

## DECLINING TERMS OF TRADE FOR PRIMARY COMMODITIES, AND ITS IMPLICATION ON TRADE AND DEVELOPMENT OF PRIMARY COMMODITY EXPORT COUNTRIES

Statement by Kenya on behalf of the delegations of Kenya, Tanzania and Uganda during the meeting of the Committee on Trade and Development held on 18 February 2004

The statement is being circulated at the request of the delegations of Kenya, Tanzania and Uganda.

1. Let me begin by thanking the Secretariat for the comprehensive bibliography which it circulated at the request made by Kenya, Uganda and Tanzania. We have been able to make a first reading of the papers despite our limited capacity and we would like to briefly highlight some the issues raised in the papers;

- Most of the world's poor live in countries which are dependent on exports of one or two primary commodities for the bulk of their export earnings and therefore a clear link is drawn between commodity dependency and poverty.
- The secular trend towards decline in prices of these commodities is continuing. Even though, prices of some of the agricultural commodities have shown in the last two years an upward trend, this is largely due to unfavourable weather conditions in the main producing countries or political uncertainties in some of these countries. Prices continue to be volatile for most of these commodities.
- The efforts made in the past at international level for the stabilization of prices, through the commodity agreements have failed. This is because the economic clauses, which enabled the coffee, cocoa, sugar and rubber international organizations to intervene in the markets to stabilize prices when such prices were falling, have been suspended.
- The producing countries have been persuaded to liberalize internal markets by abolishing *inter alia* marketing boards, which hitherto ensured that farmers got minimum prices for their production. The farmers are therefore at present left completely to the mercy of market forces.
- The purchasing power on the other hand is getting increasingly concentrated in the hands of a few foreign companies. Large trading companies, dealing in many commodities, are being replaced by more specialized companies. For coffee only, five companies now account for half of trade in green coffee, while cocoa trading companies in London have fallen from 30 to 10 and half of the trade is now controlled by chocolate manufacturers. Both of these trends

represent concentration of buying power in the hands of a few companies enabling them to dictate prices.

- Almost all studies emphasize that the only long term solution would be to diversify either into producing other agricultural crops or encourage the development of manufacturing or service sectors. Most of them however, admit that the past experience has shown that it would be difficult to find an agricultural crop that would be suitable for diversification. A few of the studies also recognize that for a large number of countries which are dependent on exports of a few primary commodities, diversifying into manufacturing or into service economy, is likely to be a long term objective, as it would take years to develop the physical and human infrastructure that is needed for their development.
- Most of the papers, particularly those by experts from the International Financial Institutions, refer to the important role which commodity derivative instruments such as futures, options, swaps and commodity linked bonds could play in reducing price volatility and making earnings for producers more predictable. Some commentators however, consider that even though these private sector instruments can be useful in covering risks arising from temporary fluctuation in prices, they would not have any perceptible effects, where there is persistent decline in prices as a result of structural over supply. The coverage of risks under these instruments is also fairly limited. While for metals like copper, it may be possible to cover risks up to three years or so, for agricultural commodities, the coverage is limited to a few months (generally three months). The experience has further shown that these instruments are used in some developing countries through the financial support from foreign banks. They further enable exporters from covering the risks and their benefits are rarely passed on to the farmers whose day to day livelihood is dependent on earnings from exports.

2. The summary of the findings which we have made may not fully reflect the various nuances and emphasis that are placed by the authors in coming to these conclusions. Despite these limitations, we consider that these findings and conclusions could provide two useful guidelines for our discussions.

3. First, for a large number of developing countries, which are heavily dependent on exports of primary commodities, diversification is not going to provide an immediate answer to their problems. Despite the assistance that may be provided to them in transforming their economies into manufacturing and service economy, most of these countries, particularly those in Africa would continue to depend on exports of these commodities for a very long period of time may be even for the next two to three decades.

4. Secondly, despite all the enthusiasm shown by International Financial Institutions for the market based financial instruments like commodity derivatives, their use would have very little effect in dealing with situations where decline in prices is due to a disequilibrium in demand and supply caused by structural over supply. As we have emphasized in the "non-paper" the crisis situation that has been created in trade in commodities like coffee and cocoa is due to structural oversupply in the world market.

5. With these observations let me now turn to the way in which our future work could be organized. In this context we wish to recall the positive progress made before Cancun on the commodities issue and indeed its inclusion in paragraph 28 of the Cancun Draft Ministerial text. This underscores the importance of this issue and the need to find a solution in a rule based system. It should be noted that there was no controversy at Cancun on this issue and therefore we would like to urge Members to continue engaging in discussions on this subject in a constructive manner and in the spirit of paragraph 5 of the Cancun Ministerial Statement.

6. In doing so we should bear in mind that the long term solution to the commodities crisis will need a multifaceted approach. In this regard, although the primary responsibility for discussions on the issues raised in the non paper should remain in the CTD there is need to involve the other WTO bodies as we have stated in previous sessions.

7. Towards this end we intend to submit an additional proposal specifically highlighting which issues should be handled by other working groups and negotiating bodies. This proposal will borrow heavily from the illustrative list of elements for action highlighted on page 9 paragraph 37 of our non paper.

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