

Global Initiative on Commodities: Re-launching the commodity agenda

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1. 2007 is the mid-point for achieving the Millennium Development Goals, including the goal of halving world poverty by 2015. According to current projections, several LDCs, including many commodity dependent countries, are unlikely to meet this goal. It is impossible to eliminate poverty, achieve sustainable development and attain the targets of the MDGs without improving the conditions and prospects of commodity producers. Two and a half billion people in the world make their living through the production and trade of commodities, including agricultural goods, forestry products and minerals. It is clear that the international community will need to do more collectively, at the national, regional and global level, and in a much more focused manner.
2. As many as 38 developing countries are estimated to be dependent on a single commodity for more than 50 per cent of their export income, while 48 countries depend on only two. These countries depend on commodities as a source of livelihood, employment, foreign exchange, and public revenue and the commodity sector provides the principal stimulus for economic growth. Furthermore, the significant land area and human and natural resource base required by commodity production significantly influence natural resource management, biodiversity conservation and social development. Developing countries are also facing the challenge of industrializing and meeting the growing demands of their populations at a time when the constraints on the natural resource base and the environment are more severe than ever.
3. A new geography of international trade in commodities is emerging. Rapidly rising demand for commodities in developing countries, particularly in Asia, has led to price increases for many commodities in recent years and to an impressive increase in South-South trade in commodities. More than half of the commodity trade of developing countries is now accounted for by trade among these countries, with such trade increasing in all regions. Developing countries also account for most of the growth in world commodity demand. These developments, and new trends such as biofuels production and the growing variety of specialty products and end uses, have opened up new challenges and opportunities for developing countries, especially those with high commodity dependence.
4. The relatively favourable world market conditions have helped to lift many commodity-dependent countries out of a prolonged period of economic stagnation. However, the price increases do not include all commodities and their magnitude is reduced by exchange rate movements. While markets are likely to remain buoyant in the medium term, the secular trend of declining real prices is likely to eventually reassert itself, since the underlying causes for the volatility and long-term decline of prices have not been addressed. The challenge for these countries is to sustain – even accelerate – the growth momentum over the coming years for economically, environmentally and socially sustainable development.

5. The time is now right for a global initiative on commodities that aims to:

- Re-launch the commodities agenda from a poverty reduction and development perspective;
- Raise the profile and understanding of the commodities problématique through sensitisation of the international community; and
- Identify an international strategy for commodities based on coherence, governance and solidarity at all levels.

6. The Brasilia Conference on Commodities – jointly organised by the Group of African, Caribbean and Pacific (ACP) countries, the Common Fund for Commodities (CFC), the United Nations Conference on Trade and Development (UNCTAD) and the United Nations Development Programme (UNDP), and hosted by the Government of Brazil - built on recent efforts to address the commodity issues¹ and was a first step towards taking concerted action to achieve these aims.²

7. It is fitting that the Conference was also the first preparatory event for the twelfth session of the United Nations Conference on Trade and Development (UNCTAD XII). The importance of commodities to development and the dynamism of the current world commodity economy illustrate well the relevance of the themes selected for UNCTAD XII: *Addressing the opportunities and challenges of globalization for development; enhancing coherence at all levels for sustainable economic development and poverty reduction in global policy making...; key trade and development issues and the new realities in the geography of the world economy; and enhancing the enabling environment at all levels to strengthen productive capacity, trade and investment: mobilizing resources and harnessing knowledge for development.*

8. In re-launching the commodity agenda, four aspects of commodity markets have a direct bearing on commodity producers' incomes and wellbeing as well as opportunities for economic growth and sustainable development of commodity dependent developing countries, particularly LDCs and other small and vulnerable economies, viz., (i) the supply capacity limitations under which commodity producers operate; (ii) effective participation in the value chain; (iii) lack of diversification of their production and export base; and (iv) an international enabling environment. The Conference focused on these issues and looked at ways in which policies and initiatives could be addressed at national and international levels by commodity producing developing countries themselves, their developed country partners, the enterprise sector, civil society and international organizations.

Policy actions and measures

¹ . Most notable are the report of the Group of Eminent Persons on Commodity Issues established by UNCTAD (2003), the UNCTAD XI Sao Paulo Consensus (2004), which included an important initiative on commodities, the Arusha Declaration and Plan of Action on African Commodities (2005), and various UN General Assembly resolutions specifically on the commodity issues (most recently in 2006). The European Union Action Plan on Commodities, adopted in 2004, also deserves mentioning.

² The Conference gathered 164 participants from 60 developing countries, 5 developed countries, 20 representatives from NGOs, research institutes and farmers' organizations, 7 companies dealing with commodities, and 7 international organizations.

9. Two sets of actions were identified: global governance, coherence and solidarity issues on the one hand; and issues having to do with the supply side, the value chain and finance for diversification and use of resource rents on the other.

I

Global governance, coherence and solidarity

10. Recognizing that effective commodity policies at the national level are constrained by, and that their success depends on effective global governance, policy coherence and enhanced solidarity, the following policy areas need to be addressed:

- Significant improvements are required in the quantity, quality, predictability and development effectiveness of development assistance targeting the commodity sector.
- Reversing recent declines in ODA support for agricultural development in developing countries, concerted efforts need to be made to provide aid for raising agricultural productivity, technological development and access to credit for farmers.
- Financial assistance needs to be provided to commodity dependent developing countries in order to build and upgrade physical infrastructure such as roads, ports, storage facilities and irrigation, and to eliminate supply bottlenecks.
- The Aid for Trade initiative should assess the needs of commodity dependent developing countries and support their diversification efforts, including by supporting introduction of appropriate technology; setting up effective SPS and TBT related infrastructure for meeting standards and other market requirements and achieving sustainable production and processing systems; to meet adjustment costs of trade reform and preference erosion; and for capacity development and Trade Related Technical Assistance.
- MDG consistent debt sustainability frameworks for commodity dependent countries require that export earnings shortfalls be taken into account when designing debt relief measures.
- International financial and monetary policies, especially exchange and interest rate policies of developed countries, should be more sensitive to the particular circumstances and needs of commodity dependent developing countries.
- A successful conclusion of the Doha Round should effectively address the concerns of commodity producing developing countries, including as highlighted by the African Group initiative in WTO. With regard to market access, these concerns include reducing tariffs, tariff escalation and tariff peaks; as well as greater transparency in the application of technical barriers to trade and sanitary and phytosanitary rules in developed countries. With respect to world agricultural trade reform, they include the timely elimination of export subsidies and significant reduction in trade distorting domestic support with a view to their elimination. Finally, with regard to policy space, commodity dependent developing countries need to be provided sufficient flexibilities in undertaking commitments concerning agricultural and non-agricultural trade liberalization.

They should be enabled to protect food security and rural livelihoods and promote rural development, and to provide adequate support for the building of productive capacity and export competitiveness.

- Initiatives are required that aim at dealing with negative effects of instability of commodity prices and earning from commodity exports, including through consideration, where appropriate, of supply management schemes in the context of international commodity agreements, through price risk management and establishment of viable safety-nets for small producers, and through compensatory finance schemes. Such schemes should be timely; should be easy to access; should include no conditionalities - it should be sufficient that the country itself carries no evident blame for the specific commodity-linked loss that it suffered; and should include pass-through mechanisms that take into account the interests of producers and consumers.
- The International Task Force on Commodities should be made operational and be provided sufficient resources.
- Civil society initiatives to convert the efforts of the Global Initiative on Commodities into a popular campaign should be encouraged, especially those aimed at improving the sustainability of commodity trade and improving governance in commodity value chains.
- International commodity bodies should be strengthened in their role of providing expertise and assistance to specific commodity sectors in commodity dependent developing countries.
- Recognizing the important role played by global enterprises in all aspects of commodity production and trade, these enterprises need to increase their contribution to sustainable development, good working conditions, remunerative employment and poverty reduction.

II

Policy areas within the commodity problématique

11. In addition to the foregoing policy issues and actions, the Conference focussed on specific policy areas within the commodity problématique. In particular, it was recognized that developing country government policies should aim at sustainable outcomes in commodity production, processing and trade, and that governments need to draw up national commodity strategies that should be integrated into national development strategies. In this context, strong Public Private Partnerships (PPP) as well as active civil society participation, are critical to addressing commodity-related development problems.

Supply side issues

12. There is a need to improve productivity and international competitiveness of developing country commodity producers. This requires:

- That developing country governments, drawing on increased financial support from the international community and acting in partnership with the private sector where appropriate, take steps to improve infrastructure – notably, communications technology, energy, irrigation, roads and transportation and storage facilities - to improve yields, reduce transaction costs and mitigate environmental and health impacts and reduce losses on products in transit.
- That developing country governments work towards and take proactive measures, both directly and by creating and enhancing an enabling environment, including access to land, to extend and improve support services such as provision of seeds, fertiliser and other inputs, advice and extension services, logistics services, quality control and verification procedures, which were traditionally provided by governments and were weakened by regulatory reforms in recent years. Ways and means of supporting associations of small producers should be sought. Regional approaches to production and marketing to achieve necessary economies of scale should also be explored.
- That developing country governments, research organizations and the enterprise sector build up capacity and capabilities for R&D and to tap and adapt new technologies to meet local requirements, build competitiveness and increase productivity.
- That developing country governments, supported by the international community, act to improve the capacity of commodity producers and processors to meet product and process standards, whether mandatory or voluntary, and ensure that information about standards reach producers, particularly smallholders, including through early warning systems, and also to ensure their active participation in standard setting bodies. Moreover, standard setting bodies, whether official or private, should act to ensure that, in setting standards, the interests of developing countries commodity producers are taken into account.

Value chain issues

13. There is a need to improve the effective participation of developing country commodity producers, especially small producers, in value chains and to design viable strategies for horizontal and vertical diversification that act to reduce the impact of asymmetries in power relations and in access to information. This requires

- That developing country governments, supported by the international community, work to strengthen producers associations, incentives and laws relating to anti-competitive behaviour as well as improve producer capabilities in

order to make it possible for developing country producers to enter the world supply chain on equitable terms.

- That developing country governments and the private sector identify areas for value addition and processing of primary products that are internationally competitive, and that importing countries remove barriers to trade in processed products.
- That governments of developing countries and Regional Economic Communities support, in cooperation with the private sector, the creation of effectively functioning domestic and regional commodities markets, including through removing infrastructural bottlenecks as well as tariff and non-tariff barriers to regional trade and South-South trade, inter alia by strengthening the Generalised System of Trade Preferences (GSTP), and through the conclusion of the third, Sao Paulo round of the GSTP negotiations. The increase in South-south trade should be accompanied by the participation of less advanced developing countries in value chains.
- That the international community and developing country governments support the efforts of developing country producers to exploit the opportunities offered by new and dynamic sectors, including special and niche products, such as geographical appellations, fair trade and organic labels.
- That the international community, developing country governments and the private sector act to improve commodity producers' access to market information.

Finance for diversification, competitiveness and use of resource rents

14. Lack of finance for investment, working capital, and trade-related infrastructure is a major obstacle to diversification, competitiveness and growth in agricultural economies. There is a need to design policies that effectively mobilize capital necessary for financing diversification programmes. Addressing this issue requires:

- That the international community support the establishment of an export diversification and productivity improvement fund and scale up the financial resources available to the Second Account of the CFC.
- That developing country governments create regulatory environments enabling national stakeholders to use modern finance and risk management instruments
- That developing country governments, supported by the international community, strengthen the capacity of developing country financial institutions to provide credit to small producers and support to small and medium enterprises, including through micro-finance schemes and use of new forms of collateral.
- That the international community, developing country governments and the enterprise sector support the establishment of effectively functioning commodity exchanges in developing countries to reduce transaction costs, improve price

- discovery mechanism and support the development of domestic and regional markets
- That the international community encourages the development of south-south trade financial institutions and mechanisms.
 - That the international community design and set up an appropriate mechanism to deal with loss of revenues that African cotton producers face as a result of declines in cotton prices.

15. Recent large price increases for mineral commodities have drawn attention to the issue of the distribution of natural resource rents and the long term development implications of mining, underlining the need:

- For governments of resource rich developing countries to minimize the negative effects of large resource in-flows on domestic inflation and relative prices.
- For developing country governments to ensure a balance between the objective of attracting FDI and that of maximising government revenues through appropriate taxation and regulatory policies.
- For developing country governments, in cooperation with the enterprise sector and civil society, to strengthen the linkages between the mineral sector and the local/regional economy with a view to foster diversification.
- For developing country governments to use resource rents to ensure long-term sustainability by replacing the depleting natural resource capital by investment in material and human capital.

Next steps

16. The Conference on the Global Initiative on Commodities was not a one-off event. The Conference in Brasilia was acknowledged to be the starting point for a sustained initiative aimed at achieving a global consensus on addressing the critical issues for commodity development in developing countries. In this regard, encouragement will be given also to commodity related initiatives undertaken by non-governmental actors, including those that are conducted in cooperation with the private sector, international commodity bodies and intergovernmental organizations. The Initiative will be elaborated further at the twelfth session of UNCTAD in Accra, Ghana, in April 2008, and at the review of the Monterey Conference on Finance for Development, also in 2008, and will be on the agenda of the United Nations 63rd General Assembly. The organizing agencies undertake that the further elaboration and concretization of the Initiative will take place in an inclusive process involving all stakeholders.