

The Commodity Export Sector Opportunities, problems and risks

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The commodities sector in LDCs and African countries**
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Commodity markets and prices

Deficiencies in price systems on international commodity markets:

- Unstable prices
 - short-term (over the crop year)
 - medium-term (over the business cycle)
- Declining prices
 - long-term tendency to fall in relation to manufactures and services
- Declining share of price reaches the farmer

Declining real prices

Commodity prices declined by 2.8% per year (in constant US\$) in 1977-2001

- Coffee -5.1%
- Cocoa -6.9%
- Cotton -3.4%
- Palm oil -3.7%
- Bananas -0.6%

❖ Only wood prices rose (tropical sawnwood +2.1%)

LDCs and mineral exports

- The price boom since 2001 has mainly affected markets for metals and crude oil
- LDCs that mainly export minerals lost 84% of their share of world mineral exports in 1980-2001
- And they have the highest incidence of poverty:
 - 82% of population with <\$1 a day
 - 94% with <\$2 a day

LDCs' commodity exports

Loss of potential value from 1980-2001, due to price declines and loss of market shares:

- 79% in coffee
- 92% in rice
- 86% in copper

Ethiopia's coffee exports

- 1998 volume: 115,000 tonnes
- 2001 volume: 80,000 tonnes
- 1998 value: **\$380 million**
- 2001 value: **\$135 million**
 - ▶ decline of 64 per cent

Terms of trade

African countries' terms of trade have deteriorated by more than 25 per cent

- ▶ they have to export over one-third more in order to import the same amount as in 1980

Chocolate and vanilla fallacies

“Fallacy of composition”

- Cocoa exports increased from 1.1m tons in 1980 to 2.5m tons in 2000
- But fell in value from \$2.8bn to \$2.5bn
- Repeated with vanilla in 2004-05:
- Madagascar was urged to increase its vanilla production just at the peak of a price boom
- Prices crashed by 90 per cent within a year

Impediments to developing countries' agricultural exports

Under multilateral (intergovernmental) frameworks

- sanitary and phytosanitary measures
- technical barriers
- restrictive rules of origin
- intellectual property rights

Under private-sector frameworks

- product and quality standards
- health and safety requirements
- environmental measures
- social and eco-labelling and consumer information
- selective taxation
- oligopolistic market structures and anti-competitive practices

Buyer power

...in the hands of:

- Supermarkets
 - rapid growth within developing countries
 - weakening smallholders' position on *domestic* markets
- Agro-processing firms (e.g. coffee roasters)
- Integrated production and trading companies (as in the banana sector)
- Trading companies (especially in bulk crops like cereals and soya)
- ▶ Buyer-driven supply chains

E.g. in coffee...

- Each of the two largest roaster companies purchases **15 million bags** per year
- The average coffee farm sells **4.5 bags** per year
- Roasters manage their supplies to purchase exactly as much as they can sell at a given price level
- ▶ Any surplus stocks accumulate near the producers' end of the supply chain
- ▶ This forces down roasters' purchase prices
 - ❖ At the expense of farms, plantations and agricultural workers

Supply management

- Undertaken by those able to dominate the supply chain
- Can be commercial or public
- Limits supplies to keep prices up or down, or even out price fluctuations
- Methods can include:
 - manipulation of public or private stocks
 - production quotas
 - export quotas
 - import quotas and tariffs
 - tightly controlled outsourcing
 - subsidies

Countering global buyer power

- ▶ To correct for power imbalances arising from market concentration, some propose:
 - International competition policies
 - would require international agreement
 - Supply management by public authorities
 - can be administratively demanding
 - requires strong basis of solidarity among producer nations

Openings for poor rural people?

- **Traditional export crops**
 - such as coffee, cocoa and cotton
 - require international effort to correct market imbalances
- **Non-traditional exports**
 - from cut flowers to fisheries
 - can be technically demanding
 - ▶ limited benefits to smallholders
 - dangers of oversupplies on limited markets
- **Staple foods**
 - cereals, root crops, livestock, animal products
 - assured expansion of demand
 - benefits of production are spread widely
 - neighbouring countries can help each other