Traidcraft Exchange

R E V I S E D   D R A F T

Responsible Purchasing Indicators and Public Policy

Public Policy Report

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1. Rationale

This paper discusses the need and possibilities for public policy intervention in supply chains for food and other products exported from developing countries to the European Union, with the aim of ensuring that such purchases have the most beneficial social impact. The project is called 'Responsible Purchasing,' so the first question is: what are purchasers responsible *for*? In a private, competitive environment, their legal responsibility is to help achieve the best financial return for their companies' shareholders. Naturally purchasers will make fullest use of the bargaining power available to them to get the best bargain – or face the danger of being outcompeted by rivals.

However, indirectly these purchasers provide the livelihoods of rural people in countries much poorer than their own; and through those people, for much of the well-being of the countries as a whole. So in the economic and moral senses, they also have a responsibility to ensure that their purchases do not merely exploit the people, the exporting country or its environment. However, business pressures severely constrain the realisation of that responsibility. So if purchasing is to be fully responsible, the question becomes partly one of where improvements can be achieved within the competitive environment itself, and partly of where public policy is needed to push for these goals. This paper discusses the public policy aspect of the question.

A related question concerns the state of the planet, and the 'good manners' of leaving the place in as good a state as you find it in. Damaging environmental impacts by companies and their suppliers are also a consequence of the methods used to serve competitive needs. However, they fall outside the remit of this project, so little more will be said about them in this paper, except insofar as farming people and agricultural workers are affected by environmentally dangerous practices, such as the use of agro-chemicals. The topic of the paper is limited to the social and economic: ensuring secure and reasonable livelihoods for those involved.

2. Supply chains serving EU markets

EU purchasers affect all of these issues. Their bargaining situation depends on their own competitive interests and the relative bargaining strength of both sides. This affects the prices paid and other contractual conditions required of suppliers, and through them the workers' pay, national labour standards, and the environmental health of workers and local residents, among other things.

All of this makes a difference because of the huge gulf between the economic means of people in developed countries of the EU and the world's majority living in developing countries. In a world of broad equality between one country and another, there would be little moral concern about the conditions of such trade between them. But in 2003, GDP per capita in the 57 countries classified at the United Nations as of high human development was as much as 70 times that in the 32 countries classified as of low human development. This ratio has grown from around 30:1 in 1960.[1] Agricultural trade is especially important because, according to IFAD, three-quarters of the 1.2 billion people living on less than $1 a day live and work in rural areas.[2]

Most of the poorest countries rely on primary commodities, and especially agricultural products, for their export revenues. There is a worldwide crisis in agricultural prices, and it has affected developing countries' exports the most. United Nations data indicate that over the 24 years from 1977 to 2001, real US dollar prices for 46 leading commodities declined by an average of 2.8 per cent per year; notably, the real price of coffee fell by 5.1 per cent per year and that of tea, by 4.4 per

[1] UNDP (2005), p. 269 (Table 14) and Cornia, A.C. (2003), pp. 426 (citing the UNDP's *Human Development Report 1999*). The ratio for 2003 was calculated by this author.
[2] International Fund for Agricultural Development (2001), p. 1.

cent per year.[3] Because of the high degrees of national dependence on such markets, this explains a large part of the economic stagnation among the poorest countries in recent years. According to UNDP, in only seven of the 32 countries with low human development did real GDP per capita reach its peak in 2003, the latest year for which it gives figures, while in 10 of them the peak year was before 1980. In two (Madagascar and the Democratic Republic of the Congo) the most prosperous year was the very first in the series, three decades ago now.[4]

Economists have long recognised inadequacies in the ways the commodity markets work. Three major deficiencies have been identified in the price systems on international commodity markets:

Price instability. This can take two forms: over the short term (the crop year in the case of agricultural commodities), and the medium term (the length of the business cycle – between five and ten years). Commodity markets are well-known for instability of both sorts.

Declining prices. There is a recognised long-term tendency for commodity prices to fall in relation to the prices of manufactures and services. For a long time the evidence was contentious, but after the sharp decline in commodity prices over the last 25 years there is little dispute about it now.

Declining share accruing to the farmer of the price received at the border or in the final market. This is a worldwide phenomenon, affecting national export revenues as well as the prices received by individual farmers and the wages and working conditions of farm and plantation workers. A decline in either international prices or the farmer's or farmworker's share of those prices can undermine poverty-reduction measures which otherwise work well.

This indicates the source of concern, but who is in control of the situation? An indication is found in the term used to describe their operations on these markets by retailers and other companies near the consumer's end of the market: supply chain management. *They* are in a position to manage their supplies, while most of the people they buy from have little or no capacity to manage demand. Why is this? While agriculture itself is divided up among large numbers of households and small farms, especially in developing countries, the companies involved in retailing, processing and trading agricultural goods have become highly concentrated in recent years. Thus, on the coffee market there are 25 million farmers around the world, but just 30 companies control one-third of the global grocery market while three 'roaster' companies (Kraft, Nestlé and Sara Lee) do 45 per cent of the world's coffee processing. While the average farm sells about 4.5 standard 60-kg bags of coffee per year, each of the two largest roaster companies purchases about *15 million* bags. They can dictate their own terms, buying just as much coffee as they know they can sell at a given price, and forcing the costs of any production surplus back upstream on to the rural producer.

The fulcrum of this relationship is at the purchasing desk. According to one recent study, a European market chain in which 3.2m farmers supply 89m customers is mediated by just 110 buying desks.[5] This illustrates the power of retailers, processors or international traders on what are now routinely called *buyer-driven* supply chains. Many initiatives already exist to counter this (one of the most important is the fairtrade movement) while others are under discussion, some of them very radical in their implications. The debate is reflected later in this paper. Because of its importance both for human life itself and for the livelihoods of many of the world's poorest people, the food and agriculture sector has prompted more radical proposals for corporate power and social responsibility than almost any other part of the economy. Agrofood corporations need to take the consequences

[3] UNCTAD (2003), Table A.2. The real prices are calculated in constant 1985 dollars. The price deflator is the U.N.'s unit value index of manufactured goods exported by developed economies.
[4] UNDP (2005), pp. 268-69 (Table 14) and UNDP (2003), p. 281 (Table 12). The GDP per capita figures are offset for the different purchasing powers of currencies by the 'purchasing power parity' (PPP) method and for inflation.
[5] Vorley (2003), pp. 49 and 28.

of their purchasing practices in hand if they wish to avoid any further radicalisation, and the spread of such contrary ideas to wider sections of society.

3. Public policies hitherto

There are two possible ways of dealing with this situation: via private business indicators and codes of conduct regulating companies' own activities, and public policies imposed by political authorities. Business indicators can be relied on where the failure to comply can damage a purchasing firm's competitive position, including via reputation effects. Public policy is required where the competitive situation inhibits the realisation of desired goals by private means. This paper examines the latter case. Numerous public policy solutions have been applied over the last 50 years or so to the problems of agricultural trade between countries of the global North and the global South. The most important are described below.

- The most famous are the **International Commodity Agreements** (ICAs), used on several of the larger agricultural markets at various times between the 1930s and 1990s in an attempt to iron out price fluctuations and, in some cases, increase the average price. They did so by managing supplies on the world market, either through a buffer stock which would buy surpluses when prices were low and resell them at times of shortage and high price; or by restricting supply via physical national quotas to which all the main exporting countries agreed. These operations were based on agreements between most or all of the main exporting and importing countries on a market. Some of them had considerable success in both stabilising prices and preventing their decline over quite a long period: the most famous was the International Coffee Agreement, which employed export quotas and operated in this way from 1964 to 1989. Eventually it broke down because of a withdrawal of political support from consuming countries, especially the United States, and disagreements among producing countries over the size of their quotas and so-called 'free-rider' activities, according to which above-quota stocks were sold to non-member countries like the USSR.
- There have been several attempts by developing countries over the years to establish **producers' associations** along the lines of OPEC. In the 1970s, APEB imposed a levy on banana exports which was used to finance national development programmes; banana workers in some countries look back on that time as a golden age in which public services such as roads and health care noticeably improved. However, attempts by coffee producers in the 1990s to voluntarily curb their exports, under the auspices of the APPC, proved unsuccessful when Brazil, the largest producer, exceeded its quota and Vietnam – a non-member – became the second largest exporter within a few years. Countries exporting tropical agricultural products lack the international bargaining power which the importance of oil grants to the OPEC countries, and often lack the necessary solidarity as well.
- The EU has been one of the most active users of **trade preferences**, permitting specific groups of developing countries to export to it at less than the standard import tariffs. Quotas are often used too. This is largely a continuation of relationships from an earlier era by former colonial powers. These preferences have taken many forms, some of them very complicated. Their effectiveness is predicated on Northern border protection being permitted as an exemption to general trade rules in agriculture, textiles and clothing (the export sectors always of greatest interest to the poorest countries) ever since the early negotiating rounds of GATT in the 1950s. Three of the most important have been:
    - Wide-ranging tariff and quota preferences granted to African, Caribbean and Pacific (ACP) countries, most of them former UK or French colonies. These include special preferences for particular groups of sugar and banana producers, mostly small island states whose options in

both agriculture and international trade are severely limited. However, the banana and sugar preferences have been successfully challenged as discriminatory at the WTO by non-beneficiary states, and they are in the course of revision, reducing their benefit to the ACP countries concerned.

- The Everything But Arms (EBA) programme, a recent scheme to provide duty-free access for most goods, including those of an agricultural nature, from least developed countries (LDCs).
- The Multi-Fibre Arrangement, first introduced as a temporary measure in the 1950s to regulate imports of clothing and textiles to developed countries via national quotas for exporting countries, but only finally abandoned at the beginning of 2005.

The long-term benefits accruing to exporting countries from trade preferences have been called into question, since the guaranteed market they provide offers little incentive to improve yields or costs while they can also inhibit the exporting country from moving into more advanced forms of production. On the other hand, they do provide extra income which can be used for wider development needs. It is noteworthy that some of the main beneficiaries of the long-lasting ACP Sugar Protocol, such as Mauritius and Barbados, are now well up among the most successful developing countries.

- During the 1970s programmes of **compensatory finance** were developed, providing funds to developing countries when their balance of payments had been affected by downturns in commodity export prices. The most important were the EEC's Stabex programme for ACP countries under the Lomé Conventions and the IMF's Compensatory Financing Facility. Both have now been abandoned. However, Stabex was criticised for long delays in its provision of finance - often not arriving until prices had picked up again, thereby exacerbating the instability of export revenues - and for paying the money to national governments, who faced no requirement to use it for the benefit of farmers. Under the Cotonou Agreement, which replaced Lomé, Stabex was replaced by a new system called FLEX. It is designed to provide automatic compensation but under more stringent conditions, and little has so far been paid out on it. The EU recently eased those conditions but it is too early to say with what effect.
- Conventions regulating employment matters at the **International Labour Organisation** (ILO) are meant to ensure that employees enjoy collective bargaining rights and otherwise satisfactory conditions. Each one is signed by ILO member states individually. This is important for those commodities which are grown on large farms or plantations, such as tea and bananas. However, very often the conventions are not observed by countries that have signed them, and the employees and their trade unions can do little about it. The developed countries do not offer much practical support to ILO decisions or enforcement measures. On buyer-driven chains such as bananas the power of foreign corporations to drive down wages and employment conditions tends to be stronger than any will of a national government to insist that ILO norms must be observed.
- The WTO's Agreement on Agriculture (AoA) provides for measures of **Special and Differential Treatment** which mainly enable developing countries to reduce their import tariffs less quickly than developed countries have. However, this is not sufficient to outweigh the large subsidies that most developed countries pay to their farmers and agro-industries, while in many developing countries actual tariffs have already been forced well below the levels permitted by the AoA as a result of IMF programmes. The AoA contains a clause concerning Tropical Products (i.e. agricultural export commodities) but its provisions are weak.
- Not all public policy measures affecting commodities are beneficial to producers in developing countries. Problems particularly apply in relation to commodities which are produced in both developed and developing countries – so-called '**competing commodities**.' The conventional

image of a developing country's export commodity is of a tropical crop such as coffee or cocoa, which is almost entirely produced in developing countries and almost entirely consumed in developed countries. These have their own problems. But in countries of the North, commodities also produced in the South are often among the most highly subsidised crops. The EU's guaranteed price for domestic beet sugar is three times the prevailing world price (pending reform of the sugar regime), while bananas produced on EU territory such as the Canary Islands and French overseas possessions receive the highest subsidy per hectare of any crop under the Common Agricultural Policy. In both of these cases, a certain number of developing countries have been granted export quotas to the EU market – in the case of the Sugar Protocol, at the same guaranteed price as for the EU's own farmers. But this not only excludes other (often more needy) producers in the South, but reduces the world price which they receive.

- The main policy recommended by most donors to deal with the commodity price crisis is that of **diversification** into other commodities, especially those which are seen as offering more dynamic, growing markets, such as vegetables and cut flowers. However, since the price crisis affects agricultural markets in general, the benefits can be much less than is anticipated.
- International policies with non-economic aims, such as the **Biodiversity Convention**, can also affect commodity purchasing, for example by their impact on supplies of tropical timber and the stimulus they give to new 'niche' markets such as that for shade-grown (bird-friendly) coffee.

4. The existing EU position

The EU makes claims about the support it provides to developing countries in many areas, including that of commodity purchases. The EU or its member states are signed up to numerous programmes which have the purpose of benefiting poor people in poor countries. One of the most wide-ranging is that of the **Millennium Development Goals**, agreed in 2000 with the aim of reducing the number of 'extremely poor' people to half as many in 2015 as in 1990. The last of the eight goals provides for 'a global partnership for development' but its seven targets lack any timebound or quantitative measures. The first two goals, about the numbers of people in poverty and in hunger, are precise; but the linkages between commodity purchases and actual poverty, while known to exist, are very unclear, complicated and almost impossible to measure in any reliable way.

However, in 2004 the EU approved an **Action Plan** on 'Agricultural Commodity Chains, Dependence and Poverty.'[6] Its six chapters were about: developing commodity strategies at the national and international levels; coping with long-term price decline (as opposed to trying to counter it); managing (short-term) commodity risks and accessing finance; diversifying around traditional commodities; integrating with the international trading system; and enhancing sustainable corporate practices and investments in commodity-dependent developing countries. While these measures can provide numerous benefits at the margins, they do not tackle the fundamental problems of declining prices and buyer power.

5. Pressures for change

Commodity purchases are at the nexus between the poorest countries and the rich world. They therefore have substantially more global significance than their value at current debased prices might suggest. But it is hard to blame the purchasers if they pay low prices or impose other stringent conditions on their suppliers. They are 'only doing their job.'

[6] European Commission (2004).

However, since the turn of the millennium the implications for supplier countries have begun to provoke reactions in numerous quarters. It would be responsible of the EU as a leading global player to help ensure that falling prices and buyer-driven markets do not lead to further impoverishment, at a time when the international community's declared aim is to cut poverty by half. Commodity purchasers and their employers should also think carefully about the long-term consequences for their businesses if these trends are allowed to go much further.

At the highest level, the change of mood is seen in the increased confidence of developing countries' negotiators in international forums – for example at the WTO, where they refused at Cancún in 2003 to accept a deal on agriculture which was proposed jointly by the US and the EU. The stand-off has remained since then, providing little hope of progress at the next WTO ministerial meeting in Hong Kong in December 2005.

Numerous initiatives at lower levels also reflect the gradual change in the mood since the heyday of World Bank structural adjustment in the 1990s. At the national level, a new government in Ecuador earlier in 2005 introduced limits on banana exports, when as the largest exporter of bananas Ecuador had a record of opposing measures that ran contrary to the market. Over the years the government of Malaysia has been more willing to intervene in economic processes, but it was still noteworthy when in July 2005 it reached an agreement with Indonesia to cooperate in commodity markets of joint interest, such as palm oil and natural rubber.

And pressures are building within the EU itself. Several of the smaller farmers' unions, as well as environmental organisations, are affiliated to the global movement Via Campesina, whose rallying cry of food sovereignty entails ending the WTO's jurisdiction over agricultural trade. Pressure among NGOs to look again at international supply management on commodity markets is growing, as is the search for the best ways to reduce concentrations of market power on supply chains. The Agribusiness Accountability Initiative (AAI) ran a major conference to this end near London in June 2005, while the development charity, ActionAid, launched a campaign on the same theme.[7]

6. Possible generic solutions

Solutions to commodity market problems can be either generic, affecting various markets at once, or sectoral, applying to just one commodity. This section of the paper will describe possible generic measures which are being discussed in various quarters, while the next will look at proposals which could apply to individual sectors. Within the EU, generic proposals may be of greater interest because they are wider in scope. They are also much more numerous at the present time – important sectoral discussions such as the Second International Banana Conference in Brussels in April 2005 notwithstanding.

The most important ideas currently under discussion are described below. As will be seen, they cover a wide range, with some of them specific to commodity markets while others go close to the heart of the capitalist system.

1. **Policy space**. There are many proposals to allow developing countries greater 'policy space,' enabling them to take more decisions over their own economic progress than has been permitted under IMF and World Bank programmes in recent times. Within the international system, this is advocated in particular by the U.N. Conference on Trade & Development (UNCTAD). Among NGOs, Via Campesina's call for food sovereignty has also gained a wide hearing. This would permit each country to determine its own agricultural policy rather than being subjected to

[7] Visit AAI's website (www.agribusinessaccountability.org) and see ActionAid (2005).

international regulations at the WTO. These proposals have implications for policy towards companies themselves, as discussed in the next paragraph.

2. **Corporate regulation**, including the following:

   A. In 2003 a sub-committee of the UN Human Rights Commission agreed a text specifying human rights norms that transnational and other businesses should be required to observe.[8] Although it was not subsequently approved by the full Commission, there is continuing support for it from Amnesty International and others. The text would guarantee rights in six areas: equal opportunity; personal security; workers' rights (including those relating to forced labour, child labour, health and safety, remuneration, and freedom of association); respect for national sovereignty; consumer protection; and environmental protection.

   B. Company law

   (i) Related to the above, there are proposals for national or EU regulations to make companies legally accountable for their impacts on human rights and the environment. These cover broad economic and social rights such as the right to food and the right to work, besides those mentioned in the proposed UN norms.

   (ii) There are proposals (from ActionAid among others[9]) to give those whose money is ultimately invested in businesses more say in the way those businesses are run. Limited liability was introduced into business partly as a way to democratise it, enabling small investors to play a part without bearing full financial responsibility. In the modern world few people own company shares directly but many people in developed countries do so indirectly, for example via pension funds and insurance policies. But although they are the ultimate owners, current rules give them little or no say in the companies which their investments finance. The idea is to restore the democratic principle originally associated with limited liability.

   (iii) On the other hand, there are proposals to remove limited liability from the directors of limited companies, so that they answer personally before the law for actions that they take.

   C. Further proposals would legally require supermarkets and other corporate buyers to observe all existing international norms in areas such as labour standards and biodiversity, and to limit predatory contract requirements imposed on their suppliers.

   D. A final group of proposals would provide for more information on corporate affairs. One would extend to agrofood TNCs Article XVII of the GATT, which requires state trading enterprises to disclose information to the WTO about their activities. The information provided would include details of subsidiaries, affiliated companies and strategic alliances.[10] Other proposals on disclosure requirements include statutory access to more information for farmers and workers, and a widening of the information available to the general public on questions such as the traceability of produce.

3. In the international arena, trade unions representing, for example, banana workers insist that the countries where the produce is grown should not only sign **ILO conventions** guaranteeing freedom of association and other labour rights, but make sure they are observed in practice.

[8] Office of the UN High Commissioner on Human Rights (2003).
[9] ActionAid International (2005), p. 70.
[10] South Centre (1999), p. 27.

This enables court action to be taken against domestic or foreign-owned firms which, for example, do not let their employees join a trade union and negotiate their pay and working conditions. Various means of enforcing this at the importing countries' end have been proposed. This could be via a statutory obligation from either the EU or member states on purchasing companies to ensure that the rights are observed by their suppliers.

However, a degree of caution is required since many people in developing countries suspect that demands over labour rights and environmental measures are a hidden form of protection. Even on the banana market, it is noteworthy that such demands are heard mostly from higher-waged producing countries in Latin America, rather than new entrants which stand to benefit from low labour costs, such as Cameroon and Côte d'Ivoire.

4. There is growing interest in using **competition rules** to reduce concentrations of market power on commodity supply chains. This would reduce purchasers' bargaining power, making it more difficult for them to operate irresponsibly. There are two problems with existing competition (or antitrust) policies in this area. Firstly, they were developed in earlier periods when the main danger lay on the production side, and so are designed to deal with monopolies and oligopolies which damage consumers' interests, rather than buyer power which harms the producers. Not only are the technical issues different, but this is politically complicated as consumers (= voters) in developed countries stand to benefit from the low prices and assured supplies which buyer power can achieve.

The second problem is that many competition authorities investigate whether dominant companies compete among themselves, rather than whether their combined power is an obstacle for smaller companies alongside them on the supply chain or upstream of them. When the UK's Competition Commission investigated that country's supermarkets in 2000, it published numerous examples of abusive arrangements with suppliers but gave the supermarkets a clean bill of health because there was no evidence of collusion between them. However, the mood may perhaps be changing, at least in the UK. John Bridgeman, who headed that inquiry, was recently quoted as saying that another inquiry was now justified since Tesco, the biggest company, had increased its market share to 30 per cent of all groceries in the country; and had he still been head of the Office of Fair Trading in 2002, he would have referred Tesco's purchase of a chain of smaller shops at that time to the Competition Commission.[11]

Specific proposals in this area include the following:

A. Strengthen cooperation between competition authorities with a view to eventually establishing a global authority. The argument is that the markets themselves are global, as are the most serious corporate concentrations found on them; and that even the European Commission's competition authority, highly regarded as it is, does not have sufficient leverage to be fully effective in these circumstances.

B. There should be a legal maximum market share above which companies cannot go. The details remain to be determined: what the maximum should be, whether it should apply to a single company's market share or that of a dominant group (how many companies?), how to define the market by geography or type of product, how to measure when a company or companies have reached that point, and what to do then. But these can all follow on if the principle persuades enough people of its merits.

C. Be prepared to break up corporations where the needs of competition require it.

5. **Agricultural trade rules**, as discussed at the WTO negotiations. The issues here include these:

[11] Lawrence (2005).

A. Six African countries[12] have submitted a proposal to the WTO for action on the commodity price crisis, recalling that the GATT requires action 'where appropriate' to stabilise commodity markets and attain 'stable, equitable and remunerative prices.' It calls for action on tariffs, subsidies, supply management and asymmetric concentrations of power in value chains.

B. Tariff escalation, according to which processed goods attract higher import tariffs than raw or unprocessed goods. This can prevent countries from creating processing or manufacturing industries on the basis of commodity production. For example, Japan allows cocoa beans to be imported tariff-free but levies a 5 per cent tariff on cocoa paste, 13 per cent on cocoa butter and *over 280 per cent* on chocolate products.[13] A related question is that of tariff peaks – particularly high tariffs imposed at one point of processing, which can have a similar effect.

C. Tariff preferences for poor countries – and what to do when those countries' preferential margins decline as the tariffs applied to other countries' goods are reduced. There is a risk that as a result of such 'preference erosion,' many LDCs will conclude that they have more to lose than gain from the Doha Round.

D. Reducing developed countries' subsidies on their agricultural production. Subsidies on competing products can affect producers in developing countries in two ways: firstly, by losing part of their domestic market because their costs of production are undercut by subsidised imports; secondly – and of more interest to purchasers in Europe – by rendering their exports uncompetitive on world markets, even if the quality is good and their actual production costs are low.

E. Other aspects of Special and Differential Treatment in the Agreement on Agriculture. The most important proposal is to introduce 'special products' and a 'special safeguard mechanism,' which developing countries could invoke to limit the damage to domestic production from import competition.

6. **Supply management**: as we have seen, dominant buyers manage this own supplies of commodities in their own interests. But there is also a long tradition of public management of agricultural supplies, usually with the aim of stabilising or raising the prices received by farmers. Supply management – both public and private - can take many forms, one of which was the ICAs which used to intervene in such markets as coffee, cocoa, sugar and wheat. In view of the collapse of commodity prices, and its impact on many poor farmers' livelihoods, there are growing calls for a return to supply management. It would probably not be possible to reintroduce the ICAs in their previous form, and it may not be desirable either. Of its nature, supply management can only be carried out market by market, i.e. as a sectoral solution. However, part of the present debate is whether there should be an overarching programme and if so, whether supply management should be designed to a common, 'generic' format or individually tailored for each market. Another question is whether such schemes should involve both producing and consuming countries, as in the ICAs, or be run entirely by producer countries, like OPEC.

7. Rationalise the **certification** and other requirements placed upon suppliers in **premium-price segments** such as fairtrade and organic produce. There are now so many premium standards and certifying bodies that it can be confusing for the consumer to distinguish between them and expensive for the producer to pay for each one. Rationalisation could be either across countries

[12] Côte d'Ivoire, Kenya, Rwanda, Tanzania, Uganda and Zimbabwe.
[13] Commission for Africa (2005), p. 276.

within the EU or through wider-ranging certificates, covering more than one premium category. A question is whether such action should be carried out by statutory authorities such as the European Commission, or by existing certification agencies. The EU already has a common standard for organic produce, but the technical requirements are minimal and it has not imposed itself as an alternative to private organic standards. Given the relatively high charges made for some of the environmental certificates and the social benefits that accrue from fairtrade, there is a further question whether fairtrade standards should be addressed on the same terms.

8. **Uses of aid**. Part of the explanation of falling prices for tropical commodities is that the donors, led by the World Bank, have insisted that developing countries should export their way out of payments difficulties. This has led to chronic excesses of supply on many markets, and falling prices. There are suggestions that aid programmes should therefore attempt to limit export supplies rather than expand them.[14] The EU and its member states could ensure that their aid:

   A. does not further increase supplies on oversupplied markets, for example by expanding planted areas or yields without controlling other aspects of supply;

   B. supports agricultural research that better suits development needs, without placing an increase in yields of export crops as the main aim of research; and

   C. plays an active role in measures to increase the bargaining power of farmers and farmworkers on agricultural supply chains.

9. **Official procurement**. Public authorities are important purchasers of many commodities and can use that position to influence the prices paid and the conditions in which the commodities are produced. Recent examples of such government actions include:

   A. The British government's decision to purchase fairtrade tea, coffee and other products for use in its ministries;

   B. Local decisions to favour organic ingredients for school meals, and for those meals to be freshly prepared, not pre-processed;

   C. Decisions by local governments to declare 'fairtrade zones.' This is largely declaratory in effect, but gives official publicity to the benefits of fairtrade and the local availability of fairtrade products.

10. **Production and hygiene standards** for food and agricultural produce have become increasingly onerous for producers. This is partly in response to consumers' concerns about health and other issues. Sometimes meeting the standards requires equipment that is beyond the means of developing countries, or only on their biggest estates. Meanwhile, exporting governments' ability to ensure those standards are met has been reduced since many state marketing boards were broken up under structural adjustment. Buyer-driven supply chains also impose their own, commercial standards on suppliers. Again, this often limits access to them to the largest, most highly capitalised farms. There are also proposals to give assistance to small-scale producers to participate in standards-setting processes, so that their own needs are better taken into account.

7. Possible sectoral solutions

Proposals have been made for specific commodity sectors, with a view to social improvements in poor communities that rely on them for their livelihoods. This section describes some of them.

[14] One was a proposal from Oxfam when the EU's Plan of Action for Commodities was being prepared. See Oxfam (2004).

Many such solutions are addressed either to countries producing tropical crops or to the global community, but the role of the EU and its member states as consumers is also important.

The issues include:

1. **Supply management**. An intriguing aspect of commodity markets lies in their sheer variety, including widely differing means of price quotation and formation. It is argued that a weakness of the former ICAs, overseen by the United Nations, lay in their 'one-size-fits-all' character. Managing agricultural supplies internationally is difficult enough, especially in developing countries where administrative capacity is low. Moreover, each market has its own technical and political characteristics, and arrangements that work well on one market may not do so on another, superficially rather similar market. The case is therefore made that supply management should go with the grain of each market, leading to different arrangements between one market and another; this can only be carried out sector by sector. The negotiating burden is also lighter, enabling the first new cases of public, pro-producer supply management to start sooner.

2. Similar considerations concern **market concentrations** on particular supply chains. Proposals for specific sectors include those for the coffee-roasting companies and international traders (such as Cargill and Archer Midland Daniels) which dominate trade in arable crops such as wheat, soya, rice and maize.

3. Four African countries[15] submitted a proposal on **cotton trade** to the WTO in 2003. This is now supported by the African Group and the ACP bloc. This is a classic example of a competing commodity, in which 25,000 US farmers receive annual subsidies of around $2 billion, which have the effect of reducing the world price. But some of the poorest countries in the world, in West Africa, depend on exports of high-quality cotton produced with some of the lowest production costs, but find much of their market lost to this subsidised produce. Most of their exports go to the EU, where cotton is subsidised at even higher rates than in the US. EU production (mainly in Greece) has doubled in recent years. The Africans propose to prohibit all domestic subsidies to cotton and call for compensation for their loss of revenue until subsidies are removed. They say this is their 'only interest' in the WTO Doha Round.

4. Numerous improvements can be made in **specific tariff regimes**, such as those for sugar and bananas in the EU. Both regimes are being reformed and it is timely to pursue them. Another example lies in a proposal for differentiating import tariffs for bananas according to the social and environmental standards of their producers.[16] This idea could be readily applied to many other commodities.

8. Solutions that can be promoted today

This section draws from the previous two those proposals which can be readily pursued at present. In general they are technically feasible and many of them would find substantial support from civil society and parts of the academic community. The biggest problem is that commodities policy has been ignored for 20 years, as the doctrines of structural adjustment insisted that international markets should be left to their own devices. The leading decision-makers – at the IMF and World Bank, the G8 countries and the European Commission, as well as their acadmic advisors - are still reluctant to concede that any approach that requires market intervention can be considered.

[15] Benin, Burkina Faso, Mali and Chad.
[16] Parker & Harrison (2004).

However, the tide is turning. Many of the recommendations made below are for policies that require much stronger political support than is available at present, and may have to be fought for over quite a long period. At present the greatest need is to change public opinion. This has begun to happen, but more recognition is required that the necessary changes in trade policy do not all lie at the WTO's door.

Here we address actions that can be taken at various levels of government, from the global through the EU and its member states to regional and local government.

- **At the global level**: we discuss here what the European Commission and EU member states should be asked to propose to various global institutions, in order to improve the social impact of commodity purchases from developing countries.
    - The widest requirement is to restore to developing countries the freedom (or 'policy space') to determine their own economic policies, after 20 years in which they had to follow the dictates of the IMF and World Bank and accept new rules imposed by the WTO. It should be up to each country itself to decide fundamental questions, such as whether to emphasise goods for export markets or crops for domestic food supply.
    - Press for greater cooperation between competition authorities for actions over global markets, with a view to eventually establishing a global authority.
    - At the WTO, support the two commodity proposals from African countries. They require a revision of the EU's negotiating mandate to remove subsidies on competing commodities such as cotton and sugar. Remove tariff escalations and tariff peaks affecting products from countries which are not LDCs (and therefore do not benefit from existing EBA preferences). Extend Article XVII of the GATT to place on private-sector trading companies similar information requirements to those applying to state trading enterprises. Clarify WTO rules concerning joint action in favour of supply management on global markets.
    - Support the Task Force agreed at the UNCTAD XI conference in 2004 for investigating commodity policies, with the provision of EU funds and technical inputs. Initiatives undertaken between developing countries to cooperate on commodity export markets should receive public support, especially where elements of supply management are involved.

- **at the EU level**
    - Investigate market concentrations on particular supply chains, for example that of roasters on the coffee market, the changing position of supermarkets vis-à-vis vertically integrated TNCs on the banana market, and trading corporations on markets for grains and other staple foods. Press for a legal maximum market share above which companies cannot go. In some markets such investigations should be carried out by the European Commission, in others by national authorities. The first group includes the coffee market, where roasting is concentrated globally and EU markets are effectively divided up (the German market being dominated by a Kraft subsidiary, Belgium and the Netherlands by Sara Lee, the UK by Nestlé and so on). On the other hand, in the case of supermarkets, investigations are better done nationally because the concentrations within member states are of national companies, such as Tesco in the UK market, Carrefour in France, Ahold in the Netherlands, Delhaize in Belgium and ALDI in Germany.
    - The EU should introduce stricter regulations governing purchases by supermarkets. Ensure that the most serious abuses imposed by them on suppliers are fully covered by prohibitions of restrictive practices under competition laws. Member states also need to act on this.

- Supermarkets and other corporate buyers should be required to observe all international norms for labour standards and biodiversity. Work with the Agribusiness Accountability Initiative's EU supermarket group to raise awareness of buyer power at EU Parliament and Commission, building a pan-European alliance of civil society organisations. Press for the actual observance of all ILO conventions signed by countries from which items of produce are imported into the EU.
- Press for the European Commission to make a serious investigation into commodity supply management, market by market. Support the redirection of agricultural research away from expanding production and yields, and towards – for example – improving varieties of traditional staple foods such as millet, sorghum, cassava and yams.
- End support via international aid programmes for the expansion commodity export production, unless projected world demand fully justifies it.
- Rationalise the certification and other requirements placed upon suppliers in developing countries in premium-price segments such as fairtrade and organic production.

► **at the national, regional and local levels (EU member states)**

- Revise company laws to place greater requirements on commodity-purchasing companies for accountability and access to information.
- EU member states should review their procurement of commodity products originating in developing countries. This is mainly for national or regional decision, altthough the EU's own procurement should also comply. This also applies at local levels of government, for example in the provision of school meals. Member states' constitutions vary widely, with different degrees of centralisation. For example, more powers exist at lower levels of government in Belgium and Spain than in the UK. This affects what decisions are made at what level.
- Extend throughout the EU the campaign to nominate Fairtrade Cities, meeting specific criteria for the purchase of fairtrade goods.

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