



REPORT

SPECIAL EVENT

**50 Years of Research and Policy
Advice on Commodities and
Development: The Role of UNCTAD**

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NOTES

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50 Years of Policy Advice on Commodities and Development: Role of UNCTAD

Report of the event



In June 2014, UNCTAD, as the United Nations' focal point for the integrated treatment of trade and development and the interrelated issues, marks its 50th anniversary. As part of the celebration of this significant milestone, UNCTAD, in collaboration with the Food and Agricultural Organization (FAO) and the Common Fund for Commodities (CFC), organized a special event in the Palais des Nations on Friday April 11, 2014.

Entitled 50 Years of Policy Advice on Commodities and Development: Role of UNCTAD, the event brought together about 70 participants, representing governments, development partners, United Nations institutions, private sector, NGOs, academia, as well as students interested in commodity and development issues.

The symposium was formally opened with a brief background presentation by Mr. Samuel Gayi, Head of UNCTAD Special Unit on Commodities; and a keynote address by Mr. Remigi Winzap, Swiss Ambassador to the World Trade Organization and the European Free Trade Area (EFTA). Mr. Winzap reiterated the commitment of Switzerland as a founding member of UNCTAD to continue its support for the commendable work of the organization.

The three retired senior managers: Mr. Mehmet Arda, Former Head, Commodity Branch in UNCTAD, Ms. Paola Fortucci, Former Director, Commodity and Trade Division in FAO and Mr. Rolf Boehnke, Former Managing Director, CFC, respectively set the tone for the discussion with presentations that shared their institutional memory, highlighted some important commodity policies advanced by UNCTAD and

discussed the emerging challenges and opportunities facing commodity-dependent developing countries (CDDCs)¹. The active and enthusiastic participation of the audience also contributed to the discussions and the ideas on the way forward.

DISCUSSION HIGHLIGHTS

The theme of the symposium was discussed in three segments. The first examined the spirit of early negotiations on commodities and the evolution of the UNCTAD approach within the framework of the integrated programme on commodities. The second segment examined the role of UNCTAD in addressing the commodity problematique of the day while the third segment posed questions as to propriety and relevance of the questions that are being asked about commodity issues today.

The integrated programme for commodities, the spirit of early negotiations and the evolution of UNCTAD's approach

The commodities debate in the global economy as well as the changing landscape and institutional arrangements that have accommodated the commodities debate were reviewed from a historical perspective.

For instance, in the decades of the 1960s and 1970s, the New International Economic Order and market intervention were cited as examples of global

¹ See biographies in Annex.

governance. The oil crisis of 1973 and the rising power of OPEC as a cartel and the global panic that resulted from these events favored joint interventionist approaches by producers and consumers. UNCTAD's research activities at the time focused on price issues but also sought to direct attention towards the wider development issues surrounding commodities. At the time of UNCTAD IV in 1976, the range of topics covered and recommendations made in the Conference publications included remunerative and equitable price stabilization, diversification and improvement of productive capacities, processing, marketing and distribution strategies, synthetics and other substitutes for natural commodities, and strategies for commodity financing, with specific recommendation for the establishment of the Common Fund for Commodities (CFC).

The latter part of the 1980s was a period characterized by declining commodity prices. The debt crisis of the 1980s did not augur well for the solidarity among developing commodity exporters. The possibility of commodity producers coming together to form cartels disappeared, and with that came the end of any interest by commodity consuming countries in joint action to manage prices in International Commodity Agreements. The emphasis shifted to market orientation and neo-liberalism with study groups emerging that put emphasis on transparency especially in the case of metals. Within UNCTAD secretariat, there was a lively debate that pitted the desirability of development-oriented approaches against the exclusive concern with price stabilization. Developing country delegations were adamantly in favour of the latter. UNCTAD secretariat seemed to be considerably ahead of the thinking of some country delegates on issues of commodities and development.

The 1990s were the decade of partnership where emphasis was shifting from a top-down state policy centered approach to the involvement of many partners in the "New Partnership for Development." This also applied to the commodities sector. Within this context, the UNCTAD secretariat was freer than before to do pioneering work on a variety of issues. UNCTAD was probably the first international organization to work on the concept of "commodity value chains". The differentiation of high value dynamic products such as organics also became topics for dialogue among producers and consumers. UNCTAD was also in the forefront of work on the environmental impact of the commodity sector, renewable energy and the internalization of environmental costs. Some terms such as "environmentally preferable products" were first coined in UNCTAD's documents on commodities.

In the second decade of the 21st century, not much is new, but much is different. Prices are still important. Markets have become integrated, products differentiated. The actors have become less well defined. There are new financial techniques that are being used in the international market place with resultant complications. Issues such as climate change have been moved to the front burner and should be considered in the commodities equation. Not to be left out are issues of transparency and good governance. Finally, there is the issue of new players, such as China, whose entry as a full player in the global commodities arena has indeed become a game changer in more ways than one.

Commodity markets are subject to shocks that may be attributed to environmental and other complicated factors. In the 1960s commodities took centre stage in international trade negotiations because of the entry of many newly independent countries from Africa into international trade. These countries depended entirely on commodities for their economic development. Institutions like UNCTAD and the FAO got the mandate from the international community to address the needs created by this unprecedented situation. After the various phases of the evolution of commodity issues, we are now faced with a new transactional environment where technological change is the driving force for trade among developed countries. This poses a new danger of marginalization of developing countries in this global knowledge driven environment.

The impact of UNCTAD's work on the commodity problematique of the day

UNCTAD has been a driving force for innovation and for some of the most important policy thrusts on commodities since its founding in 1964 specifically because of its ability to anchor its work in the political process and stimulate policy makers to engage in vivid and passionate discussions that led to consensus measures.

Over the past 50 years, the main issues of commodity policy and debate have not really changed. Price volatility, declining returns, unfair competition, barriers to market access, difficulties for export diversification and value addition have persisted as the main issues dominating the commodity debate. However, the context and perceptions around them have taken on new dimensions.

For instance in the late 1940s, commodity issues were discussed among high-income countries dealing with the shortages experienced in the aftermath of the World War II. The gradual easing of

these shortages and the rise of surpluses of many agricultural commodities in much of the high-income world beginning in the 50s and extending to the 70s was accompanied by an increase in international market volatility. In the 1950s and 1960s, upwards of 60 countries in Africa, the Caribbean and the Far East gained their independence and became important players in the international commodities trade. There was an enhanced need for dialogue among producers and consumers.



There were varying responses from international organizations to this need, and UNCTAD played a key role in promoting and facilitating negotiations that brought about actionable decisions aimed at stabilizing markets. In FAO, efforts were intensified to generate reliable commodity market information to better understand the factors impacting on price, particularly research on possible approaches to stabilization.

Clearly the most significant development that had a great impact on commodity markets was the impetus given by UNCTAD to the negotiation or renegotiation of international agreements with economic provisions, particularly for many raw materials and tropical products, considered of utmost importance to the newly independent countries. The success of negotiations resulted in the establishment of formal agreement for natural rubber, and the extension of the existing agreements for coffee, cocoa, sugar and wheat among agricultural commodities.

From 1976 onwards UNCTAD's Integrated Programme for Commodities (IPC) was a major factor impacting on commodity policy discussions. However, during the seventies, a gradual withdrawal of governments from direct market intervention coinciding with disappointment in efforts to negotiate or renegotiate international commodity agreements, led to increased reliance on the efficiency of markets to resolve supply and price problems. Major impetus was consequently given to efforts to improve market transparency, strengthen information systems, and

undertake analysis of longer-term market prospects to improve the functioning of markets.

The Common Fund for Commodities (CFC) negotiated in UNCTAD under the IPC aimed through its Second Account at improving commodity markets and strengthening the capacity of developing countries and small farmers to participate in trade. This would be achieved through the implementation of research and development projects among other measures. The entry into force of the Common Fund for Commodities in 1989 generated a great deal of excitement among commodity producers and was perceived as a catalytic measure to overcome constraints in the development of commodity sectors of particular interest to developing countries.

The outstanding examples of inter-agency collaboration that have taken place between UNCTAD and FAO as well as the co-operation with other agencies such as the World Bank, IFAD, OECD, WTO and the IMF among others are commendable. Governments and the stakeholders in the developing and less developed countries should avail themselves of the large body of historical and expert knowledge that has been generated and is available freely to empower themselves for taking the necessary action to effectively utilize their commodities for national development. National governments as well as other stakeholders in the developing world also need to align themselves with positive inter-agency initiatives that are being developed for more inclusive policies and actions to address current and future challenges.

The commodity problematique in today's economic and political setting: are we still asking the right questions?

In discussing the solutions to persistent problems of the commodity economies, an integrated approach to development policy was advocated. This means that development measures should be coordinated and simultaneously implemented to increase their overall effectiveness. This also entailed openness and the willingness to try new ideas and to experiment with different development instruments.

Some of the integral components of this approach are research and development, increasing productivity, capital accumulation, diversification, product differentiation, the creation of value addition, good marketing based on knowledge of markets, market connections and value chains as well as risk management. The activities of the Common Fund for Commodities (CFC) cover all these areas. Other agencies, in particular UNCTAD and FAO, are also very active in these domains. These supporting

measures have yielded results over the last 50 years for a number of commodity-dependent developing countries.

The concentration on price volatility has distracted from the broader picture. Price volatility is only one of the factors affecting the growth prospects of countries which are predominantly dependent on commodities for their export earnings and per capita income. Other factors probably have more decisive influence than price volatility and these factors can be summarized under general barriers to development. To advance the socio-economic development of all CDDCs, there is a need to address these general barriers.

There are examples from the past and present to show that some formerly commodity-dependent countries have evolved into industrial power houses (e.g. United States, Australia, Malaysia); and even presently, there are CDDCs that are achieving impressive growth from their commodity-based economies (e.g. Angola, Ethiopia, Uganda).

Seven main elements of a process that CDDCs can follow to transform their economies, with the caution that it is not an easy undertaking have been identified as follows:

1. Accumulate capital;
2. Increase productivity;
3. Develop home and export markets;
4. Join value chains;
5. Go into further processing and value addition;
6. Diversify into other commodities and products; and
7. Attract foreign direct investment and through it skills and technology.

In some of the CDDCs the measures described above could not be successfully applied mainly due to internal and external barriers to development that include but are not limited to the following:

1. Low levels of education and skills;
2. Lack of entrepreneurs;
3. Absent or weak financial institutions;
4. Market protection and subsidies in customer countries;
5. Lack of public investment in infrastructure;
6. Weak government institutions;
7. Corruption, lack of good governance and lack of the rule of law;
8. Unsuitable exchange rate regimes; and

9. A multilateral trade regime that does not easily accommodate the developmental interests of CDDCs.

It is acknowledged that there is no simple solution to the problems of international commodity trade and development, which are multifaceted; just as there is a great variety in the circumstances of the individual CDDCs. There can therefore be no one-size-fits-all prescription. For a number of countries measures like productivity improvements, diversification, joining value chains etc. have worked. Some other countries, however, have remained in their commodity dependent state with low growth levels. For these latter countries policy makers and stakeholders should concentrate on overcoming the more basic barriers to development. The aim of all these efforts is to raise the income of CDDCs and transform their economies so that they become full beneficiaries of the global trading system.



CONCLUSIONS AND RECOMMENDATIONS

In responding to the questions raised, the panelists and some participating experts in their closing comments proposed that UNCTAD and its partners as well as member countries and particularly the CDDCs consider:

1. The identification and examination of the general barriers to development and the formulation of strategies for dealing with them;
2. Applying differentiated approaches that are tailored to the specific conditions of the CDDCs in addressing their development needs;
3. The inclusion of commodities as a poverty reduction tool for inclusion and prioritization in the post-2015 agenda;

4. Recognizing the role of small and medium enterprises (SMEs) as the drivers of national economies and finding ways of engaging effectively with them in commodities value chains;
5. Recognizing the social structure and holistic development implications of agricultural transformation, especially providing support to smallholder agricultural operators who are at the center of agricultural productivity and sustainability in developing countries;
6. Taking a more integrated approach to the analysis of commodity problematique so as to avoid contradictions in strategy and overemphasis on questions which might lead to fallacious answers;
7. Country representatives ensuring that their governments and other stakeholders in their capitals and relevant national bodies are adequately briefed and connected with appropriate information to enable them to participate more knowledgeably and effectively in the global economy;
8. Governments of CDDCs should use and facilitate the usage of the vast knowledge base that is available with the agencies to improve their capacities for informed decision making and effective participation in the global economy;
9. The documentation and rolling out of success stories, particularly from countries that have transformed their economies from being commodity-dependent to value creators and industrial powerhouses, for sharing with those still with CDDC status;
10. Taking advantage of one of the mandates of the CFC, which is the sharing of knowledge and best practices to ensure the diffusion of available knowledge and expertise among the CDDCs;
11. Adoption and adaptation as necessary part of the integrated economic transformation process as a template for breaking out of the CDDC poverty trap.

Annex: Agenda and Biographies

Welcoming remarks

Mr. Samuel K. Gayi, Head, Special Unit on Commodities, UNCTAD

His Excellency Mr. Remigi Winzap, Ambassador and Permanent Representative of the Permanent Mission of Switzerland to the WTO and EFTA in Geneva

Lead discussants

Mr. Mehmet Arda, Former Head of the Commodity Branch in UNCTAD

Mr. Rolf Boehnke, Former Managing Director of the Common Fund for Commodities

Ms. Paola Fortucci, Former Director of the Commodity and Trade Division in FAO

Moderator

Mr. Thomas Lines, International Consultant

Report Writer

Mr. Atsen Ahua, Journalist, Expert in Communication for Development

Mr. Mehmet Arda, Former Head, Commodity Branch in UNCTAD



Mehmet Arda is adjunct professor at Koc University, Istanbul, and is also active at the Centre for Economics and Foreign Policy Studies, the Global Relations Forum and the Economic Research Centre of Galatasaray University where he was a professor until his retirement in mid-2013. Before returning to Turkey in 2007, he was Head of the Commodities Branch of UNCTAD, where he worked for 25 years. He has been an occasional advisor to the Turkish Ministry of Foreign Affairs, the Turkish Cooperation and Coordination Agency and consultant to the United Nations. He is one of the founders of SenDeGel, a Turkish civil society organization assisting least developed countries. He holds a BA from Dartmouth College, and a PhD from the University of California, Berkeley. His interest in commodity issues continues, and his current research focuses on the governance of globalization and the process of development in a globalized world; multilateral and regional trade agreements; least developed countries; South–South economic relations; and international value chains.

Mr. Rolf Boehnke, Former Managing Director, Common Fund for Commodities



During the meetings and negotiations of UNCTAD's Integrated Programme for Commodities in the 1970s, Mr. Boehnke was an active participant as German delegate, working with the German Federal Ministry of Economics. He was assigned as diplomat to the German Permanent Missions to the United Nations in Geneva and New York and the German Embassy in London. He was elected Secretary General of the International Lead and Zinc Study Group in 1984, which formed the model for similar study groups established under the auspices of UNCTAD. In 1996, he was elected Managing Director and Chair of the Executive Board of the Common Fund for Commodities (CFC), where he served the maximum two terms until 2004. He was responsible for the first and second Five-Year Action Plans of CFC, extended the scope of the CFC-financed projects and strived to make the workings of the organization more efficient. In recent years he has been engaged as project leader, team leader and consultant in the Balkans, the Caucasus, the Middle East, Asia and South America. He teaches theories of international economics at the European Business School in Mainz, Germany. He obtained a PhD in economics and an MA in economics and law from Freie Universität Berlin, and a master's in public administration from Harvard University.



Ms. Paola Fortucci, Former Director, Commodity and Trade Division in FAO

Paola Fortucci spent most of her professional life working on agricultural commodities. Her experience spans many of the post-World War II developments in thinking about how to deal with the problems affecting markets and their impacts on producing and consuming countries.

Following studies in international relations at George Washington University and at the American University of Washington, D.C., and at the Johns Hopkins School of Advanced International Studies of Bologna, she joined the Commodities Division of the Food and Agriculture Organization in Rome in the mid-1960s. Over the years she gradually occupied positions of increasing responsibility, and in 2000 she was appointed as Director of the Commodities and Trade Division.

Following retirement from FAO, Ms. Fortucci has continued to maintain an active interest in commodities. She has undertaken missions to Africa and to Haiti and is President of a non-profit company, Federal Solidarity Organization, whose mission is to support efforts to enhance the performance of the commodity sectors of developing countries.



Mr. Thomas Lines, International Consultant

Mr. Thomas Lines has followed the commodity markets for more than 35 years, first as a journalist, then as a lecturer at Edinburgh University, and more recently as a consultant for the United Nations and non-governmental organizations. Since 2008, he has examined the relationship between world food prices and food security in particular. His book, *Making Poverty: A History*, was published by Zed Books in 2008.



Mr. Atsen Ahua, Journalist, Expert in Economic Development

Mr. Atsen Jonathan Ahua has wide and in-depth experience in mass media and management at local, national, regional and international levels. He is a journalist, radio and TV broadcaster, manager and consultant. He has provided consultancy services to national, inter-governmental, non-governmental, and international organizations in the cultural and communication sectors. He graduated in mass communication from the University of Lagos 1976 and holds an MBA of the United States International University obtained in 1994. Mr. Ahua is currently editor of *Africa Link* magazine and has a special interest in communication for development.



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