

**NON PAPER ON THE NEED FOR URGENT ACTION IN WTO TO DEAL WITH
THE CRISIS SITUATION CREATED BY THE LONG-TERM TREND TOWARDS
DECLINE IN PRICES OF PRIMARY COMMODITIES TO THE TRADE
AND DEVELOPMENT OF DEVELOPING COUNTRIES WHICH
ARE HEAVILY DEPENDENT ON THEIR EXPORTS**

Communication from Kenya, Uganda and Tanzania

The following communication, dated 14 April 2003, has been received from the above delegations with the request that it be circulated.

I. GENERAL

1. This non-paper, on the serious problem posed by the long term trend towards decline in prices of primary commodities to the trade and development of countries which are heavily dependent on commodity exports, is divided into three parts. Part One provides an overview of the crisis situation created by declining prices. Part Two describes the various ideas that are being put forth by commodity trade experts and other analysts for finding solutions to these problems. Part Three emphasizes the need for the Committee on Trade and Development to address on an urgent and priority basis the serious adverse impact which the declining prices of primary commodities is having on the trade and development of countries which are heavily dependent on exports of such commodities and on their capacity to service and pay their foreign debts, with a view of drawing out a work programme for "joint action" to find solutions to these problems in the ongoing negotiations.

II. PART ONE - OVERVIEW OF THE CRISIS CREATED BY DECLINING PRICES OF PRIMARY COMMODITIES

1. Decline in prices of primary commodities

2. Until very recent months, the prices of primary commodities (both minerals and agricultural products) have prevailed at exceptionally low levels in real terms. For instance the prices of coffee, cocoa, sugar and palm oil declined in the twenty-year period from 1980 to 2000 by nearly 70 per cent. The prices of other agricultural commodities also declined during the same period, but by a lesser percentage; for instance, the prices of cotton, and of vegetable oils like coconut were lower by nearly 50 per cent in 2000 as compared to the levels prevailing in 1980. Although metal prices were not as dramatically affected, there are a few exceptions. Prices for copper halved between 1996 and 2001.

3. More than 50 developing countries depend on three or fewer commodities for more than half of their exports. Thirty-seven of these countries have been categorized by IMF and the World Bank as Heavily Indebted Poor Countries.

4. Although prices of some commodities have risen, since the middle of 2002, these increases appear to be prompted either by poor harvests or by speculative buying due to political developments

and do not reflect any long term lasting trend towards improved balance between world supply and demand¹.

2. Their impact on the economies of commodity exporting countries

5. The sharp decline in prices of these commodities has created a crisis situation in most of commodity exporting countries, as there is close relationship between world market prices and poverty levels. In most of the countries production of crops like coffee, cocoa and sugarcane is undertaken on small farms, by farmers who live at subsistence levels and are in most cases also heavily indebted. Decline in prices for their produce has further reduced their meager income. For crops like coffee these small farmers are now getting a third of the price they were getting in the mid-nineties. The result has been that instead of increased prosperity, more and more farmers producing these crops are being pushed to living below poverty levels.

6. The decline in prices of commodities has also resulted in steep fall in foreign exchange earnings of countries which are dependent on them for a high proportion of their exports. These reductions in total exports earnings have adversely affected the capacity of these countries to import technology, energy and agricultural inputs needed for economic development.

7. The worst affected are the heavily indebted countries, which are finding that as a result of decline in their total export earnings, a major portion of the foreign exchange revenue goes towards meeting their debt service and payment obligations. The ability therefore, of these and other developing countries, to alleviate poverty and to integrate themselves into fast growing globalizing economy is greatly dependent on how quickly they are able to get prices for the commodities they export, that are remunerative and would provide farmers with income that would assure them reasonable standards of living.

3. Main reasons for decline in prices

(a) Structural oversupply

8. The main factor responsible for the decline in prices for almost all agricultural commodities is the imbalance between supply and demand. In the case of coffee and cocoa and some other commodities the oversupply is "structural" in nature as production and supply is consistently far in excess of world demand. The reasons for this are inter alia, the following:

- Firstly, poor farmers try to produce more, when prices are falling, in order to maintain the same level of income as they have no other source of income. Increased production however results in depressing prices further.
- Secondly, in relation to some of the commodities, the policy measures adopted by a few of the countries, which are major producers, have resulted in increased production, thus augmenting the over supply.
- Thirdly, in recent years, new countries which are low cost producers, have started producing some of these crops. What is ironical is that advice to diversify production to these commodities was given to these countries by the World Bank and the IMF, without taking into account the fact that resulting increased productions could, unless world demand increased correspondingly, depress world prices. Donor countries have also often encouraged and assisted developing countries to undertake cultivation of new agricultural export crops, where they consider that given the soil and climatic conditions, production would be efficient

¹ The Economist, 8 February 2003, pages 73-74.

and low cost, without making adequate study of whether in the long term the world market would be able to absorb the increased production, without depressing prices.

- Fourthly the domestic and export subsidies (including export finance and credits) that are granted by some of the developed countries for primary commodities like cotton, vegetable oils, fruits and sugar, which are produced both in the developed and in the developing countries, in order to provide reasonable levels of income to their domestic farmers engaged in production of these crops, also result in depressing the prices of these commodities in international markets. It is however important to note that the European Union's domestic support policy is managed in such a way as to provide benefit of higher guaranteed domestic sugar prices to 1.3 million tons of sugar imported from certain ACP countries.
- Fifthly, a further reason for oversupply in the international markets is the change in the formulation of processed products offered for sale in international markets and the development and use of substitutes. In the case of coffee for instance the coffee content in many branded products that are sold in international markets has fallen steadily. As a result of the recent EU decision to allow the use of cheaper vegetable fats in chocolate, the latter fats are increasingly replacing the use of cocoa butter. Artificial sweeteners are also increasingly replacing consumption of sugar in most of the industrialized countries.

(b) Accumulation of large stocks

9. Structural over supply hanging over world markets has generally resulted in large accumulation of stocks and the movement of prices mirrors and magnifies movement of stocks. At the end of 1990s, the ratio of global stocks to annual consumption had reached exceptionally high levels for a number of commodities.

(c) Abolition of economic clauses in international commodity agreements

10. For commodities where such chronic situation of over supply exists, (e.g. coffee and cocoa) there might be no possibility of prices reviving to the levels prevailing in the earlier years, unless concerted efforts are made by producing countries to control production and stocks are reduced. Efforts made in the past, to secure equilibrium between supply and demand at stable and remunerative prices, by international commodity organizations have not always met with success. The economic clauses in the International Coffee, Cocoa and Sugar Agreements, which allowed these organizations to intervene in the market for the above purposes have been abandoned. However, even if the economic clauses were to be revived, it is doubtful, whether in the present market situations, buffer stock operations alone could be effective in stabilizing prices at levels that are remunerative to producers. Buffer stock operations are based on the assumption that unbalance between supply and demand is of a temporary nature, and that it would be possible for the agency to dispose of the stocks it has built up to defend the floor price when prices firm up as a result of reductions in production or increases in demand. In the present situation where stocks amounting to nearly one third of the estimated consumption are available in producing and consuming countries, if a buffer stock agency were to enter into the market, it would be only saddled with stocks, which it would not be able to dispose off in world market, except at heavy losses.

4. Abolition of marketing boards

11. Problems currently encountered by countries exporting primary commodities as a result of the prevailing almost ruinous low world market prices, have been further accentuated by the insistence of the IMF and the World Bank under their structural adjustment programmes, that the developing countries receiving assistance under such programmes must liberalize their internal markets by inter alia abolishing marketing boards. It is no doubt true that the Boards were used by governments

to raise revenue in a non-transparent manner, often resulting in high levels of taxation of agricultural producers. At the same time, they provided valuable services to the farmers by:

- Guaranteeing minimum prices reflecting the strategy followed in this area also by industrialized countries, such as the U.S.A. and the EU; and
- Making credit available at affordable rates, maintaining quality control and meeting quality standards, providing extension services (inputs, fertilizers, insecticides, etc.), and making it possible to sell forward thus avoiding intra year seasonality, etc.

12. The abolition of marketing boards has resulted not only in the discontinuation of systems for guaranteeing minimum prices to farmers but also of the services provided by them for assisting farmers to enhance productivity and to ensure adequate quality standards.

13. This has left millions of small farmers with little or no ability to withhold production from market when it is ready for sale because of their desperate need for cash, and with little bargaining power to negotiate for price of coffee and cocoa beans with the fewer international trading companies that are increasingly controlling markets in commodity producing countries. The concentration of buying power in the hands of a few dominant corporate buyers enables them to dictate, in the absence of government guaranteed minimum prices, the price which they are willing to pay to the poor farmers. Ironically enough, while as a result of these developments, prices received by poor farmers for their coffee and cocoa beans are falling, the prices of processed coffee and of chocolate and other products manufactured from cocoa are on the increase, thus increasing the profits of multinational corporations manufacturing these products.

5. Problems faced in adopting market based instruments for price risk coverage

14. With the abolition of marketing boards, the international financial institutions are now encouraging developing countries to develop the use of market-based instruments to protect the commodity producers and traders from the risks arising from fluctuating prices. These efforts have met with extremely limited results so far, in view in particular of the lack of access by small farmers to the know-how and foreign exchange required for dealing with futures trading and options.

6. Barriers to the development of processing industries in commodity producing countries

15. Moreover, at present, developing countries are mainly producers and exporters of commodities in their raw forms. The bulk of processing of the imported raw coffee and of cocoa beans is done, with a few exceptions, at plants situated in developed countries². It is generally believed that one of the reasons, which have so far discouraged foreign multinationals in establishing plants for further processing of the commodities where they are produced, is the existence of tariff escalation, in the tariff schedules of developed countries and to some extent, the practices followed for blending of commodities of different origins. While most of these countries have eliminated tariffs on tropical commodities in their raw form, they continue to levy duties on their processed forms. These duties further escalate according to the degree of processing. As no duties are levied on raw commodities which are used in the processing, the level of effective protection available to the processing industry is much higher than indicated by the nominal rates of tariffs.

² There are however few exceptions. Facilities for processing cocoa have been established in Cote d'Ivoire. In Brazil, the government Export Promotion agency and the roasting industry have launched an action plan to increase exports of roasted coffee. The goal is to sell \$29 million in roasted coffee in 2004 and \$100 million in 2006, compared to exports of roasted coffee of \$6 million in 2002. (*SUNS, Thursday, 13 February 2002, published by Third World Network in cooperation with Inter Press Service*).

16. The coffee and cocoa producing countries are however eligible for preferential access for their products in most of the developed countries under the GSP and other preferential arrangements. The past experience goes to suggest that preferential access did not have any significant impact on the development of local processing industries or result in direct foreign investment in processing facilities. This is attributed to some analysis to the non-binding nature of preferential access and the stringent rules of origin which these systems impose. The improvements which have been made in the preferential access for imports from the least developed countries by the EU through adopting Everything But Arms (EBU) system and by the U.S.A. for imports from eligible African countries under its African Growth Opportunity Act (AGOA) is however resulting in increased foreign investment in both manufacturing and industries aimed at processing agricultural raw materials available to these countries. It is also expected that preferential access enjoyed at present by the ACP countries in the markets of the European Union would be put on more definitive and secured legal basis on the completion of negotiations for free trade area arrangements between the EU and ACP countries by the beginning of 2008.

III. PART TWO - POSSIBLE OPTIONS THAT COULD BE TAKEN AT NATIONAL AND INTERNATIONAL LEVEL: SOME TENTATIVE IDEAS

17. Various suggestions are being made by commodity experts and other analysts on the type of action that could be taken in the "long and short term" at national and international levels, to find solutions to the serious problems mentioned above, that are encountered by commodity exporting countries. These are briefly described in this Part. It needs to be emphasized that these suggestions have been listed, only with a view to providing some basis for further discussions and examination. They should not be treated as constituting proposals for action by countries sponsoring this paper.

1. Long-term solution: Arrangements among producing countries for supply management

18. There is a growing view that the long term solution to the problem posed by "declining prices" could be found only by "producing countries" entering into arrangements for the management of world supply, through measures involving control over production at the national level. In order to avoid unnecessary duplication of efforts, such arrangements may have to be negotiated and adopted, for commodities like coffee, cocoa and sugar, for which international commodity organizations exist at present under the umbrella of these organizations. In this context it is relevant to note that the International Coffee Agreement has provisions which authorize the producing countries to enter into complementary arrangement for management of supplies.

19. Even though such arrangements would be negotiated at intergovernmental level, they would have to provide for active participation of "national producers associations" for administrating the supply management programme at national level. Their involvement could ensure greater cooperation by producers in implementing measures involving control over production, which may in the immediate period lead to reductions in their income.

20. Successful operation of such producers' arrangements would be greatly facilitated if there were willingness on the part of consuming countries to cooperate. Therefore even though these countries may not be involved, as in the case of international commodity agreements in the decision making process, they would have to be associated with the work under the arrangements, in a consultative capacity. It would be also necessary to establish under the arrangement mechanisms for periodic consultation with private sector companies involved in the commodities covered by the arrangements.

21. While in the case of agricultural commodities like coffee and cocoa, producing countries are mainly the developing countries, in the case of commodities like sugar and cotton, a number of developed countries are also significant producers of such products. For these commodities,

producers' arrangements would be viable and effective in stabilizing prices, only if the developed producing countries also agreed to participate in the arrangements.

22. In this context, it is important to note that the policy approach of developed countries on the need by governments of the producing countries to intervene in the markets, in cases of market failure, is undergoing a change as a result of the "structural over capacities" which have developed at the global level for the production of industrial raw materials such as aluminium, steel and some of the chemicals of which they are the main producers. These countries are themselves encouraging negotiations of arrangements among producing countries that would require the industries to take measures to reduce production.

2. Possible techniques that could be discussed for supply management of commodities in structural oversupply

23. As regards techniques that could be envisaged for reducing disequilibrium between supply and demand, in the case of commodities like coffee, characterized by an oversupply of a "structural nature", the use of a buffer stock mechanism would not be able alone to produce the desired results. It would be therefore necessary to consider other methods like:

- Withdrawal of supplies from the market by destroying stocks and/or cutting of trees; and/or
- Agreeing to prohibit exports of low quality products that do not meet agreed minimum standards.

24. The possible economic, political and social implications of the application of these techniques are briefly described in Annex I.

3. Short term measures: Use of export taxes for stabilizing total export earnings

25. In the short term, it may be possible for countries to use "export taxes", to reduce fluctuations and volatility in prices of commodities and for stabilization of their export earnings. Any such measure to be successful would however require an undertaking by all producing countries to use such taxes and to maintain certain agreed "floor tax inclusive export price" on the basis of which international purchase and sales transaction can take place.

IV. PART THREE - NEED TO BROADEN THE SCOPE OF WORK IN WTO ON PRIMARY COMMODITIES

1. General

26. Should work in WTO be broadened to cover examination of the problems faced by developing countries as a result of declining prices?

27. There would appear to be two reasons why it would be necessary to address in the ongoing work and negotiations in WTO the problems posed to the trade and development of developing countries by declining prices of primary commodities. Firstly, as all countries attach political importance to the role of WTO, raising for discussions in that organization, the "crisis situation" created by declining commodity prices, may bring to the attention of the general public, both the need and urgency for taking early action at international level. Secondly and more importantly, this would facilitate solutions being found on the basis of WTO's rule based system in the negotiations that are at present being held for the liberalization of trade in the agricultural sector.

2. Treatment of tropical products in the past GATT rounds and in the ongoing negotiations in WTO

28. In the past rounds of negotiations under the auspices of GATT, the negotiations for liberalization of trade in primary agricultural commodities which were produced predominantly in the tropical region, were held not in the negotiating group on agriculture, but in a separate group constituted for this purpose. Thus in the Kennedy, Tokyo and Uruguay Rounds, a separate group on tropical products was established in order to ensure priority attention being paid by the developed countries to the removal of tariffs and other barriers affecting trade of developing countries. There was no agreed definition as to which agricultural commodities should be considered as tropical products. Commodities like sugar and cotton, which are produced in both tropical and temperate regions, were included in the products covered by the work of these groups, on the grounds of their importance in the trade of developing countries. The priority attention which was given to the removal of tariffs and non tariffs measures affecting trade in tropical products in the past rounds of negotiations resulted in elimination of tariffs on almost all tropical products in their primary form by all developed countries³. Some of these countries however levy duties on MFN basis on imports of processed products; lower or zero duties are however applicable to imports under preferential systems.

29. In the present round of negotiations, no separate group on tropical products has been continued. The negotiations for addressing the problems in trade in these products are expected to take place in the Agriculture Committee, which is responsible for negotiations for liberalization of trade in agricultural products. In his recent paper on possible modalities that could be adopted for negotiations on agriculture, the Chairman has proposed that "in implementing their market access commitments, developed country members should take fully into account the particular needs and conditions of developing countries Members, by providing for greater improvement of opportunities and terms of access for agricultural products of particular interest to these Members, including the fullest liberalization of trade in tropical products, whether in primary or in processed form"⁴. Further in order to ensure that reductions made in the MFN tariff, do not lead to sudden disruption of trade of countries which benefits from preferential access, the paper proposes that in implementing their commitments, "participants extending preferential treatment, should undertake to maintain to the extent possible, the nominal margins and other terms and conditions they accord to their developed country partners"⁵.

30. The work and negotiations in GATT in the past, however, have centred almost entirely around securing improvements in the access for tropical products in the markets of developed countries through removal of tariffs and other barriers of trade. The focus of work in the present round of negotiations would be also on securing further improvements of market access, particularly through securing further reductions in tariffs applicable to processed products and on the removal of tariff escalation. Some progress may also be made in requiring developed countries to reduce trade

³ Imports of sugar however continue to be subject to high rates of duties on MFN basis, in a number of developed countries, particularly in U.S.A. and EU.

⁴ The relevant provision further provides that requirements to liberalize fully shall apply also "to products of particular importance to diversification of products from growing to illicit narcotic crops, or crops whose non-edible or non-drinkable products, while being lawful, are recognized [by WHO] as being harmful to human health".

⁵ The provision further provides that an exception to the modality providing for staging of reductions made on MFN basis, "tariff reductions affecting long standing preferences in respect of products which are vital export importance for developing country beneficiaries of such schemes, may be implemented in equal annual instalments over a period of [eight] instead of [five] years, by the preference granting participants concerned. The products concerned shall account for at least 25 per cent of the total merchandise export of any beneficiary concerned, on average of the most recent three years for which data are available. In addition, any in-quota duties for these products shall be eliminated".

distorting domestic and export subsidies (including export finance and credits) which they grant to such tropical products as cotton and sugar.

31. From the perspective of countries which benefit from preferential treatment in the form of *inter alia* guaranteed higher prices, it would be however necessary to ensure, that such reductions in subsidies by preference giving countries, do not have serious immediate adverse impact on their trade. Unless however, definite decisions are taken to broaden the area of negotiations, the issues relating to the impact of declining prices of primary commodities are not expected to be covered by the negotiations. So far, UNCTAD has provided the main forum for negotiation and discussion on the problems faced by commodity exporting countries as a result of declining prices of primary commodities and their volatility. Its mandate for work on commodity issues enabled it, in the second half of the seventies, to renegotiate the then existing international agreements on commodities like cocoa and sugar, to negotiate new international agreements on rubber, jute and tropical timber, and to negotiate the establishment of the Common Fund for Commodities.

32. Taking into account the role played in the past by UNCTAD in promoting and developing commodity agreements it is often argued that WTO should not get involved in the discussions on "stabilization of prices". In this context, it is however relevant to note that two agreements aiming at the management of supplies through *inter alia* control over production (Agreements on Bovine Meat and International Agreement on Dairy Products) were adopted during the negotiations in the area of agriculture in the Tokyo Round. These were essentially plurilateral agreements. Even though the membership of these agreements was open to all Contracting Parties of GATT, mostly the countries which were responsible for production and exports of commodities had become members of these agreements. The International Agreements on Dairy Products further provided a mechanism for the maintenance of prices at agreed levels. Annex II provides synoptic analysis on the main features of these two Agreements⁶.

33. A more definitive legal basis for negotiations for stabilization of prices of primary commodities that are of export interest to developing countries is however provided in Part IV (chapter on Trade and Development) of the GATT. Its Article XXXVI, which lays down principles and objectives, states that:

- There is a need to devise ... measures designed to stabilize and improve conditions of world markets in these (primary) products including in particular measures designed to attain stable, equitable and remunerative prices.

34. These provisions are complemented by Article XXXVIII on "joint action" which *inter alia* states that towards this end, the member countries may negotiate and adopt "international arrangements" providing for:

- Improved and acceptable conditions to access to world markets of primary products of particular interest to developing countries; and
- Measures designed to stabilize and improve conditions of world markets to these products, including measures designed to attain stable, equitable and remunerative prices for exports of such products.

⁶ These Agreements were included in the list of plurilateral agreements in Annex II of the Marrakesh Agreement establishing WTO. They were however removed from the list, when soon after coming into existence of WTO, countries participating in these agreements decided to terminate them.

3. Urgent need for the Committee on Trade and Development to address the problems posed by developing countries

35. In the light of the responsibility which the above-mentioned provisions of GATT 1994 put on WTO member countries, the countries making this submission propose that the Committee on Trade and Development should examine on a priority basis the impact which the crisis situation created by declining prices is having on:

- The trade and development of countries which are heavily dependent on exports of primary commodities; and
- Their capacity to pay and service their foreign debts.

36. Such examination should, as envisaged in Article XXXVIII, aim at drawing out a programme for "joint action" that could be taken in the course of ongoing work and negotiations in WTO.

37. Box below contains "illustrative list of elements" for possible for inclusion in the work programme for action being taken on priority basis and other elements which would need to be reviewed and examined before they are included in such programme.

Illustrative list of elements

A. Elements on which action needs to be taken in the ongoing negotiations on priority basis

- Further reductions in MFN tariffs by all countries, including tariff escalations, which affect development in the commodity exporting countries of processing industries.
- Ensuring that such reductions in MFN tariffs by preference granting developed countries do not result in disruption of trade of the preference receiving countries through inter alia, the maintenance to the extent possible of nominal margins and other terms and conditions of tariff preference.
- Reductions in domestic and export subsidies granted by developed countries which inter alia take into account the need to ensure that measures taken do not result in a sudden disruption of trade of developing countries which enjoy preferential access and/or which benefit from higher prices guaranteed to their domestic producers.
- Provision of technical and where appropriate financial assistance for technology transfer to the commodity exporting countries for the development of processing industries and for the promotion of exports of value added products.
- Rules of GATT 1994 governing use of export taxes and export restrictions.

B. Elements requiring review and further examination before they are included in the work programme

- Experience of the operation of the existing international commodity agreements with a view to identifying further measures that could be taken (either within the framework of the agreements or outside their framework) to address the problems posed by structural over supply in commodities like coffee and cocoa, including action for adopting systems for supply management by producing countries.

- The adverse impact which the internal liberalization of trade by the producing countries is having inter alia on prices received by farmers and on the ability of the governments to assist them in improving productivity and in ensuring quality standards of exported commodities.
- The functioning of international mechanism for compensating commodity exporting countries for loss of export earning resulting from decline in commodity prices (e.g. IMF Compensatory Financing Facility and the compensatory mechanism established under the Cotonou Agreement).
- Problems and difficulties encountered in adopting market based measures for management of risks arising from fluctuations of prices and other innovative compensatory mechanisms.
- Steps would have to be taken:
 - to deal with the anti-competitive behaviour of large foreign firms;
 - to improve the bargaining position of producers vis-à-vis these firms; and
 - to adopt well organized commodity related market information systems to enhance the transparency and improve the understanding of commodity market structures.

38. Participation in the work of the Committee should be open to UNCTAD, International Commodity Organizations, the Common Fund for Commodities, FAO, the Commonwealth Secretariat and other international trade organizations working on commodity issues and to the International Financial Institutions. With its mandate for work in the area of commodities, UNCTAD should have special responsibility for providing technical support to the work of the committee and for participation in its work.

39. The Committee on Trade and Development may for this purpose convene a Special Session or appoint a Subcommittee. The report of the Special Session or Sub-Committee, indicating the type of action that could be taken within the framework of WTO should be submitted to the Fifth Ministerial Conference for taking appropriate decisions.

40. It is further suggested that the Committee should simultaneously transmit this submission to the:

- Committee on Agriculture;
- Working Group on Trade and Finance;
- Working Group on Transfer of Technology;
- Working Group on Trade and Competition Policy.

with the request that they should examine the aspects of the issues that fall within their respective mandates.

ANNEX I

Possible economic, political and social implications of techniques (other than buffer stocks) that can be used for commodity price stabilization

1. Destruction of stocks

1. For commodities like coffee where over supply is of structural nature, it may be possible to bring supply and demand in equilibrium, if part of the stocks held either in producing and/or in consuming countries were destroyed. As these stocks were held by private sector agencies, it would be however necessary to buy them. At the prevailing low prices, the cost of buying these stocks is not likely to be large while the long term benefits for the producing countries, resulting from increased prices following liquidation of stocks, are likely to be significant. Assuming there was support to the idea and also political will on the part of developed countries, it may be possible to get the modest financial resources required for this purpose from the international financial institutions.

2. The more difficult question to be addressed is however that of equity. Although small farmers might benefit from higher prices, the major beneficiaries of the implementation of the proposal would be trading companies which are holding the stocks and from whom commodities would have to be bought for destruction and not the poor farmers. Moreover, if stocks held in consuming countries were bought for destruction, the money paid would go to provide windfall profits to the big companies in these rich countries.

3. However, such this destruction would provide only a short-term relief, unless complementary measures are taken to address the issue of structural overproduction.

2. Reduction of production by cutting trees

4. A complementary course of action in the case of coffee and cocoa would be to require farmers to reduce production by cutting trees. The government of countries, where a large proportion of the farming community is dependent on cocoa and coffee production may find resort to such course of action highly risky from the sociological and political point of view. Past experience has shown that such programmes can succeed, only if there is support for such drastic measures from all stakeholders and major political parties and if financial resources, required for compensating farmers who are required to reduce production for loss in their income, in the immediate period following the reduction of production, are guaranteed by the international financial institutions. Another limitation of any such programme, is that in the case of crops like coffee and cocoa, once production is reduced, by cutting trees, it is not possible to increase it, in a short period of time, if demand improves. It takes anywhere between eight to ten years for a coffee or a cocoa tree to mature.

5. Moreover any such course of action, to be effective and successful, would also require simultaneous action by all producing countries to reduce production. Reaching agreement on how far each country should reduce its production is not however going to be easy and the negotiations undertaken for this purpose may take years for completion. For instance, countries that have been traditional producers of coffee or cocoa may argue that the main responsibility for reducing production should fall on other countries, which have started production later. This view was not likely to be shared by the latter countries.

6. One of the ways in which such problems could be resolved was by negotiating arrangements which imposed obligations on producing countries that were "recommendatory". Under this proposal, producing countries would be required to indicate on a voluntary basis the extent to which they were

willing to reduce production within a specified period of time. Incentives for securing compliance could be provided by international financial institutions by guaranteeing to such countries resources for payment of subsidies to farmers who are required to reduce production, to compensate them for loss of income and where appropriate, for diversification of production to other agricultural crops.

7. It has however to be recognized that any such arrangement, if it has to have significant impact on reducing the chronic structural over supply that has developed in world markets in commodities like coffee would require simultaneous action being taken for reduction in production by countries which accounted for a sizeable proportion of world production. Unless a critical mass of such countries show willingness to accept obligations to reduce production on a voluntary basis, and some mechanism is established for surveillance of compliance, the arrangement may not succeed in having any significant positive impact on total availability and price.

3. Difficulties in administrating the destruction programmes

8. The feasibility from the practical point of view of administering any such programme for reducing production by requiring farmers to cut trees and of the costs involved in implementing it would need careful examination. More than seventy per cent of the production of coffee and cocoa is undertaken by small farmers. OXFAM has estimated that there are around 20 million households across Africa, Latin America and Asia growing coffee. Two and a half million small holders in West Africa alone were engaged in cultivating cocoa. How could, in this situation, the programme for reduction in production be implemented at national level? Some of the farms producing coffee are for instance extremely small and do not more than 30 trees. Assuming that under the proposed arrangement, a member country has agreed to reduce its production by 20 per cent, how should it apply to the cuts? Should it apply to all farmers on an equal basis or exempt small farmers and require only medium and large sized farms to cut production?

9. The farmers who are required to reduce production of coffee or cocoa, would have further to be assisted in diversifying and shifting to production of other agricultural products. It would be therefore necessary for each country to examine which new alternative agricultural crops it should encourage its farmers to cultivate. It would be necessary to avoid taking hasty decision, as the past experience of countries in trying to diversify reveals few success stories. Before resorting to any such programme for cutting coffee or cocoa trees, environmental implications of such actions would also have to be carefully examined.

10. The task of administering any such programme would involve planning and require considerable financial and manpower resources. Most of the countries may also need technical assistance from international agencies for planning and executing such programmes.

4. Reduction in production by prohibiting exports of low quality products

11. Another technique that could be used for reducing production is for producing countries to agree on prohibiting production and exports of low quality or low-grade commodities. A proposal that member countries should voluntarily agree to prohibit exports of coffee which does not meet certain minimum standards, has been adopted by the International Coffee Organization in October 2002.

12. It is considered that such measure would be consistent with the provisions of the GATT 1994 and the provisions of the Agreement on Technical Barriers to Trade. In this context, it is important to note that some of the developed measures to prohibit exports of low-grade agricultural products, particularly of fresh vegetables and fruits, in order to ensure higher returns to the farmers for their exports and to establish reputation for quality of the exported products, are being adopted by some of the developed countries.

13. While such measures are steps in the right direction, they may not have significant impact in the immediate period, on the level of supplies available for exports on a worldwide basis and thus would have only marginal, if any, impact on the level of prices.

ANNEX II

Synoptic Analysis of the Main Features of the Arrangement on Bovine Meat and International Dairy Arrangement

1. Main reasons for entering into arrangements

- Importance of production and trade for the economies of certain developed and developing countries (Arrangement on Bovine Meat);
- Need to avoid serious disturbances in international trade (Arrangement on Bovine Meat);
- Need to deal with the situation in trade which is characterized by very wide fluctuations and proliferation of export and import measures (International Dairy Agreement);
- Mutual interest of producers and consumers and of exporters and importers, to avoid surpluses and shortages and to maintain prices at equitable levels (International Dairy Agreement).

2. Objectives

Arrangement on Bovine Meat

- To promote, expansion, ever greater liberalization and stability of international trade;
- To secure additional benefits to the international trade of developing countries through inter alia:
 - Promoting long term stability of prices;
 - Promoting the maintenance and improvement of the export earnings of developing countries;
 - To encourage greater international cooperation in all aspects affecting the trade in the product sector.

International Dairy Agreement

- To achieve greater liberalization of world trade in the product sector under conditions as stable as possible, on the basis of mutual benefit to exporting and importing countries;
- To further the economic and social development of developing countries.

3. Main Techniques

Arrangement on Bovine Meat/International Dairy Agreement

Monitoring and assessing the overall situation in the world market by requiring member countries for furnish periodically information on: production, consumption, exports, imports, prices, stocks, trade policy measures and bilateral and plurilateral commitments.

- If on the basis of the evaluation it was found that there was "serious market disequilibrium" or threat thereof, which affects or may affect international trade, measures could be taken for improving the overall situation of the world market. Such measures could include short, medium and long-term measures. In deciding on the suggested measures consideration should be given to the feasibility and appropriateness of extending special and differential treatment to developing countries.

Additional provisions of the international dairy agreement: Minimum export prices

- The protocols on certain milk powder, milk fat, certain cheeses, which were annexed to the Agreement imposed obligation on exporting countries to maintain "minimum export prices" specified by them. The Protocols called on the member countries to review periodically the minimum prices taking into account on the one hand the experience of their operation and on the other, the evaluation of the situation of the international market.

The Arrangement further clarified that provisions relating to "minimum export prices" did not apply to Food Aid transactions.

The Agreement on Bovine Meat did not contain these provisions.
