

# Decent work and international commodity agreements

*Three-quarters of the people living in extreme poverty worldwide are in rural areas. And most of those are dependent, directly or indirectly, on the commodity sector for their livelihoods. Can international commodity agreements help them out of poverty? The answer is yes. But they will have to include both fair prices and core labour standards.*

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The 1960s ushered in a new era in world affairs. Colonialist regimes were downsized. New countries, emboldened by idealistic constitutions, joined an expanding United Nations. A spirit of freedom, hope and possibility permeated the air. Commodity agreements were testimony to the belief of the times that sheer international will could overcome the North-South divide and bring prosperity to all.

Cocoa, sugar and coffee farmers, tin, rubber and tropical timber producers, and their governments hoped that these agreements would lead to better livelihoods. They hoped that the agreements would stabilize supply and reduce the price fluctuations that characterized these markets and devastated farmers' livelihoods.

The agreements did not meet expectations. The tin agreement imploded in London under massive litigation in the 1980s. The rubber agreement lasted longer than most, but dissolved in 2001 when the Malaysian Government withdrew its support. Other agreements were quietly set aside or divested of their price stabilization or buffer stock properties.

Today's commodity farmers need more help than ever. The forces of globalization, trade rules, structural adjustment, financial market speculation and a few muscular multinationals have worked together to wreak havoc in the lives of commodity farmers around the world.

Can international commodity agreements help agricultural workers achieve decent work?

## The rural poor

Three-quarters of those living in extreme poverty worldwide are in rural areas. And most of those are dependent, directly or indirectly, on the commodity sector for their livelihoods. Low commodity prices are hurling farmers down a vertiginous spiral towards absolute poverty. Real coffee prices paid to farmers are at their lowest in one hundred years.<sup>1</sup> In some areas of the world, coffee producers cannot meet their variable costs.

Why do farmers keep producing if they cannot meet production costs? Because price and income elasticities for commodities tend to be low. This means that farmers cannot quickly adjust production if prices move up and down. It also means that higher income does not translate into consumers purchasing more commodities.

An UNCTAD press report estimated that the percentage of people living on less than US\$1 a day in non-oil commodity exporting LDCs rose from about 63 per cent in 1981-1983 to 69 per cent in 1997-1999.<sup>2</sup> The same UNCTAD report said that in 1999 the average real GDP per capita (adjusted

for purchasing power) in the same countries was lower than it had been in 1970. At the end of 2001, real non-fuel commodity prices had plunged to one half of their annual average for the period 1979-81.

How did the situation ever get this bad? Forty years ago, countries acknowledged the vicissitudes confronting trade in commodities and worked to devise mechanisms and solutions to manage them. The economic institutions and forces that underlie our economies today have made things worse and not better for commodity farmers. Redress or even a short respite is not in sight.

The WTO Agreement on Agriculture of 1995 reinforced the unfair agricultural spending patterns of Northern countries while forcing Southern countries to open their markets. Southern commodity farmers faced double discrimination: their products faced peak or escalating tariffs in industrialized countries while locally battling cheap subsidized imports from the North. Northern tariffs generally escalated for any value-added processing. Commodities also faced non-tariff barriers like quotas, rules of origin and high quality control standards that LDCs could ill afford to meet. The situation verges on the absurd. Millions of smallholder farmers with a total annual income of \$400 a year are expected to “compete” against American and European farmers who respectively receive \$21,000 and \$16,000 a year in government subsidies.<sup>3</sup>

Preferential treatment attenuated only somewhat the magnitude of the problem. In the 25-year existence of the Lomé Convention, the African, Caribbean and Pacific (ACP) countries saw their share of European Union imports fall from 7 per cent to 3 per cent. Likewise, the US Africa Growth and Opportunity Act, signed into law in May 2000, had exceptions for staple commodities like sugar and coffee.

At the same time, the World Bank and International Monetary Fund pressed developing States to liberalize and pursue export-led growth. This increased the world supply of commodities, which led to a further fall in prices. For many LDCs,

the result was greater dependence on low-priced farm products. Farmers switched to produce for export markets, leaving their families hungry when world prices were not sufficient to buy local food. IMF-led structural adjustment programmes called for the dismantling of commodity marketing boards and the cutting of other types of government assistance like access to credit, extension advice and fertilizers. While many developing countries needed to revamp outdated and often corrupt farming assistance and marketing apparatus, the swift blanket removal of all assistance and the dismantling of the boards left farmers with no cover in hard times. And for commodity farmers, it was all hard times.

Countries that produced commodities faced declining terms of trade, meaning that as they earned less money selling cocoa or coffee, the price of imports like fertilizer or computers grew. Oxfam calculates that deteriorating terms of trade have cost Africa more than seven times what it receives in aid.<sup>4</sup> The cost of development moved slowly but inexorably beyond the reach of most of the least developed countries. Foreign debts swelled as the ability to repay slid. Only four of the 27 LDC non-oil commodity exporters did not have unsustainable external debt as measured by the World Bank HPIC programme. As needs increased, foreign aid declined precipitously throughout the 1990s, so that aid resources barely compensated for lost export revenues. And aid to agricultural projects dropped even more as industrialized countries targeted aid to social issues. UNCTAD called it the “debt tail” wagging the “aid dog”.

The liberalization of financial markets has exacerbated price fluctuations. Farmers in LDCs have little ability to protect themselves from volatile and unpredictable commodity prices. Risk management techniques do not always work, because of weaknesses in the national legal, regulatory and institutional framework of least developed countries. Lack of clear title (e.g. registration, transferability of title documents), problems in banking law and

weaknesses in enforcement make it difficult for farmers and especially women farmers, to seek redress.

Rural underdevelopment has plagued commodity producers but most farmers have few compelling alternatives. Weak infrastructure and insecure or non-existent social safety nets increase both farmers' workload and their sense of vulnerability. High transport costs and poor storage facilities reduce farmgate prices, translating into lower household income. Farmers have scant access to credit, fertilizers, irrigation and important extension services that could lead to better farming techniques and enhanced know-how. Land reform will bring stability to precarious livelihoods, especially for women who often cannot own, inherit or transfer title in land. The Food and Agriculture Organization (FAO) estimates that two-thirds of the rural population in Latin America are either landless or lacking sufficient land for their basic needs.

While commodity prices have plummeted and swaths of agricultural workers are consigned to soul-shattering poverty, multinationals are reaping record profits. Over the last twenty years, through a mélange of mergers and acquisitions, only a handful of multinationals control the market for most staple commodities. One result has been the growing disparity between producer and consumer prices for commodities. For five non-oil commodities (banana, beef, coffee, rice sugar and wheat) there has been an almost continuous increase in the price spread which has seen the disparity between producer and consumer prices almost double in the last two decades.<sup>5</sup> Southern farmers are powerless against the "buyer-driven supply chains" of a few multinationals.

### International commodity agreements

International commodity agreements predate the Second World War, but most – like cocoa, jute, olive oil, natural rubber, sugar and tropical timber – were negotiated by UN conferences under the auspices of

UNCTAD. Others, like coffee and grains, were negotiated by their respective councils. The agreements were mostly designed to stabilize prices, including through a system of quotas and buffer stocks. But they could rarely maintain commodity prices over the long term. By the mid-1980s, most agreements were discontinued or lost their price stabilization mechanisms.

The current agreements on coffee, sugar and grains focus on international cooperation, providing a forum for international consultations, promoting expansion of international trade, and performing a market transparency function by acting as a centre for the collection, exchange and publication of information, and encouraging consumption. The agreements on jute and jute products and on tropical timber are more focussed on cooperation, consultation, research and development, trade expansion, market promotion, cost reduction, improvement of market information and sustainable development.

There are no categorical references to international labour standards in the agreements, but a few mention improving labour conditions. The Sugar Agreement has a fair labour clause, while the agreements on coffee and cocoa include a commitment "to improve the standard of living and working conditions of populations engaged in the coffee (cocoa) sector".

### Common Fund for Commodities

After commodity agreements had slid into disfavour or were being substantially revamped in the late 1980s, the Common Fund for Commodities was emerging from a very long negotiation and ratification process that had begun in the mid-1970s. It was meant to be the central financing piece in the commodity puzzle. While its current role is smaller than originally envisaged, it remains a lingering symbol of more comprehensive global efforts to tackle commodity questions. Using mostly market methods, it funds commodity development projects aimed at improving the structural conditions of the market

and enhancing long-term competitiveness. It also helps with market development including physical market development, enhancement of market infrastructure, facilitation of private sector initiatives and commodity price risk management. Projects focus mostly on the poorest farmers, with assistance also given to small and medium-sized enterprises. The Fund hopes that its commodity focus, as opposed to country focus, means that results in one country can be replicated worldwide.

All Common Fund project proposals must be submitted through an international commodity body (ICB) such as the International Cocoa Organization or the FAO subgroup on tropical fruit. By May 2002, the Fund approved projects with an overall cost of \$317.5 million, of which the Fund financed \$152.3 million. Remaining funds were leveraged from recipient countries or private sector donors.

### Commodity workers and decent work

Decent work means productive work in conditions of freedom, equity, security and human dignity. It encompasses respect for basic rights like freedom of association, access to employment, safe and healthy working conditions, and social security. Decent work is still a dream for many agricultural workers around the world.

Agricultural workers in the commodity sector toil under some of the most difficult working conditions imaginable – long backbreaking hours, low pay, unsavoury employment conditions, and few rights at work. They are often excluded in both theory and practice from the minimum standards of labour legislation. Unemployment is high, jobs are unstable or temporary and there are often no health insurance, social insurance or pension rights. Health and safety measures are often ignored as the ILO estimates that 170,000 agricultural workers are killed every year. Seasonal workers and labourers are among the poorest and most vulnerable of them all.

More than two-thirds of the world's poorest women work in agriculture in ad-

dition to shouldering their family responsibilities. The FAO cites wars, urban migration and rising mortality due to AIDS as contributing to the “feminization of agriculture”.<sup>6</sup> Women are often paid less than men for the same work – often as much as 30 per cent less. Women tea workers in Sri Lanka can earn as little as \$12.90 net a month.<sup>7</sup> Women also face difficulties accessing land, credit, extension services, technology and training to enhance their productive capacity. Indigenous populations, too, face difficulties on multiple fronts: industrial farms encroach on their ancestral lands, undermining their livelihoods, and discrimination pervades their paid work on the industrial farms.

Child workers plant, water, fertilize and pick farm goods around the world. In Kenya, Oxfam charges that 30 per cent of coffee pickers are under fifteen<sup>8</sup> and the Indian state of Andhra Pradesh employs nearly 250,000 girls as pickers in cotton fields.<sup>9</sup>

Agricultural workers are often forbidden by legislation from exercising their freedom of association in order to fight for higher pay, better working conditions and enhanced health and safety measures. In Sri Lanka, workers are denied the right to strike because producing commodities for export is considered “an essential service”, in spite of repeated statements from the ILO Committee on Freedom of Association that agricultural activities are not an essential service. In 2001, the Canadian Supreme Court struck down Ontario labour legislation excluding agricultural workers, but farm workers in the province still lack rights of association.

The degradation of forced labour still sullies farmers' fields in a devastating way. Cocoa plantation owners in the Ivory Coast pay 50,000 CFA (\$70) per child, usually “recruited” from neighbouring Mali or Burkina Faso.<sup>10</sup> In the 2002 report on the application of ILO Conventions, the ILO Committee of Experts implored the Government of Burundi to respect the “voluntary nature of agricultural work”. In the same year, the Committee noted the “high number of (Brazilian agricultural) work-

ers who, with their families, are subjected to degrading conditions of work and debt servitude...”.

### Decent work and international commodity agreements

The current crisis requires an urgent and comprehensive international commodities policy. Within such a policy, commodity agreements could serve as beacons to attract and promote decent work in the commodity sector.

The first step will be to reduce chronic oversupply and tackle the decline in world commodity prices to ensure that farmers receive a fair price. The UNDP recommends voluntary supply management schemes to achieve a better balance between supply and demand.<sup>11</sup> The International Coffee Organization is considering a coffee quality improvement programme to eliminate coffee below a certain quality. Oxfam suggests destroying 5 million bags of the lowest-grade coffee to help increase coffee prices by 20 per cent.<sup>12</sup>

The second step will be to incorporate core labour standards into all commodity agreements. Core labour standards are defined in the ILO Declaration on Fundamental Principles and Rights at Work. They include freedom of association and the right to bargain collectively, freedom from discrimination, and the end of forced labour and the worst forms of child labour.

By affirming a respect for core labour standards, commodity agreements will set a social floor that protects workers’ most basic rights. Even the worst ravages of globalization will not penetrate that social floor.

As the third step, international commodity organizations could work closely with local and international workers’ organizations to advance the aims of the commodity organizations and promote the implementation of the core ILO Conventions. The Common Fund could actively solicit and implement joint project proposals from ICBs and workers’ organizations. Joint human-centred rural development

projects could improve workers’ productivity through better research and development, environmentally sound farming techniques and extension services. The goal would be to increase farmers’ productivity per acre, keeping supply constant and liberating space for alternative produce. Other joint rural development projects could include post-harvesting assistance, such as safer communal storage and shared transport.

Unions and ICBs could also enhance farmers’ livelihoods by assisting with product diversification, financing or marketing. Vertical or horizontal diversification could help “decommoditize” commodities, by enhancing quality or strengthening local brands. The Common Fund could fund workers’ organizations to help farmers take a more proactive role in marketing their products – sharing relevant market information and teaching efficient marketing and financing methods. Together, workers could access price risk management tools like “put options”, which provide a payout when prices fall below a certain level. Likewise, collateralized finance would allow farmers to use a crop in the ground as collateral for a bank loan.

The Cocoa Agreement (2001) calls for the formation of a private sector consultative board to help develop a sustainable cocoa economy, identify threats and challenges to supply, and demand and exchange information. Workers’ organizations may wish to participate. A workers’ voice could alert the organizations to unsung practicalities and trends and concerns on the ground. Unions could also be a useful conduit for information, awareness-raising, education and training among workers.

Multinationals can also be pressed to respect core labour standards and promote decent work. The US banana giant Chiquita “reaffirm[ed]s its commitment to respect the core ILO Conventions” in the IUF/COLSIBA and Chiquita Agreement on freedom of association, minimum labour standards and employment in Latin American banana operations.<sup>13</sup> Equally

important, Chiquita will require its suppliers, contract growers and joint venture partners to provide reasonable evidence that they respect national legislation and the minimum labour standards outlined in the Agreement. A joint review committee will oversee the Agreement and gauge progress. The Agreement proves that multinationals can manage their supply chains responsibly, so as to ensure adherence to core labour standards from the farm gate to final delivery at the supermarket. The next step is to persuade multinationals that it is in their long-term corporate interest to pay farmers a fair price.

## Conclusion

Sixty years ago, John Maynard Keynes proposed an international institution for regulating world commodity markets. It was not to be. But that meeting in Bretton Woods did give birth to the World Bank, the IMF and the international trade body that became the GATT. Some of the solutions suggested by Keynes, such as well-functioning commodity agreements operating under an integrated council, merit further consideration today.

By themselves, international commodity agreements cannot hope to confront the magnitude of today's global commodity problem. They can, however, reiterate their commitment to agricultural workers by reinforcing core labour standards and

working to improve workers' livelihoods. Decent work in agriculture is a long way off. But international commodity agreements and the Common Fund for Commodities can play an important role in making it a reality.

## Notes

<sup>1</sup> Oxfam International, *Mugged: Poverty in your coffee cup*, 2002, p. 9.

<sup>2</sup> UNCTAD, *Global anti-poverty efforts must address link between commodity dependence and extreme poverty*, 6 June 2002.

<sup>3</sup> Oxfam International, *Rigged Rules and Double Standards – trade, globalization and the fight against poverty*, 2002.

<sup>4</sup> Oxfam, *ibid.*

<sup>5</sup> *The Role of Commodities in LDCs*, Note by the Common Fund for Commodities, Joint UNCTAD/CFC Workshop on Enhancing Productive Capacities and Diversification of Commodities and South-South Cooperation, Geneva, 22-23 March 2001.

<sup>6</sup> FAO, *The Role of Agriculture in the Development of LDCs and their Integration into the World Economy*, May 2001.

<sup>7</sup> Oxfam, *ibid.*

<sup>8</sup> Oxfam, *supra*, note 1.

<sup>9</sup> Oxfam, *supra*, note 2.

<sup>10</sup> ILO, *Combatting Trafficking in Children for Exploitation of their Labour in West and Central Africa*, 2001

<sup>11</sup> UNDP, *Making Global Trade Work for People*, 2003.

<sup>12</sup> Oxfam, *supra*, note 1.

<sup>13</sup> IUF/COLSIBA and Chiquita Agreement on Freedom of Association, Minimum Labour Standards and Employment in Latin American Banana Operations, Article 1.