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**AU CONFERENCE OF MINISTERS OF TRADE
ON COMMODITIES
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**ARUSHA DECLARATION AND PLAN OF ACTION
ON AFRICAN COMMODITIES**

I PREAMBLE

We, the Ministers of Trade of the Member States of the African Union, meeting in our Second Extra-Ordinary Conference in Arusha, the United Republic of Tanzania on 23 November 2005 to review the situation of African commodities problems and strategic options;

Aware that commodities still constitute the major share of the exports of the majority of our Member States;

Stressing the fact that commodity production constitutes the largest source of revenue and employment for our population;

Recalling the importance given to commodities in the Abuja Treaty establishing the African Economic Community; and our commitment to establish an African Union as final step in the economic and political integration of our countries;

Recalling further our decisions in the 1st Session of our Conference held in Mauritius in June 2003 and our 3rd Conference held in Cairo in June 2005, on the importance of addressing Africa's commodity problems and the mandate given to the African Union Commission to develop a scheme to handle all aspects of the commodity problem in the African continent;

Recognizing that fair, equitable and stable prices for African commodities play a key role in poverty alleviation and in the improvement of living conditions for Africa's rural population;

Strongly convinced that the processing of commodities in our countries will contribute to the sustained economic growth and development in our countries;

Deeply concerned about the declining share of Africa in international trade and the continuing decline of African agricultural commodity prices in real terms;

Also concerned about the lack of progress to address African commodities producers' concerns in the WTO negotiations and stressing the need to establish concrete modalities for addressing the issue of commodity price volatility;

Stressing the need for the International Community and Africa's partners to provide adequate and sustainable support to Africa's efforts to fully utilize its commodities for its own development;

Reaffirming our commitments to Africa's economic integration and co-operation and to promote Intra-African trade in our commodities and our commitment to strengthen our Regional Economic Communities (RECs) and to improve coordination and cooperation among them under the umbrella of the African Union;

Convinced of the need to develop and implement a common African strategy on commodities;

Aware of the weakness of the institutional framework for the African commodity sector and the need to strengthen institutions to create stronger commodity value chains.

We hereby declare as follows:

II. ARUSHA DECLARATION ON AFRICAN COMMODITIES

1. We note that achieving the Millennium Development Goals (MDGs) is dependent upon reaching the 70 percent of the world's population living in rural areas and striving to make a living through commodity production and trade. We are convinced that development of the commodity sector in our Member States is a prerequisite for achieving the MDGs;
2. While commodity dependency remains a problem, commodity production and trade have significant income and employment multiplier effects in addition to their direct contribution to export earnings. It is impossible to eliminate poverty, achieve sustainable development and attain targets of the MDGs without improving the conditions and prospects of commodity producers. We are determined to address the plight of these commodity producers to ensure that Africa achieves the relevant MDGs;
3. Most African countries are Commodity Dependent Developing Countries, which rely heavily on the commodity sector. In many of our countries 65 percent of the total exports originate from the commodity sector, and approximately half of the countries in Africa derive over 80 percent of their merchandise export income from commodities. In many African countries three or four commodities represent the main source of export earnings, government revenue and employment. It is incumbent on us to diversify our production structures and to this end we recommit ourselves to this course of action;
4. Africa's participation in international trade in market-dynamic high-value commodity products is also dismal. For instance, Africa's share in the export of high-value products such as fruits, vegetables, fish and vegetable oils,

which have assumed much more importance in international trade in the last twenty years, is very modest. The region depends on sluggish markets characterised by high price volatility and declining real prices such as coffee, cocoa, cotton, sugar, natural fibres and tea;

5. Furthermore, Africa has not been able to increase its agricultural productivity. This is due to a combination of factors including insecure land tenure systems, difficulties in achieving economies of scale, rudimentary technology and policies that reduced the role of state institutions in innovation and investment. The consequence is that we have lost competitive advantage in producing some of our traditional products in favour of the new and more competitive producers in Asia and Latin America;
6. Commodity dependence *per se* is not the underlying factor for the lack of progress and lack of success in development and poverty alleviation in Africa. Rather, it is the form of dependence, which is at the root of the incidence of generalised poverty. It is commodity dependence, which is characterised by low productivity, low-value-added, low product quality and low competitiveness that hinders the achievement of the required level of economic growth and poverty alleviation. We are resolved to address the underlying causes of this precarious situation with a view to improving Africa's commodity trade performance and turning the commodity sector into an engine of growth and development;
7. Dealing with the consistent decline and volatility of commodity prices is one of the most challenging tasks faced by the international community in the commodity sector. From 1977 to 2001 the combined UNCTAD price index for all commodities declined by 53 percent in real terms. Despite the recent improvement, the combined current price index of commodities has not surpassed the 1995 level. Moreover, African exports experienced higher volatility in terms of trade compared to other regions. This situation has been exacerbated by Africa's declining share in world trade and the continent's inability to participate in international trade in manufactures. We shall continue, as a primary objective, to seek mechanisms to achieve fair and stable prices for African commodity producers;
8. We shall develop suitable delivery models for managing commodity risks at the farm and national levels so as to reduce the vulnerability of farmers to income declines and price volatility. Innovative and new commodity risk management tools need to be made available to farmers so that they can manage risk of price volatility, weather or climatic hazard or other crop risks;
9. We shall take the necessary measures to diversify geographically and towards new and higher value products as well as to retain in our local economies a larger share of the value added of commodities. Public-private partnerships are important in this respect. In particular we shall take

appropriate measures to ensure that small producers are assisted to enter into new spheres of activity and that high cost producers are helped to overcome “exit barriers”;

10. In this regard, we shall also endeavour to address market access conditions and supply capacity needs while identifying opportunities to meet exigencies of markets in terms of quality, traceability, standards, volumes and continuity of supplies. A closely related issue is upgrading of infrastructure, including storage facilities, quality testing laboratories and transport in order to improve competitiveness;
11. Access to credit is probably the single largest obstacle to diversification and commodity-based development. Lack of bankable collateral and high interest rates are major difficulties. This would require simple systems that make it possible to reduce financing costs and increase availability of funds, such as linking credit to financially more attractive segments of the supply-chain and using the product itself as collateral;
12. The full potential of intra-African trade needs to be exploited. Concerted efforts shall be made to alleviate problems facing Regional Trade Arrangements (RTA) and to make regional trade an engine for development. Our Regional Integration Agreements in Africa such as COMESA, EAC, ECOWAS/UEMOA, SADC and ECCAS/CEMAC, are important vehicles for increasing intra-African trade, creating wider economic space and promoting economies of scale. In this regard, we shall make every effort to bring about greater investment in commodity development, improvement in transport, storage and communication infrastructure, and greater harmonisation of trade facilitating measures with a view to raising intra-African commodity trade to a more significant level;
13. We are convinced that South-South trade has the potential for mutually beneficial exchanges between Africa and developing countries in other regions. Indeed, there are encouraging prospects that South-South trade provides a “window of opportunity” for African countries to increase their earnings from commodity exports;
14. While the current “Doha Development Round” provides an opportunity to reduce distortions in international agricultural markets through further strengthening of disciplines on trade distorting support and protection, appropriate account needs to be taken of the development and food security needs of our people through special and differential treatment under trade rules. Our countries need flexibility and policy space under WTO multilateral trade rules, to choose the most effective strategy appropriate to our situation. The effective and expeditious reduction in subsidies by developed countries in cotton, sugar and all other commodities of interest to developing countries

would be a welcome development, while taking into account the interest of preference receiving countries;

15. We take note of the recommendations in the “Report of the Seminar on African Commodities Policy and Strategy Options” contained in document EXP/AU/Commodities/11(I).

III. ARUSHA PLAN OF ACTION ON AFRICAN COMMODITIES

We resolve to integrate commodity strategies into the national development plans, Poverty Reduction Strategy Papers (PRSPs) and to give high priority to seeking solutions to commodity problems. We, therefore, adopt the following Plan of Action on African commodities:

1. Improving the commodity situation:

- a. Bring the importance of the commodity sector, and its crucial role for development of Africa to the attention of the international community on all possible occasions;
- b. Work for a successful conclusion of the Doha Work Programme, particularly in the area of agriculture and elimination of tariff peaks and escalation in our export markets. In a way that takes into account the interests of commodity dependent countries and Net Food Importing Developing Countries (NFIDCs);
- c. Study the practicality and implementability of options for improving prices of commodities of export interest for African countries. African countries should enhance co-operation with consumers in the context of the International Commodity Bodies (ICBs);
- d. Explore possible coordinated actions to reduce excess supplies of commodities for which African countries are key exporters;
- e. Work with other interested parties for increasing the generic demand for commodities. Participate actively in generic product promotion activities to expand markets, as well as in activities aiming at quality improvement and product and market development;
- f. Work in the context of regional and sub-regional organizations to ensure coherence in government policies, to reinforce measures taken at a national level and to generate synergies;

2. Improving the competitiveness of Africa’s commodity sector and its contribution to development:

- a. Integrate measures to raise productivity and improve competitiveness of agriculture into poverty reduction strategies and, similarly, integrate poverty reduction as an objective of programmes to raise agricultural productivity and competitiveness;

- b. Improve investment in infrastructure, specially in rural areas, particularly in facilities that improve the logistics of commodity production and trade, such as transportation, storage and irrigation;
- c. Improve support services to agriculture, including extension services and advice, testing facilities and laboratories, veterinary services, development of new strains of plants, provision of seeds, and support to irrigation projects. Identify the support services that are not effectively supplied under the current organisation of the agricultural sector, such as extension services and the provision of seeds and other inputs, and undertake to supply these services so long as the private sector is unable to do so effectively;
- d. Enhance the capacity of small-scale producers and their organisations and improve their productive and marketing capacities;
- e. Reform land tenure systems with a view to minimising conflicts between traditional and modern systems and ensuring that farmers have clearly defined titles to land;
- f. Where appropriate take into account the requirements and needs expressed by the private sector with respect to regulations and governmental support services, and in this context, call upon the private sector to:
 - i. Incorporate actions related to the dissemination of the benefits of commodity-related activities to the disadvantaged sections of the population in their corporate responsibility commitments;
 - ii. Form partnerships with the public sector to support the establishment of institutions providing inputs and services to commodity producers and exporters;
 - iii. Engage in improving the supply capacity of small-scale producers and their capability to meet quality, quantity and continuity requirements;
- g. Initiate international campaign and dialogue aimed at discouraging investment in research and development and production of synthetics which undermine the competitiveness of natural agricultural commodities and pose health hazards to users;
- h. Explore possible mitigating measures and safety nets to cushion and protect producers of natural commodities adversely affected by synthetics;

3. Improving the participation of African producers and businesses in international supply chains:

- a. Consider the supply chain in its entirety so as to ensure its overall efficiency with a view to avoiding disruptions caused by weak links.

Implement awareness raising activities concerning the whole supply chain and promote communication among stakeholders in this context;

- b. Invest in the establishment of facilities needed for producers, particularly small producers, to comply with SPS-related and other product and process standards of both government and private sector origin;
- c. Participate effectively in the activities of standard setting organisations, to ensure that new standards do not impose unrealistic requirements on African producers;
- d. Focus not only on overseas export markets but actively exploit regional and sub-regional markets;
- e. Provide and facilitate the provision of timely, comprehensive, accurate and user-friendly information and analysis on all aspects of the commodity production and trade, particularly to small-scale farmers;
- f. In this context, call upon and support the private sector activities aimed at forming partnerships with customers in export markets, with a view to building commercial networks and improve competitiveness;

4. Promoting diversification and value addition:

- a. Adopt a value chain approach so that African producers and exporters can identify the optimal entry points. Support the organisation of small-scale producers and traders to increase their bargaining power for achieving a better integration into international supply chains and increasing value added retained in the exporting country;
- b. Undertake feasibility studies and realistically assess the potential for local processing and value addition of commodities and support those activities;
- c. Implement policies and measures for overcoming supply constraints and market entry barriers in addition to working on improving market access conditions at international negotiations;
- d. Encourage and promote investment for commodity diversification. Governments should extend the same comparable incentives to local investors as they do to foreign ones;
- e. Reduce the risks associated with diversification by providing support measures including the supply of select seeds, access to improved technologies and adoption of biotechnologies as well as promoting feasibility and market studies;

5. Expanding markets:

- a. Facilitate and support the creation of effectively functioning domestic and regional markets for agricultural products and for inputs to agriculture, *inter alia* through removal of regulatory obstacles and through the introduction of competition legislation;
- b. Eliminate tariff and non-tariff barriers to regional trade in commodities;
- c. Improve market access and market entry conditions affecting South-South and regional trade, including through the strengthening of the Generalized System of Trade Preferences (GSTP);
- d. Strengthen financial services for South-South trade;

6. Commodity finance and coping with shocks:

- a. Strengthen the capacity to reduce the negative impacts of commodity price instability at the macro and micro levels, integrate such strategies into rural development schemes, and institute schemes to manage commodity-related shocks pro-actively, including through insurance schemes;
- b. Create a regulatory and institutional environment enabling national stakeholders to use market-based schemes for managing risks;
- c. Provide incentives to encourage the allocation private sector resources to agriculture and related supporting activities, support partnerships between local and international financing institutions and engage in public-private partnerships;
- d. Make sure that the legal system is amenable to the provision of collateral by small farmers and to enforcing of lenders' rights in case of default;
- e. Play a proactive role in developing local capital markets that would help in generating local funds for agricultural development;
- f. Design new investment mechanisms to re-inject surplus revenue from commodities (as in the current case for oil exports) into strategic investments in Africa's future;
- g. Encourage the business sector to:
 - i. Embark upon activities in agriculture and related fields, taking into consideration not only the revenue generating but also finance attracting aspects;
 - ii. Identify and exploit innovative financing techniques for structuring transactions that directly bring investors' funds into the African commodity sector;

- iii. Take advantage of the relations between the various actors as risk-mitigants and structure financing around payments from offtakers;
- iv. Encourage the commodity business sector to identify and implement innovative financing schemes, for example, warehouse receipt systems for structuring transactions that directly bring investors' funds into the African commodity sector;
- v. Develop skills (particularly by banks) to work directly with the commodity sector and actively participate in the provision of the required management skills;

7. Commodity exchanges:

- a. Commit to the establishment of commodity exchanges and call upon AU to establish a forum for discussions on the implementation of commodity exchange initiatives, and in particular, to enable private sector parties to discuss such initiatives, their requirements and potential obstacles;
- b. Provide a forum for the review of exchange performance (once operational), in order to highlight the problems met, identify remaining obstacles that governments are in a position to remove, and identify the specific supportive actions through which the public interest can best be served;
- c. Co-organize, with interested groups, including the private sector, regional and national workshops and conferences on commodity exchange issues, and provide support to such events;
- d. Sponsor the writing of technical papers on the practicalities of commodity exchange development in the African context, including a set of "best practices" and guidelines with respect to areas such as currency controls, intra-regional trade, ownership rights and taxation of commodity exchange transactions;
- e. Call upon the African business sector to:
 - i. Develop and support commodity exchange initiatives;
 - ii. Develop the necessary skills to understand commodity exchange operations, and build up the institutional capacity to engage in such operations;
 - iii. Support a public relations and awareness raising campaign to make the public aware of commodity exchange operations;
 - iv. Be willing to interact with governments to identify and remove barriers to commodity exchange establishment and operations;
 - v. With respect to those interested in initiating an exchange, adopt a partnership model – cooperating

not just with a broad range of private sector interests (including banks, warehousing companies and collateral managers), but also with government entities;

- vi. To reach as large a part of the population as possible; and thus, be willing to work with African governments and the international community to bring exchange services to a comprehensive range of countries and groups.

IV. INTERNATIONAL SUPPORT MEASURES

All of the above would be facilitated by enhanced international financial and technical support, including through the allocation of a larger proportion of currently increasing trade-related ODA to the commodity sector through commodity-related organisations. Increased financing could be provided through *inter alia* the establishment of an Export Diversification Fund, which could be materialised under the structure of the Common Fund for Commodities, and the strengthening of the resources of the Second Account of the Common Fund for Commodities to finance diversification and commodity development measures. Support should be provided to the operationalisation of the International Task Force on Commodities launched at UNCTAD XI, which will bring new ideas and innovative solutions to the attention of the international community and promote partnership based approaches.

1. Trade:

- a. In the context of the Doha round negotiations and in the light of the fundamental principles of the GATT 1994, the International Community must strive to achieve:
 - i. Drastic and speedy reductions in domestic producer support by developed countries;
 - ii. The immediate abolition of export subsidies and other support to agricultural exports;
 - iii. Strengthen rules for elimination by importing countries of tariff and non-tariff barriers, and tariff escalation affecting the trade in primary commodities and processed products from Africa;
 - iv. Procedures for the establishment of product and process standards that take into account the interests and capabilities of developing countries;
 - v. Provide duty-free, quota-free treatment to all products of LDCs and bind such treatment in the WTO;
 - vi. Elaborate adjustment mechanism to address the erosion of preferences and revenue losses;

- b. Provide assistance for adjustment to changes in the international trading system;
- c. Consider compensation for African developing countries exporters for export earnings losses due to export subsidies and domestic support measures of developed countries;
- d. Explore and define the modalities for the establishment of an Export Diversification Fund focusing on developing private sector capacity, including the development of strong producer organizations and development of key infrastructure;
- e. Facilitate and support actions by developing countries with a view to reducing excess supplies of commodities to the world market;
- f. Increase resources for commodity specific trade-related, financial and technical assistance particularly for capacity building. The international trade, development and financial institutions should consider favorably requests from Africa for the provision of such support;
- g. Clarify, review and improve the relevant provisions of GATT 1994 relating to the stabilization on prices through the adoption of supply management systems by producing countries and the use of export taxes and restrictions under such systems;
- h. Establish a mechanism under the auspices of WTO for periodic consultations among stake-holders on the possible steps that could be taken within its legal framework to mitigate commodity price fluctuations at the national and international level;

2. Commodity finance and risk management:

- a. Revisit the operational modalities of international facilities, including compensatory schemes;
- b. Identify appropriate "intermediaries" such as effective farmers' organizations and group lending schemes to manage risks of farmers in a cost-effective manner;
- c. Explore ways in which the African Development Bank, other financial institutions and donor agencies can leverage their finance such as through investment support to, and partnerships with, the private sector;
- d. Enhance the ability of African entrepreneurs to prepare investment proposals that are acceptable to funding agencies and financiers;
- e. Establish medium and long-term commodity development programmes geared at enhancing research for product diversification, improving production, productivity and competitiveness of African commodities;

3. Commodity exchanges:

- a. Support the review process of policies, laws and regulations in order to create a supportive environment for commodity exchanges;
- b. Support training- and awareness-building programmes on the functioning of commodity exchanges and their use;
- c. Support the development of guidelines and sets of “best practices” in this area;
- d. Give technical advice to private sector groups interested in establishing a commodity exchange;
- e. Support capacity-building programmes focused on domestic banks (as intermediaries between exchange users and the exchange) and farmers’ associations (as exchange users);
- f. Sponsor applied research in this area;
- g. Support pilot projects in this area, e.g. to test new approaches to reach farmers (such as mobile phone networks and free wireless Internet networks);
- h. Consider investing in African commodity exchange initiatives.

V. INSTITUTIONAL FOLLOW-UP FRAMEWORK

A follow up mechanism should be established under the AU Commission to monitor the implementation of the Arusha Plan of Action. This mechanism could include the establishment of an African Commodities Task Force, with the participation of African financial institutions and African private sector. CFC, UNCTAD, FAO and other relevant international organizations are called upon to collaborate in this regard.