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**International Commodity Organizations
and the Governance of Global Value Chains**

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1. Introduction

For many decades, international price stabilization was the main objective of International Commodity Agreements. Starting from the Havana Charter in 1948, subsequent agreements have led to various forms of international market intervention and a range of other activities undertaken by International Commodity Bodies (ICBs). The last International Commodity Organization that actually intervened in the market was INRO for natural rubber, which was dissolved in 1999. The interventions in the markets for natural rubber, coffee and cocoa were not in general considered successful (Herrmann, Burger and Smit, 1993) and an obituary notice for the Commodity Organizations was already written long ago (Gilbert, 1996).

Paradoxically, the recent international food price crisis did not change the situation although it rekindled the debate about international price stabilization. While international organization like IFPRI or the World Bank were very active in this debate (von Braun and Torero 2008; von Braun, Lin et al. 2009), ICBs – and particularly the International Grain Council – were silent.

At the same time, new commodity organizations are proposed, such as the Roundtable on Sustainable Palm Oil, the 4C (Common Code for the Coffee Community) or the Better Cotton Initiative. They are all focused on the negotiation and promotion of voluntary standards elaborated by reference to sustainable development and they involve mostly the private actors (large companies, banks, NGOs...). Yet, many ICBs are still in existence. Why then maintain such organizations that were created to manage international price stabilization, if price stabilization is now rejected or considered outside the scope of these organizations? Are ICBs

just an illustration of Stephen Krasner's (Krasner 1999) "organized hypocrisy" and kept alive even even when they are not effective?

We think not. ICBs manage a lot of activities (information production and dissemination, development projects) and are the only places where representatives of export and import countries can meet together to discuss about a specific commodity. Yet there is a need to refocus their objectives and be more selective in term of activities. What role remains, or what new roles should be taken by ICBs, what could be is their *raison d'être* in the current period? This paper addresses this question in relation to the agricultural commodity organisations. We first look into the membership, resources and activities of the ICBs and then proceed to an evaluation.

2. Overview of their current organisation and work

Members

At present, there are ten independent international organizations (henceforth abbreviated to ICBs). The organizations based in London deal with coffee (ICO), cocoa (ICCO), grains, rice and oilseeds (IGC) and sugar (ISO). Other independent ICBs are the IJSG (for jute, in Dhaka), IRSG (for rubber, in Singapore), INBAR (for bamboo and rattan, in Beijing), ITTO (for tropical timber, in Yokohama), ICAC (for cotton, in Washington) and IOOC (for olives and olive oil, in Madrid). In addition, the FAO plays host to ten Intergovernmental Groups (IGGs).

The ten independent ICBS jointly have 136 countries (inc. the EC) as members. Of these countries, 33 are member of just one ICB and the membership of 2, 3 or 4 ICBs is held by around 27 countries. Only two are member of eight of the ICBs, namely the European

Community and India. Three countries are member of seven of these ICBs, namely Switzerland, Côte d'Ivoire and Cameroon. Of the major other countries, USA and Russia are member of 5 ICBs, Japan of 4 ICBs and China of only 2 ICBs.

Table 1 shows the country membership, and also includes that of the Common Fund for Commodities (CFC, located in Amsterdam).

Table 1 Country Membership

| | CFC | ICO | ICCO | IGC | ISO | IRSG | IJSG | INBAR | ITTO | ICAC | IOOC |
|-----------------------------|-----|-----|------|-----|-----|------|------|-------|------|------|------|
| EU | x | x | x | x | x | x | x | | x | 10 | x |
| USA | | x | | x | | x | | | x | x | |
| Japan | x | x | | x | | x | | | x | | |
| Russia | x | | x | x | x | x | | | | x | |
| China | x | | | | | | | x | x | | |
| <i>Developing countries</i> | | | | | | | | | | | |
| Africa | 45 | 23 | 6 | 7 | 15 | 3 | | 13 | 11 | 14 | 5 |
| Latin America | 15 | 16 | 5 | 3 | 17 | | | 8 | 13 | 4 | |
| Asia & Pacific | 18 | 6 | 2 | 4 | 7 | 5 | 2 | 10 | 11 | 6 | 4 |

Goals

The goals of the ICBs are formulated in their respective agreements. The newer agreements have many objectives, the older organisations make do with a lower number. Major objectives are to provide a forum for consultations; collect and disseminate market information; promote trade, transfer of technology and sustainability.

Resources

Their human resources, totalling 212 persons, range from 7 to 45 persons per ICB, with IOOC being the largest, followed by ITTO and ICO with 33 persons. IRSG is the smallest in number of staff. Budgets available to cover the administrative costs of the organizations run from €0.4 million for the IJSG to €4.5 million for IOOC. ITTO and ICO have about €4.2 million each. Budgets are heavily affected by whether or not a host country provides the accommodation. IGG secretariats are very small, often less than 2 persons, but embedded in the Trade and Markets Division of the FAO (recently renamed from Commodities and Trade Division). The budget for their work directly related to IGG meetings is €0.3 million.

A few ICBs (IRSG, ISO and IGC) finance a part (14%) of their expenses from their own income, other ICB completely rely on the member contributions. These are for most ICBs partly divided equally over the members, partly assessed in relation to some measure of their interest in the commodity. IGGs receive a budget from the FAO.

Activities

ICBs undertake three types of activities. One is to provide a forum for meetings of government representatives, in varying degrees extended to the private sector or occasionally to civil society participation. The other is to provide statistics and other market information. The third field is the selection and implementation of projects.

The ICBs appear to have found their own niches regarding statistics and market information. The IGC and the ISO have a particular focus on short term (price) data, which obviously serves the traders among their clientele. They and most other ICBs publish **statistics** with a less short-term perspective, such as monthly or quarterly data. Few ICBs, notably IJSG and until recently INBAR, do not publish statistics.

Table 2 Statistics and market information of separate ICBs and their frequencies of publication

| Statistics | ICO | ICCO | IGC | ISO | IRSG | ITTO | ICAC | IOOC |
|--------------------|---|---|---|---|--|--------------------------------------|--|-------------------------------|
| Daily | indicator | indicator | Prices | Prices | | | | |
| Weekly | | | news Indicators, Freight rates | | | Two-weekly Market info service | Cotton this week | |
| Monthly | Trade statistics; Market rep (6pp) | | Grain Market report (47 pp) | Market Report (22 pp) Stat Bulletin | | | World statistics Cotton, extra-fine cotton stats | Market Report (2 pp.) |
| Bi-monthly | | | | | Stat. Bulletin; Industry Report (60pp) | | Review of the World Cotton situation (20 pp) | |
| Quarterly | Statistical Bulletin | Statistical Bulletin Market review | | Market Outlook (54 pp) | | ITTO Tropical Forest Update | | |
| Half-yearly | | Meeting reports | | | | | | World Olive Oil Figures |
| Annually | Green + processed coffee trade stats | Annual Report; Trends; 5 year forecasts | Grain Stats; Wheat, Coarse grains & Food Aid Shipments | Sugar Year Book | World Rubber Stats; Outlook for elastomers | World Timber situation | Market fundamentals; Long-term trends | Demand- Supply balances |

The production of **market reports** varies depending on the ICB, as shown in Table 2. The ICCO produces reports for their half-yearly meetings, but none of these were available to the public until recently. At the other extreme, the International Grains Council and ICAC produce reports on weekly and monthly basis (and the IGC a daily price report), all offered (at a price) to the public. ISO (monthly), IRSG (two-monthly) and ITTO (two-weekly) are producing substantial market reports for their members. The ISO publishes also a quarterly market report. All these reports are available on subscription basis (but ITTO's MIS is free). The ICO is currently publishing a six pages monthly market report, produced by the office of the executive director. This report is freely available on the ICO web-site. IOOC produces a 2 page monthly report. Most of the IGG reports and statistics are produced on a semi-annual basis. More frequent reporting is done for grains and other food. The food stuffs are included in FAO's Food Outlook and also in the OECD-FAO Agricultural Outlook 2006-2015. Other reports are produced for the meetings of the IGGs that are held approximately every two years.

The ICBs are to a varying degree engaged in **projects**. The IGC has none at the moment, while the ITTO distinguishes no less than 120 projects. INBAR runs many projects too, about fifty. ICO and the ICB on Fish Trade have around ten projects. Typically, the other ICBs have a few projects. Most of the ICBs rely on the Common Fund for Commodities (CFC) for funding of their projects, with INBAR and ITTO as exceptions, as they have other sponsors for their many projects which often have an environmental focus. Table 3 presents the CFC-financed projects of the ICBs.

| ICB | Total | Ongoing | ICB | Total | Ongoing |
|--------------------|-------|---------|----------|-------|---------|
| IGG-Bananas | 4 | 3 | ICAC | 10 | 5 |
| IGG-CitrusFruits | 3 | 2 | ICCO | 9 | 5 |
| IGG-Grains | 8 | 6 | ICO | 16 | 12 |
| IGG-HardFibres | 8 | 5 | IGC | 1 | 0 |
| IGG-Hides&Skins | 5 | 4 | IJO/IJSG | 8 | 2 |
| IGG-Meat | 5 | 3 | INBAR* | 3 | 3 |
| IGG-OilOilseedFats | 8 | 4 | IOOC | 4 | 3 |
| IGG-Rice | 2 | 2 | IRSG | 6 | 3 |
| IGG-Tea | 3 | 1 | ISO | 5 | 2 |
| IGG-TropicalFruits | 6 | 5 | ITTO* | 9 | 6 |
| SC-FishTrade | 11 | 8 | | | |

Source: Basic Facts 2006 (CFC)

* These ICBs have many projects in addition to those (co)financed by CFC

3. From international markets to Global Value Chains

Traditionally, the international commodity policy focussed on the limited part of the supply chain “located” between exports and import. The aim was to guarantee coordination between national trade policies. The sovereignty principle was strictly respected. What was happening within the countries was not part of the ICB mandate. Farmer could receive only 10% of the export price, tropical forest could be destroyed to cultivate rubber, water could be polluted to prepare green coffee, these “problems” were not contemplated or even monitored by ICBs.

In this respect, they fitted well with Ruggie’s observation on traditional international politics: “In terms of spatial configuration, this traditional international political world saw itself as comprising territorially distinct and disjoint units, which engaged in strictly “external” transactions. The role of whatever governance arrangements states created – whether alliances, regimes, treaties or organization – was to reduce frictions that resulted from those external transactions, largely by helping to manage them at the point of entry/exit between the units” (Ruggie 2004)

But the value chains have become longer, reaching into producing and consumer countries. Environmental standards have come up, and new Technical Barriers to Trade seem to take the place of earlier trade policy. New policy measures, therefore, call upon a wider group of stakeholders, and a wider group of policy makers. With the inclusion of new issues in the Uruguay Round, like trade in services and intellectual property rights, came requirements on trade that not just referred to border regulation (like tariffs, taxes) but also to domestic regulation. This change coincided with two other redirections of economic policy throughout the world: the deregulation of the economy in many countries, combined with increasing regulation of social standards, relating to labour, environment, health etc. And secondly the rise in dispute settlements by the WTO that led to more concrete interpretation of the WTO rules with consequences for domestic regulations (Ostry, 2000).

The *new international commodity policy* typically encompasses the whole value chain, from producer to consumer, and not just between exporting and importing countries as in the early days of commodity organisations. The demand for a commodity is not just dependent on its price, but also on its quality for which new requirements are put forward, including social and environmental standards. The challenge is to make the value chains work for poor producers, and work for sustainable development. The justification of international inter-governmental action lies here.

This reorientation of the commodity supply chains has important consequences for the way international collaboration can be promoted. Firstly, the poverty of the producers reflect their limited access to alternative, more rewarding sources of income, and this market failure provides justification for specific action; the external effects on sustainability of production and the effects on the economies at large (dependent as some countries, notably in Africa, still

are on exports of a few commodities) provide additional arguments. As institutions and devices for international cooperation, ICBs can play an active role in meeting this challenge in four distinct ways:

- ICBs can help by *reducing transaction costs* (Keohane 1984). Relevant statistics and other market information and meetings facilitate trade, reduce transaction costs between the actors in the chain and should improve producer prices relative to consumer prices.
- ICBs can help by *governing competition* to facilitate the adoption of national environmental and social standards and to promote that benefits of reduced transaction costs reach producers.
- ICBs can help in promoting *a fair value distribution* within the value chains
- ICBs can support sustainable practices throughout the supply chain by *facilitating technology transfers*

Secondly, more links of the chain are party to the collaboration necessary to make them work for the poor and sustainable development. ICBs should not just include the traditional stakeholders: exporters and importers and international traders, but also those further upstream and downstream. And in addition to the private sector and civil society stakeholders, governments participate. They must come in not only in their capacity as trade-law makers and enforcers, but also as those responsible for the institutional environment that should facilitate trade in the new conditions. This requires – as argued by Ostry - not just input from Trade Departments, but also from Justice, Health, Industry, Agriculture. Figure 1 sketches this change.

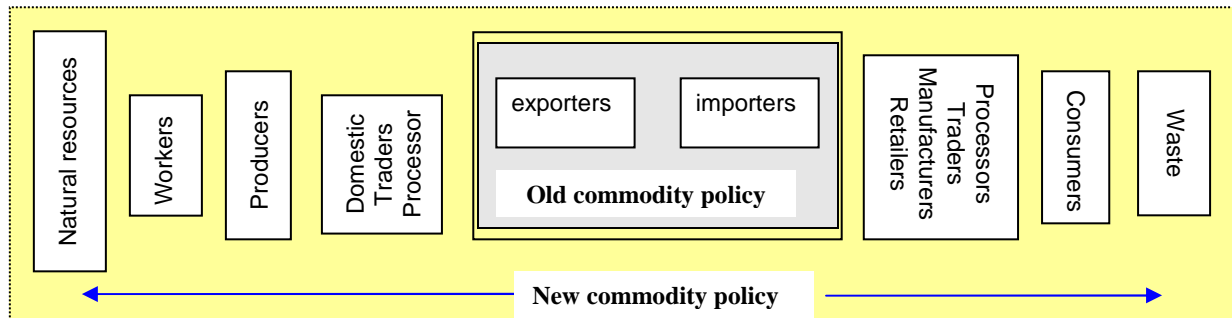


Figure 1. Increasing domain of international commodity policy.

4. Focusing on a limited of activities

The new, and expanded set of stakeholders demand a wider range of information, in the form of statistics, surveys, reports; it may call for a reorientation of projects and it has also consequences for the representation in the governance structure of the ICBs. In this section we review the role that ICBs can play in providing this information, and in undertaking the relevant projects. The governance structure is addressed in the section 5.

Statistics

Statistics help in monitoring the evolution of the transaction costs. They also help improve the knowledge of the market participants. The market works better with better information and this favours competition in the market (Grossman and Stiglitz 1980). Market information and the organized meetings of industry and government and civil society also improve the conditions for trade in the commodities. Due to their intergovernmental nature, ICBs are in a privileged position to collect and disseminate statistics in an impartial manner and to organize the exchange of information between the wider ranges of stakeholders. Therefore, and because of the external effects on the functioning of the market, public support for this work is justified (Sumner, 2000). ICBs qualify for this support if they succeed in reaching out to the producers and consumers and in providing the relevant statistics, market information, studies, meetings and projects for all the stakeholders connected with the chain. They, and their activities, should serve a wider audience than before. As they cannot do this alone and with their present capacity, more and deeper cooperation with other organisations, international,

public and private is needed. The statistics to be collected by the ICBs should be geared toward the longer value chain and include the information necessary to evaluate the performance of chain in terms of efficiency and fairness of its value distribution. It should also include information – from time to time – on the participants themselves and the institutions to contribute to better understanding. Such information requires surveys. At present, the ICBs have developed certain types of statistics: IGC and ISO typically serve the participants interested in short-term changes in the market; the other ICBs have only lower frequency statistics. The participants interested in long-term developments (governments, environmentalists) are not served well at present. This field can be further expanded with more information collected on environmental consequences, age profiles of tree crops, substitute crops open to producers, alternatives for consumers and manufacturers, etc. Survey data would also show more clearly the diversity of technologies that are used and could underpin projects aimed at disseminating the better technologies.

A specific issue that arises when the private sector is more deeply involved with the work of the ICB is the publication of forecasts of prices. The private sector argues against its publication, as it might distort the market prices and as it might arouse suspicion of anti-trust authorities. Yet, almost all ICBs make forecasts (though some do not publish the prices underlying them); the cocoa agreement even demands ICCO to make such forecasts; the World Bank is publishing price forecasts. We argue that publishing the price forecasts would be consistent with the other published forward-looking publications of any ICB; that many people, particularly outside the industry directly involved, might benefit from the publication of longer-term forecasts for their investment decisions; and that the disturbing influence on the futures market is bound to be small, if any. Hence, a balance is to be found between the interests of the private sector that is represented in the ICB and those of the wider community.

If forecasts *are* published they better be so at fixed points of time and according to a clear mandate of the organisation.

Market and other studies

What holds for statistics, holds somewhat less for market reviews. ICBs have an advantage in collecting and disseminating statistics, and are, therefore, also better placed to publish market review reports based on these data. Their contacts with the sector are, however, often less intensive than those of many private information providers, or those of industry representative organisations. The wider reach, government participation and neutrality are the aspects that favour ICBs for this task and the aspects may compensate for their ‘distance to the ground’. They are also better placed to serve as a depository of notifications of relevant policy measures. The regular trade policy reviews that the FAO groups on foodstuffs make provide good, albeit it often incomplete, examples.

Studies by these organisations that take a critical look at the performance of the supply chain, such as the degree of competition, are unfortunately rare. The sensitive nature of such studies make the ICBs not well placed to do them. Such studies had better be undertaken by multi-commodity organizations, such as UNCTAD or, for agricultural commodities, FAO. The same holds for studies on horizontal diversification (to other crops, to non-agricultural employment). The commodity focus of ICBs hinders them in promoting diversification away from the commodity. But studies on vertical diversification fall well within the scope of any ICB, but unfortunately the member countries are not keen on international comparisons of their sectors. The same holds for studies on environmental effects and studies on the role played by commodities in reducing poverty and to extent to which this role is linked with market institutions. Such types of studies could best be done in collaboration with the

appropriate international organisations, notably with the World Bank, but as yet such inter-institutional collaboration is rare.

Projects

Projects help in implementing new technologies and thus in effectively transferring knowledge and expertise. While provision of information (statistics, studies) goes some way toward this goal, projects reach out to the agents directly. Undertaking projects therefore is a natural extension of the work done by ICBs. They do so to a varying degree, and their role is small compared to nationally undertaken projects and projects financed by other donors. Most of the resources for projects from ICBs other than INBAR and ITTO, come from the Common Fund for Commodities (CFC). While ICBs in general have objectives in common with the CFC, their priorities are not exactly the same as those of the CFC where projects are concerned. Nor do they share the same membership: some 25% of the ICB members are not a member of CFC. Nevertheless the ICBs have had more than \$400 million worth of project proposals approved for funding by CFC since its start in 1989. There are complaints about the tedious procedures and especially about whose competence it is to approve proposals. In fact these are screened twice, and the projects financed by the CFC are seen more as CFC-projects than as their own projects. A listing of all the projects can be found on the CFC website. The type of projects done by the ICBs with CFC financing shows a reasonable balance between producer oriented projects and marketing related projects. There are few environment-oriented projects, or projects (outside ITTO) addressing market institutions. What are also missing are projects to improve the statistical data collection at grass root level for the commodities in question. Apart from ITTO, no ICB appears to be undertaking such projects. This is unfortunate as it would strengthen the information-disseminating role of the ICBs.

5 – ICBs’ Governance

Organisation

A clear residual of the ICBs’ past is the distinction between exporting and importing members. Typically in many ICBs 50% of the votes is for either group. The adoption of the commodity supply chain concept implies that one should look at producers, rather than exporters, and at consumers, rather importers. Countries with limited trade but large production and consumption levels have something to gain from the ICB’s work. If there must be a weight to the votes, this had better be the average of consumption and production.

The institutional lay-out of many ICBs is leaving almost all decisions to the highest authority, the council. There is only limited use of mandated committees or boards, or a strong mandate for the secretariat. INBAR is an example of an ICB with a small executive board. Council meetings in other ICBs are burdened with administrative matters, whereas the meeting time can better be used for more thematic discussions (Chrispeels, 2002).

Private sector and civil society membership

The history of the ICBs reflect the changes in society. Originally the ICBs’ boards purely consisted of government representatives, with an informal, but certainly no explicit role for the private sector. Over time, the underlying agreements changed, and room was made for explicit private sector involvement. The new step is to do this for civil society groups too. The concern of civil society groups is that the position of small farmers is receiving too little attention from the ICBs, and that this also holds for the environmental issues, and for the degree of competition and value distribution in the supply chain. Special civil society advisory boards as installed by the ITTO for example, are considered in other ICBs too. A point of concern is whether the structure is open (any firm of NGO can apply and be

accommodated) or closed (e.g. 7 seats for producing countries' private sector participants). The open structure, as employed by ITTO and IRSG is more efficient than the limited number of private sector representatives permitted in ICO, ICCO or ICAC. In the latter ICBs private interests often double with those of the government representatives. When private sectors and civil society groups are directly represented in the organizations, the government representatives – in promoting overall welfare – can focus their attention more on defending the interests of those not otherwise represented. Depending on the situation, these will be future generations in one case, small traders in another, large retailers in yet another case; consumers in most cases and in all cases the governments as demanders of information themselves.

6. Conclusion

The International Commodity Organization still have a useful role to play but they require a change in scope from international trade orientation towards encompassing the whole chain, including its social and environmental effects. Their use lies in the reduction of transaction costs all along the supply chain from producer to consumer, the monitoring of competition and value distribution, and the transfer of technology. They can do so by publishing relevant statistics, and studies, and undertaking relevant projects. The functioning of the organisations would be improved if their secretariats were given stronger mandates. While the direct stakeholders should be better represented in the organisation, the representatives of the member governments should take more distance, lend a voice to those that are not represented (including future generations) and keep an eye on the public goal .

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