COMMON FUND FOR COMMODITIES

COMMODITIES AND THEIR COMMON FUND

March 2011

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1. Introduction

Commodities have seen the spotlights turned on them again. Some thirty years after the enormous price rises in the 1970s, commodity prices soared again. In that era, these rises, and the volatility of the prices, led the global community to strive toward a 'New International Order' in which the fluctuations would be dampened by interventions of commodity organizations. CFC emerged from this initiative.

Now that prices show a similar pattern, there is no call for a 'new order', but a dampening of the fluctuations, notably that of food prices is sought after. Direct interventions, which have been tried for some commodities in the years sine the 1970s, are no longer considered a viable option. Alternatives are not to mitigate the fluctuations, but to reduce the impact they have on the lives of poor producers and consumers, through insurance mechanisms, 'controlled' price transmission and by stimulating diversification. In fact, this is how the poorest farmers survive: their food crops are grown for subsistence mainly, the local food markets are hardly connected to the world market, their livelihoods combine crops with livestock and a score of off-farm activities and remittances, so they can cope with adverse weather conditions.

An important reason in the 1970s for focusing on commodities was their relevance for poor countries. Almost all developing countries were 'commodity dependent' and (non-food) commodity policy was tantamount to export policy of many countries. This has now changed. While there are still many CDDCs, addressing commodities does no longer target these countries well. Commodity policy would affect exports of many non-CDDC countries and would therefore be an ill-targeted instrument to reach the CDDCs.

Commodities in the 1970s were typically exported from developing countries to developed countries. While this is still the case for some commodities, the major part of the nonfuel primary commodities that are exported from developing countries is not destined to developed countries. In particular, China emerged as an important destination. Hence, trade policy of OECD countries now matters less for these commodities than it did at that time.

While the 'New world Order' of the 1970s had much to say about the role of the states, and a few things on the role of private enterprise, there is now much more focus on the role of the latter party. They have become much better organised, and have been able to organize the international commodity chains much better. A part in the chain that remains rather unorganized is the part from producers to export. They are also under increasing pressure by civil society groups to be more accountable for the outcomes of their activities for the producers. And in the financial world, private investment funds are held responsible for part of the fluctuations of commodity prices.

At the same time, overall economic growth in developing countries is encouraging. Macroeconomic conditions are much better than they were 30 years ago. These are good times to make a transition from commodity dependence to a more diversified export pattern.

The spotlight on commodities also calls into question what the international community does in this field. Major organisations, such as FAO, UNCTAD and the international Commodity Bodies, have been recently evaluated. CFC is also under review.

In this contribution, we highlight some of the changes that distinguish the present commodity landscape from what it was some decades (or even some years) ago. We then indicate the need for intergovernmental commodity organizations, and the roles that governments, private sector and the civil society groups can play. Next, in section 4, we discuss the present constellation of the ICBs and more general organizations. In section 5 we discuss in more detail the relationship between ICBs and CFC. In section 6 we discuss the scope for activities by CFC in view of its objectives and in section 7 we conclude.

2. Commodities in a Global Context; What has changed?

We sketch below features of the present commodity market which pose new challenges for CFC and other commodity organizations. The features are considered 'new' in the sense that they did not (so much) apply when the mandates for the organizations were established.

2.1 Changing importance at macro level?

An important change over the last decades is the drastic reduction of the share of commodities in the export value of the original group of countries. Comparing the end of the nineties with the end of the 1960s, Bonaglia and Fokasaku (2003) showed that the median export share of primary commodities had fallen from over 97% to 73%. This applies in particular to Asia, where the share fell from 86% to a mere 14%, to Middle East and North Africa (median share down to 44%), and less so for Latin America (62%) and not at all for Africa (92%).

But if we exclude fuel exports, the picture is different. We illustrate this for a comparison of 1995 and 2009, the most recent available in UNCTAD's Handbook of statistics 2010.

Table 1 primary commodities as shares of total exports, imports

		food	ag raw material	ores metals	fuel	sum ex fuel	sum inc fuel	share ex ex
Africa								
Exports	1995	14.3	5.3	12.7	39.3	**32.3**	**71.6**	53.2
	2009	9.5	2.2	12.0	57.6	**23.7**	**81.3**	55.9
Imports	1995	17.9	3.0	2.7	6.8	**23.6**	**30.4**	25.3
	2009	13.9	1.5	2.9	13.3	**18.3**	**31.6**	21.1
developing America								
Exports	1995	22.3	3.7	10.3	14.1	**36.3**	**50.4**	42.3
	2009	20.9	2.1	13.5	18.1	**36.5**	**54.6**	44.6
Imports	1995	9.6	2.3	2.5	6.9	**14.4**	**21.3**	15.5
	2009	8.8	1.2	2.1	11.5	**12.1**	**23.6**	13.7
developing Asia								
Exports	1995	6.7	2.2	3.2	12.9	**12.1**	**25.0**	13.9
	2009	4.6	0.9	4.4	17.1	**9.9**	**27.0**	11.9
Imports	1995	6.8	3.2	5.8	6.6	**15.8**	**22.4**	16.9
	2009	6.0	1.8	9.1	15.0	**16.9**	**31.9**	19.9

Source UNCTAD Handbook of statistics 2010 Table 2.2

Comparing 1995 and 2009, we see that Africa saw its export dependence on nonfuel primary exports fall from 32.3 to 23.7 per cent. Including fuel Africa is as dependent on primary commodity exports in 2009 as it was in 1995, but excluding fuel, this no longer appears to be so. Yet, excluding fuel from both numerator and denominator, we see in the column headed 'share ex ex' that nonfuel primary commodity exports from Africa make up a stable percentage (around 55) of all nonfuel exports. For other continents, this figure is lower: developing America scores 43 per cent and developing Asia around 13 per cent.

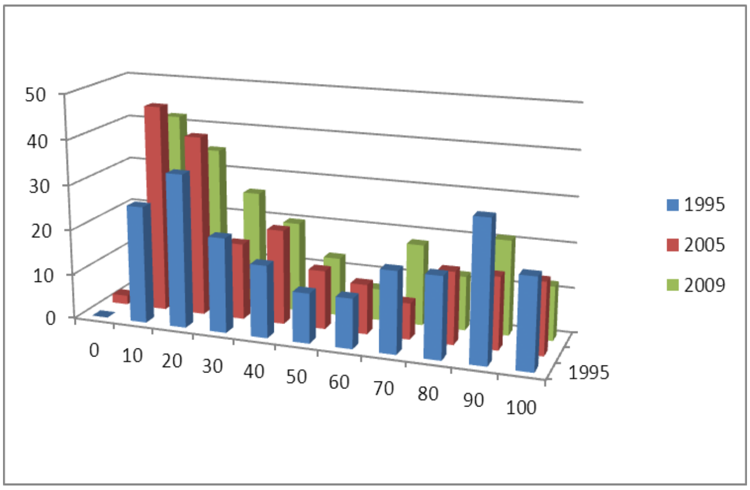


Fig 1 Frequency of countries by share of nonfuel primary commodity exports
Source UNCTAD, Handbook of statistics, 2010, table 2.2

There is a remarkable lack of countries with medium shares, as shown in Figure 1. Comparing the frequencies in 1995 with those in recent years, we see a decrease in number of countries with high shares and an increase in countries with low shares. The increase in higher shares between 2005 and 2009 can be ascribed to the much higher prices for these commodities in the more recent year. Many of the high-share countries are in Africa (countries with share of more than 80 per cent: 23 out of 51 in 1995; 14 out 33 in 2009). Latin America is second with 11 and 9 such countries; Asia had 9 and 2 countries in these two years.

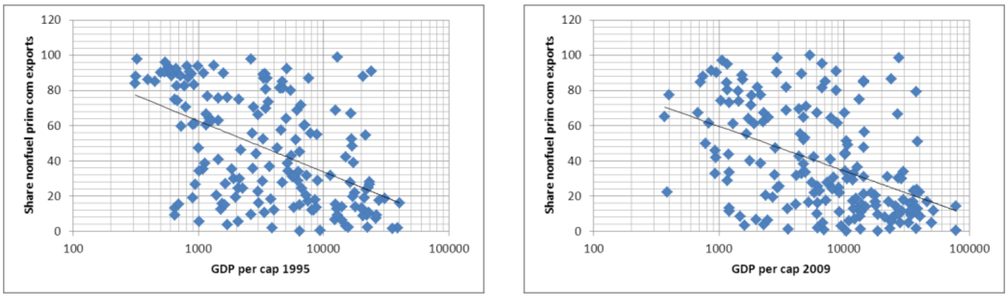


Figure 2 Shares of nonfuel primary commodity exports by per capita GDP, 1995 (left) and 2009 (right)
Sources: shares taken from UNCTAD, Handbook of Statistics, 2010; income data from IMF Economic Outlook, 2010

Ranked by per capita incomes, the share shows some relationship with this indicator but with considerable variation. Figure 2 shows the graphs for 1995 and 2009, both with GDP per capita (at ppp) on the horizontal axis and share nonfuel primary commodity exports on the vertical axis, both for the corresponding year. The regression lines through the two graphs are almost the same, and the dispersion remains high.

A dynamic analysis relating the change in export shares to the change in per capita GDP shows no significant relationship. The share of nonfuel primary commodities continues, therefore, to be a mediocre indicator of level of development. Most poor countries have high shares, and most rich countries have low shares but there is no clear causal relationship. This indicates that more things matter than just primary export shares: candidates are institutional quality, productivity and resilience.

Annex A shows the shares of various groups of commodities in the exports of Upper Middle income countries, lower middle income countries and low income countries as distinguished in the World Development Indicators of the World Bank. While the former two groups show a striking progress toward more manufactured goods exports, this process halted for the low income countries somewhere in the 1980s. Unlike the first two groups, the low-income countries have no fuel exports to sustain their foreign earnings.

While primary commodities may remain important as single export commodities in a number of countries, the converse is no longer true: there is hardly a single commodities that constitute such a foreign exchange earner for these countries. In Gibbon's (2006: p.9) analysis of export shares of CDDC by commodity, there is only one commodity, cocoa, of which more than 50% is exported by this group of CDDCs. Cocoa's share is 70.6% in 2003-05 while the next highest are tea with 20.5% and coffee with 20.1%. (In 1993-95 bananas was in this list too.) This implies that, apart from cocoa, commodity policy is not tantamount to CDDC policy.

A conclusion of this section on the importance of commodities at the macro level is therefore that only little change can be seen in the importance of the commodities for exports of developing countries. The long-term decrease in share of primary commodity exports that Bonaglia and Fokasaku noted for Asia and Latin America between late 60s and late 90s is not continued in the recent decade. Africa's share, which remained stable in their analysis did so for reason of fuel exports. The share of nonfuel exports has likely declined over the longer term, but again this has not continued in the recent decade. By 2009, less countries were highly dependent on nonfuel commodity exports than in 1995, but many continue to do so. Yet, only cocoa is a commodity that is largely exported by these CDDCs. Other commodities are mostly exported by better diversified or richer countries.

2.2 Change of views on direct intervention

In the 1970s, intervention in global markets by intergovernmental organisations were looked at favourably, as shown by the UNCTAD IV conference in Nairobi in 1976, where the idea of an Integrated Program on Commodities was accepted. This idea is now almost fully abandoned. This had various reasons. Herrmann, Burger and Smit (1993) looked back on the decades before. They provide evidence on the stabilization offered by commodity agreement with intervention and show such agreements not to have led to reduced price variation. In considering three major intervention agreements, for coffee (with export restrictions) and for cocoa and rubber (with buffer stocking arrangements) they calculated their effects on price stability and the economic transfers between producers and consumers involved. They show that the coffee and cocoa agreements did not diminish price variation but led to transfers of consuming countries to producing countries. These transfers appeared unrelated to the poverty levels of these countries. The natural rubber agreement of INRA did stabilize prices, but involved transfers to consuming countries. Their analysis shows this 'success' to be fortuitous, however, as it was quite unforeseen at the start.

Apart from this evidence and their negative conclusions about the performance of earlier interventions in commodity markets, they elaborated on the changes in the theoretical arguments in favour of intervention. Until the mid-1970s, the accepted view, based on a framework developed by Waugh, Oi and Massell, was that interventions through a buffer stock mechanism could enhance welfare. Beneficiaries of such interventions could be producers, but also consumers only, depending on the source of the shocks. By the end of the 1970s this analysis was challenged, and subsequent research showed that important elements were omitted in this framework. Herrmann et al. list nine reasons why the framework was defective, including costs of stocks, their effects on private stockholding, expectations formation, non-linearities and macro effects. The book by Newbery and Stiglitz (1981) had a strong influence on the scientific community. They show – in a microeconomic setting - that stabilization by buffer stocking cannot normally be done without transfers (which means some stakeholders are bound to lose) and that any benefits from stabilization through buffer stocks are likely to be small.

Other forms of stabilization were investigated too. EU's STABEX programme and IMF's Compensatory Financing Facility aimed at compensating governments for any downfall in the country's export earnings. As Herrmann et al. showed, it was too difficult for the administrators of such programmes to disburse the compensation rapidly enough to effectuate any stabilization of export earnings.

Surveys of countries, distinguished by whether or not their producers were shielded from world market price movements, generally showed that the 'free market' countries were better off. That is, when judged by their economic performance a few years after. An important contribution in this field came from Bevan, Collier and Gunning (1989) who investigated the effects of trade shocks, and those due to coffee prices in particular. Their comparison of Tanzania and Kenya showed how the transmission of the booming prices to the private sector (as was the case in Kenya) led to reasonable economic responses by the private sector, but not by the government. In Tanzania the government appropriated the extra revenues with even less efficient outcomes. How revenues are handled by the governments thus became an important element in the evaluation of stabilization programmes and given the general weakness of governments in this aspect, Bevan et al. concluded that private sectors, including small producers, are better in handling shocks than governments.

The shift away from (inter)governmental interventions fitted well with the overall political tendency to reduce the role of government and provide more room for private enterprise that characterized many Western countries in the 1980, and particularly the UK and the USA.

More recent work of Collier and others emphasized the sizeable macro consequences of trade shocks, such as those due to large price changes. Thus, while Newbery & Stiglitz were right in showing that price stabilization does not have substantial micro-economic benefits in a partial equilibrium framework, the consequences for the wider economy can still be substantial and offer a potential ground for price stabilization. Collier and Dehn (2001) estimate the second-round effects of a negative price shock to be twice the size of the original shock. That is, while farmers suffer directly, their reduced expenditures (combined with price rigidities) lead to even stronger effects on the local economy. Preventing such second-round effects could make a good case for international aid. This is what STABEX could have achieved too, but the correct handling of such aid flows requires a good functioning government. In the absence of such quality, STABEX introduced conditions and control on how the money was spent which targeted the commodity sector more narrowly, and delayed the spending; these two elements precluded the desirable mitigation of the second-round effects of the original shock (Collier, 2002).

An important point made by Mitra and Boussard (2008) is the distinction of 'endogenous instability' which is typically characterizing food products. It refers to the process that links production and consumption decisions and market prices. In agriculture, farmers make decisions based on limited information; in addition, after the harvest, a price is established in negotiations of and with traders with no more than an expectation of the demand; consumption and stocks respond later, causing prices to adjust. This feeds a new round of supply, price formation, consumption and stock changes. There is inherent uncertainty in this process causing instability of prices that cannot objectively be attributed to shocks of supply or demand, but is due to non-measurable aspects like information, expectations and households' and traders' strategies. Mitigating this cause of instability requires measures that are quite different from market intervention. They would typically rely more on market information systems, training of farmers and traders in interpreting this information and the presence of risk mitigating instruments.

The conclusion of this section on intervention is that there are good theoretical and historical reasons for no longer aiming at direct interventions in the market through coordinated restrictions on trade or buffer stocking. It also leads to aspects of variability that require different approaches: mitigation of second-round (macro) effects of price changes and addressing 'endogenous instability'.

2.3 Value chain approaches

This section is based on Burger, Daviron and Alby-Flores (2007). They argue as follows. The aim of the original commodity agreements was to guarantee coordination between national trade policies. The sovereignty principle was strictly respected. What was happening within the countries was not part of the mandate of commodity bodies. They were dealing with export prices, import and export volume. Today it is has become common to enlarge the object of international cooperation from trade to value chain, i.e. encompassing all links from the farmer to the consumer.

The UNCTAD Resolution 93(IV) of 1976 that contained the plan for an Integrated Plan for Commodities, mentions 'market structures in international trade in commodities'. These were indeed the main focus of the arrangements and agreements. With the inclusion of new issues in the Uruguay Round, like trade in services and intellectual property rights, says Sylvia Ostry (2000), came requirements on trade that not just referred to border regulation (like tariffs, taxes) but also to domestic regulation. The new Technical Barriers to Trade (TBTs) refer to domestic procedures and laws, that used to be in the domestic, national sphere only. This change coincides with two other redirections of economic policy throughout the world: the deregulation of the economy in many countries, combined with increasing regulation of social standards, relating to labour, environment, health etc. And secondly the rise in dispute settlements by the WTO, that led to more concrete interpretation of the WTO rules with consequences for domestic regulations. These changes infringed on what used to be sovereign domains of individual countries (Ostry, 2000:11).

The greater attention for social standards of commodities also led to the emergence of private standard setting, some by specialized trading organisations (e.g. Fair Trade), some by large groups of retailers (e.g. Eurepgap) or manufacturers (e.g. 4C in coffee). These standards oblige producers and other actors in the supply to adhere to certain practices in order for their products to qualify for sale to the (rich country) consumer. But the imposition of labour and other standards was not limited to labelled products only, there is a tendency to impose these standards on all products.

Traditionally, the international commodity policy focussed on the part of the supply chain from export to import. The inclusion of 'new issues' in the international economic relations implies that the relevant part of the supply chain now extends from producers (and their employees) to consumers. Figure 3 sketches this change. Commodity policy can no longer deal only with what happens between the ports of export and import, it needs to deal with production conditions, transport and processing conditions, international trade (as before), requirements of retailers and processors on the consuming end, and the consumers themselves (their health for example).

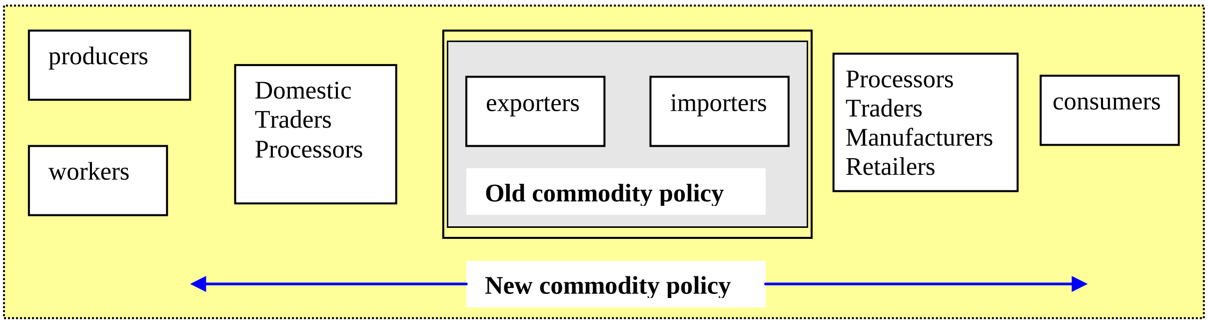


Figure 3. Increasing domain of commodity policy.

The authorities involved with the old commodity policy were the states, that set the export taxes and import tariffs, and other restrictions on trade. Private sector was involved only to the extent it actually traded the commodities. The new commodity policies are not just determined by the governments. In many markets, the traditional trade instruments are no longer used, but so much the more are standards introduced pertaining to product quality and to production, processing and handling conditions.

These new aspects of commodity trade affect the need for international trade policy coordination. The traditional reasons for international trade policy coordination are the benefits that arise from free trade, and indirect benefits in terms of security that trade and other international relations bring about. Actual negotiations, however, are less concerned with free trade per se and more with an exchange of market access: if country lowers its tariffs for country B’s products, the latter is willing to open its market more for A. In pursuing their own welfare, countries have reasons to impose trade barriers, if these bring about terms-of-trade gains (Bagwell and Staiger, 2002). Another reason for international agreements on trade is that by committing a country to an agreement, the government is less prone to political economy pressures by lobby groups. The existence of the latter typically can lead to tariffs that are even higher than the optimal tariffs that generated the terms-of-trade gains (c.f. WTO, 2007). The shifting of emphasis from tariffs to technical barriers to trade came along with a stronger influence of the private sector, as formulating such requirements called upon more intimate knowledge of the technologies involved in shipping, processing and storing commodities.

A third reason for policy coordination in the field of commodities relevant for developing countries, is the development motive. The policy goal of an individual country to assist (some) developing countries, can be reached more easily if other developed countries would follow the same approach. Aligning between them the trade instruments, and standards and other measures along the respective supply chains, would serve this goal. The development goal, as well as the traditional goal of favourable terms-of-trade, would also be served by measures that reduce distortions in the markets for these commodities, including monopolistic behaviour. The new dimensions of commodities (provenance, social and other qualities attached to the goods) widens the scope for monopolistic niches and thus enhances the need for policy and its international coordination.

This reorientation of the commodity supply chains has also important consequences for the way in which international collaboration can be promoted.

First of all, more links of the chain are party to this collaboration. They should not just include the traditional stakeholders exporters and importers and international traders, but also those further upstream and downstream. Domestic traders and processors must be included, in both producing and consuming countries. Producers and their organizations, and, where applicable their workers (unions) and input suppliers should participate. Downstream, an increasingly important role is reserved for the retailers. The large retail chains in USA and Europe now can structure their supply chains to their own liking, rather than relying on the market to do this for them. The introduction of private standards, or joint standards such as Eurepgap is testimony to the power of this group. Consumers are voicing their preferences as to social standards more and more loudly and perhaps more in their capacity as civil society member than as ‘consumer’.

In addition to the private sector and civil society stakeholders, governments must participate. They must come in not only in their capacity as trade-law makers and enforcers, but also as those responsible for the institutional environment that should facilitate trade in the new conditions. This requires not just input from Trade Departments, but also from Justice, Health, Industry, Agriculture, etc.

Not all links of the chain can be included in the discussion as easily as, say, the multinational enterprises. Producers in developing countries often lack representational organisations, that are strong enough to voice their views in international forums. The same holds for the other end of the chain: consumers are not particularly strongly organised. While traders and processors on the consuming side have now well established internationally operating representational organisations, this applies to a lesser degree to their counterparts in the producing countries. Governments, as representatives of their countries’ inhabitants should recognize this and in particular heed the interests of those that are not by themselves adequately represented in the international arena.

The conclusion of this section is that the commodity community includes more stakeholders than before. The domain should stretch from producer to consumer, including the domestic legs. And that the role of the government in this has changed. Whereas in the past governments were the main actors in the international arena, multinational enterprises and associations now give a clear voice to the private sector. Civil society has organized its representation too. And, due to the deep integration of the commodity supply chains, issues that formally were dealt with within countries now form topics at international tables.

2.4 Social and environmental issues

Over the past decades, the voice of the civil society in the debates about international trade and commodities has become louder, at least in Western countries. They demand to be heard on issues such as the environmental impacts of production (on nature, wildlife, climate), the position of small producers and the fairness of the distribution of value along the commodity chain. They succeed in campaigns directed at governments and large retailers and manufacturers, in committing these to more transparency and more accountability for their operations. They induce consumers towards taking more responsibility for the choices they make as to product, the quality thereof and the way they are produced. Legal measures, that make companies responsible for the quality of the products they sell and impose ‘due diligence' in checking their suppliers go in the same direction. Companies, by themselves or pressed by civil society groups, take up 'corporate responsibility'.

In the global field, this led to new coalitions of NGOs and companies, and occasionally governments, in establishing the rules for responsible production processes. Trade marks and certificates are established such as FSC for timber, MSC for fish, Fair Trade products and the Roundtables for palm oil, soy and cocoa. Coffee is traded with certificates for 4C, for Utz, Fair Trade, Organic, Rainforest Alliance, bird-friendly, Starbuck etc. These certificates impose conditions on the way coffee is produced. This does not need to raise production costs, as the improved processes can also lead to higher yields. Training and the audits and separate trade channels that come with the certificates are rather costly however and likely increase the margins between producer prices and consumer prices.

While at present these markets are rather small, further growth is expected. This may lead to a certain *de-commoditization* of the markets in the sense that commodities from different producers and countries become less exchangeable for one another: the commodity is not just the product with its inherent characteristics, but also – through the certificate – the characteristics of the producer (yes/no certified; if so which?) and trader (certified member of Chain of Custody or not). Certificates add value to the product. They have a market value by themselves too, which, just like other products, follows the economic laws of demand and supply: higher incomes induce more demand for certain certificates and higher premiums for the products carrying these.

The conclusion of this section for the commodity community is to point – yet again – at the new stakeholders in the global debate: private sector and NGOs. The present commodity organizations did not – in general – organize or govern these discussions. The involvement of NGOs and private sector players in the roundtables went beyond what is normally facilitated in the commodity organizations. The development of the certified commodity markets, through training and branding promoted by the various certificates was hardly among the projects sponsored by these organizations or the CFC, though projects on organically grown commodities are (tea, bananas, aquaculture are among the CFC projects).

2.5 Change in governance

With the rising importance of value chains and the relevance of including the stakeholders along the chain into the process, came the better organization of the value chain actors. Associations of trading companies, associations of manufacturers, retailers, processors, first at country level, later at the international level grew and became better able to play a role in the coordination of the chain. Typically the agricultural primary commodity chains are demand driven (Gereffi): the producers are small and not well organized, while the major trading, processing, manufacturing and retailing companies are. Over the last decades these degrees of organization, and the sizes of the companies involved have grown substantially. The result is that – unlike in the seventies or eighties - these companies are now quite well capable of establishing all that is needed for a good functioning supply chain, were it not for the part of the chain closest to the producers in developing countries.

In the global forums of the commodity communities, the private sector is now a well-established partner at the table. With governments of the producing countries representing the producers and local stakeholders, the ideal constellation of global community might even be to have these two groups discuss possible improvements in the chain.

In the – more realistic – less than ideal world, however, some issues are likely left out of the discussion in this setting: environmental effects of production, position of smallholders vis-à-vis larger companies downstream, taxation, fair distribution over the value chain, consumer concerns, etc. Actors that can bring these issues to the fore include consuming country governments, (E)NGOs, farmer unions. All are indeed among the stakeholders recognized by one or the other international forum. Yet, it should be noted that to be effective in the international arena, sustained efforts based on thorough information of many years are required. This biases the representation of these groups to those with (access to) large resources.

The presence of these groups changes the role of (especially) consuming country governments in these forums: from traditional representatives of the industry to representatives of the otherwise unrepresented: future generations (sustainability issues); or consumers (food safety and other concerns). And in the new extended supply chains, extending from suppliers to consumers, more governmental issues are at stake, including environment, intellectual property rights, infrastructure, control agencies, waste disposal regulations, all of which make good points for discussion with the other stakeholders in the commodity chains, with a view to improving the performance of the government agencies themselves.

2.6 Changing trading patterns

Three new forces are behind the changing trade patterns. The strongest is the economic growth of some large countries, including China, India, Brazil and Russia. The changes that their growth brings about in export supply and import demand has important consequences for the direction of trade from other developing countries. The second force is the emergence of regional trade blocks. There are those between developing countries, such as ASEAN, SADC, Mercasur and those involving developed countries (NAFTA; EPAs with the EU; bilateral arrangements).

The third force related to the above is the increased South-South Trade. There are important differences between commodities. Metals and agricultural raw materials are affected most, followed by food. Beverages (cocoa, coffee tea) are least affected.

We present some evidence on the three forces below.

Table 2 shows the changes in export structure. We confine ourselves to three types of primary commodities: food (7.9 per cent of all world exports in 2009); agricultural raw materials (1.4 per cent); and minerals, ores and metals (5.5 per cent). Of all world exports of these three commodity groups, the share going to developing countries has changed from 25-30 per cent in 1995 to 33-45 per cent by 2009. For the developing countries as a whole, these shares changed from between 40-48 per cent to 53-59 per cent in 2009. Hence, less than half of their exports of these commodities is destined still to developed countries. This holds also for African exports of minerals ores and metals: by 2009 only 46 per cent is destined to developed countries. Major destiny among the developing countries is China. Its share in imports of agricultural raw materials rose from 5.5 to 18.2 per cent; and in imports of minerals, ores and metals from 2.5 to 16 per cent. It imports similar shares of African exports.

Table 2 Export structure by partner and product group

of world exports		share of all exports	share going to Developed	Developing	o.w. China
food products	1995	9.0	67.3	25.6	2.3
	2009	7.9	62.0	32.9	4.6
raw materials	1995	2.7	67.7	30.3	5.5
	2009	1.4	52.8	44.5	18.2
ores, metals	1995	4.6	68.9	27.6	2.5
	2009	5.5	52.2	45.7	16.0
of developing country exports					
food products	1995	9.8	56.0	40.3	4.7
	2009	7.2	43.3	52.6	6.9
raw materials	1995	2.7	51.3	47.7	9.6
	2009	1.2	38.9	59.5	23.1
ores, metals	1995	5.1	58.1	40.1	5.1
	2009	6.3	42.2	57.2	18.3
of African Exports					
food products	1995	14.3	67.8	28.4	0.3
	2009	9.5	54.2	42.7	1.9
raw materials	1995	2.2	56.1	42.3	4.6
	2009	1.2	46.3	53.2	16.3
ores, metals	1995	12.7	75.0	22.2	1.2
	2009	12.0	54.7	44.0	18.5

source: UNCTAD Handbook of statistics 2010 Table 2.2.B

On intraregional trade, the UNCTAD statistics show rather little change, with the exception of a rise in APTA which includes China as a member and a decline in MERCOSUR. The latter's change to relatively more exports outside the block can also be ascribed to China as a major destination for Latin American exports.

Table 3 Intra-block trade as percentage of total exports

	1995	2009
COMESA	5.9	6.8
ECOWAS	9.0	10.0
SADC	10.3	11.0
MERCOSUR	20.3	15.1
APTA	6.8	12.2
ASEAN	24.4	24.3

Thus we see important changes in the trade patterns of commodities: more than half of developing countries' exports are now destined to other developing countries, and notably China is an important driver of this change. And we see little effect of regional groupings on their export orientation.
The importance of these findings for the commodity communities is that developed countries have lost some of their importance in these forums and that China's participation has become much more desirable.

An aspect that contributed to changing trade patterns is the rise of quality standards. While economic trade barriers were gradually diminished other barriers in the form of SPS requirements rose. Increasingly tighter standards on products are imposed at the country level, through officially notified (at the WTO) standards, but also by the private sector itself. Exporting countries face higher costs of complying with these standards. Their implementation provide tough challenges for the organisational and infrastructure capacity of the countries. These requirements are typically more imposed by rich country importers than by poorer countries. Hence, the incentives to export to poorer countries rises, as these exports do not require expensive investments in quality assurance mechanisms. This may explain why Gibbon (2006) finds that unit values of exports from commodity dependent countries are lower than those from other countries.

Part of the distortions in agricultural incentives for the commodities concerned can be ascribed to policy measures. The work by Valenzuela et al. (2007) on Africa shows the political distortions (measured by their Nominal Rates of Assistance) for coffee, cocoa and cotton in Africa to be -20, -56 and -16 per cent, respectively (2005 data). Thus, in addition to inefficiencies caused by private sector's organisation, and security issues, there is a policy dimension to the low real prices obtained by producers of these commodities and research work on its determinants and consequences would be helpful.

2.7 Volatility, speculation and the recent price hike

Compared with the 1970s when the Integrated Program for Commodities was conceived, or the inter-war years upon which John Maynard Keynes based his experiences, the present recent price fluctuations are not dramatic (cf. Gilbert & Morgan, 2010). But they are substantial. Herrmann, Burger and Smit (1993) gave an overview of year-on-year changes in prices in some commodities, expressed as absolute values of the relative changes. Their graphs show particularly strong changes in the 1950s and 1970s. Figure 3 below does the same for the years since 1980, for three major commodities coffee, cocoa and natural rubber.

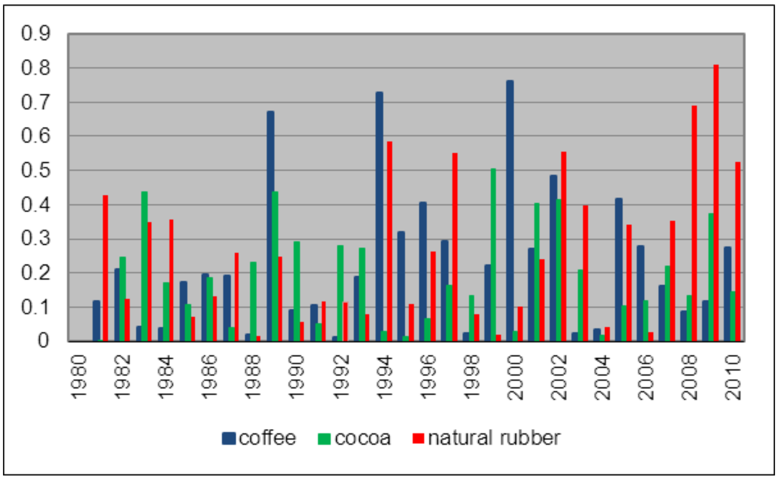


Figure 3 Absolute changes in US$ log prices December-December; source IMF

The year-to-year changes reported by Herrmann et al. referred to average annual prices, and these changed in the order of 100 per cent in the 1970s for all three commodities. Only for natural rubber, we see very strong movements in 2008 and 2009 that resemble the 1970s. Yet, the fluctuations for these commodities are strong compared to food prices: the prices of wheat, maize and soybean meal show fluctuations over this period not beyond 40 per cent with the exception of 2007 and 2008 when 60 per cent was reached. These years and these commodities show therefore the more spectacular changes, and these are also the changes that appeal to the public at large. Figures for the year-on-year variation in some food prices are evident from IMF's Food Index shown in Figure 4.

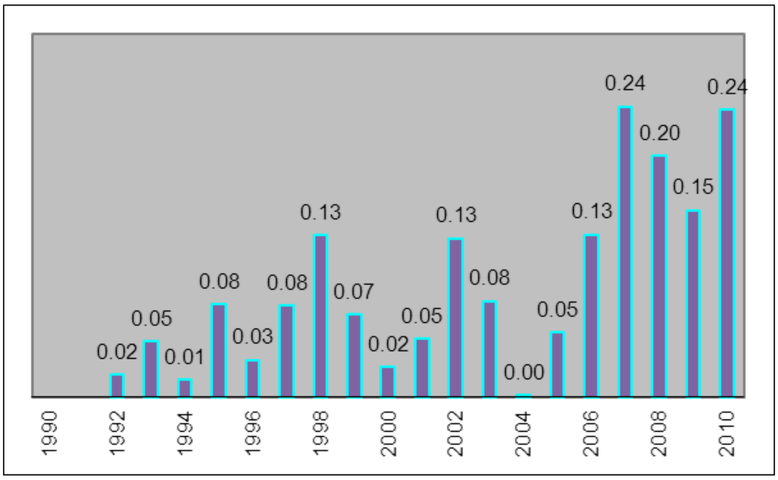


Figure 4 Absolute changes in US$ log Food Index, December-December; source IMF

It is evident that volatility in the food prices is higher than in the past twenty years. Reasons advanced for this are manifold. They include changes in the exchange rate of the US dollar vis-à-vis other currencies, fluctuations in supply due to extreme weather conditions, change in demand due to biofuel policy and a higher degree of speculative activities in the futures markets. The increased speculative trade is ascribed to the lacklustre prospects offered by other assets, and to the opening up of futures markets to funds not related to the commodity trade itself (Berg, 2010). Their effects on the prices of the commodities are the stronger, the lower are the levels of stocks.

The futures markets for food thus seem to have joined the ranks of other commodities, such as cocoa, coffee, rubber and cotton, and the hard commodities, in that parties external to the trade itself include operations on these commodity markets in their portfolio of activities. This adds liquidity to the markets, but also enhances the sensitivity of prices to levels of stocks (and to exchange rate changes) and hence make prices less predictable.

The lower level of state involvement in many commodity markets made not only trade but also stockholding to be more driven by free market forces. For the private sector, carrying stocks is a hazardous undertaking and preferably kept to the minimum. The move towards more private sector involvement in commodity trade, therefore, likely contributed to lower levels of stocks, and thus, to higher levels of price volatility.

The structural character of higher volatility enhances the importance of instruments to cope with such volatility. Insurance policies, credit facilities, possibly related to levels of stocks in designated warehouses, and diversification of portfolios have gained in importance. These are important at the micro-level, but also, as argued above, at the national level for countries particularly exposed to shocks in their export earnings or import bills.

2.8 Policy views on 'commodities'

The common view before the 1970s was that commodity exports made an important contribution to development. The 'resource curse' was not yet invented, and commodities offered a 'vent for surplus', from which investments for development could be financed. The world's responsibility was, then, to provide conditions in the international market for this surplus to be realized. Commodity exports were seen as a first step for a country in the world market, to be followed later by diversification and a reorientation of the economy toward more exports of manufactured goods. Countries like Malaysia, Thailand and Brazil provide examples of such changing composition of their exports.

At the level of farm households too, producing export commodities offered good opportunities to increase their levels of earnings.

Today's view appears to be different. The association of commodities with poverty and lack of development seems to dominate. While this association was made too in the past, the optimism that came along with it, has now disappeared. In some circles, trade by itself, certainly trade in food products, is not even considered a good option (cf. IAASD report), leave alone a good step in the process of development. Trade in non-food commodities is associated with unfair pricing, corruption and even civil wars. The 'resource curse' was coined by Sachs and Warner to express the link between non-food commodity exports and lacklustre economic growth.

UNCTAD in 2003 focused on the 'commodity problem', rather than the opportunities they offer (UNCTAD, 2003). The IISD (2008) also emphasized the long-term downward trend in prices and discusses how "price volatility impedes poverty reduction" (in its title).

A recent report by the Dutch Scientific Council for Government Policy (2010) mentions commodities as a reason for lack of development, rather than as an opportunity. It stresses dramatic falls in prices (p.98) rather than opportunities offered by the export earnings generated or the income that farmers derive for producing these. In the NGO presentations on commodities and trade, farmers are depicted as among the poorest, and not as farmers that are better off than their colleagues who grow food only.

On the other hand, the recent price hike of many commodities led to more optimism. Gibbon and Jones (2008) for CFC indicated opportunities (the extra revenues are to be used for re-doubling support to agriculture, especially to export farmers who are net food consumers). The Commission on Growth and Development (2008) too sees commodities mostly as providing opportunities. Unlike the earlier pessimism, they write: 'countries blessed with natural resources are growing quickly' (p. 80). While acknowledging that natural resources have their problems, including Dutch Disease effects, and are prone to appropriation by elites, these problems are not insurmountable, the commission claims. The World Bank (2009) provides evidence on the better management of commodity booms by the countries that had gone through the earlier booming experience, whereas new commodity exporters seem to repeat the mistakes of other countries at that time.

It is not unlikely that a period of rather high commodity prices lies ahead of us (OECD and FAO, 2010). This would help commodity exporting countries. Turning the additional revenues (of farmers, companies and governments) into engines of growth is the challenge. The high volatility that probably comes along with the (average) a higher prices, must simultaneously be addressed, as well as the likely downturn at some point of time. The increased earnings therefore should be split into funding for development, for measures to deal with price volatility and for measures to smooth the transition to a future period of low prices.

3. Establishing the need for Intergovernmental Commodity Organizations

Commodities are traded from producers, through traders, processors, retailers to final consumers. The (global) value chains involved have their own governance structures, typically more demand driven than value chains of manufactured products and certainly those connected with large units, such as cars and airplanes. Along the chain, the actors can be thought to be accompanied by, or embedded in an organizational structure that comprises associations, private and government agencies dealing with the transactions necessary for the functioning of the chain. Around these is the institutional structure of customs and laws and their enforcing organisations. Typically some of these organisations are international, whereas the institutions are typically national. International associations (of traders, manufacturers) are advocates of the chain-companies in the international arena. Small-scale producers, local traders and manufacturers, and small retailers are not similarly organized. Nor, for that matter, are countries.

The international leg of the commodity value chain was traditionally not accompanied at all by an organizational or institutional structure. Over time, countries have agreed on rules and institutions for international trade at large (such as the WTO and agreed rules) and for specific commodities. Slumps in world market prices were typically the motive for countries to sit together and agree upon regulation, effectively forming cartel-like constructions. Thus the dramatic fall in prices at the time of the Great Depression led to agreements on natural rubber (Stevenson Plan and International Rubber Regulation Agreement), sugar (Chadbourne Plan), International Wheat Agreement, International Tea Agreement and the International Tin Control. In many of these agreements, the British and Dutch colonial powers were the leading partners. Many of these and later agreements were initialized by producing countries (with Britain and Holland acting for their colonies).

The Havanna Charter of 1948, that formed part of the proposals of John Maynard Keynes in 1942, but was not adopted, would have prohibited agreements involving price fixing, allocation of market shares or collusion, with the exception of international agreements to stabilize prices or eliminate burdensome surpluses (Burger, Gilbert and Smit, 2002).

A modern version of this were the consumer-producer agreements that came about as elements of the New International Order, agreed on by the UN in 1974. Some of these agreements (coffee, cocoa, natural rubber, tin) were agreements with effective interventions in the market with the aim to stabilize prices.

Figure 5 tries to make clear how the original chain, from producer via processors to consumer, is embedded in a framework, consisting of domestic organizations and institutions, and serviced by traders, input suppliers and banks (that are also important for the flow of payments in the other direction); and influenced by the prices of alternative crops, of inputs, of the by-products and inputs in the processing industry, of shipping costs and exchange rates. Typically, the world market prices are established at commodity (futures) markets located in consuming countries, and affected by the financial markets. The figure emphasis the specific nature of many commodities: they are mostly destined to overseas buyers. In an early identification of their peculiarities, Van der Laan (1997) coined these value chains the Trans-Oceanic Market Channels

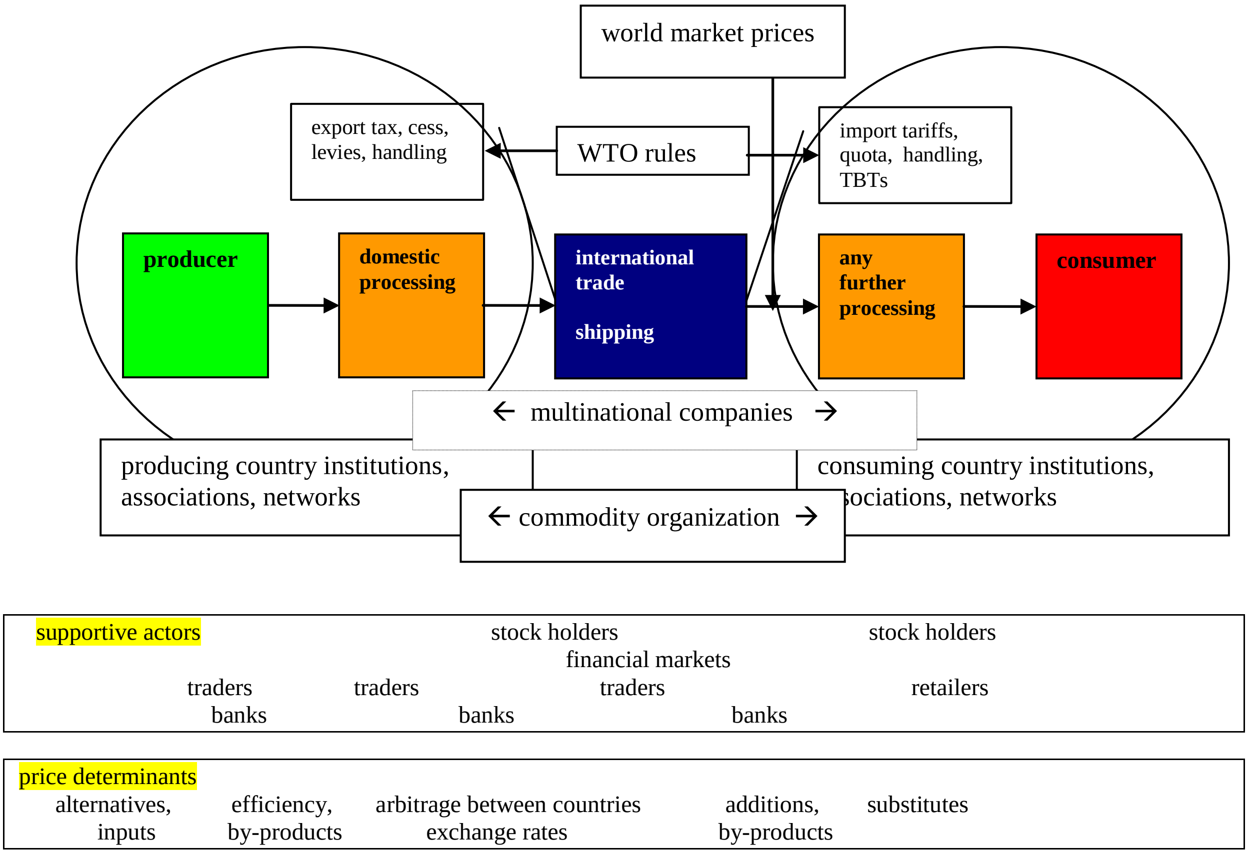


Figure 5 Commodity chains and their embedding

Country policy affects these institutions (property rights, enforcement, bureaucracy, taxation, etc.) and also the conditions for imports and exports (levies, tariffs, quota, technical barriers etc.). In this framework, the international link is not embedded as much as the domestic links. In this international arena trade flows are affected by competition between countries (actually it is the companies that compete, but each with different local embedding) and their exchange rates. There are, by now, WTO rules that constrain (somewhat) domestic trade polices but hardly other forms of policy. And more and more multinational companies extend into exporting and importing countries thus bridging this international gap.

It is here, that intergovernmental commodity organization play a role in providing the institutions to facilitate the product flows across borders. The less this part of the global value chain is served by multinational companies, the more role there is for an intergovernmental institution that – as institutions should – seeks to reduce the transaction costs. Institutions that facilitate the product flows include arrangements for price discovery and market information, but also for storing, processing and handling commodities.

Do the commodity communities provide such institutions? Do the intergovernmental organizations provide the forum, the information and the coordination that help reduce the costs to conduct a certain transaction along the chain? Or had this better be done by non-governmental organizations?

3.1 Governmental role

A major reason why governments should be involved is their own interference with the value chain. They determine export and import conditions, and thereby directly affect the costs of moving commodities from producers to consumers. A substantial part of this policy is not commodity specific and discussion about it are held in the framework of international trade organisations. And indeed, that should be the place where trade-offs between taxation of one commodity and the other can be negotiated. These considerations go beyond the sphere of single commodities. But the fine tuning, including the differentiation of tariffs by qualities or by stage of processing, is of immediate relevance for the commodity sector. The policies have an impact on the competitiveness of the country's commodity sectors vis-à-vis those of other countries. And it is not just trade policy that matters here. Subsidies to (taxation of) producers or processors or any other agents in, or attached to, the chain affect the opportunities for other agents, and those in other countries. Hence these matter, and discussions about reducing costs between producer and consumer would be rather futile if these elements could not be covered.

Another reason is that they can directly affect domestic institutions and so have an effect on the embedding of the commodity chain. The better is the embedding the smoother is the flow. Especially in commodity dependent developing countries, institutional frameworks are rather specific for the single or few commodities that they export. Hence the countries' institutions immediately influence and are directly influenced by the commodity market. In more diversified economies, the institutions serve more commodity chains at the same time and institutional policy is less affected by concerns for a single commodity. Yet, the influence of institutions on the commodity economy is still there.

A third reason for government involvement with the chain is their potential for coordinating actions of the private sector. Even where governments would not interfere with the chain, they can play this coordinating role and represent the business community in the talks with other governments and (via these or directly) other business communities. The more the business community has established its own associations, including international ones, the less is this role for the government.

A fourth reason is the public good nature of commodity regulations. Safety and health regulations likely affect the commodity sectors, and governments have the authority and responsibility to impose these. Here again the private sector can take over part of this responsibility: while governments can set the requirements in terms of outcomes (health should not be endangered), the implementation of this might be left to the private sector (corresponding maximum residue levels). During the 80s and 90s a shift from government to (large or well-organized) private sector has occurred in Western countries, but the pendulum seems to have swung back again, with governments taking stricter control, not least because of security concerns (Lee and Marsden, 2009)

A fifth reason is that governments are better placed to establish an institution than other groupings. This is so, if governments can afford a longer-term view, can weight externalities of such institutions more heavily and can offer a more neutral basis for interaction and information provision. Their presence also facilitates the participation of the private sector. Good governments can play this role, but occasionally governments lack the credibility to do just this. And the more the government itself interferes with the commodity chain (via any of the activities mentioned above) the less can the government play this neutral and facilitating role. Another reason why government is better able to establish the institution is that they can spread the costs of the institution over all beneficiaries, including those only indirectly involved with the chain. This is important because when all the costs must be borne by the sector itself, the spread between producer and consumer price is reduced by much less.

Reason number six is related to other objectives that governments may have. If these objectives can be served by improving the commodity chains, then this provides a valid argument for their involvement. This consideration applies to environmental concerns, for example, if the environment can be improved by changing practices in certain commodity chains. It typically applies to developmental concerns. If governments care about development, and better outcomes can be achieved by improving certain commodity supply chains, then governments should actively promote such organizations.

In view of the above, governments will typically participate in commodity organizations in two or more capacities. They play the role of organizer (reason 5), but also the role of direct contributor (reason 1, 2), or representative (reason 3) or beneficiary (reason 4, 6). Typically, the tendency is for them to resort to the former role, rather than the participating role. It is rare for commodity organisation to discuss domestic institutions (or even taxation).

In many cases governments can 'outsource' the organizing role. This would relieve them from devoting considerable amounts of time to administrative issues as they appear to do now. Stronger mandates to the organizing units are a step in this direction.

The less the government is involved in taxation or subsidization, the weaker argument 1. And if the institutional setting is not commodity related, argument 2 does not apply. If the industry is well-organized, argument 3 disappears, and they same may hold for argument 4. The organizing role (argument 5) can be outsourced. Hence, for many a government from OECD countries, participating in commodity forums is to provide assistance (or represent the industry if this is not by itself admitted), rather than to derive immediate benefits for itself. As we shall explain below, the government's participation may also help to effectuate an adequate representation of the private sector and civil society groups is assured.

3.2 Private sector's role

The private sector is the main driver of the whole supply chain, yet they were conspicuously absent from the commodity organizations until the 1990s. Only in more recent decades have formal places been created for their participation in the meetings. One reason for this was their initial lack of organization, so that the governments were their coordinating representatives. This leads to arm's length argumentation with diplomats voicing the private sector's concerns (unless these were incorporated in the delegations). Now that the industry has organized itself much better, they make for natural participants in the debate. Yet, this degree of organization is skewed toward the developed country industry and, within this group, likely to the large-scale industry, so that a balanced representation is not always guaranteed (but then, this was no better when governments represented them).

The industry is somewhat more restricted in its participation than the government. This is caused by competition regulations that prohibit industry from joining forces if this would discriminate against other market participants and thereby potentially harm consumers. The sector thus benefits from the presence of the government in these commodity forums.

The industry typically has the intimate knowledge to discuss technicalities related to the trade. For setting standards and for suggesting where improvements can most easily be made, they are the perfect discussion partners. They are quite imperfect when their own industrial organisation is at stake, for example when there is a danger of monopolies, and if the suggestions for improvements turn out to increase rents rather than efficiency. Again, the presence of government should help in balancing the arguments.

The private sector has a direct stake in the commodity's future and they often express their concerns about future supply and supply of good quality. An 'enlightened' private sector therefore would make sustainability (social, environmental) and remunerative prices (for good quality) at the farm gate a priority. Improvements of the value chain would typically be geared to do just that.

Private sector actors along the chain range from smallholder farmers (or mining companies) to traders, processors, shippers and retailers. Institutional economics would say that, of these groups, the ones with more specific capital at stake would have the strongest motive to engage in securing good functioning commodity chains. These are farmers, notably those with tree crops, mining companies, and specialized processing and manufacturing companies. These firms, more than traders or retailers (or banks) have a high stake in the particular chain. And it is these firms that we also see representing the industry, with the exception of the smallholder farmers. This means, that when the private sector is left to itself, not a representative group of participants will step forward. Some organizing, some pushing, for example by the government or intergovernmental organizations would be beneficial in securing a better coverage of the parties involved in the chain.

3.3 A role for civil society

The civil society as represented by NGOs dealing with commodity issues voices the feelings of a considerable number of consumers about the outcomes of the present structure of many commodity chains. They are concerned about the possible harm to the environment, biodiversity in particular, about the lack of benefits for small producers in developing countries and about the alleged unfairness in the distribution over the global value chain. In doing so they put the finger on aspects of the commodity economy that are not easily discussed in the commodity forums, but are relevant for the social outcomes of any arrangement for the commodity markets . This by itself would justify their presence in meetings of the stakeholders. It would be their expertise that gains them a place, rather than their representation of stakeholders. This 'representation' is far from clear, for no consumer or producer has elected them as their spokesperson.

The NGOs claim they voice the consumer's feelings, and they also work hard to align these feelings with their views. Consumer attitudes can be changed, as all marketers know, and NGOs do no less. Manufacturers and retailers feel the changes in consumer attitudes and have little choice other than to oblige their customers.

One of the consequences of this pressure is the increasing importance of certification that would show adherence to social and environmental standards. Up-scaling of these initiatives may prove costly for producers, as soon as it extends beyond the group of consumers that is willing to pay extra for the costs associated with auditing and labelling.

As most of the better organized NGOs are in Western countries, there is likely to be a Western bias in their activities, partly coinciding with a similar bias in the organized private sector.

Here again a guiding hand of organizers of commodity forums can help to improve the coverage of this echelon and also include non-Western NGOs.

3.4 Conclusion on the desirability of intergovernmental commodity organizations

The above considerations lead to the conclusion that commodity organizations can be useful. While originally there was a void to be filled in the governance of the international part of the supply chain, while governments could represent the exporters and importers, the situation nowadays is that the international void is partly covered by the multinational enterprises, while developed countries can be largely represented by their private sectors. The specific needs of the supply chains have expanded from issues dealing with international trade to wider issues stretching deep into producing and consuming countries. This requires more participants, both from the governments (with more ministries involved) and from the private sector, and the civil society groups. Specific parts of the supply chain requiring attention, are the international arena (overseeing the international business, trade related quality requirements and world market price formation) and the domestic parts in the producing countries.

As governments, notably of developing countries, have a heavy hand in the sectors, their participation in the organisations is indispensable. The same holds for the private sector. Governments of developed, consuming countries have a stake in these organisations in as much as they see these as vehicles to reach other goals, including fostering development. And they should be there to provide neutrality to the organisation and thus to facilitate and complement private sector representation. Civil society groups should be welcome too, in view of their expertise (this may also hold for academics) and their links with consumers.

3.5 What activities should these then undertake?

In general terms:

A *forum function* will be the first choice. It is partly a passive function in that it provides room for meetings of all stakeholders whatever the issue is. And it is partly an active function when the organisation can put issues on the agenda, the solution of which will improve the supply chain.

Collection and dissemination of information about the sector is another important activity. Statistics on prices, volumes and costs, all along the supply chain (and its tributaries and off-springs) are most useful. Note, that these price statistics are much more than the regular statistics on world market prices which apply only to a specific point on the chain (see Figure 5).

To give the organisation an active role in tabling questions, and thereby enhance its productivity, it should be able to do *research* on where the commodity supply chain can (best) be improved. This implies benchmarking studies to help entrepreneurs and their advisors, and comparative studies in participating countries to assess the embedding of the supply chain and evaluate ways of improving this.

With this expertise it would also be a good forum to discuss *proposals for interventions* that help remedy the weaknesses that research and benchmarking brought to light.

This then is the typical range of activities now undertaken by the commodity organizations.

In more specific terms:

The analysis of section 2 leads to a number of new issues in the commodity economy.
They are

- some countries are still dependent on a few commodities, but, apart from cocoa, no commodities address these countries for more than 20 per cent
- South-South Trade has increased, but effectively this means more exports to China
- Intraregional trade has not (yet) added volume to the exports of countries
- price volatility of food products has increased
- with structurally low levels of stocks and continued integration with financial markets, the volatility can be expected to continue
- high prices are expected to last for some time (OECD-FAO)
- commodities were considered sunset-industries, but this is likely to reverse
- opportunities offered by high prices must now be exploited

The review of the need for a commodity organisation indicated as new elements:

- Private sector responsibility for value chains, at least outside producing countries
- limited interest of developed country governments
- potential role for civil society groups
- certification

Given these new questions, and the old ones, what type of commodity organizations would be fit? Are these issues that call for discussions on a commodity-by-commodity basis? Or would they be better handled by a multi-commodity organization?

Criteria for what constitutes the ‘fittest’ organization could be the efficiency by which the problems can be addressed, and improvements in the lives of the producers can be realized.

Forum functions and data collection benefit from commodity communities and these are built by commodity specific organizations. Government involvement lends credibility, neutrality and sustainability to the organisations and will produce better results to the extent this leads to stronger national efforts to collect the information. Private sector involvement also improves data collection.

While *studies and research* in the field of commodities are indispensable, specific commodity organizations may not have the critical mass for sufficient depth. Topics such as long-term projections and issues on industrial organization, including competition, and diversification lend themselves better for study by more general organisations like FAO or UNCTAD or World Bank, while short-term projections and studies on many technical and economic issues within the commodity chains, including bench marking and ‘best practice’ type of studies, can very suitably be done within the commodity communities. Ideally, therefore there should be a distributive arrangement for studies between commodity focused and more general organisations. And a similar arrangement can be made regarding implementing *projects* addressing commodity sector problems.

The new issues lead to the following observations.

- It would be inefficient to help CDDCs through commodity-focused efforts. For this commodity work reaches many other countries than the targeted ones. CDDCs would benefit from organizations devoted to their commodities, but the organizations should not be established for this reason.
- CDDCs, whose macro-economies are typically linked to the fate of the commodities, require macro-economic solutions to mitigate the effects. Yet, their commodity sectors may benefit from examples set by other countries, and access to these is helped by commodity-wise international organisations.
- It is important to have China and the Chinese private sector participate in the relevant commodity organisations.
- The issues of price formation and the role of the financial markets therein will continue to be important for commodity markets. They require study and research by a wider community than just the commodity community. Continued volatility and price changes beyond what is caused by the fundamentals of the commodity markets themselves call for measures to mitigate their effects: both low and high prices may lead to reactions within the chain that are undesirable in a longer-term perspective. To reduce price volatility, stronger, rather than weaker supply and demand responses are helpful. This means that producers can more easily switch to other crops and consumers to other products; a shortage in supply would more easily be met by reduced demand and increased supply. Ultra-short responses (within a growing season for crops) are however limited. A further limitation is that even responsive producers may respond to wrong signals; such as shocks to prices that result not from fundamental changes, but are due to e.g. temporary monetary shocks. The markets would thus normally benefit from providing more ready alternatives for producers (secondary crops; off-farm activities) and consumers (substitute goods), while keeping higher levels of stocks (induced by a subsidy?) will also likely dampen price fluctuations. Such measures may benefit from multi-commodity initiatives as these fluctuations affect many markets at the same time. Comparisons of speculative influences over the various markets would also be helpful, as it seems likely that hard commodities have seen such interferences even before food markets were opened up to them.
- The high prices prevailing at present offer scope for the countries that are net beneficiaries. Programmes to lay a basis for diversification are timely. They serve both a goal of increasing supply elasticities and stabilization of country and/or individual earnings. Ideally they are also steps towards activities with higher labour productivity. Studies and proposals in this field are best generated by general organisations with input from commodity specialists.
- The weakest links in the chains are in the developing countries. Associations of the private sector that work well in developed countries are weaker here, partly due to small scale, partly to weak governments and institutions. Modern communication technology is likely to revolutionize the market integration of remote producers, and infrastructure to physically reach them is ever more strongly needed.
- The stronger presence and coordinating capabilities of the private sector call for a stronger involvement of business in the commodity organizations. Governments should continue to take their responsibility for the organisation though.
- Room should be made for civil society groups, in an advisory capacity. Not facilitating stronger involvement of private sector and civil society will induce these groups to establish their own platforms and round tables which will erode the existing groups.

All in all, the new challenges that the commodity sectors are facing require actions from both commodity specific and from more general organisations with a stronger emphasis on the latter.

The commodity specific organizations are particularly helped by private sector involvement. The sector itself is likely to be interested, given its willingness to adopt the 'social responsibility'. Hence, they could be in the driving seat, but governments should oversee and legitimize their work. Yet, governments are also involved as participants to discuss their role in value chain. This dual role of the governments requires a specific structure: the oversight of the organizations should ideally be done by an independent person or group, adequately mandated by the governments. While governments would, therefore, 'own' the organisation, the organisation itself would have a strong mandate to implement the interaction and coordination between private sector and government participants. Civil society should be there in an advisory role. There is no obvious need for an exporter-importer balance among the participants, nor among the 'owning' countries. Typically, producing country governments should be interested, as would be concerned developed country governments.

Next to these commodity specific organisations with strong private sector involvement, there is a (growing) need for discussions on multi-commodity issues, including horizontal diversification, competition, price volatility and links with the financial markets, trade related barriers, compliance costs and especially on socio-economic policies vis-à-vis small producing households, including social safety-nets and credit and saving facilities. Some issues (pricing, competition, trade barriers) involve developed country governments, other issues focus more on developmental issues in the producing countries. Traditionally UNCTAD had a strong focus on these issues, but they are also addressed by FAO and World Bank. International trade issues are also in the realm of WTO and ITC, and processing is a topic for UNIDO. On first sight, there appears to be considerable overlap in the work done by these organizations.

Both the specific bodies and the general organisations are likely to favour interventions, the funding of which would fall within the scope of CFC. The former group, that of the specific commodity bodies, is likely to benefit more from CFC funding, as for the latter group more funds are generally available, such as development funds.

4. Intergovernmental Organizations Dealing With Commodities

In this chapter we make a *tour d'horizon,* reviewing the intergovernmental organizations dealing with commodities. We start with the commodity specific organisations.

4.1 The ICBs

Presently, 13 specialized commodity organizations exist:

- International Cotton Advisory Committee since 1939
- International Rubber Study Group since 1944
- International Grains Council since 1949 (as International Wheat Council)
- International Lead and Zinc Study Group since 1959
- International Olive Council since 1959 (as International Olive Oil Council)
- International Coffee Organization since 1966
- International Cocoa Organization since 1973
- International Tropical Timber Organization since 1986

- International Nickel Study Group since 1990
- International Sugar Organization since 1992
- International Copper Study Group since 1992
- International Network for Bamboo and Rattan since 1993
-International Jute Study Group since 2002, replacing the International Jute Organization (1984)

For other commodities, the FAO provides a forum in the form of Intergovernmental Groups. There are groups for bananas; tropical fruits; citrus fruit; grains; rice; oilseeds, oils and fats; hard fibres; jute, kenaf and allied fibres; hides and skins; meat and dairy products; tea and, finally, a 'sub-committee' on fish trade.

The work done by these organizations can be split over four fields. One is to provide a forum for discussions through its meetings, seminars and conferences, another field is to collect and publish statistics, the third is market information and studies, and the final field of activity is to contribute to improvements of the commodity markets by initiating and supervising projects. Many of these projects are (partially) financed by the Common Fund for Commodities, that commenced its work in 1989, but was originally conceived as part of the Integrated Program for Commodities in 1976.

In 2006, the work of the agricultural commodity organizations was reviewed by Burger, Daviron and Alby-Flores (BDA) in a consultancy report for the European Commission.

BDA summarized their overview of the commodity organizations as follows (p. 16):

> *The 10 independent agricultural ICBs, consisting of ICO, ICCO, IGC, ISO and IRSG in London, and IJSG, INBAR, ITTO, ICAC and IOOC elsewhere jointly have 136 countries (inc. the EC) as members. Of these countries, 33 are member of just one ICB and the membership of 2, 3 or 4 ICBs is held by around 27 countries. Only two are member of eight of the ICBs, namely the European Community and India. Three countries are member of seven of these ICBs, namely Switzerland, Côte d'Ivoire and Cameroon. Of the major other countries, USA and Russia are member of 5 ICBs, Japan of 4 ICBs and China of 2 ICBs.*
>
> *Their representatives serve in the Councils of the organisations, and in the executive committees of half of these. These Committees and the councils are often helped by other targeted committees, typically focussing on economic issues (5 ICBs), Finance (4), Statistics (3) or Promotion (3).*
>
> *The independent ICBs have in most cases a special forum for contacts with the private sector. Seven of the ten ICBs have this, with IGC, ISO and INBAR doing without such special committee. The ICBs that form the Intergovernmental Groups in the FAO have no specialized committees. They do have a council, consisting of all member countries. Their Council meetings are held once every two years; the independent ICBs meet at least once, and some (ICO, ICCO, IGC, ITTO and IOOC) twice a year.*
>
> *The goals of the ICBs are formulated in their respective agreements. The newer agreements have many objectives, the older organisations do with a lower number. Major objectives are to provide a forum for consultations; collect and disseminate market information; promote trade, transfer of technology and sustainability.*
>
> *In the light of these objectives, the ICBs hold their council meetings. These are mostly bi-annual occasions where the commodity community can meet. They also devote substantial efforts to the collection and dissemination of statistics and market information. Many ICBs organize workshops and conferences. And they engage in projects aiming at research & development, transfer of technology, and market development.*

Their human resources, totalling 212 persons, range from 7 to 45 persons per ICB, with IOOC being the largest, followed by ITTO and ICO with 33 persons. IRSG is the smallest in number of staff. Budgets available to cover the administrative costs of the organizations run from €0.4 million for the IJSG to €6.5 million for IOOC. ITTO and ICO have about €4.2 million each. Budgets are heavily affected by whether or not a host country provides the accommodation. IGG secretariats are very small, often less than 2 persons, but embedded in the Commodities and Trade Division of the FAO. The budget for their work directly related to IGG meetings is €0.3 million.

A few ICBs (IRSG, ISO and IGC) finance a small part (14%) of their income from their own income, other ICBs completely rely on the member contributions. These are partly (and for some ICBs) divided equally over the members, partly assessed in relation to some measure of their interest in the commodity. IGGs receive a budget from the FAO.

The ICBs appear to have found their own niches regarding statistics and market information. The IGC and the ISO have a particular focus on very short term (price) data, which obviously serves the traders among their clientele. They and most other ICBs publish statistics with a less short-term perspective, such as monthly or quarterly data. The same holds for the other market information. Few ICBs, notably IJSG and until recently INBAR, do not publish statistics.

The ICBs are to a varying degree engaged in projects. The IGC has none at the moment, while the ITTO distinguishes more than 100 projects. INBAR runs many projects too. ICO and the IGG on Fish Trade have around 10 projects. Typically, the other ICBs have a few projects. Most of the ICBs rely on the CFC for funding of their projects, with INBAR and ITTO as exceptions. These ICBs have other sponsors for their many projects which frequently have an environmental focus.

BDA conclude on the commodity organizations that they should focus on reducing the costs that are made between producers and consumers, and – to this end - expand their domains so as to cover the whole supply chain. They could do more on improving the chain performance for example by benchmarking firms in the chain. They should collaborate more with each other and with other major organisations such as FAO, UNCTAD and the World Bank. They are advised to allow for more say by, and seek more collaboration with the private sector and make room for civil society groups. Their governing structures were found to be rather burdensome (both for secretariat and for the diplomats), and the imposed equal representation of importing and exporting countries was challenged: the value chain approach would suggest that a producer-consumer division of power is more adequate than that of exporter-importer.

A crucial element in rendering the ICBs more efficient would be the acknowledgement of the two ‘hats’ that diplomats carry. They are both governors and participants. In practice, lots of time is spent on the former as ICB secretariats are kept on rather short leases. As argued in the previous section, turning the government representatives into participants, rather than diplomats would be helped by inserting a layer of mandated, independent oversight of the secretariats. The secretariats could then work more closely with the field in setting its agenda of activities, meetings and publications.

4.2 Other intergovernmental organizations dealing with commodities

UNCTAD

UNCTAD deserves to be mentioned as the first as it was the “parent” body of many of the ICBs and the CFC. The initiatives to undertake separate international action in the field of commodities grew from the first meetings of UNCTAD and could even be seen as the reasons for calling these meetings (Mojarov and Arda, 2004: 125).

Within UNCTAD, until recently the commodity work fell within the Division on International Trade in Goods and Services, and Commodities. As the name (the comma in particular) suggests, the division combines erstwhile divisions on Trade and, separately, Commodities and reflects the merging of commodity issues into a wider debate on trade policy (1996). In August 2008, the former Commodities Branch of the Division was transformed into the Special Unit on Commodities reporting directly to the Secretary-General of UNCTAD. In 2006 the then Branch numbered some 20 persons.

The UNCTAD XII conference in Accra gave the Division the prescription to launch a Multi-year Expert Meeting on commodities. The aim is *inter alia* 'to harness development gains from the current boom in commodity prices'. Four sessions of this meeting are envisaged, dealing with trade, finance, volatility and UNCTAD's role. The first session was held in April 2009. The Special Unit distinguishes thematic clusters, dealing with

- information and analysis
- marketing
- diversification and sustainability
- standards
- strategies
- accountability in extractive industries

The unit publishes the Handbook on World Mineral Statistics and Iron Ore Statistics.

The unit also organizes the ***Global Commodities Forum***; the most recent session was 31 January – 1 February 2011, and brought together many of the international organizations dealing with commodity issues, as well as academics and private sector participants.

UNCTAD publishes a range of useful statistics, in particular on tariffs pertaining to trade in their TRAINS database. It also published the Monthly Commodity Price Bulletin, renamed into UNCTAD Commodity Price Bulletin, and now also freely available on-line. The on-line UNCTADStat database includes measures of (international) commodity price trends and volatility.

Evaluation

UNCTAD's work in the field of commodities was reviewed in 2009. The review emphasized that donors had failed to come forward with funding for commodity-related research; it noted with disappointment the abrupt termination of some high-profile initiatives, such as the 'Global Initiative on Commodities' and the 'Sustainable Commodity Initiative'; it concluded that the Commodities Branch had not done very well. It recommended the Branch, in its new setting, to invest in high quality innovative research, to enhance collaboration with institutions outside UNCTAD, notably 'leading think-tanks in all regions' (Divvaakar, Kurek and Kashitiku, 2009).

The World Bank

While the World Bank used to have a major focus on commodities in the 1980s, this institution, too, reduced its analytical capacity and activity in this field. While, according to the Bank's own project data base 28 project (also) dealt with cotton in the 1980s, only 12 projects were started after 1990. For cocoa, the 1980s saw 16 projects, and only 4 after 1990; for coffee 10 in the1980s and 10 after 1990 (numbers by 2006).

Commodities were quite visible in the World Bank led International Task Force on Commodity Risk Management. This initiative, which started about 15 years ago from early work done by UNCTAD, also involved other UN Agencies, including FAO and IFAD (and UNDP initially). The task force promoted the development and application of modern risk management instruments to commodity risks facing developing countries. Such insurance instruments can be linked to world commodity markets, and (re)insurance markets. They can be formulated on their own, or linked to weather-indices. Applications are both at the macro and the micro level. The work was widely supported by the EU, CFC and other donors, drew considerable attention of the banking sector. The CFC supported 3 projects in cocoa, coffee and cotton sectors. Practical results were few, however.

The Bank also publishes on-line “Prospects for the Global Economy”. This includes forecasts for commodity markets, and publication of commodity briefs on 16 commodities, including the agricultural commodities cocoa, coffee, cotton, maize, palm oil, rice, rubber, soybeans, sugar, tea and wheat. A team of 4 persons is responsible for the commodities analysis. The forecasts are extended from the World Bank data on commodity prices that used to be published on ‘pink sheets’. They are on-line available at World Bank>home>Data & Research>Prospects>Commodity Price Data. Apart from this commodity specific work, the World Bank publishes a host of publications that are relevant for the commodity economies. The work done on Distortions to Agricultural Incentives by Kym Anderson and co-authors is particularly noteworthy (e.g Valenzuela et al., 2007). These data provide an overview of the differences between border prices and farm gate prices for many commodities in many countries and lend themselves very well for analysis of the factors responsible for the gaps.

FAO

The UN Food and Agriculture Organisation is a major provider of statistics, market information and studies in the field of commodities. It also serves as an important forum for discussion. One of its governing bodies is the Committee on Commodities Problems (CCP), whose aim it is to keep commodity problems of an international character under review. 80 of the 190 members of the FAO are members of the CCP. The CCP established over the years various Intergovernmental Groups (IGGs) to address specific commodity problems. After a revision in 1999, eleven IGGs remain: Rice (1955), Oilseeds, Oils and fats (1956), Grains (1957), Citrus Fruits (1959), Jute Kenaf and Allied Fibres (1963), (subgroup)Bananas (1965), Hard Fibres (1966), Tea (1969) Meat and dairy (1970); (subgroup) Hides and Skins (1985) and (subgroup) Tropical fruits (1997).

Senior staff members of the erstwhile Commodities and Trade Division (now Trade and Markets Division) serve as Secretaries of the IGGs.

The Division is part of Economic and Social Development Department, together with the Division on Agriculture and Development Economics, on Gender, Equity and Rural Development and the Division on Statistics. The Markets and Trade Division is the focal point for economic commodity related research within FAO. The recently changed structure brings all IGG-secretariats in one section, next to two other sections, one dealing with GIEWS and the other with cross-commodity analytical work. GIEWS is the Global Information and Early Warning System that monitors price data and food availability throughout the world.

Number of staff in the Division excluding GIEWS in 2006 was 29 professional staff (inc management) and 31 support staff. Recent commodity-related output of the Division includes Commodity Market Review 2009-2010 and The State of Agricultural Commodity Markets 2009.

The work plan of the Department is set by the CCP. In its latest session in 2010, priorities were set for the area of trade and commodity markets; market volatility and food insecurity; smallholder market access via value chains and topics related to food and trade (and climate).

Evaluation

The work by the Division was reviewed in 2007 by a group headed by Ron Duncan. Its report indicated , like the report by BDA on the ICBs, that attention should go to the 'integrated commodity marketing systems', which would be the whole value chain and the institutional setting. Consistent with this is their recommendation to focus on longer-term analyses of the markets and networks. It called for more collaboration with UNCTAD and the ICBs, and with the private sector. Areas of food aid, trade, emerging economies, risk and standards & certification were indicated as priority themes of research.

For the Intergovernmental Groups within the Division, in particular, they recommend the Division to

- Develop stronger partnership arrangements with these organizations to enhance market analysis
- Encourage involvement of private sector and NGOs more directly in the IGGs.
- Hold IGG meetings in Geneva, jointly with UNCTAD and WTO
- focus only on projects that fall within the expertise of the Division

Interestingly, in its 2010 session the CCP also reviewed its own functioning and that of the IGGs. An overriding concern appears to be the relevance of the groups. The 2007 evaluation (see above) had pointed out that 'deliberations are constrained by the lack of adequate (..) expertise from representatives attending the meeting'. In the CCP report a suggestion is made to follow Duncan *et al.*'s advice of seeking closer links between Division and IGGs. Another suggestion was made to organize a 'Commodity Week', that would gather all stakeholders for focused meetings.

Conclusion of this section

CFC's nearest neighbours are the ICBs, UNCTAD's Special Unit on Commodities and FAO's Markets and Trade Division. They have all been recently reviewed, which is indicative of some concern about the usefulness of these organisations. Reviews have all highlighted their relevance, and have all indicated the scope for closer collaboration among them.

Differences are the specific focus of ICBs vs. the multi-commodity focus of the other. Within the group that is more generally focused, FAO and UNCTAD's groups focus on research and statistics; UNCTAD's unit has more focus on minerals, ores and metals, on sustainability and on (horizontal) diversification. The evaluation called upon it to also work on cotton, cocoa and coffee. Both UNCTAD and FAO work on standards. Both work on domestic and international trade. Both on longer-term analysis of markets. FAO's Division works more on volatility (while this is highlighted in UNCTAD's statistics …) and on risks and food insecurity. UNCTAD more on commodity exchanges. The general international organisations show very little collaboration with the private sector.

For comparison, CFC's pillar I refers to risk and volatility; pillar II and III value chain development and vertical diversification; pillar IV productivity and food security and pillar V advocacy (CFC/EB/48/2/Add.3). Both UNCTAD's unit and FAO's division, therefore, have elements in common with this orientation of CFC, but the correspondence with FAO's Division appears greater. In particular, CFC looks more within commodity sectors than across these.

Referring back to the conclusions of Chapter 3, we see the distinction into commodity specific groups and multi-commodity, more general organisations. As suggested there, ICBs should become more private sector-like organisations, with governments, especially of producing countries, as participants, rather than governors. This latter role should be played too, but at considerable distance. In the multi-commodity organisations, considerable overlap exists. Important aspects of the commodity *problématique* that are specifically addressed by any of the three organisations are the (macro) economic aspects covered by the World Bank (and the IMF), agronomic issues and food by the FAO, (cross-border) trade and non-food by UNCTAD (and ITC) and processing by UNIDO. To reinforce these specializations, it seems worthwhile to consider moving FAO's division on Markets and Trade (and the IGGs) to Geneva so as to work more closely with (or in) UNCTAD and ITC (and WTO).

CFC's work is more related to the ICBs than to the more general organizations, even though it funded projects for which the general organisation acted as executing agent. Below we look at the types of project that CFC funded through these ICBs.

5. CFC and ICBs

Relationships between CFC and the ICBs are close. In fact ICBs, the International Commodity Bodies, were thus coined by CFC when it listed them as the consumer-producer organisations that could submit proposals for funding to CFC. CFC also urged the FAO the 'redefine' its Intergovernmental Groups in such a way that 'orphan commodities' for which no such groups existed would have an organisation that could submit projects proposals in their field to CFC.

The report by Burger, Daviron and Alby-Flores of 2007 shows the importance of CFC as a funder of the projects that the ICBs undertook. We reproduce the relevant part of their report here.

From Burger, Daviron and Alby-Flores, 2007, in small print, pages 25-29:

> *The Common Fund for Commodities started its activities in 1989, and approved the first project in 1991. The origin of CFC was closely linked to International Commodity Agreements which brought some of the ICBs into existence. In the Integrated Programme on Commodities, the CFC was meant to be the fund to be used by the commodity organisations for market intervention. Its first account was established for this purpose. The second account, for financing of projects, came at the request of producing countries. It is filled with some initial capital and by voluntary contributions of member countries and, since 1995, by the net earnings on the first account (which itself is not used).*
>
> *After its birth, the CFC designated the existing International Commodity Organisations as ICBs, which gave them the opportunity to submit proposals for funding by the CFC and gave the CFC*

the opportunity to receive proposals (as these can only be submitted through ICBs). Other ICBs were added since then. To become an ICB, the organisation must meet the criteria of article 7.9 of the Agreement establishing the CFC, and Schedule C:

- *intergovernmental basis with membership open to all UN members*
- *concerned on a continuous basis with trade, production and consumption of the commodity*
- *membership comprising producers and consumers which shall represent adequate shares of exports and imports*
- *effective decision making process*
- *ensure proper discharge of responsibilities arising from its association with CFC*

CFC has a Governing Council, with representatives of member countries, as the highest authority, providing direction to the Fund, and an Executive Board. It has an Consultative Committee (13 experts) to advise on the projects. The Board and Committee meet twice a year, the Council meets annually.

The ICBs benefit from CFC. The facility to apply for CFC funding gives them an advantage over other organisations. While some ICBs have an large portfolio of projects outside those financed by CFC (such as ITTO and INBAR), for many ICBs the CFC is by far the major sponsor.

The typical procedure is that a draft proposal is submitted to an ICB. Its secretariat evaluates this (possibly in interaction with experts, or a designated committee), gives feed back to the authors and may contact CFC to check the eligibility of the proposal and get comments. The ICB's Council may evaluate the proposal, and upon its approval the ICB submits it to CFC. Occasionally the ICB Council is left outside this procedure. CFC has the proposal evaluated by its Consultative Committee. Their comments are sent to the ICB, which revises the proposal in collaboration with the author. It is then resubmitted to CFC and re-evaluated by the Consultative Committee. If positive, the Executive Board may decide to approve the project, after which a contract is drawn up involving CFC, the Project Executing Agent and the ICB in a supervisory role. Financial arrangements are made directly between CFC and the Agent. The ICB is paid for their supervisory role and expenses by CFC ($15,000 per year, recently increased to $20,000).

The Table (updated to 2010) shows not the amounts that CFC made available (either grant or loan) but the total amount, including contributions by the counterpart and third parties, (if any). On the whole, the CFC share in the total is 51% while other parties' co-financing is 21.4% and the counterpart contribution 27.6%. The FAO Intergovernmental Groups as a whole have realised $252.9million worth of projects out of a total for the listed ICBs of $ 572.8million. The ICO is the largest single recipient with $101.3 million, closely followed by ICAC with $71.6 million. INRO does of course no longer exist, and its projects have been taken over by the IRSG. Similarly the projects of IJO are now supervised by IJSG. On average CFC funds a modest number of about 10 projects per year, with an average value of around $3 million per project.

Table A1 lists the CFC projects by ICB (numbers and value) until December 2010 (updated by CFC).

Table A1 Number and Value of all CFC Projects by ICB, excluding fast track as at December 2010

ICB (FAO Groups)	No. of CFC projects	Total amount (US$)	ICB (other)	No. of CFC projects	Total amount (US$)
FIGB (Bananas)	6	32,118,158	ICAC	12	71,667,552
FIGC (Citrus Fruits)	2	7,488,649	ICCO	8	45,346,912
FIGG (Grains)	15	44,853,362	ICO	24	101,286,526
FIGHF (Hard Fibres)	8	13,670,574	ICSG	2	3,325,921
FIGHS (Hides & Skins)	5	10,898,913	IGC	1	4,088,345
FIGMDP (Meat & Dairy Products)	8	26,560,536	IJSG	10	15,820,529
FIGOOF (Oilseed & Fats	14	49,022,947	INBAR	5	10,856,318
FIGR (Rice)	4	10,414,339	IOOC	6	10,628,015
FIGT (Tea)	4	14,042,914	IRSG	8	18,459,321
FIGTF (Tropical Fruits)	9	26,138,114	ISO	7	16,109,610
FSCFT (Fish Trade)	14	17,690,322	ITTO	11	14,792,226
			LZSG	7	7,542,672
Total FAO	**89**	**252,898,828**	**Total other ICBs**	**101**	**319,923,947**

In dealing with projects, we noticed differences between ICBs in the extent to which they are geared toward projects. ITTO is a project-oriented organisation *par excellence*. Its manual for project proposals dates from before CFC had its manual. ITTO has an expert group that advises on the project proposals, and the Council makes the final decisions. INBAR, too, is involved with many projects, some handled by the head office, some by the regional offices. Their own staff evaluates proposals and the Board of Trustees decides.

On the other end of the range, an ICB like the IGC has had one project financed by the CFC but is currently not undertaking a project. It should be noted here that the IGG on grains has also an ICB status and a precise scope for IGC-endorsed CFC projects is not clear: much of its attention goes to international trade, including that between developed countries, and less to the ends of the supply chain (both consumers and producers in this case) in developing countries. The same – but to a lesser extent – holds for ISO and the IRSG. Though these organisations have had a handful of projects financed by CFC, their main focus and expertise is not just the developing countries. The sugar market is quite dependent on rich countries policies and these require attention. In IRSG's case, though natural rubber receives more of the secretariat's attention than synthetic rubber, their focus cannot be so particular on development. ICAC, which is in a similar situation, does many more projects. This is helped by ICAC's focus on research and development, more so than the above ICBs.

Most CFC projects are done by ICO. Many of their projects involve agricultural research too, some relate to marketing and promotion. The ICO has a special committee to review the proposals, similar to ITTO but smaller.

In Annex 4 of BDA, they provided a longer discussion on the relationship between CFC and the ICBs. Topics discussed there include:

> *1 the discrepancy between the objectives of CFC and those of the ICBs. Any friction between their sets of goals obviously implies that some of the projects wanted by the ICB are not financed by the CFC (in the field of market promotion for example), and CFC may have a focus (on least developed countries for example) that is not shared by the ICBs.*

2 The differences in membership. Around 75% of the ICB member countries is also member of CFC. Least developed countries are members especially of INBAR, ITTO and ICO (and CFC). (see below)
3 The advantages for the ICBs: since CFC came into existence, their opportunities for projects have increased enormously.
4 The tedious procedures of CFC: many months go by waiting for committees to meet, or revisions to be effected, or approved. ICBs have difficulties coping with the double screening of proposals, both by the ICB and the CFC Consultative Committee; some also find the financial arrangements difficult to work with. All find the writing of proposals and getting these approved by CFC very time consuming[1].
5 This leads the ICBs seeing projects more as CFC-projects than as projects of themselves.
6 The Annex suggests to address this issue by
  a. changing the organisational structure of CFC, giving the ICBs more say in the doings of the Fund or
  b. change the mandate of CFC opening it for requests by other organisations than just the ICBs

In Volume II of the study theoretical considerations are provided about the type of project that countries may want. It explains that projects aiming at production increases should be particularly supported by the consuming countries, as most of the benefits will eventually accrue to them. Projects targeting the transaction costs should be more welcome to both consumer and producer countries. As many commodity markets are characterized by high concentration of production in some countries, it is also noted that major exporters should, in particular, favour projects that lead to horizontal diversification.

The choice of projects submitted by ICBs and financed by the CFC shows a reasonable distribution over producer oriented projects.

Looking at the CFC funded projects with this point of view, we could classify the 145 projects until 2006 into 52 projects aiming at farmers; 60 projects targeting trade and processing; and 33 projects focussing on promoting consumption (which includes innovation of consumer products). The numbers of projects per ICB are too small to draw firm conclusions about any specific orientation. The FAO is generally more focussed on the producer, with the exception of the IGG on Fish Trade that targets the consumer. Most ICO and IOOC projects also target the producer. Overall, the CFC-projects for the ICBs are for 39% aiming at producers, for 39% targeting the market and marketing, and for 23% the consumer demand. While most of the producer oriented projects aim at enhancing their production, including R&D in this field, the market oriented projects are divided as given in the following Table A2

Table A2 Market oriented CFC projects (by 2006)

Processing	21
Trade, marketing, inc warehousing, risk mgmt	14
Development in general	15
Information collection, dissemination	2

What is striking in this division of market oriented projects is the limited number of projects in the field of market information. This is the mainstay of many of the ICBs, it is emphasized in numerous documents and many a report calls for more information to become available. Yet, projects in this field are not among the CFC sponsored set of projects[2]. The ITTO

[1] Note added in 2011: By now procedures of the CFC related to the submission of proposals appear to have become smoother.
[2] Note added in 2011: This was a conscious choice: it appears to be based on the reasoning that ICBs are charged with this work, and therefore should not call upon CFC to fund 'their' work. This reasoning misses the point that better data benefit the stakeholders in countries collecting these, as well as the community of the ICBs.

currently implements some 20 non-CFC projects in the field of market information, including setting up systems for forest and timber statistics.

Among the other projects, the 'market development' projects most likely encompass the commodity chain perspective. But issues of corporate governance and traceability are hardly (if at all) visible among the projects undertaken. They appear in some of the studies of the ICBs however. The issue of market structure, and the degree of competition in domestic and world markets, is not addressed at all, neither in projects, nor in studies.

A look at the CFC-projects of the ICBs shows that diversification projects are rather few (see Table A3). While some of the vertical diversification may not show up in this table, but rather in the 'processing' item above, the horizontal diversification projects should be visible here, but number only two.

Table A3 Producer oriented CFC projects (2006)

Production increasing	36
Disease reducing	12
Vertical diversification	3
Horizontal diversification	2

The distribution of producer oriented CFC-projects shows that many of the projects aim at improving production, either through R&D, such germ-plasm projects, or through reducing the exposure to diseases.

The conclusion seems warranted that ICBs may not be in the best position to develop proposals that would help horizontal diversification. Their focus on one commodity only is not conducive for such projects, and UNCTAD should be in a better position to do so.

Environmental concerns

Some of the CFC sponsored producer oriented projects and a few of the processing projects have environmental goals. These include rubber agro-forestry (IRSG), forest management projects (ITTO), bamboo market development (INBAR) and projects focussing on integrated pest management, waste recycling and organic product development. In total about ten projects (out of 146) focus on environmental issues.

Table A4 Sustainability initiatives

Commodity	Initiative	Initiator
Coffee	Common Code for Coffee Community (4C)	GTZ, German industry
	Utz-Kapeh	Ahold and other N.Eur retailers
	Starbucks	Starbucks
Cocoa	World Cocoa Foundation WCF	Industry
	International Cocoa Initiative	US senator and congressman, industry
Cotton	Better Cotton Initiative	WWF and textile industry (GAP, Adidas…)
Grains	Round Table on Responsible Soy	WWF
Palm Oil	Roundtable on Sustainable Palm Oil	WWF, Unilever
Sugar	Better Sugarcane Initiative	WWF
Rubber	Rubber-eco project	IRSG Industry Advisory Panel
Tea	Ethical Tea Partnership	UK Tea companies
Timber	Forest Stewardship Council FSC	US Traders, NGOs: WWF, GreenPeace, …
	Program for Endorsement of Forest Certification PEFC	European woodland owners
Multi-commodity	Fair Trade	Max Havelaar et al.
	Sustainable Tree Crop Program	USAID, WCF
	EurepGap	Northern European Retailers
	Sustainable Agriculture Initiative Platform	Food Industry
	Ethical Trade Initiative	UK NGOs

Sustainable Commodity Initiative	IISD and UNCTAD
IFOAM	Organic
Rainforest Alliance standards	Rainforest Alliance

ITTO and INBAR have many projects in the realm of environment sponsored by other donors than CFC. ITTO has about 60 projects running in the field of sustainable forest management, while INBAR has a number of projects on bio-diversity, erosion control and sustainable bamboo production. For other commodities, initiatives have been developed more or less outside the ICBs. Few ICBs have undertaken studies, or developed projects to make use of the Clean Development Mechanism and apply for carbon credits under the Kyoto protocol. There might be scope for tree crops and for crops that can serve as alternative source of fuel. ISO looks into this in relation to bio-fuel. The ITTO works on the topic and so does INBAR. The FAO and UNCTAD have published studies in this field.

Outside the ICBs, more activities in the field of sustainability are emerging. There are many initiatives to 'better' commodity production. Table A4 lists these initiatives, but cannot be exhaustive. In many of them, the WWF plays a constructive role. ICO is represented in some coffee initiatives, and the IRSG was involved in the Eco-rubber project, but otherwise the ICBs are not active in this field. The various initiatives are discussed in council and other meetings, though.

On the issue of membership, BDA have an interesting table in the annex referred to above. It is reproduced below as Table A5. It deals with the membership of CFC. There is obviously a preference of CFC to see the projects implemented in member countries, and to see the projects executed by organisations from member countries. The memberships of CFC and the ICBs do not fully coincide however. France is one example of an EU country that is not participating in CFC, while it is an active member of many other ICBs. China is a member of CFC, but not of ICO, ICCO, ICAC, IRSG, IJSG or ISO. The differential membership may also explain why priorities of CFC may diverge from those of ICBs. Table A5 shows how many of the members of an ICB are also member of the CFC. The top line shows this while counting all individual EU countries as separate members. Fourteen of these 25 EU countries are member of CFC. Counting the EU as 1 'country', the percentages of members that are also member of CFC are between 46% (for IOOC) and 92% (for IRSG).

Table A5 ICB Membership, in relation to CFC and LDC status

	ICO	ICCO	ISO	IRSG	IGC	IJSG	INBAR	ITTO	ICAC	IOOC
% of members also member of CFC	75%	68%	58%	89%	58%	59%	85%	69%	68%	40%
Same if EU counted as 1	84%	88%	63%	92%	58%	75%	85%	69%	63%	46%
% of Least Developed Countries member	30%	2%	10%	0%	0%	2%	26%	28%	14%	0%

Note that membership of the FAO-IGGs is open to all member countries of the UN.

The bottom line of the Table A5 shows the presence of Least Developed Countries in the membership of the ICBs. Many of them are member of ICO, ITTO and INBAR. Some are member of ICAC and ISO and few or none participate in the other ICBs.

Conclusion of this section on CFC-ICB relationship is that the ICBs have become more visible and effective because of their (exclusive) access to CFC for funding of projects. To quote from an early ICB-CFC encounter it changed the role of ICBs putting more emphasis on commodity development measures "beyond their current administrative and data-gathering roles" (Hartantyo & Smit, 1993, p. 19). Frictions in this collaboration are due to incomplete congruence of membership and formulated objectives.

6. Assessment of CFC in Global Commodity and Development Architecture

CFC is a project oriented organization. Its activities are mainly geared toward (co-)sponsoring and monitoring projects. Additional activities include a limited amount of advocacy and studies. Thus, in comparison with other development organisations, such as World Bank, UNCTAD and FAO, the range of activities employed and their focus are limited in scope. The focus is limited to commodities, notably those exported by least developed (and/or commodity-dependent) countries. The range of activities is limited by not having a capacity for research itself, not producing statistics or market information, and not acting by itself as a forum for deliberations on commodity policies, leave alone development policies. Compared with ICBs, the CFC distinguishes itself by a multi-commodity focus, whereas ICBs are typically focused on single commodities.

The narrow range of activities has its advantage too. CFC has developed considerable expertise in arranging financial support for projects and in dealing with their implementations and the financial details. The narrow focus on commodities has an advantage in that funding is reserved for commodity issues, which makes its availability more predictable. In view of the time needed to develop project proposals, the certainty of a commodity-devoted fund is reassuring. Yet, CFC has not escaped from the whims and waves of donor support. As sketched above, for some decades commodities were seen as part of the problem more than part of the solution. A change of this view is at hand.

Given its focus and instruments, and particularly its close link with the ICBs, it is surprising that CFC has its own wide range of objectives, and that so much discussion has been held about CFC’s mandate. As Burger, Daviron and Alby-Flores (2007) argue, there is a surfeit of goals. CFC’s goals are not the same as those of ICBs, and the ICBs’ goals are not the same as those of development organisations. Given that only ICBs can propose projects, CFC does not have much freedom in setting its own objectives lest it loses relevance for the ICBs. In fact the multi-stage process through which proposals reach CFC is not helpful at all if one wants projects to be demand-driven. The initial proposal is formulated with the goals of the (potentially grass-root) organisation. As their objectives do not one-to-one tally with those of the ICBs, projects are rewritten to comply with ICBs objectives and membership. For CFC-support, they must be rewritten again so as to better comply with CFC’s own goals and membership. In this process, less and less of the original submitter’s goals can be realized.

Being the ‘project arm of the ICBs’ (Tripleline Consulting, 2010) the consistent set of CFC’s objectives would be the envelop of the individual ICBs’ goals and its membership the encompassing set of member countries of the individual ICBs.

An alternative view on CFC-ICB relationships is to see the ‘ICB’ work as only part of the work done by International Commodity Organizations (ICOs). In that sense CFC’s objectives need not cover those of the ICOs completely. This implies that only some of the projects of ICOs can be submitted to CFC, while other projects need other sponsors. With CFC thus supporting some of the work of ICBs (and no other), its goals should contain at least the intersection of the sets of goals of the individual ICOs. If more than these goals are included, it leads to CFC favouring one ICO over the other. Similarly, if membership plays a role, those ICOs are better off whose membership corresponds closer to that of CFC.

Finally, if CFC formulates more goals than those entertained by the ICBs, these are either difficult to achieve (for lack of appropriate projects), or call for more organizations that are permitted to submit proposals to CFC than just ICBs.

Present set of goals and membership of CFC and ICBs are actually just that: CFC's set of goals is different from those of the ICBs. CFC goals include a focus on least developed countries and on smallholders for example; many ICBs have market demand promotion among their goals. CFC's membership includes many more countries than just the members of any of the independent ICBs. This does not hold for the groups hosted by FAO. Members of the Intergovernmental Groups are in principle all countries that are member of the UN.

If the objectives of CFC are to be adhered to, CFC should no longer be directly and exclusively linked to ICBs, but it should open up to all entities that come with proposals that serve CFC's goals.

Hence, the goals of CFC are inconsistent with its limitation to accepting project proposals only from ICBs. The quality of the proposals, and hence of CFC's work depend heavily on the quality of the initiation and selection process of the ICBs, albeit that CFC can promote projects and offer help in improving their formulation. CFC has also shaped its 'commodity focus' by stipulating that proposals should not be country specific, but aim at improvements that can be applied to more than one country. While understandable, it restricts proposals and is unnecessary as successful national projects often serve as 'models' for other countries. ICBs, as intergovernmental organisations with no financial stakes in the projects they handle, are also not the best medium through which project selection is done. They do not always have the expertise to judge and supervise a particular project (c.f. Duncan et al. 2007), while CFC has a more straightforward stake: it must justify the expenditures and see to it that loans are repaid.

Dependent as it is on ICBs, and restricted in its range of activities and focus, CFC cannot play a leading role in the commodity and development community. Within the confines of its present links to ICBs and its objectives, it can lead in arranging funding for a selection of projects. A truly leading role requires capacity for data collection, expertise for research and a flexibility to respond to topical issues. CFC does so on a limited scale only by its seminars and small studies.

The neighbouring organisations UNCTAD and FAO are better positioned as they have more research capacity and data collection units. They are, however, short of funds for sufficient and timely data collection, their intergovernmental steering bodies are not helpful in providing the necessary flexibility or room for collaboration with the private sector.

CFC plays a modest role in arranging funding for projects in the field of commodities. In doing so, it reinforces the role of the ICBs. Apart from the immediate impact of the projects, there are positive externalities in contributing to the community-building role of the ICBs. CFC's projects are relatively small. They often are of a pilot type, investigating the feasibility of certain approaches. This implies that projects can fail, but in doing so they convey a useful message that this was apparently not the way.

Some frictions identified were the incongruence of objectives and membership of ICBs and CFC, and the lack of back-up by research and data of CFC's operations. These frictions can be attenuated (or even eliminated) when CFC would not be standing alone, but be permitted to integrate with ICBs and a major general organisation. Integration with ICBs implies that separate objective for CFC would become redundant, while closer links with a major organisation would furnish CFC with easier access to research and data, and with an easier access to possible scaling-up of successful interventions.

At the same time, a number of ICBs suffer from limited membership, a heavy administrative work-load and limited interaction with private sector. This could be solved by providing stronger mandates to the organisations per se, with much stronger private sector involvement, while keeping governing boards at some distance.

7. Conclusions

The economic events in the commodity markets show the relevance of attention to commodities. There is insufficient knowledge on how to mitigate the fluctuations, or on how to reduce their effects on producers and consumers. Financial instruments but also enhanced storage can help; the two can be linked when credit is based on warehoused stocks. Horizontal diversification has become urgent yet again.

Commodity bodies are useful in providing forums for discussions on issues relating to the global value chain. In particular, governments of producing countries and the private sector should benefit from the opportunities this offers for agreeing on measures to smooth trade. Their ability to form commodity communities is instrumental in improving statistics and other market information.

All organisations deal with statistics collection. While UNCTAD’s and FAO’s data are public, those of most commodity organizations are members-only and not freely available on the web. This can be justified by their role as binding element of the commodity communities. But this applies not to historical data and these should be made open to the public and made consistent with data from other organizations. A natural division of work is for ICBs to focus on the short term and UNCTAD/FAO to focus on long-term developments that are relevant for the commodities.

Research on the CDDCs and their link with commodities are more important for their macro-economic and development aspects than for their commodity-specific aspects. It had best be undertaken by UNCTAD, providing that it is not already sufficiently covered by the IMF and World Bank.

In view of the importance of value chains, and of the ‘gap’ in these chains between producer and point of export, more research on market systems and the agents therein would be welcome. ITC has a focus on the export and import parts on the chain and UNIDO on processing. UNCTAD’s work on commodity exchanges (in which also the FAO is involved) is an important contribution and could be extended to cover behaviour and performance of traders. In fact their Division on *International* Trade etc. puts the emphasis too much on the international leg of the chain; major issues are in the domestic leg of the chain, even though issues of competition among the few international trading and processing companies warrant attention.

The name of FAO’s Division ‘Markets and Trade’ indicate the locus of many commodity problems (and opportunities). Its work should be on the costs and modalities by which products are moved, priced and transformed between developing country producer and consumer. The issue seems important and ubiquitous enough even to justify a **dedicated institute**, that focuses on what traders, processors, stockholders and speculators do, their industrial organization, and the outcomes of this for prices and their volatility when faced with supply or demand shocks. Moving the division to Geneva would constitute a useful step in this direction.

The position and the effects of processing industry on farm gate prices is particularly important, also in relation to pricing according quality, as Poulton's work on cotton has shown. As in the case of traders, they play a role in providing credit, but they also act as a monopsony. They are scorned at, but also indispensable. They usually buy the raw product from the farmer, but they could also just process it (or transport it), and leave ownership with the farmers. They can be private, closely regulated, but also state controlled. This is a core issue in the link between world market and producers for many commodities and is intimately related to price formation and the type of agents that would use futures markets.

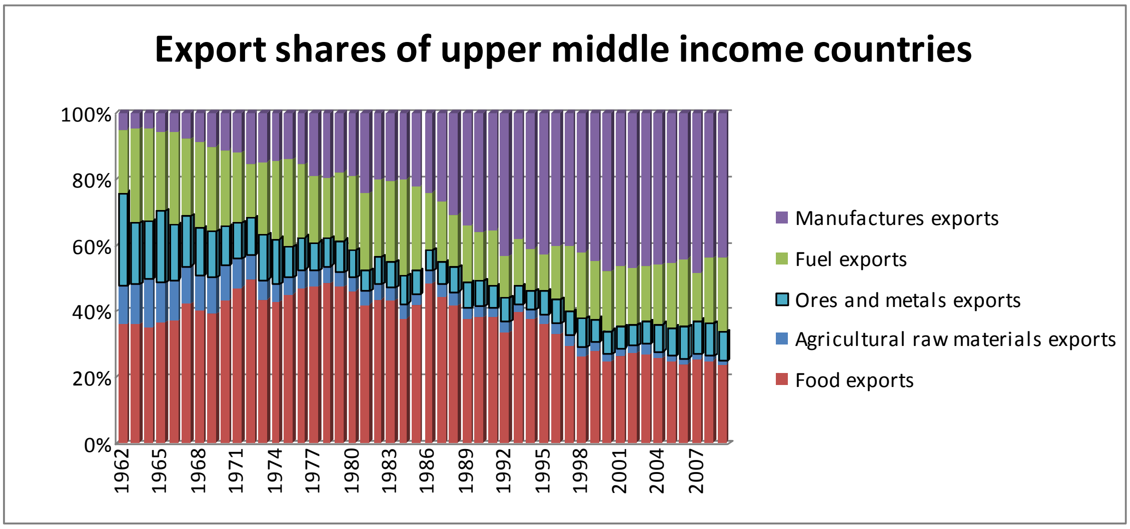
CFC is a fund meant to support the ICBs in the projects they propose. The commodities themselves are no longer the vehicle to target the poor countries. Even the CDDCs cannot be targeted precisely enough by this focus. The commodity *problématique* has shifted from the international market to – on the one hand – the domestic markets in the producing countries and on the other hand to the financial markets. It is time that the domestic leg of the global value chains is addressed squarely. CFC could help focus on this part in collaboration with other intergovernmental organizations and notably the (reformed) ICBs.

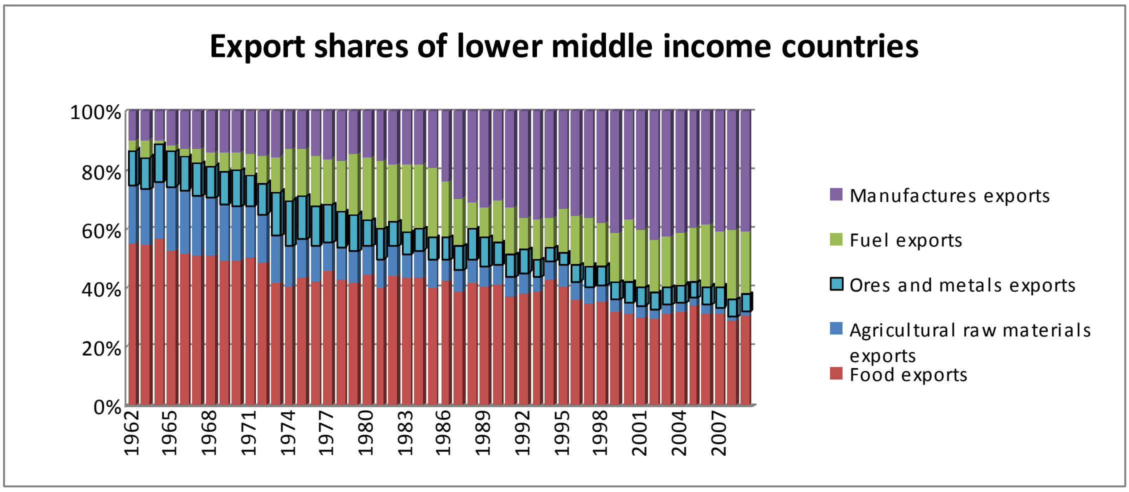
A welcome reform of the ICBs would be stronger involvement of the private sector, and of the governments as participants, rather than as governors. The governing role can best be put at some distance, by including an independent (or strongly mandated) person providing oversight, leaving more time and freedom for the bodies to do the actual work. A further reduction of the administrative burden can be achieved by bringing the ICBs under the umbrella of a UN body. An obvious choice would be UNCTAD, but this requires a change in UNCTAD, with an abolishment of its burdensome structure of intergovernmental governing boards dictating the work to be done. For this would not be consistent with the required flexibility and autonomy that the (semi-privatized) ICBs must have. What UNCTAD (and other UN bodies) should give them, is backstopping with research and data, and more scope for up-scaling of their successful findings to a wider set of commodities.

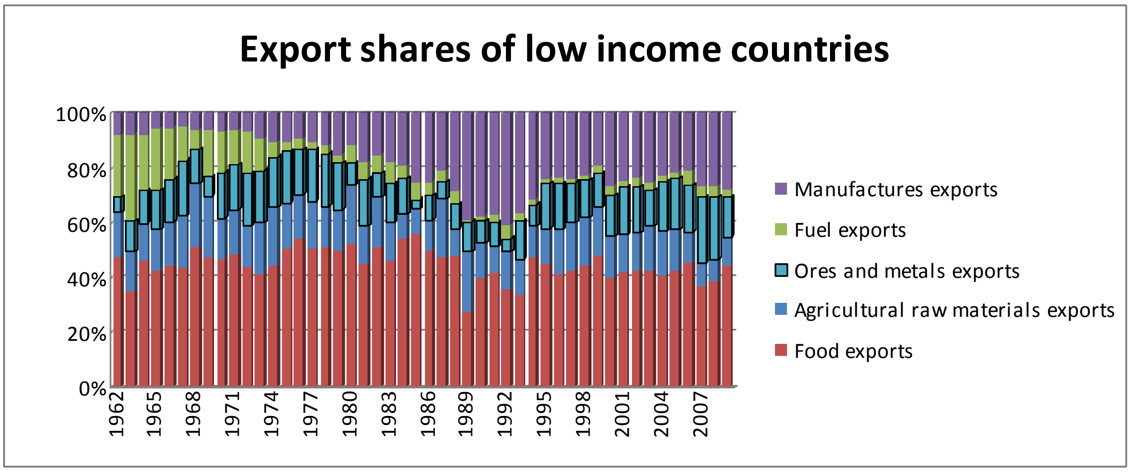
Similarly, CFC could be brought under the aegis of a reformed UNCTAD, while maintaining close links with the ICBs. Its objective would be to support the ICBs and help arrange funding for commodity-related projects of them and other bodies. It would no longer need a separate set of objectives, nor its own governing board. It would benefit from the same informational depth and scope for wider implementation of successful fruits of its funding.

Annex A

Shares of primary commodities in exports of 3 groups of countries, 1962-2009. Averages for varying numbers countries on which data were available. Source World Development Indicators, World Bank







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