely that they would gain further market shares;

(4) In the United States and Japan, the soft drink industry had reached its limits. Low-calory sweeteners were unlikely to play an important role before 2000, though that might change later on. In developing countries, cheap first-generation low-calory sweeteners, such as saccharine, might be used to replace sugar, especially in soft drinks, the most rapidly growing sector, and the dynamo for that would be China;

(5) The impact of Uruguay Round: all experts agreed that the world sugar market had been left untouched by the Round. The long-term reduction of tariffs might reduce domestic prices in developing countries and increase demand. He believed the situation could not get worse, because there were ceilings for protection which could not be changed;

(6) Self-sufficiency: the attraction of sugar as an engine of development was obvious. Sugar was still considered a staple foodstuff in most developing countries, and it was a strategic goal to be self-sufficient in food. This was a problem for the development of the import market;

(7) Diversified end-uses: in the long term, this was the most important aspect for sugar, since prices were never likely to reach historic boom levels and were likely to be in a range profitable for only the most efficient producers. It was therefore important to counteract the trend on the physical market by increasing the use of by-products. The future of many sugar-export-oriented industries would depend on whether they did this successfully or not.

39. The **Chief of the Commodity Policy and Projections Service of the Food and Agriculture Organization (FAO)** drew attention to a number of points:

(1) His Organization had projected a general slow-down in world trade volumes of most agricultural commodities, and this indicated increased competition. Markets would continue to require very careful preparation for exporters to become involved. When a market was expanding quickly, the situation was easier, but when it was expanding more slowly, there was more competition generally and more conflict between countries;

(2) It must be asked whether the very long-run decline in real commodity prices was going to be arrested in the next few years. It seemed that, as a result of some of the changes in policies, the continuing growth in income and population and the effect of the Uruguay Round on world markets, there was some prospect of arresting this decline. FAO studies indicated a slight reversal of long-run trends towards declining real prices;

(3) Another important issue was the extent to which instability would still be present in commodity markets in the next five to ten years. Although

tariffication was expected to improve stability, it was not clear that market price stability would in fact increase over the next few years, particularly for temperate-zone commodities. Two effects were to be remembered: firstly, the location of production could be expected to shift from countries with relatively high levels of protection to those where costs were relatively low, and secondly, the level of government stocks of the major food staples would decrease. For several years, Governments had been reducing their stocks, and with further liberalization, price support programmes under which considerable stocks had been built in the past, would be cut further. Government stocks were not likely to be replaced by the private sector, and he therefore expected an oveall decline in global stocks, which would be a destabilizing factor. He saw four factors having a bearing on market price instability in the future: a positive effect from tariffication, an uncertain effect from shifts in production location, a negative effect from reductions in total stocks and an uncertain effect from changes in stock behaviour. It was therefore imprudent to say that market instability was going to be reduced in the next few years. Consequently, if instability was a continuing problem, then the role of international commodity arrangements remained. An understanding of this issue, he believed, would greatly help the discussion.

40. The **Managing Director of the Common Fund for Commodities (CFC)** said that in terms of market outlook:

(1) In the short and medium term, real growth in commodity consumption would not be likely in OECD countries, where growth would be modest due to saturation, but rather in the emerging economies of Asia and Latin America in particular, where the prospects were better. This would influence investments and developments in these countries and beyond;

(2) Given the volatility in prices, the role of outsiders to the commodity trade, such as mutual, hedge and pension funds, whether or not holding stocks physically, should be examined in terms of the volatility they added to trade in commodities. There was much speculation in this regard, but relatively little was known in fact. He agreed that at present there was more volatility in the prices of many commodities than before. A key priority for ICBs was to put a finger on the reasons for this, and only then they could succeed in providing objective and transparent information;

(3) The relationship between commodity price moves, as quoted in commodity exchanges, versus the underlying fundamentals for a particular commodity and across commodities needed greater study;

(4) Stocks had to be judged more carefully than ever, and adequate information on stocks and investments was needed more than ever. This transparency could also be provided by international commodity bodies (ICBs). The new situation highlighted the importance of ICBs and showed that commodity investments were compared, by outsiders, to returns on equities and bonds. Against this background, one had to consider that this debate was all about the fundamentals of producer-consumer cooperation;

(5) Structural price declines, together with changes in the policy landscape, including the realization of a free world trade paradigm in the Uruguay Round Agreements and parallel structural adjustment, including privatization, had changed the socio-economic and political landscape in the

1990s. The objectives of the Integrated Programme for Commodities (IPC) were still relevant in a world in which basic commodity exports remained by far the main source of exports and hard currency earnings for many developing countries, and the attainment of its objectives had gained a new sense of urgency, especially after the signing of the Uruguay Round Agreements, and required a new impetus in view of the upcoming UNCTAD IX.

41. For producer-consumer cooperation to be more effective in today's environment, he saw three areas of action which were required: (1) a forum for overall policy dialogue for the sector; (2) a forum for advancing the objectives of each designated commodity or group of commodities; and (3) a forum to mobilize financial resources to assist in addressing the issues and attaining the objectives. All three types of fora existed but needed to be adapted to meet the needs of the next century:

(1) UNCTAD's role as a forum for policy dialogue in the commodity sector needed to be reconfirmed. As already indicated by the Secretary-General of UNCTAD, there was no overlap or duplication with the work of the World Trade Organization (WTO). WTO's main functions were to provide a forum for negotiations on trade issues, to set and administer international trade rules and to settle trade disputes. UNCTAD's role was to consider trade and other issues in relation to development and to draw attention to the forgotten agenda of issues left behind in the Uruguay Round, among them issues relating to commodities;

(2) International commodity agreements and their attendant vehicles, the international commodity bodies, needed to be further strengthened and adapted to the needs of today;

(3) The Common Fund should be further adapted to financial needs in the sector so as to address the central issues in collaboration with ICBs in order to attain the goals of commodity development and the creation of effective commodity markets. UNCTAD had been instrumental in the creation of the Common Fund, which was a unique organization with unique functions and a unique mandate. It was the financial vehicle for funding projects with a commodity focus, and it thus had a role of its own, a mandate which did not overlap or duplicate the work of others. The institution worked with and through ICBs and ensured that cooperation on such matters as commodity development and marketing, as well as diversification of production, cut across boundaries.

42. All these fora, namely UNCTAD as the policy platform, the ICBs as the information and development vehicle for commodities and the Common Fund as the financing vehicle, formed part of the chain that dealt with the future of hundreds of millions of people, an agenda that could not be put aside. What was called for, therefore, was a prospective view of international commodity agreements (ICAs) and of the commodity sector in the light of new global policies and the ever-changing environment of production and trade, as outlined above. If there were claims concerning the need for a new paradigm, the issues of development and of markets, especially in the light of price volatility, should be placed once more at the centre of the sector's policy discussions at UNCTAD IX. On the aspect of commodity development financing, the Common Fund provided a vehicle for carrying policy discussions into project-related activities. On the aspect of commodity markets, the Common Fund's modest contribution might be in supporting ICBs, in ensuring that markets of producing

countries functioned more effectively. Finally, the Common Fund could play a useful role in supporting measures aimed at preparing developing countries' markets for a global free market. This had been foreseen in the Uruguay Round Agreements, though the sources of financing had remained largely unidentified.

II. PRODUCER-CONSUMER COOPERATION

43. Various delegations stressed the importance their countries attached to producer-consumer cooperation. However, the representative of **Bangladesh** felt this cooperation was not effective in tackling price instability for which cooperation among producers was more important. The representative of the United Republic of **Tanzania** thought that producer-consumer cooperation needed to be reactivated and enhanced, and the role of the Common Fund should be enhanced. In the view of the representative of the **Netherlands**, the panellists' presentations gave examples of the large array of cooperation activities which existed between producers and consumers. His country was a member of all international commodity bodies, supported the work of UNCTAD in this area and would continue to do so in the future.

44. The representative of the **International Sugar Organization** felt that producer cooperation alone was not enough and that cooperation between producers and consumers was necessary. The representative of the **International Olive Oil Council** believed that the future of producer-consumer cooperation lay in the maintenance of an equilibrium between commodity supply and demand. Assistance for commodity-producing countries in the promotion of their products was essential in order to make products better known to consumers. He cited the example of olive oil and the research going on in this area to make known the health benefits of the product.

45. The representative of the **International Lead and Zinc Study Group** said that producer-consumer cooperation had been improved by the establishment of the **Common Fund for Commodities** through the discussion of projects which benefited both producers and consumers. The representative of **Indonesia** reaffirmed the importance of having a forum where producer-consumer cooperation could be discussed and related problems solved. UNCTAD was such a forum. The Managing Director of the **Common Fund for Commodities** was of the same opinion.

III. INTERNATIONAL COOPERATION ON COMMODITIES

46. The importance of international cooperation in the area of commodities was generally outlined. The Managing Director of the **Common Fund for Commodities** said that the objectives of the Integrated Programme for Commodities (IPC) were still valid and that three areas of action were needed: (a) fora for advancing the objectives of the IPC and their attainment; (b) reconfirmation of UNCTAD's role in producer-consumer cooperation; and (c) the need to draw attention to issues not taken up in the Uruguay Round negotiations. Also, international commodity agreements should be strengthened. He further added that UNCTAD should be the centre for policy formulation, international commodity bodies being the vehicle for the exchange of information and the Common Fund for project financing. These issues, he believed, should be at the centre of UNCTAD IX.

47. The representative of the **United Republic of Tanzania** stressed the need for a multilateral commodity strategy. Such a strategy should be formulated at UNCTAD IX. The representative of **Indonesia** said that UNCTAD IX should look into formulating a strategy covering cross-commodity issues. The representative of the **International Cocoa Organization** believed each commodity was different and therefore such a strategy should take into account the characteristics of individual commodities. In his view, it was very important to finance projects through the Common Fund and this issue should be considered at UNCTAD IX.

1V. FUNCTIONING OF COMMODITY AGREEMENTS

48. Different views were expressed about international commodity agreements and whether they should include economic provisions or not. While the representative of the **Common Fund** reiterated the fact that the objectives of the IPC were still valid and that stabilisation measures were needed, the representative of the **International Sugar Organization** disagreed with this opinion. He thought that while international cooperation in the area of commodities had a great future, the quality and the kind of cooperation had to change. International commodity bodies were actually going in this direction. What should be sought was not confrontation but cooperation, i.e. not insist on the inclusion of economic clauses in international commodity agreements but work towards soft market interventions. Cooperation did not necessarily mean intervention in markets or the use of a buffer stock. What was needed was increased market transparency through the provision of statistical information and market trends. Promotion of consumption could be achieved through greater research into new end-uses. It was also stressed that promotion of products was best achieved through increased scientific research in order to make a product better known to consumers.

49. The representative of the **International Lead and Zinc Study Group** also believed that international cooperation in the area of commodities was best achieved through producer-consumer cooperation.

50. However, market instability was the centre of concern for a large number of participants. Most speakers pointed to the increased volatility of commodity prices and to the fact that, today, there was less relationship between the fundamentals of the market and the level of prices. In view of the expected volatility of commodity prices in international markets in general for the next five years, as described by the representative of the FAO, the representative of **Bangladesh** said that the commodity sector was neglected and that there was a real need to look at the problems that existed.

51. The representative of the **International Coffee Organization** said that coffee prices today did not generally reflect the fundamentals of the market. In spite of a supply shortage, the price of coffee had not increased as much as it would have done in the past, and this was because of new factors. One of these factors was the role of commodity funds, which had a great influence. However, the blame for the volatility of prices should not be put entirely on commodity funds. Also, at present, there was little or no relationship between futures markets and physical markets, and this new situation might require a new response.

52. On the issue of instability of markets, the representative of the **FAO** argued that ICBs should do more work on trade liberalization problems, as most commodities had specific problems. In this regard, he referred to the case of bananas, which had been discussed both at FAO and in WTO.

53. The representative of the **International Jute Organization** said that the duration of commodity agreements should be increased, as research activities needed longer periods. The International Agreement on Jute was being extended for a two-year period only.

V. COMMON FUND FOR COMMODITIES AND FINANCING OF PROJECTS

54. Recalling the widespread hope among developing countries at the time of the establishment of the Common Fund for Commodities, the representative of the **United Republic of Tanzania** expressed concern that not only had this hope remained largely unfulfilled so far but that there were moves in certain quarters to actually downgrade the capacity of the Fund. To make the Fund fully effective, it should be reshaped to meet current challenges, including those brought about by the implementation of the Uruguay Round and its Agreement on Agriculture. It was important that donor countries continue to keep faith with the Fund, so that developing countries would not be deprived of assistance when undertaking development programmes such as diversification, risk management activities, etc., given that assistance programmes did not always have the financial capacity to undertake projects on commodities, some of which might be of vital importance to the least developed countries. For him, what the Common Fund had intended to achieve in the past, such as stabilization, vertical and horizontal diversification etc., still demanded attention. He also made an appeal to make the Second Account of the Fund more operational and to release resources from the First Account.

55. The representative of the **International Lead and Zinc Study Group** informed participants that the Fund had financed three zinc projects. In particular, the Common Fund had been instrumental in advancing understanding about issues such as improvement of production techniques, diversification, technology transfer, knowledge of risk management and understanding of market instruments, etc. He also suggested that the First Account of the Common Fund be utilised to finance projects like those financed by the Second Account.

56. The representative of the **International Jute Organization** recognized that the Common Fund had funded several projects in the area of jute, along with other international bodies and member countries like the Netherlands, Japan, Switzerland and France. However, a large number of projects still needed financing, since research and development activities on certain commodities like jute lagged behind those of others such as rice because of lack of funds. He appealed to donor countries to cooperate with the Common Fund in co-financing research and development projects on jute, and urged that in future all projects involving assistance in the jute sector be implemented through IJO.

57. The Managing Director of the **Common Fund for Commodities**, responding to a statement made by the representative of the Islamic Republic of Iran calling for the transfer of the capital of the First Account for use by UNCTAD, said that the capital of this account was that subscribed by member countries to be employed for purposes to achieve the objectives of the Common Fund, as described

in the Agreement, and that it was not intended for use in project financing or other activities. This was a function for which the Second Account had been established and in which it had been actively operational. The Fund had approved 35 projects so far, projects which benefited developing countries at large, including the least developed countries.

VI. PARTICIPATION IN MEETINGS AND MEMBERSHIP OF INTERNATIONAL COMMODITY BODIES

58. Broad participation of all producers and consumers in international commodity bodies and in the Common Fund to ensure the satisfactory functioning of these bodies was greatly emphasized. In the case of jute, for example, the representative of the **International Jute Organization** said that, while producer members of the IJO represented 100 per cent of world jute production, consumer members of the organization represented only two-thirds of world consumption. As several important consumers were not members, this represented a real problem.

59. The issue of participation in commodity meetings was raised by various participants. It was generally felt that the involvement of both the Government and the private sector was important. The representative of the **International Sugar Organisation** explained that the involvement of the private sector was essential to get more lively and fruitful discussions and wider support for the work undertaken. He felt that, with increased privatization of state assets, Governments took less interest in discussions because of their lesser involvement in policy formulation. An informed private sector would be able to lobby Governments more effectively to maintain membership and representation in ICBs. ICBs were in a unique position to promote policy dialogue, to mobilize financial resources and technical assistance and launch promotion campaigns to increase consumption.

VII. MAJOR AREAS OF ACTIVITY OF INTERNATIONAL COMMODITY BODIES

60. ICBs were considered the major fora for producer-consumer dialogue and exchange of information. Some of the issues highlighted were as follows:

Increased market transparency: most speakers pointed to the importance of enhancing market transparency as one of the major tasks of international commodity bodies through provision of reliable information on production, trade, stocks and developments in markets at the national and international level;

Technical cooperation activities in such areas as diversification, environmental issues, instability of markets, market instruments and risk management;

Diversification and transfer of technology: the need to diversify was highlighted by most speakers. Examples were given in the case of sugar, where new end-uses were being developed;

Trade liberalization: support for increased trade liberalization was expressed by several participants.

61. On environmental issues, the representative of the **International Lead and Zinc Study Group** thought provision of information to members on developments in this area, such as the Basel Convention, was of paramount importance so that Governments could take action. Commodity organizations were well placed to deal with environmental problems and sustainable development issues.

VIII. AREAS FOR FURTHER ACTION

62. Further action is required in several areas with a view to:

(a) Strengthing UNCTAD as the forum for policy formulation and producer-consumer cooperation and developing a commodity strategy;

(b) Strengthen the capacity of the Common Fund to finance more projects;

(c) Creating a diversification fund for commodities for Africa;

(d) Strengthening technical cooperation activities in areas such as diversification, market instruments, risk management, environment, research and development, and support for trade liberalization;

(e) Promoting new products through increased research and development;

(f) Encouraging participation of LDCs in those international commodity bodies (ICBs) where it is currently low;

(g) Encouraging the participation of all producers and consumers in ICBs.

Annex

LIST OF PAPERS SUBMITTED BY INTERNATIONAL COMMODITY BODIES, FAO AND THE COMMON FUND FOR COMMODITIES

- **The experience of the International Cocoa Organization in promoting producer-consumer cooperation in the field of cocoa**: E. Kouamé, International Cocoa Organization, UNCTAD/COM/Misc.94;

- **Experience in promoting producer/consumer cooperation and implications for the future**: Celsius A. Lodder, International Coffee Organization, UNCTAD/COM/Misc.83;

- **Producer-consumer cooperation**: Valentin Daniels, International Copper Study Group, UNCTAD/COM/Misc.86;

- **Outlook for copper**: Valentin Daniels, International Copper Study Group, UNCTAD/COM/Misc.85;

- **Producer-consumer cooperation in cotton "The History"**: Lawrence Shaw, International Cotton Advisory Committee (ICAC), UNCTAD/COM/Misc.89;

- **A note on the activities and achievements of the International Jute Organization**: K.M. Rabbani, International Jute Organization (IJO), UNCTAD/COM/Misc.84;

- **Producer-consumer cooperation in the International Lead and Zinc Study Group**: Rolf W. Boehnke, International Lead and Zinc Study Group (ILZSG), UNCTAD/COM/Misc.90;

- **L'accord international sur l'huile d'olive et les olives de table**: Fausto Luchetti, International Olive Oil Council (IOOC), UNCTAD/COM/Misc.91;

- **Role of International Natural Rubber Agreement:** Pong Sono, International Natural Rubber Organization, UNCTAD/COM/Misc.82;

- **Future Strategies of the relaunched ISO**: Peter Baron, International Sugar Organisation (ISO), UNCTAD/COM/Misc.80;

- **Review of producer-consumer cooperation in agricultural commodities**: J. Greenfield, FAO (Rome), UNCTAD/COM/Misc.92;

- **The future of producer-consumer co-operation and the experience of the Common Fund for Commodities**: Budi Hartantyo, Common Fund for Commodities, UNCTAD/COM/Misc.81.