



Brussels, 12.02.2004

**COMMUNICATION FROM THE COMMISSION TO THE COUNCIL AND THE  
EUROPEAN PARLIAMENT**

**Agricultural Commodity Chains, Dependence and Poverty  
- A proposal for an EU Action Plan**

**CONTENTS**

1.	Why an EU Action Plan in support of Agricultural commodities in developing countries? .....	5
2.	Addressing commodity chains and dependence as a priority .....	7
2.1.	Policy Response: Developing commodity strategies, at national and international level.....	8
2.2.	Proposed EU actions .....	9
2.2.1.	Supporting the development of CDDC commodity strategies.....	9
2.2.2.	Pursuing reform of International Commodity Bodies and their strategies .....	9
3.	Coping with long term price decline.....	10
3.1.	Policy response: Raising competitiveness of commodities and the economy .....	10
3.1.1.	Improving capacity and support services at producer level.....	10
3.1.2.	Ensuring essential infrastructure for commodity producing areas.....	11
3.1.3.	Pursuing policy reforms at the macro level.....	11
3.1.4.	Developing and exploiting regional integration.....	12
3.2.	Proposed EU actions .....	12
3.2.1.	Support the implementation of commodity chain strategies.....	12
3.2.2.	Development of regional support services.....	12
3.2.3.	Support to Economic Partnership Agreements with the ACP .....	12

4.	Managing commodity risks and accessing finance .....	13
4.1.	Policy Response: Developing institutions and instruments .....	13
4.2.	Proposed EU actions .....	14
4.2.1.	Facilitating producer access to commodity risk insurance and trade finance .....	14
4.2.2.	Developing shock management tools for the macro-level .....	15
4.2.3.	Improving access to the EU Flex compensatory instrument .....	15
5.	Diversifying around traditional commodities .....	15
5.1.	Policy Response – increasing government capacity to support diversification .....	16
5.2.	Proposed EU action .....	17
5.2.1.	Informing government choices .....	17
5.2.2.	Supporting rural growth .....	17
5.2.3.	Strengthening private sector support .....	18
6.	Successfully integrating with the international trading system .....	18
6.1.	Policy Response: Maximising opportunities for CDDCs in the multilateral trading system .....	19
6.2.	Proposed EU actions .....	20
6.2.1.	Securing a development friendly outcome in the Doha Development Agenda .....	20
6.2.2.	Monitoring the external impact of agricultural policies .....	20
6.2.3.	Maximising access to the EU market for CDDCs .....	21
6.2.4.	Supporting CDDCs efforts to valorise their market access .....	21
7.	Enhancing Sustainable Corporate Practices and Investments in CDDCs .....	21
7.1.	Policy response: Fostering corporate responsibility for sustainable commodity production .....	22
7.2.	Proposed EU actions .....	23
7.2.1.	Promoting Corporate Social Responsibility internationally .....	23
7.2.2.	Enabling CDDCs to benefit from CSR .....	24
7.2.3.	Promoting Competition .....	24
8.	Next steps .....	24

## **1. WHY AN EU ACTION PLAN IN SUPPORT OF AGRICULTURAL COMMODITIES IN DEVELOPING COUNTRIES?**

Commodity dependence is back on the international agenda. The dramatic recent price falls have incited the international community to scrutinize the issue and make a series of general commitments to take action<sup>1</sup>. Most recently, several commodity dependent developing countries (CDDCs<sup>2</sup>) have focussed the attention of the WTO on their situation, arguing for special attention to be paid to them<sup>3</sup>.

Internationally traded agricultural commodities are crucial to the employment and income for millions of people in developing countries, as well as a major source of revenue and foreign exchange of many developing states. For many sub-national regions within developing countries, too, commodities are the engine for economic development. The producers of these products live an unpredictable existence, however, because the prices for a wide range of commodities are very volatile, and in addition follow a declining long-term trend. Between 1970 and 2000, prices for some of the main agricultural exports of developing countries, such as sugar, cotton, cocoa and coffee, fell by 30 to 60 percent (constant dollars).

The declining and volatile prices lead directly to lower levels of human development by negatively affecting farm incomes, agricultural wages, employment and the health of the rural population. They are particularly damaging for the efforts to reduce poverty in CDDCs, where a significant part of the population and the economy depend on these products. There, the price patterns also lead to macroeconomic imbalances: curtailing export earnings, debt service capacity, imports, credit availability, government revenues and provisions of basic services such as health and education.

In about 50 countries, three or fewer primary commodity exports constitute the bulk of export revenue. These countries are located mainly in Sub-Saharan Africa, but also in the Caribbean and Central America (see Annex). Many are LDCs, landlocked or small island states. Many CDDCs are caught in a trap of declining income and investment, stagnating competitiveness, persistent poverty and dependence. Their commodity sectors have difficulties in adapting to increasingly harsh international competition and changes in the international market environment, but these countries have few resources to counter the situation.

In the view of the Commission, traditional commodity sectors still have a role as a key source of employment, income, export earnings and poverty reduction in CDDCs. But measures are needed to support them. Without such action, these sectors may fail in many countries, with major socio-economic and political consequences.

---

<sup>1</sup> E.g. the Third UN Conference on the Least Developed Countries in Brussels 2001, The Doha Declaration of November 2001; The Finance for Development Conference in Monterrey 2002; The World Summit for Sustainable Development in Johannesburg 2002; The United Nations General Assembly 2002

<sup>2</sup> "CDDC" is used for convenience throughout this document as an abbreviation. It refers to countries that are particularly exposed to developments such as price variability in international agricultural commodity markets and thus share certain development challenges. It should not be taken to suggest that a specific definition exists, or indeed should exist.

<sup>3</sup> Communication from Kenya, Uganda and Tanzania.(WTO WT/COMTD/W/113 of 19 May 2003); and 'Sectoral initiative on cotton', Presented to WTO by Chad, Mali, Benin and Burkina Faso, WT/MIN (03)/W/2 in connection with WT/GC/W/516TN/AG/GEN/4

This Communication follows directly from an EC staff working document on agricultural commodity trade, dependence and poverty (SEC (2003) 908). That document explored challenges facing developing countries depending on agricultural commodities, as well as possible strategies in these countries. The present paper proposes an EU Action plan in support of such CDDCs and their producers. The overall objectives of the proposed actions are to:

- improve incomes for producers, from traditional or other commodities; and
- reduce income vulnerability, at both producer and macro level.

The paper focuses on agricultural (rather than mineral) commodities that are traded and marketed internationally. This is principally because agricultural commodities have a more direct poverty link than mineral commodities due to the very large involvement of smallholders and labourers in production. Timber is not covered by the present paper since the Commission already has a specific strategy, budget line and large ongoing programmes for this sector and in addition is pursuing an action plan to combat illegal logging<sup>4</sup>.

This Communication complements other recent Communications, in particular Com (2002) 429 "Fighting Rural Poverty"; Com (2002) 513 "Trade and Development - Assisting Developing Countries to Benefit from Trade" and the Communication of 26th November 2003 "Reviving the DDA Negotiations – an EU perspective". It is accompanied by the Commission 'Proposal for an EU-Africa partnership in support of cotton sector development' which is being launched simultaneously and represents a specific application of the policies and measures outlined in this Communication for cotton dependent developing countries.

The paper proposes policy priorities in response to six major challenges facing CDDCs: Addressing commodity dependence as a priority at national and international level; coping with price decline; managing commodity risks and accessing finance; diversifying around traditional commodities; successfully integrating with the international trading system; and enhancing sustainable corporate practices and investments in CDDCs.

It is vital to the success of this Action Plan that a common approach is agreed within the EU, so that efforts by the Community and by Member States reinforce each other. There must be broad support within the EU if progress is to be made in the areas covered in this paper, including where Member States act in their own right as bilateral aid donors or in international bodies such as the World Bank, IMF and UN; and when the Commission acts for the Community within the trade arena and elsewhere. The Commission looks forward to a stimulating dialogue with Member States in order to clarify priorities and roles to secure a rapid and effective implementation of this action plan. A matrix in annex provides a basis for discussion.

## **2. ADDRESSING COMMODITY CHAINS AND DEPENDENCE AS A PRIORITY**

The abandonment of international intervention policies at the end of the 1980s and the commodity market reforms of the 1990s in the developing countries left the commodity sectors, and in particular small producers, largely to themselves in their struggle with the demands of the market. Despite the importance of the commodity sectors for poverty

---

<sup>4</sup> See Com (2003) 251 on an EU Action Plan for Forest Law Enforcement, Governance, and Trade (FLEGT) of 21 May 2003

reduction and the difficulties they experience, national development strategies have largely left these issues aside. At the international level, International Commodity Bodies (ICBs) are faced with the task of reformulating their objectives for the new context.

## **2.1. Policy Response: Developing commodity strategies, at national and international level**

*National level:* In the view of the Commission, CDDC governments need to develop strategies to deal with the decline of their commodity sectors and the changing international commodity markets. As part of poverty reduction efforts, these should be embedded in national development strategies such as Poverty Reduction Strategies. To address all constraints simultaneously it may be necessary to reflect commodity chain priorities in sectoral strategies (e.g. agriculture, transport) or multisectoral ones (e.g. rural development). This will allow the Government to make important trade-offs such as those between support to food crops and cash crops; existing and alternative production; or the volume of investment in traditional commodity-producing areas with relatively higher growth and employment potential versus more resource-poor or remote areas.

The strategy should be based on a detailed chain analysis, covering the sector's strengths and weaknesses, as well as threats and opportunities. This is important in order to be able to prioritise solutions. The strategy should identify measures to improve the competitiveness and returns to labour for traditional commodities and reduce the vulnerability of producers. Environmental issues will need specific attention, for sustainability, health and competitiveness reasons and with a view to addressing global environmental challenges related to agriculture, such as climate change, desertification, soil degradation, biodiversity loss and water pollution in a coherent manner. The strategy may include measures to support alternative income opportunities for producers who are unlikely to remain competitive in their current activity. It could also look at ways to reduce vulnerability to revenue shocks at macro level. The strategies need to take into account regional constraints and opportunities, while aiming at greater regional integration and economies of scale. A key role of a commodity chain strategy is to define the respective roles of all actors in the chain, and look for synergies and partnerships. Therefore, multi-stakeholder participation during the formulation and implementation of the commodity strategy is crucial. The strategies must be flexible and regularly reviewed so as to respond to emerging challenges. Whilst implementing the strategy may not necessarily entail large financial investment by government, it will require strong governmental, institutional and human capacities to address obstacles and bottlenecks through regulatory measures, etc. These may be more scarce than financial resources and their opportunity cost needs to be factored in.

*International level:* The international community, for its part, needs a vision on the development of the individual commodity sectors as a whole. It needs a framework for analysing short and long term price developments; for helping to improve market functioning (for example through market information); and for addressing developments relating notably to trade rules, traceability, sustainability, and quality requirements. This could be achieved largely through a strengthening of the individual commodity strategies of the International Commodity Bodies (ICBs). In particular, it is the view of the Commission that the ICBs should work more forcefully towards sustainable development objectives, including pro-poor development. This should incorporate a commodity chain perspective, as also urged by the Common Fund for Commodities in 2003. With better objectives, strategies, and stakeholder participation, the ICBs should be able to draw more effectively on, and influence, the efforts of other international actors working on cross-cutting commodity initiatives. By raising their

level of ambition and improving their effectiveness the ICBs should be able to elicit renewed support from members.

## 2.2. Proposed EU actions

### 2.2.1. *Supporting the development of CDDC commodity strategies*

The European Commission and Member States should support CDDCs in designing commodity strategies and incorporating them into national development strategies. Such support should include for example analysis of the sustainability, poverty implications and needs of commodity sectors; building of the human and institutional capacity needed to ensure flexible and effective strategies; and support to multi-stakeholder participation. As a first step, the EU should engage, within its regular collaboration structures, in a dialogue with commodity dependent countries interested in cooperation to modernise or diversify their commodity sectors.

### 2.2.2. *Pursuing reform of International Commodity Bodies and their strategies*

With reference to the Helsinki principles<sup>5</sup> agreed among Commission and Member States, and with a view to enhancing the performance of the ICB's, the EU should engage to pursue their reform:

With respect to **objectives and functions**, the Commission considers that ICBs should become more oriented towards sustainable development, incorporating a clear focus on environmental and socio-economic sustainability into their current focus on market functioning. The ICBs should become more responsive to stakeholders in both producing and consuming countries and respond to the current challenges of commodity markets. In particular, they should seek to advocate the sectors' common interests (e.g. quality upgrading), enhance transparency and a competitive market environment, stimulate generic demand for the given commodity and facilitate and monitor projects that are of particular interest to CDDCs. Synergies with national commodity strategies should be sought where they exist.

With regard to **justification and membership**, an ICB should be supported by enough members and stakeholders to justify a separate intergovernmental institution. An ICB does not necessarily need an international commodity agreement, as long as it has an agreed mandate (see the ICB on cotton). The EU should re-evaluate its membership in ICBs largely on the basis of an appreciation of their contribution to EU sustainable development objectives and should consider withdrawing from ICB's with low relevance, continuous poor performance or very small size. Furthermore, in order to enhance visibility and impact, and reduce costs of administration, the Commission proposes to merge ICB's covering related commodities: e.g. coffee and cocoa; jute, bamboo and rubber; FAO-hides, skins and meat, etc.

---

<sup>5</sup> The Helsinki principles were agreed by the Council Group on Commodities when it met in an informal meeting in Helsinki in 1999. Coreper took note of the conclusions of the meeting which state that: direct market interventions should be avoided; the positive experience of the international study groups should be reflected in the future co-operation; however, future forms of co-operation should be decided on a case by case basis; there should be a minimum share of production and consumption presented to guarantee the effectiveness of the intergovernmental co-operation; the private sector should be given a more important role within the framework of co-operation; the structures and decision making procedures (including excessive administrative practices and requirements) should be streamlined.

With respect to **governance**, the role of member governments in the ICB's should be more centred on facilitation. This corresponds to governments' role in commodity sectors after abandoning the interventionist tasks of the commodity agreements and the collapse of marketing boards in producing countries. The functioning of the executive board of directors also needs to be reassessed and streamlined. Preferably, member governments should designate the executive powers to well informed individuals, who act on the basis of an agreed position. The Executive Board should monitor, guide and enable the work of the ICB-secretariat. Only once a year should all members and stakeholder representatives unite to review progress and discuss strategic orientations.

**ICB's secretariats** should be lean and cost-effective. The cost of personnel needs to be brought in line with the level that is applied for a division of a specialised UN-agency. Furthermore, some horizontal functions such as financial administration, information dissemination and project monitoring could be outsourced jointly by or shared among secretariats of ICB's. Reform should avoid heavy procedures and promote the use of modern communication systems, in particular for the specialised committees.

### **3. COPING WITH LONG TERM PRICE DECLINE**

Commodity prices demonstrate a long-term declining price trend. This trend has been driven mainly by significant productivity gains, which enable producers to accept lower prices for their products. Other factors have also increased production: pressure on countries to earn more foreign exchange but few potential activities with which to do so; devaluation of national currencies of many commodity-producing countries following structural adjustment programmes; entry of new areas into production; and production subsidies in certain countries. The demand for commodities has not kept up with the increase in supply.

Experience has taught us that it is not feasible to address structural market imbalances for agricultural commodities through international market intervention. Key conditions for success are not met, and appear unlikely to materialise in the near future. CDDCs need other ways to cope with the declining prices.

CDDC commodity policies often do not sufficiently address the high production and transaction costs that undermine their international competitiveness. The small size of most CDDC domestic markets is another constraint to competitiveness. In many small developing countries, credible policy implementation, economies of scale in production, processing and supply of inputs can only be realised within the context of larger regional entities. Despite this, market reforms in such countries have not generally exploited the potential benefits of regional integration.

#### **3.1. Policy response: Raising competitiveness of commodities and the economy**

##### *3.1.1. Improving capacity and support services at producer level*

To cope with declining prices, commodity producers can seek to reduce average cost, pursue quality premiums, capture specialty market shares, develop relationships with new buyers and improve contract conditions. This will require investment based on market opportunities rather than mere physical production capabilities. Primary processing capacity needs to be improved with a view to enhancing quality and value added. Enabling producers and processors to respond effectively to market requirements will entail improving market information and advisory services, including skills development, based on continuous research. Research and extension services should be better differentiated according to the type

of situation and organisation of the targeted producers. A regional approach for most of these services is desirable for reasons of economies of scale.

The majority of farmers, those producing for the mainstream market, should invest primarily in the reduction of the average costs of production/marketing and/or in the pursuit of quality premiums. Farmers whose level of organisation and surrounding regulatory framework allow for this can supply part of their produce to highly integrated speciality markets (geographical origins, organic, fair trade, etc.). This requires continuous quality improvement, ways to connect with new markets and, for organics, the enacting of adequate legislation. Farmers able to cope with sophisticated requirements regarding quality, safety, production processes, delivery dates etc. could tap into the market (e.g. international retailers) for a diversified range of products, on the basis of adequate capacity building. For all types of farmers it is essential to strengthen and upgrade farmer organisations, their commodity branch organisations, trade associations and regional networks. This will facilitate contacts with buyers; access to the specific services needed by these different actors; and will enable grouping supply into larger volumes for the market.

### *3.1.2. Ensuring essential infrastructure for commodity producing areas*

Public infrastructure (roads, telecom, water and electricity) is vital for the competitiveness of the commodity sectors. This must be ensured by national governments and co-ordinated at the regional level. The availability of intraregional transport systems and an adequate network of primary and secondary roads to and within the commodity areas is crucial to reduce transport costs, the main component of transaction costs. Reliable telecommunication systems including mobile services are also vital for price information, expansion of sales networks and organisation of business transactions. While the state has a responsibility to provide some of this infrastructure, it also has a role to enforce legal frameworks which limit monopolistic situations and rent seeking.<sup>6</sup>

### *3.1.3. Pursuing policy reforms at the macro level*

Effective liberalisation requires a new role for Governments - facilitating, enabling, regulating and monitoring of private sector operations. The adoption and enforcement of laws and regulations that reduce the cost and risk of doing business are crucial for promoting local and foreign investments. Governments need to lay down and enforce clear rules on contractual arrangements between market operators. They need to establish fair, transparent and predictable competitive conditions, using for example fiscal policies, competition policy, enforcement of minimum quality requirements for products and labour and environmental requirements for production. Measures are also necessary to reduce administrative costs and red tape relating to customs procedures, quality assessments and certification, leasing and purchase of land etc. Addressing quality is of central importance, because if one exporter has problems to meet standards, it can harm the reputation of a whole country, and penalise also exporters who meet the requirements. Similarly, strengthening domestic environmental requirements may facilitate access to developed country markets while protecting the local environment and public health. Dialogue among key actors in the reform process will help identify obstacles to investment and optimise sequencing of reform measures.

---

<sup>6</sup> See COM(2003)326 on the Reform of State-owned Enterprises in Developing Countries with focus on public utilities. The Need to Assess All the Options.

#### *3.1.4. Developing and exploiting regional integration*

Regional integration offers unique opportunities to increase CDDC competitiveness, particularly for small countries. Inputs could be made cheaper following harmonisation of product specifications, scaling up of trading volumes and number of suppliers. Similarly, it provides additional opportunities for marketing outputs, including to processors and exporters in neighbouring markets, thus retaining value in the producing regions. Improving the business conditions at the regional level will be crucial to making investment in areas like processing more attractive. To take advantage of these potential benefits, efforts to remove tariff and non-tariff barriers for products, services and people must be reinforced. But deeper integration is also needed, in particular convergence of domestic policies and regulation, common regional transport networks and the adoption of harmonised or common standards.

Market operations for commodities could be improved through regional commodity exchanges. So far in sub Saharan Africa these have not met with success at the national level due inter alia to the small size of the market. A regional commodity exchange can contribute to market transparency, reduced transaction costs and help to define better quality standards and improve the discipline in the market place, including contract enforcement.

### **3.2. Proposed EU actions**

#### *3.2.1. Support the implementation of commodity chain strategies*

The EU – Commission and Member States - should support the implementation of commodity strategies, within the context of their country support and with the appropriate long term development instruments. As regards the EC, the existing funding from national and regional indicative programmes under the European Development Fund (EDF) can be used. The mid-term review of the different ACP country strategies and programmed allocations will take place in 2004. It will be an important opportunity for the concerned countries, in partnership with the European Commission, to revisit the currently existing funding priorities and where necessary attach greater priority to commodity related themes such as agriculture and rural development taking into account that the overall envelope for particularly performing countries will be increased. Limited support can also potentially be extended even if rural development/ agriculture are not retained as priority sectors in country programming.

#### *3.2.2. Development of regional support services*

The EU (EC/MS) should support actions at regional level in support of commodity development: regional networks of farmer organisations, commodity branch organisation, trade associations; quality-enhancing services (certification, testing, market information); chain-related technology and market development research; co-ordinated provision of infrastructure such as transport networks; and investment promotion.

#### *3.2.3. Support to Economic Partnership Agreements with the ACP*

The EC is fully committed to assisting CDDCs to pursue regional integration and is convinced of the many potential benefits that this could bring. As regards the ACP, the negotiations on Economic Partnership Agreements (EPAs) will be a main instrument to foster such integration. The negotiations will address issues relating to ACP trade performance both with the EU and between themselves, including commodity exports. Issues covered will range from market access to trade related rules, including sanitary and phyto-sanitary standards, which have been identified as an important issue by the ACP. Interlinked development co-operation activities will help the ACP to use this framework to support regional integration

and trade including the development of commodity sectors. The Commission, in cooperation with the ACP partners, will seek to ensure that the issue of commodity dependence is given proper prominence throughout the EPA negotiations.

Already, more than 30% of financial allocations have been set aside for ACP for trade and regional integration under the regional indicative programmes. This is complemented by additional funding allocated under the national programmes and the all ACP programmes. Overall it is estimated that more than € 600 m will be allocated under EC programmes to regional integration and trade. The EC will pursue and strengthen these programmes where necessary within the context of the EPA process

#### **4. MANAGING COMMODITY RISKS AND ACCESSING FINANCE**

Liberally operating markets for agricultural commodities tend to be characterised by alternating short periods (few years) of higher prices and longer periods of lower prices. There is high volatility within these cycles. Volatility creates uncertainty and reduces the willingness and capacity of farmers to invest. It may also create insecurity for other actors in the value chain, increasing downward price pressures.

Following liberalisation of agricultural markets in developing countries, including the dismantling of marketing boards, farmers became more exposed to market risks and the need to finance inputs themselves. Since banks are often reluctant to lend to the risky agricultural sector, entrepreneurs may find themselves unable to upgrade production and technology, and to finance inputs, output marketing and processing.

Governments are also affected by fluctuations in commodity prices which influence fiscal revenues and reduce the ability to maintain basic service provision. They put further pressure on foreign exchange reserves and the currency, making debt servicing less sustainable and imports relatively more expensive.

Compensatory finance has been an important tool to seek to buffer developing countries and producers against the worst effects of price and income volatility. Although these instruments provided important resources, they have had problems relating in particular to disbursement rates, which have undermined their intended countercyclical effect. It now seems clear that different tools are needed to cushion impacts at producer and macro level.

##### **4.1. Policy Response: Developing institutions and instruments**

To improve access to *finance*, there is a need to create more secure collateral for agricultural lending that would reduce the risk of non-repayment. Some new approaches are based on the creation of liquid guarantees (as opposed to collateral on fixed assets – land, machinery, etc.). These could include warehouse receipts<sup>7</sup>, longer-term contracts and risk management instruments. To accept lending against warehouse receipts, local banks need a trustworthy and affordable third party collateral manager; and a warehouse receipt regulation that protects the rights of the warrant holder and limits the credit risk. Strengthening collateral management services can have important development impacts, as the techniques can be applied to a range of products, such as agricultural products, spare parts and fertilizers. Input credit could also be developed by linking inputs to output markets. Another potential approach to channelling

---

<sup>7</sup> Warehouse receipts represent certain quantities of commodities that the borrower has stored with a third party

capital to local producers is to encourage banks to lend against export contracts, in partnership with international and multilateral financial institutions. Agricultural micro-credits schemes could be additional in some areas.

Market-based commodity risk *insurance* can offer producers and traders a possibility to hedge the effects of price fluctuations or natural disasters within a cropping season. The Commodity Risk Management (CRM) initiative of the World Bank has started testing the feasibility of put-options<sup>8</sup> in CDDCs, and is expanding to other instruments. To become operational, however, such tools need to be implemented on a scale sufficient to elicit interest from financial providers. Therefore, exploring delivery channels to increase coverage and reduce administration costs is critical. Other key actions are capacity building for potential buyers of these instruments (banks, cooperatives, etc) and encouraging the international providers to invest in establishing relations with CDDCs. Commodity risk insurance can furthermore reduce the credit risk, if local banks are encouraged to integrate this service into their portfolio to the commodity sector. It should, however, be noted that these hedging instruments are not designed to compensate farmers for long term price falls.

Governments of CDDCs need ways to manage the macroeconomic vulnerability that results from their dependence – at the level of fiscal revenues and exchange rate stability/balance-of-payments. Fiscal vulnerability can be reduced by broadening the tax base away from commodities, increasing the effectiveness of tax collection, and pursuing counter-cyclical fiscal policies. Such reforms are long-term processes, however. Balance-of-payments effects of price volatility are even more difficult to address.

Most CDDCs will need access to insurance (hedging) tools to cushion impacts at macro level. Several tools can be envisaged that could potentially replace, at least partially, the existing macro-level compensatory schemes of international donors. Against a premium, such insurance would guarantee a certain level of budget revenues and foreign exchange in case the price of the export commodity drops below an insured level. Other risks, such as specific climatic events affecting output, can also be hedged. Hedging schemes for export revenue can be extended to cover basic imported commodities, e.g. oil, grains and agri-inputs.

## **4.2. Proposed EU actions**

### *4.2.1. Facilitating producer access to commodity risk insurance and trade finance*

The EU will jointly support the developing and piloting of a range of new insurance and finance instruments for the various operators in the commodity chain, including producers. Following encouraging results from pilot initiatives on Commodity Risk Management, the challenge is now to scale them up to reach a level of effective demand that would draw enduring attention of the international providers of these instruments. Trade finance could be integrated into the CRM initiative.

### *4.2.2. Developing shock management tools for the macro-level*

The EU will support piloting of the use of market based insurance tools at the macro-level, to cushion the effects of commodity shocks. This includes identifying which international

---

<sup>8</sup> In a price risk transaction with put options, the buyer pays a premium to lock in a certain price (strike price) for a given date on an international commodity exchange. If the price on the commodity exchange on the agreed date is lower than the strike price, the insurance buyer receives a pay-out. If the price is higher, the producer sells at the market price, but loses the premium

regulatory framework will be needed for the application of these instruments. The international community should also consider temporary co-financing of the premium linked to this type of insurance, while abiding by related international rules. In relation to this, the EU should support CDDCs establish safety net programs to channel resources to those affected by commodity shocks.

The EU, together with the international community, should continue to explore alternative international lending arrangements, where CDDCs have lower debt-servicing obligations when export revenues fall. Options include commodity-based loans, local currency loans, integrating commodity shock management into existing instruments of international finance institutions and synergies with grant-based compensatory finance.

#### *4.2.3. Improving access to the EU Flex compensatory instrument*

With the entry into force of the EU-ACP Cotonou Agreement a new instrument was established to compensate countries for sudden falls in export earnings, the Flex. The Flex provides additional budgetary resources to ACPs in order to safeguard macro-economic and sectoral reforms and policies that are at risk as a result of a fall in export revenue.

Initial experiences with the Flex have shown that several countries that experienced important losses in export earnings were not eligible for compensation: The Commission intends to propose in May 2004 to the ACP-EC Council of Ministers the appropriate amendments to Annex II of the Cotonou Agreement, so as to allow for applicability of the new conditions already for cases relating to 2003. The revision of the Cotonou Agreement will also be an opportunity to reconsider ways of supporting CDDCs. As the resources made available by the Commission for Flex are limited, the MS should consider complementing this mechanism by budgetary support.

CDDCs could consider allocating Flex resources to the implementation of national commodity chain strategies. In areas where structural changes in global commodity markets have made production permanently uncompetitive, CDDCs could also establish long term programs aimed at assisting farmers in making the transition to other rural activities.

## **5. DIVERSIFYING AROUND TRADITIONAL COMMODITIES**

CDDCs mostly export a small range of commodities without much value added. This situation creates vulnerability, at macro and producer level and indicates a foregone opportunity to retain more value and thus income in producing countries. Diversification is commonly seen as the remedy to both these problems, but developing and implementing a diversification strategy is complex.

For example, smaller commodity producing countries are at a comparative disadvantage to enter into (secondary) processing of traditional commodities. The lack of domestic markets coupled with high levels of perceived risk mean that few companies, domestic or foreign, are willing to make the investments required. In the short term, other approaches are needed to add value and increase margins for traditional commodities – as outlined in chapter 3.

Most DCs also face serious challenges in diversifying into non-traditional commodities or activities: a) lack of experience/knowledge in manufacturing and marketing non-traditional commodities in international markets; b) lack of access to and costs of financial services for new industries; c) absence of public infrastructure; d) weak regulatory and legal frameworks; e) lack of access to domestic raw materials and international levels of technology; f) small

size of domestic demand; and g) certain trade rules. Exporters prefer traditional commodities, for which market information is accessible, transaction costs are relatively low, overseas buyers are known and support services are comparatively easily available, even in LDC's. Level of risk is a major determinant for private sector engagement.

This said, complementary income sources are a safety net for many commodity farmers and labourers. Therefore, a strategy seeking to reduce the vulnerability of commodity producers within a reasonable time frame should support effective local livelihood diversification for them. Furthermore, even with intensified support to commodity sectors, as outlined above, some producers will not be able to cope with the declining price trend. CDDC governments will be faced with demands to assist them to find other activities.

### **5.1. Policy Response – increasing government capacity to support diversification**

The role of government in promoting diversification and growth is crucial. This has to do with creating the enabling framework needed for alternative economic activities to materialise, and with making strategic choices in cooperation with key stakeholders and supporting them through specific and stable policies.

The strategic choices are not necessarily mutually exclusive, but each requires specific support policies. Each of these will make substantial demands on government capacity, a significant constraint in many CDDCs. The policy choice may in practice be much more challenging than it might seem.

There is a clear need to increase the capacity of CDDC governments – national and local - to evaluate the strengths, weaknesses and potential of their existing or future productive sectors, and to adequately support these. Some support information could be shared between countries: options in capitalising on the commodity sectors; ways of addressing the specific weaknesses and strengths of CDDCs; and experiences in sequencing policy reforms. As outlined in chapter 3, regional cooperation and integration will be important to progress, by increasing market size for both inputs and outputs, and by reducing risk to investment in other ways.

### **5.2. Proposed EU action**

#### *5.2.1. Informing government choices*

The EU should offer technical assistance to help inform CDDC governments' policy choices. It should support analysis of the specific constraints, conditions and potential for successful livelihood diversification and growth in individual CDDCs, including the opportunities offered by the existence of one or a few comparably strong agricultural commodity chains. Specific tools to support strategic choices could be further developed. For example, the Commission is currently supporting the development of a methodology to evaluate the potential competitiveness of national coffee sectors, including the options of diversification.

The EU should support broad-based involvement of the potential “diversifiers” in strategic choices, whether these are local producers, exporters or regional or international investors. Gender sensitiveness is important in this context. Women dominate many of the non-farm activities with potential – food processing and preparation, tailoring, trading and many services. These skills could be capitalised upon in growth/diversification efforts.

### *5.2.2. Supporting rural growth*

The EU should assist in implementing diversification/growth strategies of CDDCs, in particular by encouraging the incorporation of productive sectors into PRSPs. Again, coordination between Government, relevant investors and donors will be crucial, and the EU should make special efforts in this regard.

Efforts to improve the possibilities for livelihood diversification for producers should largely be tackled within the framework of rural development. EU rural development strategies should therefore increasingly incorporate responses to challenges relating to globalisation, market concentration and integration, international market constraints, trade rules etc. In addition, special efforts are needed to support producers having to abandon a traditional commodity.

The potential for developing local, national and regional food markets deserves special attention, especially for low-income food deficit countries (almost all highly coffee and cotton dependent countries are such countries, and many of the cocoa dependent countries too). The EU is committed to assisting governments to understand the underlying reasons for low food production and put in place the enabling conditions to redress the situation. In this context, it will be important to monitor the implications of international trade and agricultural policies.

### *5.2.3. Strengthening private sector support*

The EU recognises the central role of the private sector in CDDC growth, development and diversification. Both the Commission and Member States have a wide range of instruments for private sector development which should be drawn upon to support the implementation of CDDC strategies. They should actively communicate the existence of these instruments.

As regards the EC, support is provided largely through horizontal instruments of direct access to the private sector (rather than through national indicative programmes). The European Investment Bank plays a particularly important role in this context, managing the 2.2 billion Euro Investment Facility funded by the EDF, and contributing 1.7 billion Euro from its own resources for financing of investment projects in ACP countries.

Consistency, complementarity and synergy, both between these horizontal instruments and with programmable support, is crucial. The EU should make special efforts in this regard. For ACP CDDCs, particular attention should be paid to support factors for the release of funds from the EIB. For example, as concerns the EIB loans, appreciation of risk is an important selection criteria, and so public policies will be important in enabling the forthcoming of such funds. The EU should make use of EIB experiences of evaluating risks to investment in CDDCs.

## **6. SUCCESSFULLY INTEGRATING WITH THE INTERNATIONAL TRADING SYSTEM**

International trade rules play an important role for CDDCs and commodity producers by enabling or constraining exports of primary commodities and diversification products. Rules on domestic support, export competition and market access all shape commodity producers' opportunities, as do measures and standards and other technical regulations. In some instances the rule is a source of problem. In others, the real issue is the capacity to deal with or make use of the rule.

Public support to agriculture can fulfil legitimate objectives for the subsidising country, such as social cohesion, environmental protection and rural development. However, when linked to production, subsidies can lead to over-production. Surplus production often finds its way onto the world market, influencing prices and production possibilities for other producers. CDDCs tend to be more vulnerable to such impacts than others and less able to protect themselves against this situation.

CDDCs usually benefit from preferential import regimes. For example, the present EU Cotonou import regime provides preferential access to ACP countries and the EU's Everything But Arms (EBA) scheme provides duty and quota free access for all LDC products except arms (with phasing in periods for sugar, rice and bananas). Still, tariff barriers restrict export opportunities for certain products and certain countries. Tariff escalation is an issue of concern for some CDDCs in certain products as it can make it more difficult for them to export value added products than raw materials and can therefore be an obstacle to the development of a local industry. Furthermore, preferential market access has not always been effectively valorised. For example, only 50% of products imported into the EU from its developing country partners which are theoretically eligible for preferences<sup>9</sup> under the Generalised System of Preferences (GSP) scheme actually receive them. There are a variety of reasons for this.

GSP use is affected by the conditions linked to preferences. Difficulties in fulfilling the administrative and content requirements of the Rules of Origin may restrict use. Although the GSP provides for relaxation of these rules (cumulation with EU or regional inputs) often the inputs required for manufactured goods come from suppliers which are not entitled to cumulate with the beneficiaries. Exporting countries may also have difficulties coping with other market entry requirements, in particular Sanitary and Phyto-sanitary measures. Official/public standards are not the only potential difficulty. Private standards and quality requirements of large retailers and traders may be higher.

Finally, access to the markets of developed countries is not the only motor for development. Whilst such markets may be more profitable, they are more sophisticated and require high levels of technical or health-related standards which not all developing countries can easily reach. Prospects for growth in demand on these markets are often small and competition is severe. On the other hand, regional markets in developing countries often provide an opportunity to expand markets substantially. However tariff and Non-Tariff Barriers (NTBs) between DCs often severely restrict regional trade, thus discouraging the investments needed for growth and diversification.

### **6.1. Policy Response: Maximising opportunities for CDDCs in the multilateral trading system**

A range of trade related issues of relevance to CDDCs are at stake in the ongoing WTO negotiations, in particular concerning agriculture. To fulfil the development objectives of the Doha Round, the international community will need to be particularly receptive to views and proposals from the poorest countries, and seek agreements that increase the prospects for poverty-reduction and growth.

Concerns relating to subsidies will need to be addressed in the negotiations and with a focus on reducing or eliminating those that are the most trade distorting, especially those affecting developing countries. Duty- and quota-free market access to all developed country markets

---

<sup>9</sup> The EBA is a special preference under the GSP and thus included in this figure

and to the most advanced developed country markets should be ensured for LDCs, as the EU already provides. Preferential market access for other developing countries is also important. Industrialised countries should take a supportive attitude to favourable treatment of those products that are of particular importance to CDDC's: traditional commodities in raw and processed form, and products of importance to diversifying out of them. The EU proposes a substantial reduction of tariff escalation in the framework of the Doha negotiations, in both agricultural and industrial sectors. Access to an effective safeguard mechanism should also be ensured. This is particularly important for countries and regions seeking to diversify by promoting agro-food products for the local and regional markets.

The reduction of preference margins that are bound to follow with progress in multilateral trade liberalisation has been a cause for concern for most CDDCs. As shown below, the EU takes these concerns seriously, but it considers that this should not be used as an excuse to hold up making progress on a far wider group of products.

The negotiations should seek to ensure that international rule making preserves the policy space of CDDC governments to formulate trade policies and investment strategies which contribute to their development objectives. Clarification of the flexibility inherent within certain rules of the multilateral trading system is required to ensure that legitimate development objectives are not undermined. However, development gains will only be reaped if DCs themselves, especially the more developed amongst them, make a contribution to the liberalisation process that is commensurate with their level of development.

The EU is in favour of improved rules and considers that CDDCs could also gain if the WTO were to reach consensus on extending the extra protection for geographical indications currently limited to wines and spirits, to other products including commodities (e.g., Ceylon tea, Cafe de Jamao etc.). There is ample evidence that geographical indications are instrumental in fostering market differentiation leading to premium prices. The resulting consumer recognition and product reputation should therefore be safeguarded against unfair competition and imitations via WTO-wide rules.

Finally, as recognised by the Doha declaration, efforts in WTO should be accompanied by trade-related technical assistance, as well as specific support actions.

## **6.2. Proposed EU actions**

### *6.2.1. Securing a development friendly outcome in the Doha Development Agenda*

The EU is committed to achieving a substantial and development friendly outcome from the current negotiations under the DDA. Efforts need to be intensified to ensure that the needs of the weakest countries in the multilateral trading system, including the CDDCs, are adequately addressed, especially as concerns agriculture. An outcome to agricultural negotiations that supports these groups of countries and their producers must be assured, including through reducing export support and trade distorting domestic subsidies. To achieve this, the negotiations need to re-start in earnest, beginning with a realistic analysis of those products which are of interest to DCs in order to start the process.

Successful resumption of the DDA involves active participation by the DC governments in international rule-making, based on well-researched and -formulated arguments. Many CDDC governments have weak capacity in this regard. The EC is committed to continue to provide support to address this situation.

### *6.2.2. Monitoring the external impact of agricultural policies*

At the internal level, the EC will pursue agricultural reforms whilst continuing the move towards support systems that avoid trade distortion. It will continue to monitor the impacts of its domestic support policies and is committed to increase policy coherence between domestic concerns and development policies. Moving forward with the internal reform process will help to provide further impetus to ambitious negotiations in WTO.

### *6.2.3. Maximising access to the EU market for CDDCs*

Most commodity-dependent countries are either LDCs or ACP countries or both and thus enjoy preferential tariffs on most or all trade with the EU. For ACP countries, the Economic Partnership Agreements (EPAs) provide an opportunity to build upon existing preferences and further enhance access conditions.

However, more can be done to secure market access for other CDDCs. The EU is due to revise its current GSP scheme in 2006. The specific needs of CDDCs should be taken into account in this revision. In particular, the special incentive given under the GSP to countries that are making efforts to combat the drugs trade currently provides very low or zero tariffs to many commodity dependent countries in Central and South America<sup>10</sup>. However this regime has been challenged by India in the WTO. Whatever the outcome of the current panel, the EU will seek to maintain high levels of access for current recipients in the light of the findings of the panel report.

As concerns Rules of Origin, the EU is currently considering whether their rules and administration require revision in the context of the emerging international division of labour and will take account of the needs of CDDCs in this deliberation. As concerns preference erosion, the Commission recognises that there may be certain sectors and countries for which wider multilateral liberalisation may cause potential difficulties. It considers that these impacts, if they occur, should be addressed on a case by case basis through adjustment support in co-ordination with other bilateral and multilateral donors. New preferences, to be granted notably by the most advanced developing countries could also alleviate the impact of the erosion of existing preferences.

### *6.2.4. Supporting CDDCs efforts to valorise their market access*

The EU is committed to improving preference utilisation, including through increasing awareness of these preferences. The EU is launching a helpdesk at <http://export-help.cec.eu.int> for DCs to ensure that they have easy access to data on tariffs, rules of origin and trade statistics. It will expand its operations in the near future to include information on internal taxation in the EU and product specific export requirements. Awareness of requirements does not guarantee compliance, however. The standards applicable on developed country markets, particularly SPS, can be considerably higher than on CDDC markets. The EU is providing support to help CDDCs develop capacity in this area, but increased efforts will be important.

---

<sup>10</sup> The Drugs regime covers Bolivia, Colombia, Costa Rica, Ecuador, El Salvador, Guatemala, Honduras, Nicaragua, Pakistan, Panama, Peru and Venezuela. Duty free market access is provided for 3665 products for which the general GSP grants tariff reductions. In addition 316 products are included in Drugs GSP that are not included in the general arrangements.

## 7. ENHANCING SUSTAINABLE CORPORATE PRACTICES AND INVESTMENTS IN CDDCs

The international commodity companies and retailers play a central role in framing the future of the commodity sectors. Mostly, they have the real power in the commodity chains, a situation being reinforced by the ongoing concentration on the side of commodity buyers and the parallel fragmentation on the side of the producers. Local entrepreneurs are often unable to compete effectively with these large consolidated corporations whilst remaining independent, and tend to increasingly link themselves to these companies, as subsidiaries, agents or as joint venture partners. As such, they too are increasingly dependent on the corporate policies of Multinational enterprises (MNEs).

In addition, commodity processors and retail chains are increasingly integrated within the commodity chain, to ensure stable access to supply, better control the chain and be able to trace their products down to production levels. They are also showing an increasing interest in internalising sustainability concerns - socio-economic and environmental conditions at producer level - into their business operations. This vertical integration presents opportunities for producers. It offers a potential to secure premiums for “good” production practice, and can reduce vulnerability by allowing producers to enter into more long-term contracts with buyers. Large companies thus have a significant role to play in developing sustainable production and trading practices – environmentally, socially and economically.

### 7.1. Policy response: Fostering corporate responsibility for sustainable commodity production

Foreign direct investment (FDI) should be promoted to support the improvement of productive sectors, including the emergence of processing and to bring in the technology and market know-how which they require. CDDCs themselves must establish a regulatory framework, including competition legislation, which can encourage and promote sustainable FDI. The international community for its part should encourage international buyers (retailer, processor or trader) to invest in a long-term relationship with farmers or local processors. Through various forms of public-private partnerships, they can also assist in ensuring that the benefits of these processes accrue to local commodity producers and other local stake-holders. In that framework, transfer of sustainable agricultural techniques and knowledge should be encouraged.

Multinational commodity enterprises should be encouraged to comply not only with local laws, but also with OECD guidelines and the ILO declaration on principles concerning multinational enterprises and social policy. These include guidance and principles on chain accountability, rendering enterprises liable and responsible for the circumstances under which products are produced. While it should be underlined that codes of conduct are not a substitute for legislation and collective bargaining, they can be of help. The MNEs have a wide range of options, from Fair Trade via individual company codes to sector codes. The way ahead seems to be a combination of company and sector codes. In this way, individual company codes with relatively high standards, including in particular proper remuneration to farmers are backed up by codes of conduct for the whole sector.

The “Fair Trade”<sup>11</sup> movement have been setting the trend for a more socio-economically responsible trade, including minimum prices for producers. One of the main merits of the Fair

---

<sup>11</sup> Fair Trade (with capital letters) is a labelling concept which guarantees consumers a set of specific characteristics for the product concerned. Without capitals, the concept is not “owned” such that “fair trade” could be used by anybody wishing to classify a product

Trade is the debate it has stimulated at consumer level. However, the mainstreaming of Fair Trade as a code is unlikely as MNE's often do not accept certain of its basic tenets such as minimum prices. Nevertheless, many companies and private sector organisations are now developing their own codes of conduct relating to labour issues, human rights and environment, as part of their policies on corporate social responsibility (CSR). Although these codes may be less ambitious, they have the potential to increase the number of commodity producers benefiting from them and so should be encouraged. Furthermore, large companies should be encouraged to mainstream sustainable production practices into corporate practice on the whole rather than as special brands marketed alongside other brands not benefiting from these codes.

The Commission supports an integrated approach to sustainable trade that promotes all three pillars of sustainable development equally. A socially sustainable model of production means that working conditions comply with core labour standards (as defined by the ILO conventions). This includes the prohibition of child labour, forced labour, non discrimination in employment, freedom of association and collective bargaining in order to ensure decent working conditions. Environmental concerns relate e.g. to maintaining soil fertility, preserving scarce water and other resources, eco-systems and biodiversity. In addition, environmentally sound production is crucial from a health perspective. It reduces producer exposure to dangerous pesticides, preventing pollution of water reserves etc.. The long-term economic costs of production should be covered.

In its communication concerning Corporate Social Responsibility<sup>12</sup>, the Commission provided overall guidelines for the development of effective and credible codes of conduct. It believes that such codes should: build on the ILO fundamental Conventions and the OECD guidelines for multinational enterprises as a common minimum standard of reference; include appropriate mechanisms for evaluation and verification of their implementation, as well as a system of compliance; and involve the social partners and other relevant stakeholders which are affected by them, including those in developing countries, in their elaboration, implementation as well as monitoring;

As concerns codes of conduct in the specific area of agricultural commodity production, these should, in addition to the above, a) pay specific attention to involving farmers in CDDCs in their development; b) include specific efforts to support the upgrading of producers in CDDCs to meet international standards under these programmes and codes; and c) reward producers financially for the additional efforts that they are making in meeting additional market requirements

## **7.2. Proposed EU actions**

### *7.2.1. Promoting Corporate Social Responsibility internationally*

The Commission and MS have committed themselves to promote the effectiveness and credibility of sustainable codes of conducts within the commodity chain. They should now engage further in dialogue with corporations on the issues raised above, in particular ways of ensuring that the benefits from CSR accrue to CDDCs.

---

<sup>12</sup> COM(2002) 347 concerning "Corporate Social Responsibility: A business contribution to Sustainable Development" of 2 July 2002. See also Com (2001) 416 on "Promoting Core Labour Standards and Improving Social Governance in the context of Globalisation" of 18 July 2001.

The EU should furthermore take action to increase public awareness and transparency on existing fair, sustainable or ethical trade initiatives – whether led by civil society, private sector or government - including their functioning and performance. This should enable consumers, companies and policy makers to take the right decisions. The EU should support a clearinghouse for the documentation and analysis of the experiences in this field. Also, although the Commission already sponsors some projects on public awareness of fair trade there may be scope for a strengthening of this activity.

In addition, the Commission has the intention to explore the feasibility of developing criteria/guidelines for fair and ethical voluntary trading schemes at Community level (whether led by civil society, companies or government), in co-operation with Member States and key actors within these schemes.

#### *7.2.2. Enabling CDDCs to benefit from CSR*

The EU should support CDDCs in their efforts to benefit from CSR. It should assist them to build the capacities needed to adhere to codes. In particular, the EC and MS should assist in attracting foreign partners to invest in CDDCs by participating in public private partnerships for sustainable commodity production. Such partnerships could involve local authorities, commodity sector organisations, international companies and donors. Local authorities would be responsible for formulation of a local development plan, which includes the goals and inputs of all partners. According to terms agreed, the development agency could for instance take responsibility for boosting the capacity and power of the suppliers and their organisations.

Finally, the EU should also support innovative non-governmental initiatives aimed at helping the supply side of trade flows in sustainably produced goods, such as the Sustainable Trade and Innovation Centre's (STICS).

#### *7.2.3. Promoting Competition*

The development of a strong and competitive private sector within CDDCs depends on an open competitive environment both domestically and internationally. As indicated earlier, there are sometimes large differences in power between commodity producers and processors which make most producers price takers. The EU remains convinced of the need to lay out certain core principles on competition to be contained in domestic laws and regulations, such as non-discrimination and transparency and an undertaking to outlaw hard-core cartels. It will continue to pursue this objective within WTO, although the controversy surrounding this and the other Singapore issues in Cancun makes the likelihood of a full multilateral negotiation difficult to achieve. The issue of competition rules will also be addressed within the context of our regional negotiations, for example the EPA negotiations with our ACP partners. Stronger co-operation between competition authorities can also help to ensure that any anti-competitive practices are quickly identified and addressed. The EU should pursue these issues in various relevant international fora, including the WTO and the international network of competition authorities.

## **8. NEXT STEPS**

As shown by the above, commodity dependent developing countries face major challenges. A range of actions will be needed to support them and their producers. The Commission considers that progress can be made provided that attention to these issues is reinforced at all the different levels indicated in this document. It believes that the EU (Commission and

Member States) can contribute to a real improvement in the current situation of CDDCs, if it acts in a coherent manner. It therefore invites the Council to endorse the orientations and proposed EU Action Plan above, as soon as possible. In particular, it draws the attention of the Council to the Action Matrix provided in Annex and encourages MS to indicate which actions they are willing to support, jointly or unilaterally. In this context, the Commission underlines in particular the following actions:

- 1: Coordinated efforts by countries to support commodity chain strategies in CDDCs;
- 2: Joint efforts to develop regional support services and embed commodity support in regional integration;
- 3: Constructive contribution to reform ICBs into effective organisations;
- 4: EU partnerships on commodities with international organisations (WB, FAO, UNCTAD, CFC);
- 5: Specific consideration to products of interest to CDDCs in DDA; and
- 6: Coordinated action to promote CSR with international commodity companies.

## ANNEXES

1. Abbreviations
2. Matrix on implementation of the Plan
3. Table on commodity dependent developing countries (agricultural commodities)

### **Annex 1: Abbreviations**

ACP	: African, Caribbean, Pacific
CDDC	: Commodity Dependent Developing Country
CFC	: Common Fund for Commodities
CRM	: Commodity Risk Management
CSR	: Corporate Social Responsibility
DC	: Developing Country
EC/MS	: European Commission and Member States
EPA	: Economic Partnership Agreements
EDF	: European Development Fund
EBA	: Everything but Arms
FAO	: Food and Agriculture Organisation of the UN
FDI	: Foreign Direct Investment
GSP	: Generalised System of Preferences
HDI	: Human Development Index
HIPC	: Heavily Indebted Poor Countries
ICB	: International Commodity Body
ICA	: International Commodity Agreement
ICO	: International Coffee Organisation
IF	: Integrated Framework for Trade-related Capacity Building
IFI	: International Finance Institution
ILO	: International Labour Organisation
IMF	: International Monetary Fund
ITC	: International Trade Centre

ITFCRM	: International Task Force on Commodity Risk Management
LDC	: Least Developed Country
MFN	: Most Favoured Nation
MNE/C	: Multinational Enterprise/Company
NGO	: Non Governmental Organisation
NIP	: National Indicative Programme
OECD	: Organisation for Economic Cooperation and Development
OLIC	: Other Low Income Country
PRSC	: Poverty Reduction Strategy Credit
PRSP	: Poverty Reduction Strategy Paper
PSD	: Private Sector Development
RIP	: Regional Indicative Programme
SPS	: Sanitary and Phytosanitary Standards
QUAD:	: EU, US, Canada, Japan
TRIPS	: Trade Related Intellectual Property Rights
UNCTAD	: United Nations Conference on Trade and Development
UNDP	: United Nations Development Programme
WB	: World Bank
WTO	: World Trade Organisation

## Annex 2: Matrix on implementation of the Action Plan

Action/by when	By whom	How
<b>2. Addressing agricultural commodity chains and dependence as a poverty priority</b>		
Development of commodity strategies in CDDCs (2004-5)	CDDCs (public-private commodity task force)  Commission/MS (e.g. EU-CC <sup>a</sup> )	Setting up of public private commodity task force with the goal of developing a strategy and integrating it into national development strategies.  Policy dialogue and technical assistance (TA), including, capacity building and identification of the links with on-going development programs.
Reinforcing international strategies for individual commodities and improving effectiveness of ICB's (2004-5)	Commission/MS and ICBs  ICBs and Commission/MS	Impact assessment of commodity strategies, proposal for structured action and development of the international strategies.  EU should provide impetus for reform in ICBs and monitor the effectiveness of the reform and work of ICB's. EU should assess its future support to ICBs.
<b>3. Coping with long term price decline</b>		
Implementation of CDDC commodity strategies (2004-07)	Commodity task force in CDDCs, with support of Commission/MS (and EU-CC <sup>a</sup> )	Operationalise strategy, assign tasks and monitor activities: <ul style="list-style-type: none"> <li>• capacity building at producer level</li> <li>• development of the regulatory environment</li> <li>• prioritising infrastructure support</li> </ul>
Development of regional support services (2004-7)	Regional organisations, in coordination with the commodity task forces, supported by EU -CC <sup>a</sup> )	The development of regional services via the promotion of regional cooperation between farmer networks, regulatory bodies, research institutions, infrastructure departments, etc.
Support regional integration through EPAs with ACP (2004-07)	CDDCs, regional organisations, Commission in cooperation with MS	The EC will seek to ensure that commodity issues are effectively treated in EPA negotiations, through appropriate efforts to harmonise standards, legislation and key business-related policies to support development of commodity sectors and key sectors for diversification.
<b>4. Managing commodity risks and accessing finance</b>		
Facilitating access to commodity risk insurance and trade finance (2004-07)	World Bank (via EU-CC <sup>a</sup> ) in coordination with UN and supported jointly by Commission/MS	Piloting of new schemes and delivery mechanism through capacity building.  Support consolidation of International Task Force on CRM that advises World Bank on implementation.
Developing shock management schemes for the macro-level (2004-2006)	Commission/MS and CDDCs  CDDCs (MoF) with help WB (EU-CC <sup>a</sup> ) and Commission/MS	Promote the expansion CRM-initiative by World Bank with management of commodity shock at macro-level due to price (export, import) and disaster management.  Pilot use of macro-level hedging schemes within public finance management, stand alone or in relation with HIPC, consider co-financing the premiums.
Improving access to the EU Flex scheme (2004)	Commission in co-operation with MS/ACP	Consider revision of criteria and additionality to market-based systems
<b>5. Diversifying away from traditional commodities</b>		

Informing government choices (04-07)	Commission/MS (incl. EU-CC <sup>a)</sup> )	Provide technical assistance to evaluate potential policy decisions.
Supporting implementation of CDDC diversification and growth strategies (2004-2010)	CDDC's	Integrate more support to productive sectors or private sector development into the PRSPs
	Commission/MS	Increase support to more pro-poor growth and trade based development
Supporting local producer diversification (04-07)	Local governments and NGO's (in Partnerships), supported by Commission/MS and EU-CC <sup>a)</sup>	Develop and implement a growth strategy for the development of domestically traded products, including the divestment strategy for unprofitable commodities.
Strengthening private sector support (2004-07)	Commission/MS and EIB	Valorise instruments for private sector development in non-traditional sectors
<b>6. Successfully integrating CDDCs with the international trading system</b>		
Securing a development friendly outcome in DDA (2004-	Commission and other WTO members	Relaunch DDA negotiations. Ensure that needs of weakest countries are addressed, including through supporting their trade negotiation capacity.
Monitoring the external impact of agricultural policies (2004-2009)	Commission/MS	Pursue agricultural reform in a manner to minimise trade distortion. Monitor the impacts of domestic support policies. Take adequate measures to avoid policies that affect commodities and diversification in CDDCs
Maximising access to the EU market for CDDCs (2004-..)	Commission/MS	Revise GSP with CDDCs needs in mind. In particular, in the event of losing WTO panel, seek to secure high levels of access for CDDC regions that currently benefit from Drugs GSP. Address on a case by case basis the impacts of loss of preference erosion.
Supporting CDDCs to valorise market access (04-06)	Commission in consultation with MS	Take into account the need to support CDDCs in any revision of rules of origin. Strengthen helpdesk activity for developing countries.
<b>7. Enhancing Sustainable Corporate Practices and Investments in CDDCs</b>		
Promote CSR (2004-07)	Commission, MS and NGO's	Promote the use of sustainable codes of conducts. Support clearinghouse of experiences. Explore development of voluntary agreed criteria for fair and ethical trading schemes at Community level
Promoting PPPs with MNE and CDDCs (04-07)	Commission/MS, CDDCs, NGO's	Pilot Public Private Partnerships (PPS) in some CDDCs and assess the lessons. Disseminate best practices via ICB's and CDDCs.
Promoting competition (2004-10)	Commission and other WTO-members.	Seek to develop common principles to guarantee competition within WTO. Also address in context of regional cooperation.

<sup>a)</sup> EU-CC: "EU Commodity Cooperation with international organisations": The Commission proposes to set up a multi-donor cooperation programme on agricultural commodities including with World Bank, FAO, UNCTAD and CFC

### Annex 3. Characteristics of developing countries and territories depending on three or less agricultural commodities for more than 20 % of their total exports

Country Top 1/Top 3 percentage dependence <sup>13</sup>	2 <sup>nd</sup> and 3 <sup>d</sup> commodity	L D C	O L I C <sup>14</sup>	L M I C <sup>15</sup>	Small Island State	Land- locked	ACP	GDP per capita (PPP US\$) 2000	HDI rank <sup>16</sup>	Population <sup>17</sup> (millions) 2000	HIPC country 2001 <sup>18</sup>	LIFDC 2001 <sup>19</sup>
<b>Sugar- producing (main)</b>												
St Kitts & Nevis 35 / 38.	Beverage fat prep				X		X	12,510	44 (H)	*		
Cuba 35 / 43	Cigars, tobacco			X				9,023	55(M)	11.2		X <sup>20</sup>
Belize 26 / 51	Bananas, orange juice			X			X	5,606	58(M)	0.2		
Guyana 24 / 40	Rice, beverage			X			X	3,963	103(M)	0.8	X	
Fiji Islands 23 / 25	Molasses coa			X	X		X	4,668	72 (M)	0.8		
Mauritius 20 / 21	Live animals, beef				X		X	10,017	67 (M)	1.2		
Swaziland 20 / 43	Food prep, sugar			X		X	X	4,492	125 (M)	0.9		X
Dominican Republic 13 / 24	Coffee, cocoa beans			X			X	6,033	94 (M)	8.4		
Barbados 12/ 22	Beverage food pre						X	15,494	31(H)	0.3		

<sup>13</sup> \*\* Added from ITC/UNCTAD/WTO(2002): Coffee: an exporter's guide, p.4

<sup>14</sup> Other low income country (per capita GNI <\$745 in 2001) = OLIC

<sup>15</sup> Lower middle income country = LMIC

<sup>16</sup> A ranking of 138 or lower indicates low human development, and a ranking between 54 and 137 indicates medium human development.

<sup>17</sup> \* lacking information

<sup>18</sup> World Bank classification

<sup>19</sup> Low Income Food Deficit Countries (ie net food importers) FAO (2002): The LIFDC Classification - An Exploration; <http://www.fao.org/DOCREP/MEETING/004/Y6691E/Y6691E00.HTM>

<sup>20</sup> Country in the transitional phase. Exceeds the WB income threshold for the first year

Country Top 1/Top 3 percentage dependence	2 <sup>nd</sup> and 3 <sup>d</sup> commodity	L D C	O L I C	L M I C	Small Island State	Land- locked	ACP	GDP per capita (PPP US\$) 2000	HDI rank	Population (millions) 2000	HIPC country 2001	LIFDC 2002
<b>Coffee- producing (main)</b>												
Burundi 75 / 89 79% o.s.	Tea, refined sugar	X				X	X	591	171 (L)	6.4	X	X
Ethiopia 62 / 75 64% o.s.	Sheepskin, crude organic mat	X				X	X	668	168 (L)	62.9	X	X
Uganda 54 / 63 59% o.s.	Tea, crude organic mat	X				X	X	1,208	150 (L)	23.3	X	
Rwanda 43 / 68 56% o.s.	Tea, skins	X				X	X	943	162 (L)	7.6	X	X
Sierra Leone** 32% o.s.		X					X	490	173 (L)	4.4	X	X
Nicaragua 19 / 29 27% o.s.			X					2,366	118 (M)	5.1	X	X
El Salvador** 24% o.s.				X				4,497	104 (M)	6.3		
Guatemala 24 / 40	Sugar, bananas			X				3,821	120 (M)	11.4		X
Honduras** 22 / 30 23% os.	Bananas, cigars			X				2,453	116 (M)	6.4	X	X
Columbia 16 / 26	Crude or mat, bananas			X				6,248	68 (M)	42.1		
Madagascar 12 / 21	Cloves, vanilla	X					X	840	147 (L)	16	X	X
<b>Banana- producing (main)</b>												
St Lucia 54 / 62	Beer of barley, fresh fruit				X		X	5,703	66 (M)	0.1		
St Vincent 37 / 68	Wheat flour, rice			X	X		X	5,555	91 (M)	0.1		
Dominica 27 / 31	Plantains, coconut oil				X		X	5,880	61 (M)	0.1		
Ecuador 24 / 29	Crude org mat, coffee			X				3,203	93 (M)	12.6		X

Panama 23 / 29	Sugar, coffee						6,000	57 (M)	2.9			
Costa Rica 21 / 40	Coffee, crude org mat						8,650	43 (H)	4.0			
<b>Cotton-producing (main)</b>												
Burkina Faso 39 / 45	Cattle, sheep	X				X	X	976	169 (L)	11.5	X	X
Chad 37 / 48	Cattle, goats	X				X	X	871	166 (L)	7.9	X	X
Benin 33 / 38	Cotton seed, palm oil	X					X	990	158 (L)	6.3	X	X
Mali 30 / 44	Cattle, sheep	X				X	X	797	164 (L)	11.4	X	X
Togo 23 / 36	Coffee, cotton	X					X	1,442	141 (L)	4.5	X	X
Somalia 23 / 36	Coffee, cotton	X					X	*	*	*	X	X
Central African Republic 11 / 21	Coffee, cattle	X					X	1,172	165 (L)	3.7	X	X
<b>Cocoa-producing (main)</b>												
Niue (taro) 71/75	Honey, bananas			X			X	*	*	*		
Sao Tome and Principe 69 / 70	Coffee, copra	X			X		X	1,792	119 (M)	0.1	X	X
Cote d'Ivoire 36 / 46	Coffee, cocoa paste		X				X	1,630	156 (L)	16.6	X	X
Ghana 24 / 28	Cocoa butter, pineapples		X				X	1,964	129 (M)	19.3	X	X
<b>Tobacco leaves</b>												
Malawi 59 / 70	Tea, sugar	X				X	X	615	163 (L)	11.3	X	X
Zimbabwe 22 / 29	Cotton, sugar		X			X	X	2,635	128 (M)	12.6		
<b>Cashew nuts</b>												
Guinea Bissau 48 / 51	Cotton, palm	X					X	755	167 (L)	1.2	X	X
<b>Pumpkins</b>												
Tonga 44 / 61	Crude org mat, vanilla			X	X		X	*	*	*		

Country Top 1/Top 3 percentage dependence	2nd and 3d commodity	L D C	O L I C	LMIC	Small Island State	Land- locked	A C P	GDP per capita (PPP US\$) 2000	HDI rank	Population (millions) 2000	HIPC country	LIFDC 2002
<b>Copra</b>												
Vanuatu 43 / 66	Veg prod, beef	X			X		X	2,802	131 (M)	0.2		X
Kiribati 42 / 42		X			X		X	*	*	*		X
Samoa 12 / 33	Prepared fruit, coconut oil	X					X	5,041	101 (M)	0.2		X
<b>Soybeans</b>												
Paraguay 39 / 53	Cake of soya, cotton			X				4,426	90 (M)	5.5		
<b>Ghee (from cow milk)</b>												
Gaza Strip 39 / 58	Oranges, potatoes			X				*	*	*		
<b>Nutmeg</b>												
Grenada 38 / 49	Cocoa beans, wheat flour				X		X	7,580	83 (M)	0.1		
<b>Vanilla</b>												
Comoros 34 / 49	Cloves, copra	X			X		X	1,588	137 (M)	0.7	X	X
<b>Tea</b>												
Kenya 26 / 44	Coffee, crude org mat		X				X	1,022	134 (M)	30.7	X	X
<b>Groundnuts</b>												
Gambia 20 / 34	Grdnut oil, grdnut cake	X					X	1,649	160 (L)	1.3		X
<b>Cattle</b>												
Djibouti 18 / 24	Sugar, crude org matter	X					X	2,377	149 (L)	0.6		X
<b>Cashew nuts</b>												
Tanzania 16 / 42	Coffee, cotton	X					X	523	151 (L)	35.1	X	X
<b>Skin (goats)</b>												
Afghanistan 14 / 38	Grapes, raisins	X						*	*	*		X
<b>Sesame Seeds</b>												
Sudan 13 / 38	Sheep, crude org mat	X					X	1,797	139 (L)	31.1	X	X

Source : FAO (2002): Dependence on single agricultural commodity exports in developing countries: magnitude and trends; EC (2000): The Cotonou Agreement. Annex VI List of LDLICS