COMMON FUND FOR COMMODITIES

Proceedings of the International Seminar:

The Role of Commodities in Development

The Hague, Netherlands

14 December 2009

COMMON FUND FOR COMMODITIES

Proceedings of the International Seminar:

The Role of Commodities in Development

The Hague, Netherlands

COMMON FUND FOR COMMODITIES

Stadhouderskade 55, 1072 AB Amsterdam, The Netherlands
Postal Address: P.O. Box 74656, 1070 BR Amsterdam, The Netherlands

Tel: (31 20) 575 4949 • Fax: (31 20) 676 0231
Telex 12331 cfc nl • e-mail: Managing.Director@common-fund.org
Website: www.common-fund.org

PREFACE

This seminar on "The Role of Commodities in Development" was dedicated to the 20th anniversary of the Common Fund for Commodities, the organization which had been established to seek and find equitable balance between the interests of commodity producers and consumers in the increasingly globalized and volatile world economy.

It is an honour for me to be the Managing Director while celebrating the 20th Anniversary of the Establishment of the Common Fund. The Common Fund has come a long way in the past two decades, going through successive stages of transformation, overcoming obstacles and continuously reinventing itself to meet the challenges facing commodity production, processing and trade. The Institution began humbly with a small secretariat in 1989 in Amsterdam. Since then, it has persevered and thrived. Although the Fund has gone through enormous changes over the years, but its mission and vision have remained the same — "to contribute to poverty alleviation by strengthening the income-generating capacity of commodity producers and mitigating vulnerability to their economic well being" and in order to achieve the Mission, the Vision is "to strengthen and diversify the commodity sector in developing countries and transform it to be a major contributor to poverty alleviation and sustained economic growth and development".

This seminar which was graced by the presence of Mr. Jozias van Aartsen, Mayor of The Hague provided us with an opportunity to hear persons who had been associated with establishment of the Common Fund i.e. Mr. Rubens Ricúpero and Prof. Jan Pronk, whose involvement in the creation of the Common Fund was instrumental to make the Fund what it is today, as well as Dr. Rolf Boehnke, who served for eight years as the Managing Director of the Common Fund, and representatives from number of Member countries and International Organisations and in this regard, we were particularly honoured to have Mr. Kandeh K. Yumkella, Director-General, United Nations Industrial Development Organization (UNIDO) and Mrs. Anna Tibaijuka, Executive Director, United Nations Human Settlement Programme (UN-HABITAT).

The deliberations and conclusions of this Seminar will not only contribute to the current and ongoing international debate on commodities but will also go a long way in identifying and chartering new frontiers for the Common Fund to better serve its Members.

Amb. Ali Mchumo
Managing Director

CONTENTS

Summary of the Proceedings

The Seminar was opened by Mr. Jozias van Aartsen, Mayor of The Hague and former Minister of Foreign Affairs and former Minister of Agriculture of The Netherlands. In his opening address he touched on the commodity dependence of many countries and the role good government, peace and democracy in improving the socio-economic well being of commodity producers. He referred to the uniqueness of the Common Fund for Commodities of not looking at countries in the traditional way through a national lens, but looking at commodities which facilitates a cross-border approach. He referred to the successful collaboration of the CFC with various partners across the board, from development cooperation, and from the private sector and civil society. He urged the 'societas humana' present at the Seminar to collectively suggest ways which will lead to a fairer distribution of economic development and prosperity in the world.

In his keynote address Mr. Rubens Ricúpero gave an account of the history of the efforts by the countries of the South to place the issue of commodities on the international agenda from the unsuccessful attempt at the Havana meeting in 1945 to, finally, the formation of the CFC in 1989. He referred to the fate of commodities becoming more and more linked to each and all of the vital issues in today's agenda: the global warming negotiations under way in Copenhagen; the deep concerns about the food crisis expressed during the recent FAO Summit in Rome; the G20 efforts to rein in the disruptive role of financial speculators on oil and commodities prices; the shift of trade and economic dynamic patterns towards China and Asia; the continuous stalemate in WTO's attempt to finally come to terms with the long-neglected unfinished business of agricultural liberalization; the serious problems posed by population growth and particularly the accelerating urbanization pace in China, India, Asia and Africa in general.

He said Brazil had from the 1970s put a premium on agricultural development, devoting substantial effort in R&D and technology development, and now the country may be described as a success story in commodities. Commodities had "reinvented" themselves in the form of bio-fuels. But times have changed. China and India, like whales emerging from the depths of the ocean, are sending waves in the commodity market. Their populations are not only increasing but also urbanising. Consequently, the demand for food and commodities is going to escalate in the coming decades. The second challenge is posed by commodity speculators whose activities have triggered price explosion and volatility in recent years. And the third challenge – a "new worrying trend" is the scramble for the remaining fertile land. Cash rich countries will try and secure land in the countries of the South.

He urged the participants to hold deliberations with a note of hope and confidence in science and technology, in human ingenuity, in our capacity to solve problems and improve the present and the future.

Ambassador Ali Mchumo, Managing Director of the Common Fund for Commodities welcomed all the participants and gave a brief outline of the structure of the Seminar. He hoped that conclusions and lessons learnt from the seminar would contribute to the discussions regarding the framework of the future role and mandate of the CFC in the international development architecture and provide directions on the future of international cooperation in commodities.

Significance of Commodities for Development

Commodities carry special significance for the developing countries, because they are the first, and, in many cases, the only economic link connecting the countries to global economy. For commodity dependent developing countries, commodity trade is the primary channel through which they benefit from the global economic growth. The impact of the global economic and financial crisis on the developing countries makes it clear that taking this link for granted risks missing, possibly, some of the most important challenges to sustainable development.

Commodities have a significant role in development as well as in the attainment of Millennium Development Goals. Countries with strong base in commodities need to move up the value-chain and obtain a larger share of the ultimate price. The countries need to harness their natural resources better and scale up the area under assured irrigation and enhance use of modern agricultural inputs. The countries of the South need to industrialise, and scale up their input of industrial, energy, and support services to agriculture - especially farm inputs such as seeds, farm mechanisation, fertilisers, energy, and transport.

"Rural romanticism" is misplaced. There are reasons why rural people are migrating into the urban areas. Lack of opportunities and sources of economic employment, poor social and economic infrastructure in rural areas is driving people to urban areas. Most cities in the South have large slums that have emerged chaotically, and pose serious challenges to society. Farmers do not have stable incomes. But they do have knowledge, which has not been sufficiently acknowledged or utilised.

World is rapidly urbanising. Urbanisation also provides economic opportunities for commodities processing and trade.

Prevailing international economic order, emergence of large multinational companies, impact of structural adjustment policies, and current international trading regime has had adverse impact on commodity producers which needs actions at multiple levels for rectification.

Investment in Processing and Productivity Enhancement

Two issues were highlighted:

a) Value addition and product differentiation; and
b) The role of foreign direct investments (FDI) in value addition in the developing countries.

The importance of value addition and vertical diversification as a factor in development of commodity dependent countries is impossible to ignore. The economic benefits of successful value addition include employment creation, greater labour productivity and higher wages, as well as better access to wider range of market niches.

Despite this development significance, the scope of value addition remains limited in commodity dependent countries. The FAO data shows that in the long value chain – as a long continuum with the smallholder producer at one end and the agro-processing industry at other end -- the bulk of the added value accrues at the industrial end, and that too mostly in the developed countries, and the bulk of the low-value, especially labour-intensive and resource undervaluation takes place in the small holder agricultural sector, and that too mostly in the developing countries.

- In Agriculture 70 per cent of the value addition takes place in the developed countries with the remaining 30 per cent in the developing countries, and in the case of Africa less than 5%.
- Trading too is dominated by developed countries -- ten times more than the developing countries.

Taking this situation as current reality, one might conclude that incomes of the primary commodity producers are too far removed from the markets to experience significant market influence. Under this assumption, income sustainability for small holder producers in the developing countries would be a greater challenge than price stabilisation. And so a further strategic question is: How do you reconcile household income needs in the developing countries with competitive value addition in the global markets? This directly relates to the questions of technology, productivity, diversification and bargaining power of primary commodity producers and market agents linking producers to global markets via value chains. In this, the concrete circumstances of a particular value chain determine the situation and the most effective interventions would be case specific.

The immediate challenges notwithstanding, however, the strategic question is: Why is value addition not taking place in the developing countries? Here, FDI had long been the staple prescription for commodity dependent countries, to facilitate their access to technologies providing greater productivity, and, hence, allowing them to compete for a greater share of value in the value chain.

However, the record of FDI so far had been “mixed”. Among the new approaches to FDI addressing its known weaknesses, is the concept of "responsible international agricultural investments" promoted by the FAO with the World Bank and IFAD support. This concept focuses on investment models which ensure that FDIs are channelled in ways that help investment recipient countries. The Arab Organisation for Agricultural Development (AOAD) is implementing programmes for improving rural incomes, enhanced production through increased use of fertilisers and technology, and above all, development of internal markets and creating level playing field vis-a-vis international competition.

Price Volatility and Market Development

The role of speculation in the commodity market was highlighted. UNCTAD`s recent analysis on commodities has shown that hedging in the commodities futures market has not protected poor farmers from risk. It is true that in the time of boom speculation is very effective in creating liquid and dynamic markets. However, it is also true that markets have a tendency to amplify and overstate trends as a matter of following "the market opinion" which results in long speculative runs, leading to bubbles and eventual busts. The current crisis demonstrated, among other things, how speculative liquidity "evaporates" without warning at the time of market crash, eliminating "efficient market" support for the fundamental long-term value of commodity producers' output at the time when it's most needed.

Worse still, as famers are unable to compete against oligopolistic and oligopsonist transnational corporations that control much of the trading in commodities, they are left on the receiving end of the costs of market volatility as the weakest The problem is particularly acute in the context of commodity dependent developing countries, which suffer from the cumulative effects of weak producer competitiveness, limited capital base, and few if any fallback income opportunities.

The importance of global trade and commodity development strategies in the integrated framework is the fundamental basis determining the influence of global market volatility on commodity producers. This influence can be understood as combination of exposure to global markets, and capacity of developing countries to deal with this exposure. The latter includes the issue of market access and market information for production decisions and the importance of certification and traceability in the context of international commodity trade.

It was confirmed that restrictive trade practices of the developed countries, tariff peaks and escalations, NTBs, SPS, etc. have posed serious barriers to the efforts of the developing countries to move up value chain. In the WTO, these issues have been part of the negotiations, but remain an unfinished business. Early conclusion of the Doha Development Agenda would facilitate trade. Technology transfer is another important issue, but the Technology Transfer Working Group in the WTO also needs to be reactivated.

The UNDP, working within the Integrated Framework (IF), has carried out diagnostic comparative studies in several Least Developing Countries (LDCs), on two issues: a) Infrastructure issues -- warehousing, electricity, IT, transport, product inputs, etc; and b) Productivity issues. From these diagnostic studies, the UNDP has drawn conclusions at three levels: policy making, institution development, and enterprise response. The WTO`s "Aid for Trade" could provide additional resources to the LDCs to address issues of supply side constraints and access the global market.

International commodity governance and the role of international commodity bodies

Views on the relevance and role of ICBs were divided: whilst some thought that they continued to play an important role and must be encouraged, others argued that since the era of privatisation - and hence the reduced role of governments in the market place - the ICBs had lost their earlier salience. However, it could be expected that the importance of international cooperation in commodities will be undergoing significant re-assessment in the context of the global economic adjustments following the current crisis. In this regard, many renowned economists felt that the governance of commodity sector, particularly in its connection to the financial sector, might need to strengthen to prevent future excesses which have been shown to be a major burden to society.

The CFC was playing an important integrating role, connecting market oriented ICBs and the international development community. The European Union was an active participant in the CFC, and plays a significant role to help ensure fair and remunerative prices, good quality, and availability of commodities in the global market. In this regard, it was observed that the adoption of the Lisbon Treaty has gone a long way to make the EU more democratic, transparent and effective in facing the current and future policy challenges

Way forward and the future role of the CFC

There was a strong consensus that the CFC has played a valuable niche role in providing support to small holder producers in the developing countries, the positive results of which were displayed in the corridors of the conference hall.

There is need for the CFC to play a stronger advocacy role to support the developing countries` efforts to get out of the poverty trap, through ceaseless and energetic action to put commodities on the global agenda.

The CFC should scale up its existing efforts and intervention strategies, prioritising the following areas within its competence:

1. Continue its present function of supporting commodity producing countries, especially small holder producers in the developing countries
2. “Re-invent” commodities (like Brazil) against the backdrop of changing demand and production patterns, especially in the light of continuing changes in technology.
3. Encourage those planning to undertake investments in, for example Africa, to prioritise the development of transport infrastructure. In African countries 60 per cent of the urban areas are “port cities” that are inadequately connected with the rural hinterlands,
4. Help smallholder producers to tackle supply side constraints, among them:
   - Reaching out to the farm level;
   - Diversification of product development and export addressing production constraints;
   - R&D that address issues of concern to small farmers, such as in the areas of small grains; drought resistant crops; access to water and energy; etc. and
   - Providing technical assistance to address issues relate to sanitary, standards and certification.
   - Lobby against restrictive trade practices of the developed countries such as tariff escalation, NTBs, SPS, etc.
5. Take on board for further research and monitoring two recent developments:

   a) The alarming influence of speculative financial intervention in the area of commodities and the resulting price volatility and indeterminacy this has given to the commodity markets; and
   b) The equally alarming recent developments on “land grabbing” in the developing countries, especially in Africa.
6. Improving governance and the enabling environment in commodity dependent countries

Furthermore, the CFC should strengthen its strategic role in addressing the critical issues relating the development role of commodities. A practical action in this regard would be to take longer time horizon in CFC interventions, to enable follow up projects and support the key matters of development to the point where longer term results would materialize.

CFC 20th Anniversary Programme
International Seminar: *The Role of Commodities in Development*
Monday, 14 December 2009, World Forum, The Hague

Registration: (08:00-09:00)

Opening Session: 09:00-10:00

Official opening: Mr. Jozias van Aartsen, Mayor of The Hague, former Minister of Foreign Affairs and former Minister of Agriculture of The Netherlands.
Key-note speaker: Mr. Rubens Ricúpero, former Minister of Finance of Brazil and former Secretary General, United Nations Conference on Trade and Development (UNCTAD)
Remarks: Amb. Ali Mchumo, Managing Director, Common Fund for Commodities (CFC)

Coffee-break: 10:00-10:30

Session 1: 10:30-11:45

- Investment in the Commodity Value-chain

Chair: Chairperson, OECD Group.
Speakers: Mr. Kandeh K. Yumkella, Director-General, United Nations Industrial Development Organization (UNIDO) and Mrs. Anna Tibaijuka, Executive Director, United Nations Human Settlement Programme (UN-HABITAT).

This session will examine the ways to find resources and financing to increase investment in the commodity sector. In the rural areas financing remains a major constraint to development of the commodity sector. Financing is important not only to expand production but also to enhance research and development for high-yielding varieties and new technologies, financing for processing and basic infrastructure. More investment in rural areas may also have a direct influence in rural-urban linkages. Some of the questions which will guide the discussions by participants are:

- What are the financial instruments available including source of finance?
- How could more resources be mobilised at the national, regional and international level to further commodity development?
- What is the role of foreign private and public investment in agriculture?
- How important is South-South co-operation in commodity investments?
- What is the relationship between rural-urban linkages, commodity investment and the value-chain?

Session 2: 11:45-13:00

- Processing and Productivity Enhancement

Chair: H.E. Aizaz Ahmed Chaudhry, Ambassador (Pakistan), Chairperson, Asian Group
Speakers: Mr. David Hallam, Deputy Director of FAO's Trade and Market Division, Food and

Agriculture Organization of the United Nations (FAO) and Mr. Tariq Al Zadjali, Director-General, Arab Organization for Agricultural Development (AOAD)

Many countries in the developing world, especially the poorest among them, became exporters of raw materials while most of the value-addition activity takes place in other more advanced countries. This session will focus on commodity value-addition through processing and packaging, sources of technology, types of technology and human resources requirements. Basic infrastructure required such as the availability of power, water, roads and access to selected seeds, fertiliser, technical skills and knowledge base will also form part of the discussions. The increasing role of foreign investment in the commodity sector is another important issued which will be discussed. Some of the questions which will guide the discussions by participants are:

- What are the necessary policies required to promote value-addition and processing in the country of origin of the commodity?
- How important is technology transfer in enhancing productivity?
- What is the relationship and perspectives between food security and climate change and bio-fuels?
- What is the role of foreign investment in the development of the commodity sector?

Lunch: 13:00-14:30

Session 3: 14:30-16:00

- Price Volatility and Market Development

Chair: H.E. Mr. Jose Francisco Aguilar Urbina, Ambassador(Costa Rica), Latin American and Caribbean GroupSpeakers: Mr. Supachai Panitchpakdi, Secretary-General, United Nations Conference on Trade and Development (UNCTAD), Mr. Shishir Priyadarshi, Director, Development Division, World Trade Organization (WTO), and Mr. David Luke, Senior Advisor and Coordinator, Geneva Trade and Human Development Unit, United Nations Development Programme (UNDP)

One of the major problems of the commodity sector pertains to price volatility which directly affects farmers since their incomes become more unreliable thus making investment riskier. This session will discuss the needs of farmers with respect to price risk management also analysing the validity of such instruments and the participation of farmers. It will further discuss the organisation of farmers in producers' organisations to leverage their power in the global supply chain and how they could be best assisted in meeting the technical standards of international markets. The importance of global trade and commodity development strategies in the integrated framework will form an important part of the discussions. The issue of market access and market information for production decisions and the importance of certification and traceability in the context of international commodity trade will also feature in the discussion. Some of the questions which will guide the discussion by participants are:

- How to address the long-standing problem of commodity price volatility in an effective and permanent manner? How could this issue be addressed by the international community in a concerted way?

- What are the means to promote producers' organisations and to strengthen their negotiation power and position in the value-chain?
- What is the role and importance of aid-for-trade in providing international technical assistance to farmers in developing countries to meet standards?
- What is the current state of play of the Doha Round of negotiations and how its outcome would impact commodity farmers in developing countries?
- What is the importance of commodity development strategies in the integrated framework?

Coffee-break: 16:00-16:30

Session 4: 16:30-18:00

- International Commodity Governance and the Role of International Commodity Bodies (ICBs)

Chair: Mr. Saint-Cyr Djikalou (Côte d'Ivoire), Chairperson, Governing Council
Speakers: Ms. Elisabeth Tankeu, Commissioner, Trade and Industry, African Union (AU); Mr. Nestor Osorio, Executive Director, International Coffee Organization (ICO) on behalf of the International Commodity Bodies (ICBs) and Mr. Enzo Barattini, Deputy Head of Division, Directorate General for Development, European Commission (EC)

This session will centre on the role of International Commodity Bodies in a liberalised global economy. The importance of collection and dissemination of commodity information for decision-making and the preparation of commodity strategies taking into account both the interests of producers and importers. The issue of international commodity advocacy and how to further advance the commodity development agenda in the international arena. Some of the questions which will guide the discussions by participants are:

- What is the relevance of ICBs in a liberalised global economy and their role in assisting commodity development?
- How to raise commodity advocacy in the international development debate and to mainstream it in the MDGs?
- How could RECs become more involved in designing commodity strategies?

Wrap-up session and the Future Role of CFC: 18:00-18:30

Sessions Chairpersons; Mr. Rolf W. Boehnke, Advisor to the Office of the President, European Union Advisory Group to the Republic of Armenia;
Mr. Jan Pronk, former Minister for Development Co-operation of the Netherlands and former Deputy-Secretary General of the United Nations Conference on Trade and Development (UNCTAD)
Amb. Ali Mchumo, Managing Director, Common Fund for Commodities (CFC)

This session will summarise the main conclusions and lessons learnt from the seminar drawing on major issues which could be pertinent in discussions regarding the framework of the future role and mandate of the CFC in the international development architecture.

***Reception hosted by Managing Director**: 18:45-20:30*

OPENING SESSION

Mr. Jozias van Aartsen
Mayor of The Hague
former Minister of Foreign Affairs
and
former Minister of Agriculture of The Netherlands

Mr Chairman,
Your Excellency Ambassador Mchumo,
Ladies and gentlemen,

A warm welcome to The Hague!

Our city considers it a great honour to be hosting the twentieth Anniversary Seminar of the Common Fund for Commodities. In the past two decades the Common Fund for Commodities has performed outstanding work in the field of the trade in commodities and has thus made a major contribution to development cooperation.

Given your global reach you could not have made a better choice of venue for this meeting than The Hague. For as an international city of peace and justice The Hague is at home in the world just as much as the world is at home in The Hague.

In the streets of Nairobi, Sarajevo and Kabul the name of The Hague stands for hope. Hope of justice. Hope of peace. Hope of living with human dignity.

From The Hague, day in day out, around fourteen thousand people in more than one hundred and thirty different international organisations and NGOs are working to create a better world. A world dedicated to reconstruction instead devastation. A world where the power of law prevails over the power of force. And a world that calls to account those who think they can flaunt the rule of international law. That happens here in The Hague.

War and repression are the greatest enemies of development and progress. So development cooperation and the international rule of law go hand in hand. Without peace no bread, without justice no prospects.

The Common Fund for Commodities is different from other institutions in the field of development. Instead of looking at countries in the traditional way through a national lens, it looks at commodities. This facilitates a cross-border approach. Collaboration with various partners across the board, from development cooperation, and from the private sector and civil society, has also proved successful.

Recently, for instance, the CFC managed to get the biggest brewery in Europe (Heineken) together with a couple of other international beer brewers to give preference to importing the African crop sorghum instead of grain. The move has given a tremendous boost to agricultural production in Ghana and Sierra Leone.

The Common Fund's mandate seeks to enhance the socio-economic development of commodity producers and to contribute towards the development of society in general. Commodities were (and still are) the pillars of most economies. It's good to note that this element was confirmed recently on the occasion of the preparation of the Commodities Action Plan. Today, more than fifty countries are still dependent on commodities for more than twenty percent of their income.

For a long time people assumed that dependency on commodities would, sooner or later, lead almost inevitably to armed conflict. Some speak of a downright ‘commodities curse’: the presence of raw materials is seen an inducement to rebel leaders to get rich on the countries' natural resources as ‘rational predators’.

The results of research by a Dutch and a Swiss scientist, recently presented in the *Oxford Economic Papers*, demonstrate that it is not so much the presence of commodities that leads to conflicts so much as the existence of weak governments. Weak governments create little employment. The resulting poor social economic situation is a breeding ground for armed conflict.

On the other hand countries that have been or are still plagued by war are often much more dependent on commodities, the scientists concluded. Armed conflict often cripples the processing industry, so that the extraction of raw materials is all that’s left as an economic resource.

I mention this research not only because the results have a bearing on the theme of this seminar - The Role of Commodities in Development – but also because of the direct link between good government, peace and democracy. As the second United Nations city, The Hague is playing an important role in this field, thanks for instance to the presence of the International Criminal Court. To give you a specific example: there is a very real chance that those responsible for the violence in the aftermath of the Kenyan elections in 2007 will be tried before the ICC in The Hague.

Equally, The Hague plays a major role when it comes to good governance and democracy. Numerous students from developing countries study at the Institute of Social Studies. The knowledge they acquire here is of incalculable worth in their home countries. We all know that knowledge is a lasting and universal source of development and innovation.

The Hague is working hard to extend its position as an international crossroads of knowledge in the domain of peace, justice and governance. Two of our six universities of applied sciences operate fully in English. The preparations for the English-speaking Leiden University College The Hague are at an advanced stage.

At the same time, we are working hard to create the Institute of Global Justice, a top multidisciplinary institute that can count, for one thing, on the cooperation of Madeleine Albright. It will bring together all available knowledge in a wide variety of fields pertaining to international law, non-violent resolution of conflicts, human rights, peace keeping, as well as security and development issues.

As I said, development cooperation and the international rule of law go hand in hand. Four hundred years ago, in his pioneering work ‘Mare Liberum’, the famous legal scholar Hugo de Groot, here in The Hague, assigned the sea as a public property to the community of humanity *‘societas humana’*. That broad definition of the concept of international community is still valid to this very day. We are all a part of it.

Part of the international community is gathering right now in Copenhagen to tackle the pressing problem of climate change. Another part of ‘societas humana’ is present here in The Hague: that’s you. The task of the Common Fund for Commodities is equally crucial. If we really do want to contribute to a fairer distribution of economic development and prosperity in the world, it is now up to us to act together. Ultimately, in all cases, we are talking about the future of our planet and of the people who live on it.

Mr. Rubens Ricúpero
former Minister of Finance of Brazil
and
former Secretary General, United Nations Conference on Trade and Development (UNCTAD)

Except for Ambassador Ali Mchumo's exceedingly generosity and gracious courtesy, I can only discern two possible reasons for the honour of addressing you at this well-deserved commemoration. The first is merely the expression of a chronological reality: I was present at the creation; I am one of the happy survivors of the long and arduous struggle to establish the Common Fund in the eighties, both in Geneva and in the first organizational meetings in Amsterdam. The second is the simple consequence of a biographical accident: I was born and grew up in Brazil, the country of commodities *par excellence*, possibly the only nation that owes commodities everything, including its name that derives from the reddish brazilwood, the product that dominated its first commodity export cycle.

Our economy has always depended on the fortunes or misfortunes of a few dominant commodities, chiefly among them sugar and coffee, but also, varying with time and region, cocoa, natural rubber, gold, diamonds, tobacco, cotton. It is a familiar story, not much different from the narratives of most, virtually all countries in Latin America, the Caribbean, Africa, and Asia. There should be no surprise then that Brazilian foreign economic policy has long been obsessed with the fear of the volatility of commodities prices. The vital need of reaching a modicum of stability in those prices was for us practically the only meaningful item in the Bretton Woods agenda, 65 years ago. Not very successful at the time, again we failed to impress our developed partners in the post-Havana conference environment and all through the years of efforts to effectively enforce the international price commodity agreements of the sixties and seventies.

The Common Fund was born of that long frustration and its own history bears witness to the persistent difficult in finding a satisfactory answer to the question that gathers us here today: what is the actual role of commodities in development?

At the root of the problem was the famous Prebisch-Singer hypothesis on the long-term deterioration of the commodity terms of trade relative to manufactures, which unleashed an enduring wave of commodity pessimism.

At least as far as the twentieth century is concerned, an impressive array of undisputed studies such as the classic paper by World Bank economists Grilli and Yang in 1988 have shown that empirical data did lend support to the hypothesis. This may certainly be true, but my intention is not to revisit the past or revive the old debate. What seems really fascinating to me is how commodities, the oldest stuff of which international trade is made of, is being thoroughly and profoundly transformed and rejuvenated under our own eyes.

This is not just a matter of rejoicing because we are living through an apparently endless commodities boom. It has to do with the fact that the fate of commodities has become more and more linked to each and all of the vital issues in today's agenda: the global warming negotiations under way in Copenhagen; the deep concerns about the food crisis expressed during the recent FAO Summit in Rome; the G20 efforts to rein in the disruptive role of financial speculators on oil and commodities prices; the shift of trade and economic dynamic patterns towards China and Asia; the continuous stalemate in WTO's attempt to finally come to terms with the long-neglected unfinished business of agricultural liberalization; the serious problems posed by population growth and particularly the accelerating urbanization pace in China, India, Asia and Africa in general.

Please do not feel alarmed by this ominously long list of subjects. I am not going to cover in detail any of them. In fact, I will not even try that impossible task. I see the key-note speaker's role in the same way as Willem Bosman, an old Dutch historian described the fate of the first Portuguese discoverers and conquerors in the colonial world of the fifteenth and sixteenth centuries. He compared their destiny to that of "setting-dogs to spring the game, which as soon as they had done, was seized by others", the Dutch being the main beneficiaries. My role is that of the dog: my duty is only to spring the issues and you are the ones that will have to run and hunt them down.

This intellectual hunting exercise should start from a central question: how was it possible that the gravest economic and financial crisis since the nineteen thirties has produced no more than a short-lived decline in the trend of commodities prices? The probability of a sudden collapse in prices had been sensibly outlined by an authorized source, UNCTAD's 2008 Trade and Development Report that stated: "A recession in the US alone, which accounts for about 16 per cent of world commodities imports, could have a significant impact on the global demand for commodities, and the resulting downward price trend could be amplified by speculative sales". The caveat was whether China, India and other Asian economies would effectively decouple from the major advanced economies.

Well, that was exactly what happened. There actually has been an initial decline, but it was soon decisively reversed by strong Chinese demand. Speculators rapidly decided that rather than selling, they should start buying again. Even oil prices that suffered the sharpest plunge are gradually making a triumphant return.

This recent development should teach us not to underestimate the strength and depth of the long-lasting implications for the international economy of the re-emergence of the two largest and most ancient nation-States of the world. I once compared the phenomenon to giant whales that had taken a deep plunge to the bottom of the ocean for about two hundred years and are now coming out into the open again. As they move their huge bodies upwards they are going to make big waves. Some will fear they may drown in the waves; some will instead try and surf at the crest.

Here are some bare facts that point to the strong possibility that surfing conditions may stay propitious for some time more:

- For obvious reasons, the rise of China, India and other fast-growing Asian economies should have on commodities markets a stimulating effect at least comparable and probably stronger and longer-lasting than the one produced by the industrialization of Japan in the fifties and of South Korea in the seventies.
- In the next fifty years, half of the expected increase in world population to 8,9 billion people will come from eight countries of which only one is not a factor of potential strong additional commodity demand: the USA, India, Pakistan, Nigeria, China, Bangladesh, Ethiopia and the Congo.
- India alone will account for 21 per cent of the increase; in a single week its population grows more than the whole of the European Union in one year.
- The pace of urbanization will accelerate during the next few decades in China, India, Asia and Africa, where countries are going to experience the same kind of urban explosion that

took place in Latin America between 1950 and 2000 and is now practically concluded.

- Between 1960 and 2000, the urban system absorbed in Brazil ninety million people, either by birth or migration; this phenomenon is going to repeat itself in Asian and African nations, where hundreds of millions of individuals are going to move from the countryside to the town.
- The pattern of urbanization *cum* industrialization, typical of China and other newly-industrialized countries in Asia, is highly commodity intensive, particularly in terms of metals, minerals and energy products.
- Population expansion, urbanization, industrialization, accompanied of course by per capita income improvement inevitably brings about a consumption explosion of formerly poor people with repressed demand, as is being witnessed nowadays in Brazil.
- Changes in dietary habits are a consequence of the above factors, first in terms of the quantity of caloric intake and then in demand for meat, fish, livestock products, vegetables, fresh fruit, vegetable oils. It is estimated that in the next five decades demand for bovine meat will double and that for cereals will grow 75 per cent.
- Although China and India are expected to remain largely self-sufficient in many types of food they will, however, continue to increase their demand for imported food.
- Between now and 2020, it is projected that China will likely account for over 40 per cent of the additional demand for meat worldwide; the Chinese will become the world largest importers of agricultural commodities in value terms by 2020.
- In some cases of particular products in areas such as energy, minerals and even agriculture, there may be insurmountable obstacles in finding additional low-cost supplies of exhaustible natural resources, which suggest a strong possibility of tighter supply conditions and upward prices.

We may have noticed that I limited myself to concrete, current, hardcore factors, most of which are already at play and have nothing of a distant and doubtful nature. I carefully refrained from wandering off into dubious and unpredictable territory such as the constant erosion brought about by the dollar decline, the temptation on the part of financial funds managers of investing in commodities as one of the available assets in a time of easy and low-cost liquidity and of purely cold-blooded speculative movements. Most of those discarded factors, however, would probably act to reinforce the upward trend.

Neither did I make exaggerated claims such as that better prices are here to stay nor that the long-term deterioration of terms of trade hypothesis has forever been structurally disproved.

I usually hesitate in offering Brazil as an example because life has taught me to be on the alert when my country becomes internationally fashionable since I am only too painfully aware of our shortcomings and our crushing legacy of poverty and inequality. Nevertheless, there is no denying that Brazil is a success story in terms of commodities providing most of the contribution to trade and current account surpluses, international reserves accumulation and, through this means, the decisive protection that preserved us from the worst effects of the recent financial crisis.

Brazil is a natural resources rich country and minerals, as well as the sizable new off-shore oil discoveries are playing or are about to play a relevant role in its future development. For all that, Brazil is essentially a convincing example of how agriculture can become one the major engines of the development process.

For many years, Brazilians used to complain not so much of being commodities exporters but of finding themselves trapped in the predicament of exporting tropical beverages, one of the rare group of commodities that have consistently underperformed. As recently as in 1953, over seventy per cent of Brazil's exports still came from coffee. Thanks to diversification and product upgrading, this is no longer the truth.

A recent WTO Secretariat report on the evolution of world trade in agricultural products tells an eloquent story. In the eight years between 1999 and 2007, Brazilian participation as a percentage of total exports grew: in bovine meat from 6,8% to 28,4%; poultry from 12,6% to 35,5%; pig meat from 3,3% to 14,9%; sugar from 31,2% to 42,1%; and vegetable oils, mainly soybeans, from 16% to 27%.

Commodities and agriculture are inseparable. World agriculture already provides 93 per cent of proteins and 98 per cent of calories consumed by human beings and employs a total workforce of 1.3 billion persons. As the world population increases, agriculture will be put under a severe strain not only to feed three billion people more but also to supply a completely new category of commodities – biofuels, the most recent and promising frontier in commodities and a proof that, far from stagnant, the commodities sector has a creative capacity to reinvent itself.

In addition, the changes in dietary habits will require extraordinary efforts on the part of agriculture as each single calorie in egg or milk needs 4.5 plant calories whereas one calorie of bovine or ovine meat depends on nine vegetable calories. Where will the new agricultural land come from when we consider that planted area in the world has expanded from 265 million hectares in 1700 to 1.6 billion hectares, with 3.4 billion hectares in pastures, in 1995? In the not too-distant future global warming is sure to take a heavy toll on the availability of arable land, which, on its turn, is already being increasingly curtailed by water scarcity, salinization, soil erosion and loss of fertility.

Against this challenging background, it comes as no surprise that a new and worrying trend is beginning to generate considerable anxiety and concern around the world: the scramble for the few remaining patches of fertile and arable land, mostly located in countries that have been chronically affected by acute food insecurity. It is of course understandable that the compulsion for food security, heightened by the recent price peaks, would drive some cash-rich countries to try and secure supply sources of food in foreign locations. Yet, unless this is accompanied by a careful attention to a fair and balanced distribution of benefits with the local population and exacting patterns of environment protection, it could easily lead to an unprecedentedly destructive modality of “enclave investments” highly exploitative of people and resources.

Global warming impact and land-grabbing are just the two most dramatic reasons to strongly compel governments and individuals never to approach commodities with an attitude neutral or indifferent to human values. If we ask ourselves why the discussion of such examples stirs people's emotions, the explanation is a simple one: those are issues that touch on matters of life and death, of equity, fairness and survival.

The best answer to the anxiety generated by some of those tendencies is not to be carried away by fear or selfish and unjust initiatives. The solution has to be based on solidarity and mutual cooperation, in discussions such as the seminar we start today where we should join together in a common effort to finally give commodities producers the recognition, respect and reward that they fully deserve.

Technology has to be central to this effort as it is the best and surest means to help the commodities sector fulfil its promise. We should keep in mind that between 1950 and 1995 agricultural productivity was multiplied by eight, advancing more in 45 years than in the nine thousand years since the neolithic invention of agriculture. The key factor that explains the success of Brazilian agriculture is, without a doubt, technological progress. This has been the result of the Brazilian government's wise decision in the seventies to go counter the international trend and substantially increase its expenditure on public research on tropical agriculture. Here, not elsewhere, lies the hope for a bright solution to problems in Africa and other continents.

Mr. Chairman, ladies and gentlemen, dear friends.

You certainly all remember the often quoted phrase where Machiavelli stated that the prince, that is, any person with authority, needs *virtù* and *fortuna*, in Italian, personal valour and good luck. Ambassador Ali Mchumo has both and the proof of his good fortunes is that, in contrast to many of his predecessor, he is opening this commemoration in a propitious moment for commodities. Let us then start our deliberations with this note of hope and confidence in science and technology, in human ingenuity, in our capacity to solve problems and improve the present and the future. We cannot say whether this favourable climate for commodities will last forever: probably not. Perhaps the best way to face this uncertainty will be to seek inspiration in Vinicius de Moraes, the Brazilian poet and composer, who said in a famous sonnet: "Since we know that love will not be eternal as it is but a flame, let us hope that it will be infinite as long as it lasts".

Thank you.

Amb. Ali Mchumo
Managing Director
Common Fund for Commodities (CFC)

Mr Jozias van Aartsen, Mayor of The Hague,

Mr. Rubens Ricúpero, former Minister of Finance of Brazil and former Secretary General, United Nations Conference on Trade and Development (UNCTAD),

Mr. Jan Pronk, former Minister for Development Co-operation of the Netherlands and former Deputy-Secretary General of the United Nations Conference on Trade and Development (UNCTAD),

Mr. Supachai Panitchpakdi, Secretary General of the United Nations Conference on Trade and Development (UNCATD),

Mrs. Anna Tibaijuka, Executive Director, United Nations Human Settlements Programme (UN-HABITAT),

Mr. Kandeh K. Yumkella, Director-General, United Nations Industrial Development Organization (UNIDO),

Mr. Mr. Saint-Cyr Djikalou, Governor of CFC for Côte d'Ivoire, Chairman of the Governing Council,

Excellencies,
Distinguished guests,
Ladies and Gentlemen,

It is a great privilege for me to address this Seminar as the Managing Director of the Common Fund for Commodities as we commemorate 20 years since the Fund was established. At the outset, I would like to express my gratitude to Mr. Van Aartsen, the Mayor of the City of the Hague for his welcoming address and for his kind support which made this Seminar in the Hague possible. Equally, I would like to thank our distinguished guests, and participants representing countries and international organizations, some of whom have travelled a long way to be here and to participate in the Seminar. Indeed, the impressive member of participants who have come far exceeds our expectations.

Let me also thank Mr. Ricupero for his brilliant, stimulating and inspiring key note address. With his extensive knowledge and experience in development issues and his close association in the formation of the CFC, We expected no less than what we have heard this morning and I sincerely thank him for setting the high tone for the Seminar.

This Seminar is dedicated to the 20th anniversary of the Common Fund for Commodities, the organization which had been created to assist commodity producers to strengthen their income – generating capacity and mitigate their vulnerability in the increasingly globalized and volatile world economy. Today, we can be proud of the Fund's formidable track record in assisting commodity dependent countries to harness the development potential of their commodity sector, and we felt it appropriate to have a broader discussion of the subject of the Role of Commodities in Development on the occasion of the 20th anniversary establishing the Fund.

Excellencies,
Distinguished guests,
Ladies and Gentlemen,

The problems of Commodity Dependent Developing Countries (CDDCs) are at the centre of the mandate of the CFC, and it has been part of our duty to look deeper into the fine mechanics of the interaction between commodity markets and economic development. While the structure of the commodity markets has changed considerably over the last few decades, the economic performance of many Developing Countries have not changed much. Many CDDCs remain dependent on a narrow range of commodities, and have not been successful in harnessing commodity driven incomes to stimulate development. For this and many other reasons, it is imperative to examine the commodity development nexus. However, in one day it is impossible for us to have an exhaustive discussion on all aspects of the relationship between commodities and development of the commodity dependent developing countries. The challenge has been how to organise meaningful discussion that will cover all the essential elements of such a complex problematique within a single day. Thus to make the best use of the limited time, the Seminar has been organized in four key sessions, covering the elements of commodity economy which we consider important for development. Again, let me thank Mr. Ricupero, former Minister of Finance of Brazil and former Secretary General of UNCTAD for a very good start in our discussion.

As you see in the Programme, First, we are going to consider investment in commodity value chain. I would like to draw your attention to the subject which deliberately underlines the importance of commodity value chains, rather than isolated economic sectors as primary targets for investment. It is now well understood that economic value is generated in the value chain as a whole, and effective investment decisions must look at the links in a value chain, and at the allocation of incomes to make the outcomes of the investment sustainable. This is of particular relevance to investments in developing countries where the primary producers are routinely receiving the smallest share of incomes, which, eventually, is detrimental to production and sustainability of the whole value chain.

Of course, as we are all well aware, the availability of investment resources, and as well as the mechanisms which could make investment resources available at the right level of commodity value chain in developing countries remain a matter of serious concern. Search for innovation and effective facilitating models in this direction should continue, and we look forward to the contributions of the lead speakers and views that may emerge out of the interactive discussion. Let me take this opportunity to thank Mr. Yumkella, Director General of UNIDO and Mrs. Tibaijuka, Executive Director of UN-HABITAT to be lead speakers and I thank Ms. Zarra, Head of International Organizations of Ministry of Foreign Affairs of Italy for agreeing to chair the Session.

In session 2, we will move our attention to the more specific matter of processing and productivity enhancement. This subject is particularly relevant in the context of the competitiveness challenge facing producers in developing countries as global economic system opens up. Producers in developing countries have little choice but to prepare to respond to rising competition. Failure to face the challenge of competitiveness creates the real risk of high value production drifting to more competitive countries, which could push many commodity dependent developing countries (CDDCs) into a downward spiral of reduced incomes, capital outflows, reduced efficiency, and even lower competitiveness. This process of marginalization should not be allowed to take root in commodity dependent countries, and we believe that addressing productivity issues is the direct way to help developing countries meet the competitiveness challenge.

I should also mention here that productivity itself is a complex challenge which, on close consideration, opens up into many directions, including technologies, agricultural practices, varieties, improved processing methods, infrastructure and financial resources, which echoes the first session of the Seminar. I would like to underline here that, in our experience, the real challenge lies not so much in supporting the introduction and emergence of more productive technologies, as with finding the socioeconomic models that would make the practical use of these technologies more sustainable. This is a particularly big issue for the commodity sector where the variation of commodity prices in the absence of adaptation and mitigation mechanisms undermines the economic survival of all but the most basic production technologies. Here, I would like to thank Mr. Tariq Al Zadjali, Director General of AOAD and Mr. David Hallam, Deputy Director of FAO's Trade and Market Divsion for accepting to be main speakers and I thank Amb. Aizaz Ahmed Chaudhry of Pakistan for moderating the session.

This brings me to the subject of the <u>third session of the Seminar, which deals with Price Volatility and Market Development</u>. Looking from the position of the Fund's 20 years of operational experience, we see a specific and clear case where volatility of global commodity prices exposes the vulnerability of low-income countries hence making them suffer more in the face of economic crises.

There probably isn't one single big answer to address this vulnerability of CDDCs to the volatility of commodity markets and indeed the issue of price volatility remains a huge unresolved business in international economic discourse and we look forward to the wisdom that will emerge from the discussion on this issue which goes to the fundamentals of the Common Fund's original mandate. I am grateful that the Senior Advisor to the Secretary General of UNCTAD, the Office-in-Charge of Special Unit on Commodities, Mr. Kwabena Baah-Doudu has accepted to be a lead speaker on this complex and important issue to be joined by Mr. Shishir Priyadarshi, Director of WTO and Mr. David Luke, Senior Advisor and Coordinator, Geneva Trade and Human Development Unit of UNDP. I also want to thank Amb. Jose Francisco Aguilar Urbina of Costa Rica for accepting to chair this session.

<u>The fourth, and last topical session of the Seminar will deal with International Commodity Governance and the Role of International Commodity Bodies (ICBs)</u>. Here I would like to recall that from its inception, the Common Fund had been created as a financial hub of the international network of Commodity Bodies, which to-date remain the essential partners in CFC operations. Together, the CFC and ICBs form an internationally recognized system of cooperation in the development of commodity markets, which has no equals in today's world. However, to maintain its effectiveness this cooperation needs to be under constant review to keep it responsive to the needs of its members. In this session we will hear the views of the ICBs, the African Union and the European Union which were instrumental in the negotiation of many international commodity agreements making the operations of the ICBs possible. In this regard, I want to thank Ms. Elisabeth Tankeu, Commissioner, Trade and Industry of AU; Mr. Nestor Osorio, Executive Director of ICO and Mr. Enzo Barattini, Deputy Head of Division, Directorate General for Development of EU for accepting to be lead speakers and I thank Mr. Saint-Cyr Djikalou, Chairperson of the Governing Council for accepting to chair this session.

Excellencies,
Distinguished guests,
Ladies and Gentlemen,

As you will have seen in the programme after concluding the discussions in the topical sessions, we would invite all session chairs to come to the podium to summarise the main conclusions and lessons learnt from the seminar drawing on major issues which could be pertinent in the discussions regarding the framework of the future role and mandate of the CFC in the international development architecture. In this wrap-up session we will have the benefit of the participation of Prof. Jan Pronk, whose involvement in the creation of the Common Fund was instrumental to make the Fund what it is today, as well as Dr. Rolf Boehnke who is my predecessor and served for eight years as the Managing Director of the Common Fund and I want to thank both of them for taking time off from their engagement and come here to share their experience and wisdom with us. I hope that the conclusions drawn in the wrap-up session will be a significant contribution to the future of international cooperation in commodities.

Excellencies,
Distinguished guests,
Ladies and Gentlemen,

Before I conclude my remarks, let me inform you that in further commemorating 20years of CFC, we have mounted a mini exhibition show casing some commodity development and marketing projects that CFC has undertaken. A note explaining the booths on display has been circulated and I hope you will take time to view them.

Once again, I thank you all for your presence and wish us all an interesting and stimulating discussion in the Seminar and a very productive interaction even outside the seminar room.

Session 1: Investment in the Commodity Value-chain

Mr. Kandeh K. Yumkella
Director-General
United Nations Industrial Development Organization (UNIDO)

"Investment in the Commodity Value-Chains for economic development"

Thank you Madame Chairperson, Ms. Giuseppina Zarra,

- Excellencies,
- Mr. Jozias van Aartsen, Mayor of The Hague
- Amb. Ali Mchumo, Managing Director, CFC
- Mr. Rubens Ricúpero, former Secretary General (UNCTAD)
- Ladies and Gentlemen

It is an honor for me to be here and to make a statement at this Seminar organized to commemorate the twentieth anniversary of the CFC. Let me express my sincere appreciation to Ambassador Ali Mchumo, MD CFC, for his great leadership and commitment to development cooperation. I am grateful to you for your invitation to join you, and other distinguished guests, on this special occasion.

1. About a week and a half ago, I hosted the UNIDO Ministerial – Conference for Least Developed Countries. These countries, together with other developing countries, have been the hardest hit by the financial crisis we have experienced over the past two years, and have thus faced greater risks for financing, commodity exports, investment, credit, banking systems, budgets, and the balance of payments. The second round effects are further exacerbated by a dramatic decline in Diaspora remittances. Among the developing countries, the most vulnerable are those that depend on commodity exports (the so-called Commodity Dependent Export Economies).
2. The most recent available statistics show that 85 developing countries worldwide rely on commodity trade for more than 50% of their export earnings; commodities thus provide the main source of employment, income, foreign exchange earnings and savings, all of which are crucial for poverty-reducing economic development. While value addition to commodities has lifted millions out of poverty, as evidenced by the development experiences of the first and second generations of newly industrializing countries and emerging economies, commodity boom-led growth has also pushed many more millions into the poverty trap.
3. Therefore, the rest of my statement will focus on the so-called primary Commodity Dependent Export Economies, particularly those relying on agricultural exports, and will highlight strategies to finance commodities: what needs to be done to move these countries up the ladder of economic development; and the policies required for promoting the development of commodity value chains.
4. The recent financial crisis, coupled with the globalization of the world economy and the increasing food prices of last year, has placed an increasing demand on the commodity market players in both developed and developing countries. In particular, increasing food prices and the financial crisis triggered a worldwide debate and led to various strategies to tame the food and financial crises, while globalization has led to an evolution of fragmented individual economies into larger trading blocs
5. Swift policies and focused strategies were implemented by governments in developed countries, paving the way for increased financing levels that have now stimulated

profitable returns and seem to have cushioned the private sector against the vagaries of market forces. However, this has not been the case for the agricultural commodity dependent export economies, which have been increasingly exposed to economic vulnerability, with no "cushion" mechanism in place.

6. Analysis provided in the Industrial Development Report (IDR) 2009 – published recently by UNIDO - confirms that promoting the development of commodity production and exports in poor and small developing countries is not sufficient conditions to sustain real income growth, and may even prove detrimental to the long-term development prospects of these countries.
7. Looking at the evolving patterns and form of products which are demanded by consumer, it also becomes evident that such countries will only be able to seize the opportunities created by globalization if they upgrade their export industries – which entails moving towards a wider range of differentiated products with a higher content of technology, skills and innovation.
8. While the promotion of commodity development remains important to the economies of developing countries, it is imperative that this is done within the context of agribusiness and value chain development.
9. **Moving up the ladder of economic growth:** As the experience of many developing countries has shown, over-reliance on commodity exports without value addition in the context of the uncertainties arising from liberalized markets, increased globalization and rapid technological change, has not triggered rapid economic growth. On the contrary, such a strategy could lead to a further marginalization and "economic growth reversal" of agricultural commodity export dependent countries, as we have observed over the past 30 years. How, then, can commodity dependent export economies move up the ladder of economic prosperity?

There are four key routes for countries to emerge from a dependence on trade in primary agricultural commodities:

1. Promoting agribusiness development and linking commodity producers to global value chains: Although this is necessary, it is not by itself a sufficient condition for economic development of commodity dependent export economies to attain sustainable development. However, agribusiness development provides an excellent option for these countries, as market imperfections and structural inadequacies inhibit technological change and a broadening of their economic base.
2. Diversifying agricultural commodity chains: Agricultural commodities are increasingly becoming "buyer-driven", with little possibility for sellers to influence price. In such commodity supply chains, it is the downstream players such as distributors and retailers that capture the highest share of value-added and control the flow of technology and knowledge along the chain. Diversification provides possible price shock cushions if demand for any one commodity declines.
3. Upgrading traditional export commodities into higher value-added products or technology-intensive industries: This is an important route out of primary commodity export dependency. However, this requires targeted investments and consistent policies. Here the role of government is crucial, particularly for directing FDI into complex and higher value-added activities that allow for industrial learning to take place within national boundaries. Research suggests that dynamic gains from FDI in the form of technology and knowledge transfers work better when governments intervene to direct FDI into developing local capabilities.

4. Promoting regional markets, through regional integration: As evidenced by the recent development experiences of China and India, a combination of a strong manufacturing base and domestic demand can enable countries to withstand the turmoil of global economic upheaval. Small countries could achieve these benefits through regional cooperation and integration, in order to overcome the limited extent of their domestic markets. Such a regional approach creates the scale economies and agglomeration conditions necessary for galvanizing industrial learning. Although politically challenging, market integration and the eventual consolidation of upstream players across commodities may be the only workable option for commodity produces to hold their own in a globalized economy with increasingly consolidated downstream segments and large competitors such as China and India. This is another area of potential public involvement at the external level.

Financing commodity value chains and resource mobilization

The importance of appropriate financing mechanisms for the development of agribusiness and commodity value chains in developing countries, particularly in Africa, should not be underestimated. All businesses require sufficient and appropriate financing to sustain and grow, whether they are small or large, whether they supply farm inputs or distribute agricultural outputs, or whether they operate in the formal or informal sectors. However, they often suffer from a sub-optimal rate of investment for a variety of reasons – not least because the sector is perceived as risky and yielding unattractive returns. In this regard, mobilizing both traditional and innovative sources of financing constitutes one of the key pillars for agro-industrial development in developing countries.

Accelerating agribusiness and value chain development thus requires significant financial resources. These could be sourced from four key sources, in addition to the traditional donor funding:

1. Firstly, domestic resource mobilization and allocation. However, this is usually constrained by the low savings rates prevailing in some developing countries. For example, sub-Saharan Africa has the lowest savings rate among all developing regions, at just 18.1 per cent of GDP. In these countries, more effective financial intermediation is needed to promote and channel savings into productive investment in manufacturing. This encompasses access to credit and finance, the strengthening of stock markets, the promotion of development finance institutions (DFIs), and the establishment of national sovereign wealth funds for industrial development.
2. Secondly, the establishment of co-coordinated continental and regional investment funds can potentially provide an important source of finance for agro-industrial development. This particular source of financing is important for investment in spatial clusters that foster agro-industrial entrepreneurship. Equally important is the promulgation of portfolios of bankable investment projects. Intra- and inter-regional flows of funds could be facilitated by innovative investment options in commodity development. Gulf countries investing in Sudan to convert parts of Sudan into their breadbasket and the commercialization of existing commodity-based research findings are examples of emerging intra- and inter-regional opportunities.
3. Thirdly, targeting FDI to the productive sector can play a critical developmental role in terms of creating competitive export-oriented industrialization, as evidenced in East and South-East Asia. Thus, the establishment of an investment-friendly environment and business climate for the attraction of domestic and foreign investment in manufacturing is

an important priority. More generally it is also critical to enhance spillovers from FDI on the development of domestic capabilities, which calls for the creation of an appropriate science and technology base.

4. The fourth source of finance refers to Diaspora remittances. For example, remittances from the African Diasporas to the continent are estimated by IFAD at US$ 40 billion, far exceeding the ODA of US$ 26 billion recorded in 2008. In general, such remittances play an important role in household security and poverty alleviation, and are used to support family and friends in launching business, building houses, or engaging in other projects of a private nature. IFAD's survey results show that at least 10-20% of these remittances is saved or invested. Innovative incentive systems for directing Diaspora remittances into commodity-based agribusiness ventures are therefore critical.

In conclusion, continuous reliance on commodity exports within the context of increased globalization and rapid technological change will most likely drive countries dependent on primary commodity export into a path of "economic growth reversal" as depicted by the increasing poverty trend in such countries over the past 20 years. Thus the escape route is innovative targeted financing of value chains within the framework of agribusiness development in partnership with the private and public sectors.

UNIDO is developing programmes to address this problem based on recognition of the fundamental fact that poverty is not due to a lack of resource endowments, but due to the lack of value addition.

Thank you.

Mrs. Anna Tibaijuka
Executive Director
United Nations Human Settlement Programme (UN-HABITAT)

Honourable Chairman,
Your Excellency Ambassador Ali Mchumo, Managing Director of CFC,
Distinguished Speakers,
Excellencies,
Ladies and Gentlemen,

It is a great honour and privilege for me to address the first session of CFC's 20th Anniversary Seminar on the *Role of Commodities in Development.* I would like to take this opportunity to thank my good friend His Excellency Ambassador Mchumo, Managing Director of CFC, for inviting me to this important event.

UN-HABITAT is very pleased to have been invited to share its views and contribute to the discussion on the *Role of Investment in the Commodity Value-chain*. Both CFC and UN-HABITAT share a common vision and firm conviction – that is to help citizens of our member states lift themselves out of poverty and forcefully promote sustainable development.

Ladies and Gentlemen,

Commodities are poor people's products. Commodity production is the largest source of revenue and employment for over a billion people worldwide. Africa is the world's most commodity-dependent continent. One half of African countries generate 80 percent of their export earnings from commodities. The situation is no different in many landlocked developing countries and small island states. It is the poor who depend on commodities for their meager survival and therefore getting a fair deal from the commodity sector is a pre-requisite for achieving the Millennium Development Goals.

Commodity producers in the developing world have suffered from a myriad of problems for several decades. The biggest problem has been the frequent and sharp declines in commodity prices and high price volatility. For example, real prices of 41 out of 46 leading commodities declined significantly between 1977 and 2001. In 2002, the real price of coffee was just 14 percent of the real price of coffee in 1980. As you all know, for millions of people in Africa, coffee is the main source of income and livelihood. A number of other factors also have contributed to the precarious situation the commodity producers and commodity-dependent countries find themselves in today. Continued deterioration of terms of trade for developing countries and trade distorting measures adopted by developed countries are to mention just two. It is important for us to recognize that fair, equitable and stable commodity prices are key to alleviating poverty in developing countries.

Ladies and gentlemen,

We are living in a rapidly urbanizing world today. Over half the world's population and three-quarters of people in developed countries now live and work in cities. Although nearly 60 per cent of people in the developing world still live in the countryside, they are moving into cities in larger numbers than ever before. This is because many, if not most, lack opportunities in their rural home districts.

Although this may surprise some, Africa is the fastest urbanizing continent in the world today. By 2030, half of its people will be living and working in cities and towns. Asia, which is home to 60 per cent of the humanity, is also urbanizing quickly, and by 2030, 60 per cent of Asians will be living in cities. Poor employment prospects, inadequate development and provision of services and facilities in rural areas, not to mention poverty, civil wars and natural disasters, have all contributed to the high influx of people into cities.

Let me take this opportunity to draw your attention to the issue of the need for making adequate investments in infrastructure in both rural and urban areas. Without a good rural-urban infrastructure network the commodity value-chain cannot function efficiently. This is an area that my agency, UN-HABITAT, has a special interest in and is strongly promoting. Development of urban-rural transport and communications links, especially trunk and access road networks, is a potent tool for promoting balanced territorial development. They facilitate people's access to goods, services, and jobs in both areas as well as adding value to rural produce and reducing transaction costs. Rural-urban infrastructure also stimulates growth of small and medium-sized towns. Small and medium-sized towns are an effective mechanism for providing services to rural areas, including educational, health and financial services. If properly formulated and implemented, these policies and strategies can significantly contribute to the attainment of several of the MDGs.

Ask any family living in poverty anywhere in the world today, whether in towns or in the countryside, and they will tell you that transport is a major part of their meagre budget. Transport and roads are the essential link in balanced rural and urban development. People in rural areas cannot prosper if they do not have access to services and markets in cities while cities cannot flourish without a growing rural economy.

Africa's infrastructure network is the poorest in the world. At present, Africa's rail freight is under 2 per cent of the world total and air freight is less than 1 per cent. Its road network is also poor. Vast areas in the continent are not accessible by road. Its per capita power generation capacity is half that of Asia and Latin America. Africa's marine capacity is only 11 per cent of the world's total marine capacity. Over 20 per cent of Africa's total population lives in land-locked countries that are far away from the nearest large markets and import-export destinations. What we must build is a network of infrastructure connections that stretches across villages, small towns, large cities and peri-urban areas – a network of urban-rural connections which will accelerate development.

The concentration of investment has turned cities into places of opportunity, economic growth – and hope. No wonder then that millions in the countryside dream of a better life in the city. But the economic growth of cities will only be self-sustaining if the concentration of services in cities also drives development in the rural areas. This is why UN-HABITAT is promoting the importance of improving rural-urban linkages. Improved rural-urban linkages are crucial for the development of the commodity sector in developing countries.

Ladies and Gentlemen,

Another issue that I would like to mention in particular is the failure of African countries to make full use of their most precious natural resource - water. Only 4 per cent of the renewable water resources in Africa are under irrigation. It is even much worse in sub-Saharan Africa where only 1.6 per cent of the water resources are used for agriculture. Only 7 per cent of the arable land in

Africa is irrigated compared to 40 per cent in Asia. As we know, most of the farming in Africa is done under rain-fed conditions. Unless African governments make significant investments in irrigation infrastructures and better water management techniques their hopes of achieving food security will remain an illusion.

I like to emphasize the importance of undertaking adequate investments in the area of value-addition in the commodity sector. The need for processing of commodities in our own countries is essential if we are to fully utilize our commodities for our own development. We often say that commodity-dependence is a root cause of low development in many developing countries. Commodity-dependence per se is not the problem. The problem is that the commodity sector is in these countries is suffering from low-productivity, low value-addition, low product quality and low competitiveness.

Commodity processing, by and large, reaps additional benefits when it exploits locational advantages. These advantages are often to be found by locating processing facilities in well functioning urban centres, which by definition should have economics of scale, lower input costs and greater workforce availability. A properly articulated settlements hierarchy will help ensure the availability of urban centres to meet needs of investors in commodity processing. Regrettably, few developing countries undertake the regional planning necessary to ensure this.

Furthermore, if cities are dysfunctional and fail to reap their in-built advantages due to poor governance, higher input costs will result leading to a less attractive environment for commodity processing. Good urban governance, which is promoted by UN-HABITAT, is therefore essential to harvesting the value-added potential of commodity processing.

Distinguished Guests, Ladies and Gentlemen,

I hope this seminar will contribute to creating awareness, better understanding and recognition of the crucial importance of the commodity sector in developing countries. It also gives us a great opportunity to reflect upon various constraints confronting the poor commodity producer's world-over and how to address these issues. Let us join hands to bridge the development divide between rural and urban areas in developing countries through the development of a viable commodity sector.

I thank you for your attention.

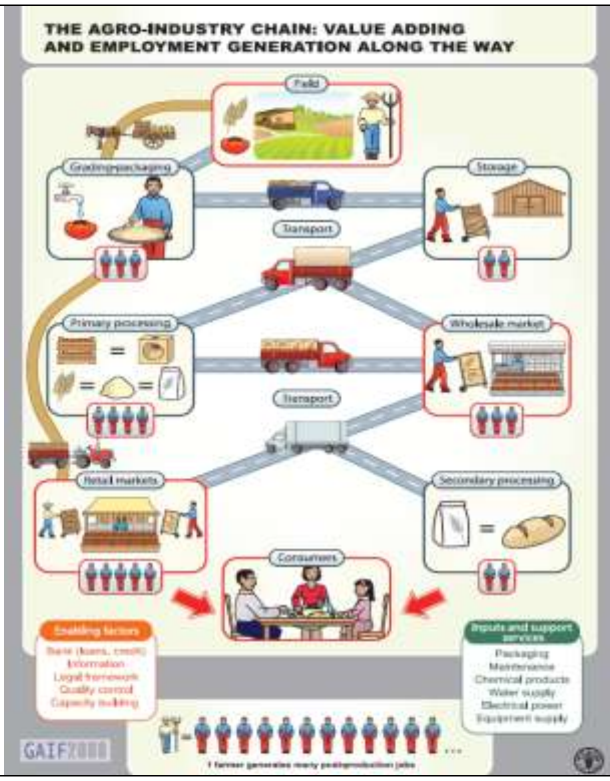
Session 2: Processing and Productivity Enhancement

Mr. David Hallam
Deputy Director of FAO's Trade and Market Division
Food and Agriculture Organization of the United Nations (FAO)

THE ROLE OF COMMODITIES IN DEVELOPMENT

VALUE ADDITION AND AGRO-INDUSTRY DEVELOPMENT

David Hallam
Trade and Markets Division, FAO



Why value addition and agro-industry development?

- Strategic response to commodity dependency and commodity price trends/variability
- Growth in demand for value-added agricultural products
- Continuum from simple value addition to agro-industrial development
- Non high-tech value addition can improve value and prices to improve livelihoods and food security BUT who gains from value addition?
- Agro-industry development as a driver of growth and development

Value addition

- Adding value is multi-dimensional - production, harvesting, processing, storage, marketing
- Series of actors - all the producers, processors, transporters, exporters, buyers, etc. engaged in the activities required to bring a product from its conception to its end use
- Value can be added through
  - Technology
  - Organizational innovation
  - Efficiency
  - Product differentiation
  - Eliminating non-value adding activities

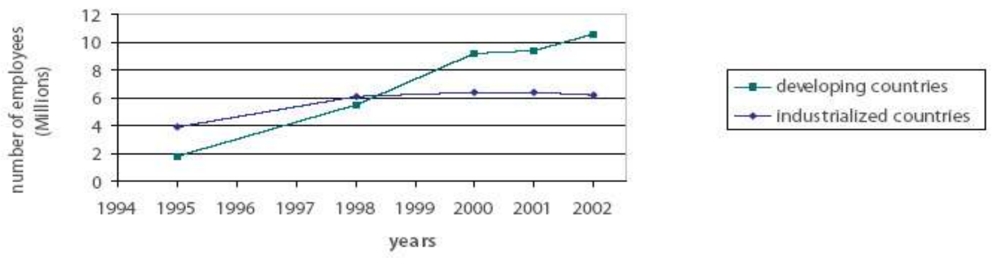
Dimensions of value addition

- Product differentiation
- Quality improvement
- Grading; packing; improved post-harvest handling
- Processing
- Service elements- delivery on time, reliability and consistency
- Access to new markets – commercialisation and vertical diversification

Agro-industry development

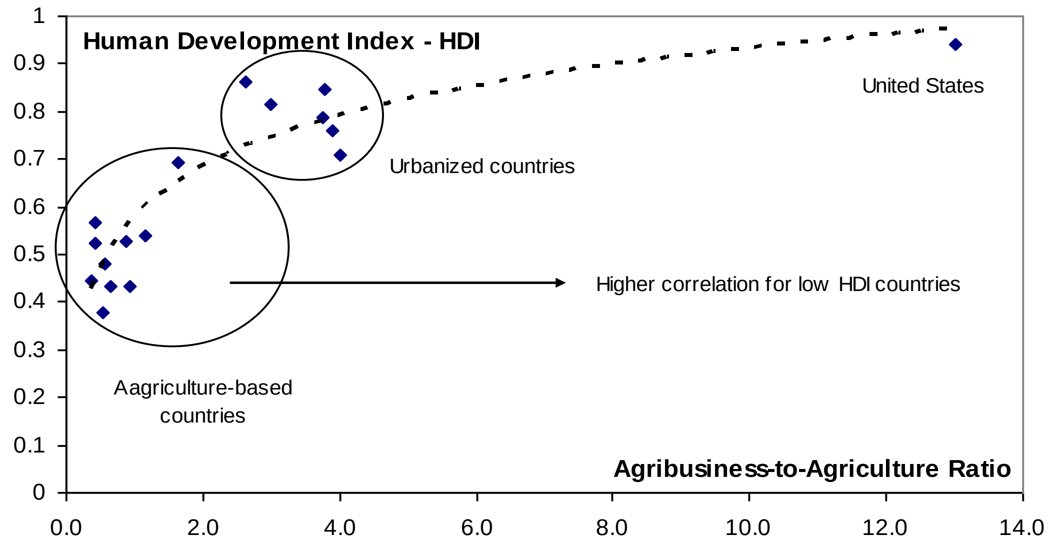
- Informal to more formal agro-processing
- Driver of growth and development
- Employment and income generation, vertical linkages and multiplier effects
- Impact on rural areas, rural development. poverty reduction
- BUT how to reconcile agro-industry development and competitiveness with integration of smallholders?

Agro-industries employment creation



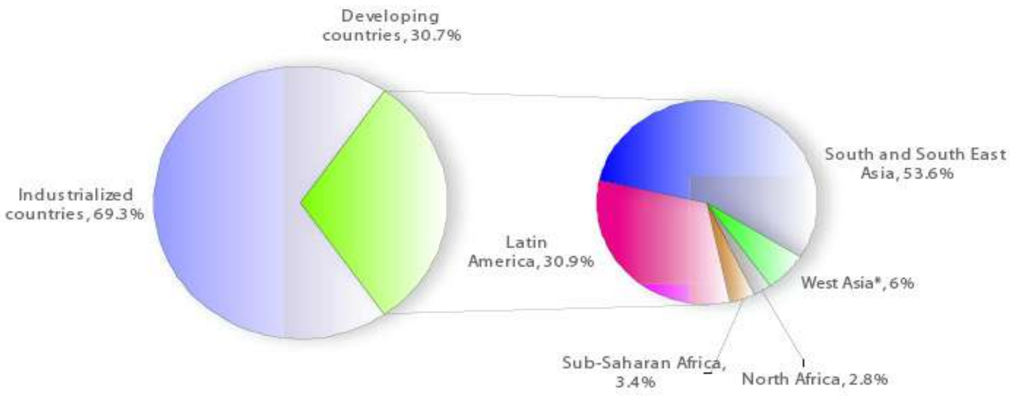
Source: UNIDO International Yearbook of Industrial Statistics 2007.

Correlation between human development index and Agribusiness-Agriculture ratio



Source of data: Jaffee et al (2003) and Human Development Statistics (UN)

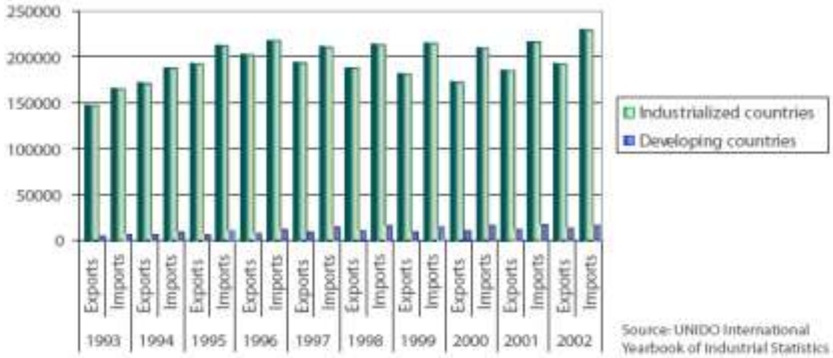
Distribution of value-added in agro-industries by regions (%) in 2005



Source: UNIDO International Yearbook of Industrial Statistics 2007

International trade in processed agricultural products is dominated by industrialised countries

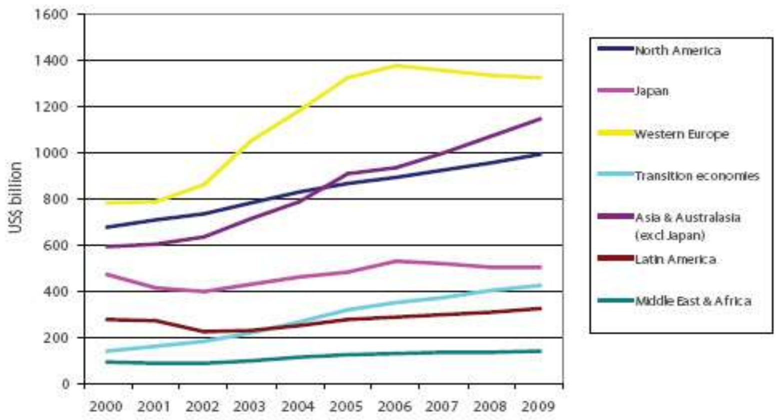
Exports and imports of agro-industrial sector, $ millions (current)



Source: UNIDO International Yearbook of Industrial Statistics 2007

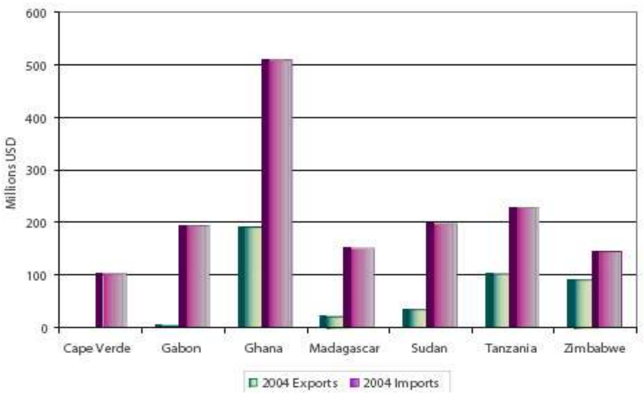
Consumption of food products

Consumer expenditure on food, drink and tobacco



Source: Economist Intelligence Unit 2005. Industry forecast.

Africa is net importer of processed products (except South Africa and Cote d'Ivoire)



Source: UNIDO International Yearbook of Industrial Statistics 2007.

Importance of informal agro-industrial sector in Africa

	Contribution to employment (number of employees, mostly women)	Contribution to income (US$ / year)
Afitin	28 000	1 500
Attiéké	42 000	3 600
Bibolo	97 000	600
Dolo	34 000	2 500
Gari	70 000	50
Keccax	15 000	950
Palm oil	190 000	300
Sour milk	18 000	4 000
Street food	1 100 000	400

Sources : Chaléard 1996, Charmes 2000, World Bank 1989

Why is value addition limited in developing countries?

- low volumes and poor quality of basic products
- lack of access to inputs
- weak technologies and human capacity
- limited competitiveness
- lack of information concerning markets and technologies
- inadequate infrastructure
- weak institutions, inappropriate policies, unfavourable business environment
- market power asymmetries
- inadequate finance and lack of investment
- lack of R&D

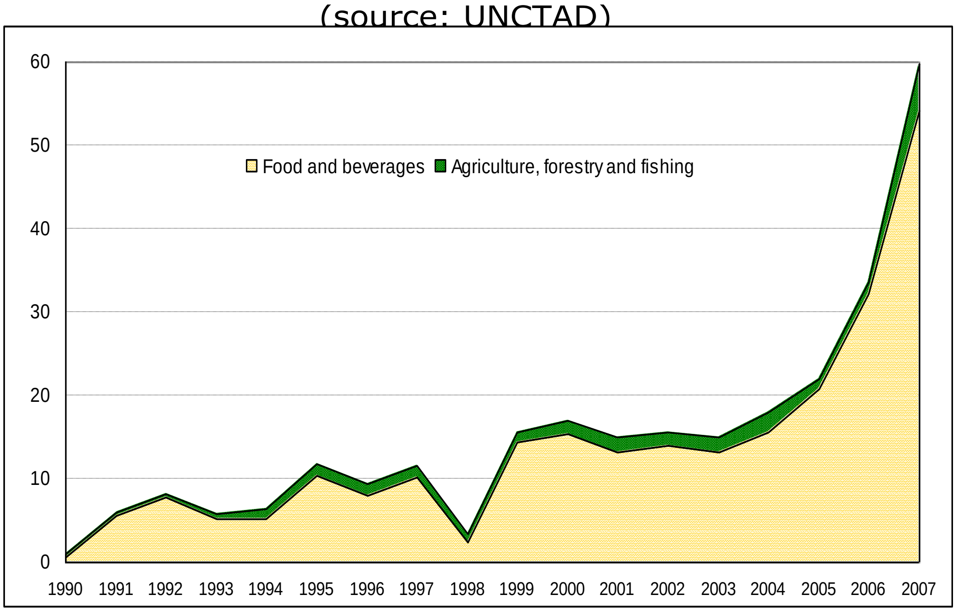
Role for FDI?

- recent international investment trends and patterns
- contribution to investment needs?
- need to steer inward investment to most productive uses
- alternative business models

FDI in agriculture, food and beverages

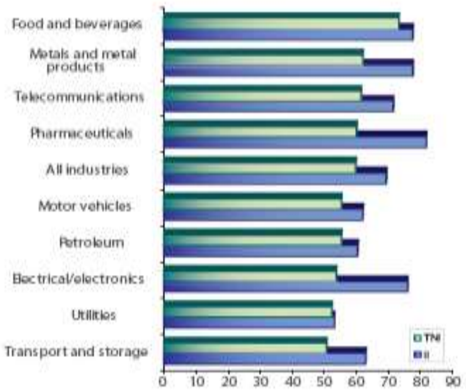
1990–2007, billions of dollars

(source: UNCTAD)



Agro-industrial sector is one of the most internationalised

Value of Index of Internationalisation (II) and Index of Transnationalisation (TNI), calculated for the 100 biggest firms in each sector in 2005



Source: UNCTAD World Invesment Report 2007.

Impacts of foreign investments?

- Positive
  - ➢ technology transfer and upgrading
  - ➢ employment creation, multiplier effects and poverty reduction
  - ➢ increased food production and food security
  - ➢ commercialisation and large-scale agriculture
  - ➢ diversification and development of value-added production
- Negative
  - ➢ social, rights issues,
  - ➢ transparency, governance issues and sovereignty
  - ➢ environmental issues
  - ➢ inappropriate economic models

Policies for inward investment

- policy and legal frameworks to minimise risks and maximise benefits - but domestic law weak
- creation of receptive domestic sector
- how to encourage targeted inward investment? information and incentives
- creation of positive investment climate
- identification of investment needs and priorities
- consistency with food security and rural development strategies
- rights issues, involvement and compensation of stakeholders

International action on FDI

- matching capital to opportunities – how to devise investment programmes to meet investment needs?
- information needs and systems – "*the knowledge platform*"
- international regulation, investment agreements, dispute settlement mechanisms
- global corporate social responsibility initiatives
- need for control? formulation and implementation of codes of conduct/guidelines

FAO STRATEGIC OBJECTIVE G – ENABLING ENVIRONMENT FOR MARKETS TO IMPROVE LIVELIHOODS AND RURAL DEVELOPMENT

- Organizational Result G1 - Appropriate analysis, policies and services enable small producers to improve competitiveness, diversify into new enterprises, increase value addition and meet market requirements
- Organizational Result G3 - National and regional policies, regulations and institutions enhance the developmental and poverty reduction impacts of agribusiness and agro-industries

FAO Activities in Support of Value Addition and Agro-industry development

- Market analyses and identification of opportunities and constraints
- Support for production intensification and diversification
- Support to value addition (storage capacities, handling, processing...) and marketing
- Policy support to create enabling environments
- Support for improvement of financial services
- Support for strengthening producer organizations
- Institutional capacity building
- Support to piloting and appraisal of technologies and value chain innovations

FAO collaboration with CFC

- FAO Intergovernmental Commodity Groups are International Commodity Bodies for the commodities concerned
- Supervisory body for CFC-funded projects covering all IGG commodities including orphan commodities

FAO collaboration with CFC - examples

- *Small-Scale Cassava Processing and Vertical Integration of the Cassava Sub-Sector in Southern and Eastern Africa:* Phase I tested novel processing techniques suitable for rural conditions, for the transformation of perishable cassava roots into more shelf stable high value intermediate products, especially high quality cassava flour (HQCF); Phase II focus on value chain development for HQCF in Madagascar, Tanzania and Zambia, more efficient higher-scale processing technique for HQCF, and vigorous market expansion approaches.

FAO collaboration with CFC - examples

- *Regional Cashew Improvements Network for Eastern and Southern Africa:* 7 countries; improve quality and quantity of cashew nut production and add value through processing of raw nuts; enhancement of knowledge and technologies for production and processing; extension to small farmers
- *Pilot Project on Processing Fruit and Vegetable Chips Using Vacuum Oil-bath Dehydration Technology (VODT):* China*;* capacity building, market development and institutional change to adopt the VODT; facility established in China will be technological training centre, new product development centre and integrated VODT adoption dissemination centre.

Mr. Tariq Al Zadjali
Director-General,
Arab Organization for Agricultural Development (AOAD)

Ladies and Gentlemen,

I am pleased to address this session, which focuses on commodity processing productivity enhancement and its constraints.

To begin with and perhaps for the sake of some of the participants, it may be important to say that, the Arab Organization for Agricultural Development, for which I am the Director General, is regarded as an Arab Organization responsible for development of agriculture in the region, and has been operating since 1972.

According to its mandate, it has done a lot to help its member countries to strengthen their agriculture sectors, through rendering institutional supports, improving productivities of major food commodities, bridging food deficit gaps by adopting simple technologies that suit the small-scale farmers who represent 60% of the total population working in the field of agriculture in the region.

Before going into details of AOAD's endeavors oriented to productivity enhancement through adoption of appropriate technologies that help adding value to agricultural commodities produced by small farmers, it would be important to start with the status of the current situation of Arab agriculture, which reveals the following facts:

- The value of the Arab Agricultural Product (AGP) amounts to about 90.9 billion dollars, which represents about 6.2% of the Gross Domestic Product (GDP).
- Total cultivated area in the Arab region is about 71.24 million hectares, of which 20% is under irrigation. It is worth mentioning that The average per hectare productivity in the Arab region is about 60% of that of the world average.
- The Arab region is considered as the most arid region of the world, with an average per capita water share less than 1000 m^3. Furthermore, the efficiency of water use in agriculture is not more than 60%, and the area under modern irrigation systems is less than 5% of the total irrigated area. It is worth emphasizing that 70% of the water sources in the Arab countries come from countries out of the region, which is an important issue to be considered in the Arab Agriculture.
- The rural population represents about 44% of the total population, while the agricultural labor force accounts for about 28.4% of the total labor force.
- The rural poor in the Arab region is about 35 million, representing 44% of the total rural population, and about 66% of the total poor (rural and urban).
- Application of modern technology in Arab agriculture is inadequate as indicated by the following:

    - The use of improved seeds covers only about 30% of the cultivated area.
    - The use of agricultural mechanization is relatively poor, as only 8 tractors per thousand hectares are used, compared to about 18 tractors per thousand hectares at the world level.
    - Fertilizers' use does not exceed the rate of 51 kilograms per hectare, compared to an average world level of about 91 kg per hectare.

- Limited use of biological control and prevention methods.
- Post harvest practices are fairly poor, as the post harvest losses are estimated at about 25%.
- Poor marketing services.

- Weak role of farmers associations, especially small farmers, and related civil society organizations. Added to that is the weakness or absence of institutions dealing with strengthening the role of the private sector in agricultural development.
- The average percentage of investments directed to the agricultural sector in the Arab countries is less than 9% of the total investments, which indicates low attractiveness of the sector. Major reasons behind that are:

  - High risks and uncertainty.
  - Weak infrastructure particularly in countries with promising agricultural potential.
  - Poor rate of capital formation in the agricultural sector in general.

All these features and facts have severely affected the performance of Arab Agriculture which, in turn, resulted in a critical food security situation in the region, as revealed by the following indicators:

- The import bill of main food commodities is about 23 billion dollars in 2008, while the value of the exports amounts to 10.6 billion dollars.
- Self-sufficiency Ratios of the main food commodities are divided into three groups according to self-sufficiency ratios:

Groups of high self-sufficiency ratios:
- Fish (104%).
- Tubers (potato) (100%).
- Vegetables (102%)
- Fruits (96%).

Groups of medium ratios:
- Red meat (83%).
- Poultry meat (75%).
- Milk and dairy products (69%).
- Legumes (60%).

Groups of low ratios:
- Cereals (52%).
- Sugar (30.2%).
- Vegetable oils (30.3%).

The Development of the Food Processing Sector in the Arab Region

- Processing activities in the Arab Region include: food, chemicals, textile industries …etc. The contribution of food processing industry in the whole processing sector in the Arab Countries ranges between 6% to 64%.

- The value addition in manufacturing industries:

    - The Arab region has witnessed during the past five years a substantial increase in the added value of processing industry. However, the share of this sector in the Gross Domestic Product (GDP) has declined relative to the dominant extractive sector.
    - The total added value of the manufacturing sector in 2006 amounted to $ 120772 million compared to $ 107359 million in 2005, with an increase of about 12.5%.
    - The value added of manufacturing industries has experienced for a long period of time poor growth rates, but has greatly improved and tends to increase significantly since 2001.
    - The annual growth rate of the added value in processing industry for the period (1990 – 1995) was about 2.6%, but increased to about 3.5% for the period (1995 – 2000). Moreover, it has accelerated to reach 9.5% for the period (2001 – 2006). It seems that this dynamic increase has coincided with the rise in global demand for Arab products, and also due to the reform programs adopted by governments of the region to cope with the prevailing international developments in the processing industry.
    - The development of value addition in food industry in Arab countries during the period (2002 – 2006), is illustrated in the table below:

Table Reflecting the Development of the Value addition in Food Industry in The Arab Countries (2002-2006)

(Million Dollars)

Country	2002	2003	2004	2005	2006	Share of Food Processing in the Processing Industry	Average
Jordan*	139	113	130	155	162	23	140
Bahrain	65	68	69	84	102	6	78
Tunisia	633	773	940	917	973	19	847
Algeria	872	902	881	858	911	31	885
Sudan	1041	1191	1573	1914	1997	64	1543
Syria	363	497	582	597	612	22	530
Oman	150	179	199	203	210	7	188
Qatar	31	20	28	41	51	1.3	34
Kuwait	272	283	293	316	322	7	297
Egypt	4269	3471	3731	4100	4509	23	4016
Morocco	--		2035	2766	2892	33	2564
Yemen	352	406	551	599	753	50	532
Average	**805**	**779**	**989**	**1127**	**1212**	**32**	**982**

* Index numbers (1990=100%)
Source: Calculated from Arab Industrial Report 2007.

The Contribution of Processing Industry to the Gross Domestic Product of Arab countries

- Despite the development of value-added of the processing industry in Arab countries, the share of this sector in the GDP declined significantly in the recent years. Also its contribution to the economic growth in Arab countries has drastically declined in recent years, because of the increase in prices of raw materials.
- The persistence of modest share of the processing sector in the Arab GDP, indicates the difficulties faced by Arab countries in upgrading their production towards high value, and competitiveness. It was also noted that some Arab countries have not yet developed their own appropriate industrial infrastructures.

Determinants and Constraints of the Processing and Food Manufacturing Sector in the Arab Countries:

The most important of these constraints are:

- The slow implementation of the structural adjustments and economic reform policies.
- The low competitiveness of Arab industrial products due to customs and trade restrictions.
- The Poor governance, which hinders the development of industries and food processing projects.
- The limited involvement of the private sector in food processing industry.
- The small and medium-sized enterprises which represent more than 90% of the industrial sector in the Arab countries are facing variety of constraints that have slowed down its momentum and its expected role in the national economy in Arab countries. The most important of these determinants that hindered the development of the small and medium-sized enterprises are:

    - Inadequate finance and lack of transparency.
    - Apparent deficiency in information and databases.
    - Poor processing, technical development policies and poor levels of technology adoption.
    - Weak coordination between the industrial sector and other economic sectors.
    - Poor marketing and promotional facilities.
    - Scarcity and insufficiency of the economic and technical feasibility studies which should precede the proposed food processing projects.
    - Lack or poor export subsidies.
    - Poor governance in the conduct of management, in addition to lack of knowledge and information about the international standards and specifications of the international markets.
    - Lack of appropriate productivity improvement tools.
    - Lack of partnership between the public and private sectors.
    - Weak integration of youth and rural women in food processing industries.

AOAD Efforts in the Development and Promotion of Food Industry in the Region

Since its establishment in 1972 AOAD has been strongly concerned with the promotion of food industry in Arab countries. Its activities in this regard have been focusing on:

- Conducting studies and surveys to assess the available natural and agricultural resources.

- Preparation of appropriate food processing projects to guarantee high value addition for the locally produced food commodities at the level of small-scale producers. These include the processing of the following:

  - Milk, meat, and fish products.
  - Oil seeds.
  - Medicinal and aromatic plants.
  - Conversion of crop residues into animal feed.

- Supporting food processing projects of the vulnerable producers.
- Conducting export promotion activities in coordination with governments of the Arab countries.
- Preparation of pre- feasibility and detailed studies for the small and large-scale food processing projects, both at country and regional levels.
- Rendering institutional capacity building programs, especially in the fields pertinent to:

  - Food processing.
  - Post harvest operations.
  - Standard specifications and quality control measures.
  - Production of market oriented products.
  - Farm management and production systems.
  - Protected and non-traditional agriculture.
  - Good agricultural and manufacturing practices.
  - Pest and disease management.
- Preparation and implementation of agricultural extension programs to raise awareness among producers.
- Assisting Arab countries to comply with the international and regional agreements pertinent to agriculture.

Policies and options for boosting agro-industry and value addition in the Arab region

- Value is usually created by focusing on the benefits associated with the agribusiness products or services that arise from products' quality, form, place, time, and ease of possession.
- The main features and characteristics of the Arab Agricultural sector is the use of traditional practices to which low agricultural productivity and products competitiveness is attributed. Moreover, small producers comprise the majority of farmers in Arab countries.
- Due to the common weakness in value addition, marketing, and financial access the small-scale producers sell their products in raw forms at the local and nearby markets, because they lack links to trade, export, and manufacturing process. Accordingly, post-harvest losses and low farm gate prices are common for vegetables, fruits, milk and fish producers.
- Food value addition may represent a major tool that contributes to income generation, poverty alleviation, and food security enhancement in rural areas of the region. This could be accomplished by the establishment of small-scale food processing plants, and collection centers in rural areas, as well as encouraging agro-industry and food processing investments.
- It is worth mentioning that AOAD, together with the Arab countries, have long been engaged in assisting small producers to improve the quality of their products and promote value addition by adopting simple technologies that could be used in processing their raw products. In this respect, the most appropriate policies that could be recommended for

boosting agro-industry and food processing activities in Arab countries can include the following:

1. Boosting agricultural productivity:

The features of low agricultural productivity and traditional practices of Arab agricultural sector comprise both challenges and opportunities for agricultural development in the region. Accordingly, the Strategy for Sustainable Arab Agricultural Development incorporates a program for developing appropriate agricultural technologies. This program contributes to realizing the strategy's objectives relevant to increasing food production, in addition to increasing value addition and products competitiveness. Moreover, among the main components of the Emergency Program for Arab Food Security is improving productivity of main food commodities at the level of small producers. The implementation of such program is expected to successfully contribute to facilitating value addition, decreasing production costs, and improving producers income.

While the implementation of these programs calls for partnership of concerned international and regional development and financial institution, appropriate agricultural policies should also be advised to support their implementation. These policies include: Policies related to access to production inputs and appropriate technologies, research and extension policies,. price and marketing policies.

2. Improving and protecting internal markets:

Policies should be directed towards improving agricultural marketing structures and systems so as to ensure the continuity of value addition process, and accessibility to international markets.

In the context of ongoing WTO agricultural negotiations, developing countries must be able to implement measures to protect their internal markets from agricultural products sold below production costs, by self-designating and exempting from full tariff reductions. Developing countries should also have access to the Special Safeguard Mechanism, a tariff to protect their domestic markets from the disruptions caused by import surges of important agricultural commodities, as well as the volatility of world market prices.

3. Increase supports to small producers:

Supporting small producers is an effective way to reduce poverty, increase the amount and variety of food supplies in local markets, and enable poor women and men farmers to participate in markets in which they would otherwise be excluded. It is essential that credit and financial services be made available to poor and small farmers.

Access to crucial inputs, such as seeds, and fertilizers must be increased. Access to appropriate technologies, marketing facilities, information and communication services must also be enhanced. Small farmer associations and cooperatives have to be supported and strengthened so that they can collectively bargain for the supply of inputs, handling and marketing of agricultural products. Moreover they can negotiate fair prices.

4. Encouraging value added cooperatives in rural areas:

This helps small producers to get the required funds, training and enough leverage to negotiate attractive prices, in addition to improving their production systems and the processing and supply chain management.

Finally it gives me great pleasure to express my appreciation for the CFC efforts, which have been oriented to the same areas of interest that AOAD has long been working on, such as:

- Strengthening the role of small-scale producers.
- Promoting production of value added products in the Arab countries.
- Enhancing quality and safety of export products.

Environmental and social sustainability of commodity production and development.

Thanks.

League Of Arab States

Arab Organization For Agricultural Development

THE SITUATION OF AGRICULTURE & FOOD INDUSTRY IN THE ARAB COUNTRIES

Statement by:

Dr. Tariq Al Zadjali

Director General

Arab Organization for Agricultural Development

League Of Arab States

Arab Organization For Agricultural Development

Current situation of Arab agriculture:

- The Arab region is considered as the most arid region of the world.
- Total cultivated area is about 71.24 million hectares of which about 20% of land is under irrigation.
- Average per capita water share less than 1000 m3.
- The efficiency of water use in agriculture is about 60%.

League Of Arab States

Arab Organization For Agricultural Development

- The area under modern irrigation systems is about less than 5% of the total irrigated area .
- About 70% of the water resources in Arab countries come from countries out of the region.
- The average per hectare productivity is about 60% of the world average.
- The value of the Arab Agricultural Product (AGP) is about 90.9 billion dollars, (6,2%) of (GDP).

League Of Arab States

Arab Organization For Agricultural Development

- The rural population represents about 44% of the total population.
- Agricultural labor force accounts for about 28.4% of the total labor force.
- The rural poor in the Arab region is about 35 million, representing 44% of the total rural population, and about 66% of the total poor (rural and urban).

League Of Arab States

Arab Organization For Agricultural Development

Application of modern technology in Arab agriculture

- Improved seeds covers only 30% of the cultivated area.
- 8 tractors per 1000 ha are used, compared to 18 at the world level.
- Rate of fertilizers use is about 51 kg/ha, compared to an average world level of about 91 kg/ ha.
- Limited use of biological control and prevention methods.
- Post harvest practices are fairly poor,(losses about 25%).

League Of Arab States

Arab Organization For Agricultural Development

- Poor marketing services.
- Weak role of farmers associations.
- Investments in agricultural sector is less than 9% of the total investments, due to:
  - High risks and uncertainty.
  - Weak infrastructure in countries with promising agricultural potential.
  - Poor rate of capital formation in the sector .

League Of Arab States

Arab Organization For Agricultural Development

Food Production and Trade

- Import bill of main food commodities is about $23 billion in 2008.

- Value of the exports amounts to $10.6 billion .

- Self-sufficiency Ratios of the main food commodities are divided into three groups:

Group of high self-sufficiency ratios:

Fish (104%).
Tubers (potato) (100%).
Vegetables (102%)
Fruits (96%).

League Of Arab States

Arab Organization For Agricultural Development

Group of medium ratios:

- Red meat (83%).
- Poultry meat (75%).
- Milk and dairy products (69%).
- Legumes (60%).

Group of low ratios:

-Cereals (52%).
- Sugar (30.2%).
- Vegetable oils (30.3%).

League Of Arab States

Arab Organization For Agricultural Development

Development of Food Processing Sector in Arab Region

- Total added value of the manufacturing sector increased by 12.5% between 2005 – 2006.

- The value added of manufacturing industries has experienced for a long period poor growth rates, but has greatly improved and tends to increase significantly since 2001.

- Annual growth rate of added value in processing industry for the period (1990 – 1995) was 2.6%.

- The rate increased to about 3.5% for the period (1995 – 2000)and to 9.5% for the period (2001 – 2006).

League Of Arab States

Arab Organization For Agricultural Development

The Development of the Value addition in Food Industry in The Arab Countries (2002-2006)

Country	2002	2003	2004	2005	2006	**Share of Food Processing in the Processing Industry**	**Average**
Jordan*	139	113	130	155	162	23%	140
Bahrain	65	68	69	84	102	6%	78
Tunisia	633	773	940	917	973	19%	847
Algeria	872	902	881	858	911	31%	885
Sudan	1041	1191	1573	1914	1997	64%	1543
Syria	363	497	582	597	612	22%	530

League Of Arab States

Arab Organization For Agricultural Development

The Development of the Value addition in Food Industry in The Arab Countries (2002-2006).

Country	2002	2003	2004	2005	2006	**Share of Food Processing in the Processing Industry**	**Average**
Oman	150	179	199	203	210	7%	188
Qatar	31	20	28	41	51	1.3%	34
Kuwait	272	283	293	316	322	7%	297
Egypt	4269	3471	3731	4100	4509	23%	4016
Morocco	--		2035	2766	2892	33%	2564
Yemen	352	406	551	599	753	50%	532
Average	805	779	989	1127	1212	32%	982

League Of Arab States

Arab Organization For Agricultural Development

The Contribution of Processing Industry to GDP in Arab countries

- Despite the development of value-added of the processing industry in Arab countries, the share of the sector in the GDP declined in the recent years.

- The modest share of the processing sector in the Arab GDP indicates the difficulties faced by Arab countries in:
  - upgrading their production towards high value products.
  - Poor industrial infrastructure.

League Of Arab States

Arab Organization For Agricultural Development

Determinants and Constraints of the Processing and Food Manufacturing Sector in Arab Countries

- Slow implementation of the structural adjustments and economic reform policies.

- Low competitiveness of Arab industrial products due to customs and trade restrictions.

- Poor governance, which hinders the development of industries and food processing projects.

- Limited involvement of the private sector in food processing industry.

League Of Arab States

Arab Organization For Agricultural Development

Constraints Facing small and medium-sized Food processing Enterprises

- Inadequate finance and lack of transparency.

- Apparent deficiency in information and databases.

- Poor processing, technical development policies and poor levels of technology adoption.

- Weak coordination bet. the industrial sect. &other economic sectors.

- Poor marketing and promotional facilities.

- Scarcity and insufficiency of the economic and technical feasibility studies which should precede the proposed food processing projects.

League Of Arab States

Arab Organization For Agricultural Development

- Lack or poor export subsidies.
- Poor governance in the conduct of management.
- Lack of knowledge and information about the international standards and specifications of the international markets.
- Lack of appropriate productivity improvement tools.
- Lack of partnership between the public and private sectors.
- Weak integration of youth and rural women in food processing industries.

League Of Arab States

Arab Organization For Agricultural Development

AOAD Efforts in the Development and Promotion of Food Industry in the Region

- Since its establishment in 1972 AOAD has been strongly concerned with the promotion of food industry in Arab countries.

- Its activities in this regard have been focusing on:
    - Conducting studies and surveys to assess the available natural and agricultural resources.
    - Preparation of appropriate food processing projects to guarantee high value addition for the locally produced food commodities at the level of small-scale producers. These include the processing of the following:
        - Milk, meat, and fish products.
        - Oil seeds.
        - Medicinal and aromatic plants.
        - Conversion of crop residues into animal feed.

League Of Arab States

Arab Organization For Agricultural Development

- Supporting food processing projects of the vulnerable producers.
- Conducting export promotion activities in coordination with governments of the Arab countries.
- Preparation of pre- feasibility and detailed studies for the small and large-scale food processing projects, both at country and regional levels.
- Rendering institutional capacity building programs, especially in the fields pertinent to:
  - Food processing.
  - Post harvest operations.
  - Standard, specifications and quality control measures.
  - Production of market oriented products.
  - Farm management and production systems.
  - Protected and non-traditional agriculture.
  - Good agricultural and manufacturing practices.
  - Integrated pest and disease management.

League Of Arab States

Arab Organization For Agricultural Development

- Preparation and implementation of agricultural extension programs to raise awareness among producers.

- Assisting Arab countries to comply with the international and regional agreements pertinent to agriculture.

League Of Arab States

Arab Organization For Agricultural Development

Policies and options for boosting agro-industry and value addition in the Arab region

1- Boosting agricultural productivity

2- Improving and protecting internal markets

3- Increasing supports to small producers

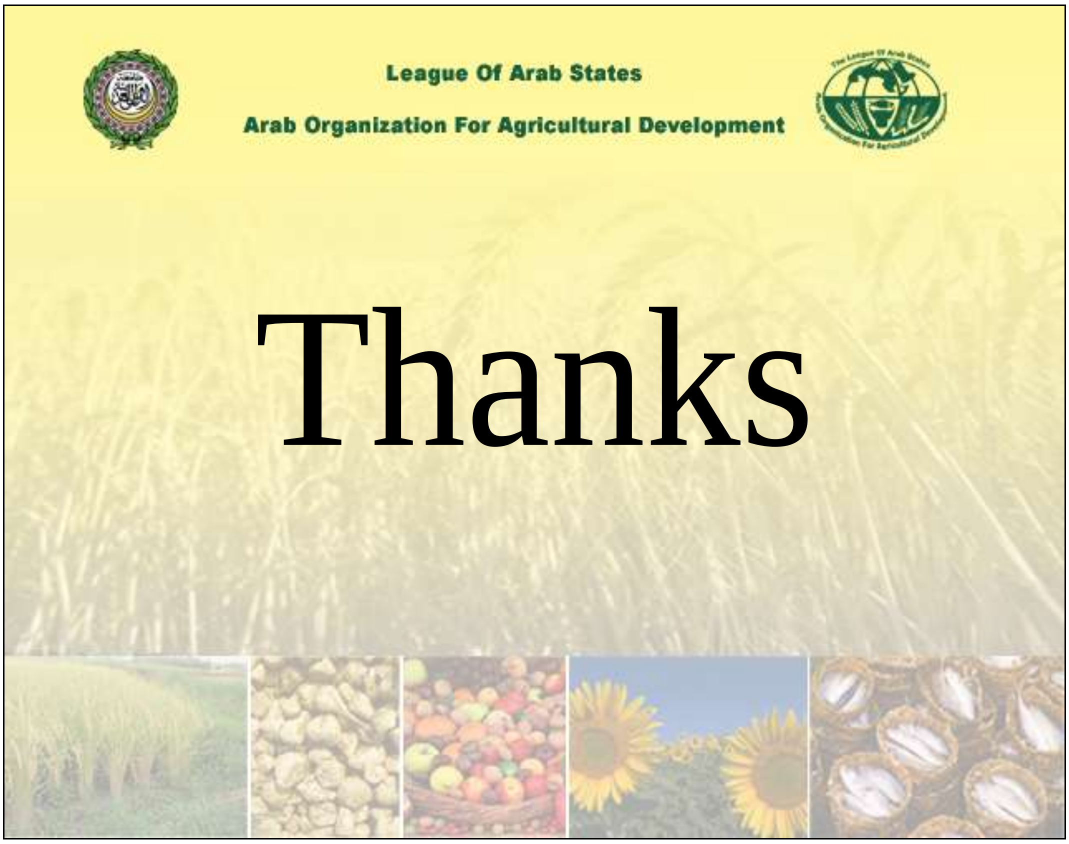
4- Encouraging value added cooperatives in rural areas

League Of Arab States

Arab Organization For Agricultural Development

Finally it gives me great pleasure to express my appreciation for the CFC efforts, which have been oriented to the same areas of interest that AOAD has long been working on, such as:

- Strengthening the role of small-scale producers.
- Promoting production of value added products in the Arab countries
- Enhancing quality and safety of export products. .
- Environmental and social sustainability of commodity production and development.


League Of Arab States
Arab Organization For Agricultural Development
Thanks

Session 3: Price Volatility and Market Development

Mr. Supachai Panitchpakdi
Secretary-General
United Nations Conference on Trade and Development (UNCTAD)
Statement delivered on his behalf by
Mr. Kwabena Baah-Duodu
Senior Advisor to the Secretary-General

Mr. Chairman,
Excellencies,
Ladies and Gentlemen,

Permit me at the outset to congratulate the CFC and its Managing Director, Ambassador Mchumo, on the 20th Anniversary of the Fund. It is an honour to represent UNCTAD here today, 20 years after the "establishing agreement" of the CFC entered into force, and having emerged from deliberations that took place at UNCTAD.

Historically, commodity prices have been subject to a cyclical pattern of rising and falling prices with a general tendency towards a downward trend. These price cycles have also been uneven, with boom periods shorter than slumps. Furthermore, long-term trends show that prices for primary commodities have fallen further relative to prices of manufactured goods. After what has become known as the 'secular decline in commodity prices' during the 20th century, the reversal in trend that began in 2002 was therefore welcomed by commodity stakeholders. Although prices fell sharply from their unprecedented high levels in the first half of 2008, they have since remained at much higher levels than before 2002.

Price volatility is an inherent aspect of commodity markets and is detrimental to both commodity exporting and commodity importing developing countries for three main reasons. *Firstly*, price volatility - and fluctuating revenues - distort government attempts to plan ahead. Furthermore, in commodity importing countries, fluctuating prices of commodities make it difficult to allocate foreign exchange efficiently for the payment of imported foodstuffs and agricultural inputs.

Secondly, in agricultural commodities, markets seldom reach equilibrium where supply perfectly matches demand. Time lags between the planting and the harvesting seasons mean there is often a situation of oversupply or shortage. This contributes to difficulties for farmers in making optimal production and investment decisions. Due to different supply side constraints, the same time lags also apply to minerals and metals production. Investment expectations driven by high prices may change completely when a mine becomes operational, and prices have perhaps fallen.

Thirdly, high volatility is associated with higher risk and therefore has negative implications for investment as well as the likelihood of adoption of new technology by farmers, most of whom are risk averse in low-income developing countries. In the case of investment, high levels of unpredictability in commodity markets also contribute to the perception by banks and other financial institutions that the commodity sector is high risk. Similarly, the relatively low adoption of technology in some countries, particularly in Africa, has, in part, been explained by high price volatility in commodities. For example, it is difficult to convince a Robusta coffee farmer of the usefulness of investing in a costly variety of fertilizers when world market prices for Robusta coffee beans moved between 40 percent and 195 percent of the average between 1983 and 1997.

This difficult environment has recently been exacerbated by a number of new developments in international commodity markets, including within the commodity value chain. The most notable of these is the higher number of institutional investors on commodity exchanges, and the increased horizontal concentration and vertical integration of multinational firms within the value chain of specific commodities.

Let me briefly say a few words about each of these new developments. Financial derivatives play a role in providing commodity stakeholders with hedging and speculative opportunities. However, in the wake of the food and global financial crises, the extent to which farmers, especially small scale farmers in low-income commodity dependent developing countries, might have benefited from these financial instruments is now open to question.

First of all, farmers in these countries have remained poor and vulnerable. Poverty has been on the increase in rural areas and likewise, so has food insecurity, particularly in the aftermath of the 2008 food and energy crisis. It is estimated, for example, that 100 million people were food insecure in 30 countries, following these crises.

This situation points to the failure of sophisticated hedging instruments to protect small-scale farmers and support food security. They were also left out of the huge profits generated on commodity futures markets. The greater divergence between spot and futures prices that can be witnessed on these markets also suggests that futures markets are not perfect hedging mechanisms for producers. In addition, the rapid changes in market prices make it difficult to ascertain correct price signals, and this can lead to an inefficient allocation of resources.

Some economists are skeptical of the existence of a link between recent commodity price developments and the large inflow of speculative funds to commodity futures markets. Admittedly, there is no rigorous econometric evidence suggesting a relationship between the increase in the number of outstanding futures and option contracts up to mid-2008 and the subsequent increases in commodity prices. However, the correlation between the presence of large financial investments in commodity markets and the developments that we have seen thereafter cannot be ignored. In other words, in addition to factors ranging from weather-related crop failures, increased demand from emerging countries and government support for biofuels, the presence of more speculative funds on commodity futures exchanges could have contributed to higher price volatility on spot markets.

In parallel to the growing interdependence between financial and commodity markets, major international commodity traders have become more concentrated. As a result, most commodity markets now have oligopolistic or oligopsonic structures in which a few vertically integrated transnational companies (TNCs) have consolidated their positions in Global Value Chains. This has given TNCs greater bargaining power and has resulted in buyer-driven commodity spot markets. The impact of such a concentration on distribution is also reflected in the widening gap between retail and producer prices.

How could producers, particularly poor farmers in developing countries, manage these uncertainties? How could they strengthen their bargaining power?

Historically, measures were taken at both the national and international levels to stabilize prices. For example, in many developing countries public commodity marketing boards, buffer stocks and export quotas were used to regulate prices. Equally, at the international level, there were many attempts both by Commodity Dependent Developing Countries and the international community at large, including through UNCTAD's Integrated Program on Commodities (IPC), to establish price management mechanisms. Since the abolition of all these price stabilization schemes, the market has played a key role in influencing commodity prices. But, as we have seen in recent months, the market mechanism has not been an effective instrument for price stabilization.

The question remains, therefore, what can be done to reduce the detrimental impact of high price volatility?

Firstly, the multilateral trading system must operate in a "fair" way, that takes due account of the development interests of poorer countries. Market distortions and market access barriers must be eliminated. Developed countries must eliminate their export subsidies and allow the market to operate more freely. In terms of negotiating strategies, developing countries should act in concert to articulate their needs and requests in trade negotiations.

The issue of tariff escalation must also be tackled because higher tariffs at higher levels of the processing stage have hindered developing countries' ability to move up the value chain. A fairer multilateral trading system also means reversing the trend in the use of non-tariff measures (NTMs), such as over-demanding technical standards (TBT) and health and sanitary regulations (SPS).

Secondly, there is a need to increase support to the agricultural sector in developing countries, to enhance countries' supply capacities in existing primary commodities and help them diversify their production and exports. Similarly, the international community should continue to support the Aid for Trade Initiative, which will help developing countries strengthen their productive and export capacities.

Thirdly, and perhaps most important in the light of multiple crises in the past year, there is a need to collectively address the need for regulating the operations of speculative funds in commodity markets. The recent financial crisis has taught the world that the free reign of markets does not necessarily lead to positive development outcomes. Current discussion of the greater monitoring and regulation of financial markets should be turned into meaningful reform, which can ultimately protect the poor and vulnerable. Given the linkages I have highlighted earlier, financial reform could have tremendous implications for the commodity sector.

And finally, whilst the international community ponders the best way to collectively assist Commodity Dependent Developing Countries in dealing with price volatility, farmers are left with the day-to-day business of managing risk and uncertainty. Financial risk management instruments, such as derivatives, have been available on exchanges for some time. However, financial capital, specific know-how, and the strengthening of regulatory and legal frameworks and institutions are critical to making use of these instruments. The absence of these pre-requisites has generally resulted in the non- (or under-) utilization of these instruments by farmers in several commodity dependent developing countries. To address some of these capacity constraints, UNCTAD recently held a meeting, in Zambia, on enhancing the functioning of commodity markets through the use of market based tools for the Eastern and Southern African region. UNCTAD has also held such meetings for cotton and coffee production and also for the broader global commodity sector.

It is through such gatherings that commodity stakeholders can take control of their product, start to find ways to tackle price volatility and provide recommendations for the commodity sector in their regions. In all these meetings, participants have called for greater financial support and technical assistance from the international development community to support the development, training, and the use of these instruments. This is perhaps one way to even the playing field and begin to combat the effects of commodity price volatility on developing country producers and consumers.

Mr. Shishir Priyadarshi
Director, Development Division
World Trade Organization (WTO)

It is a great pleasure for me to be here today and to represent the WTO at the 20th Anniversary of the Common Fund for Commodities.

The commodities issue is certainly not new. The problems faced by commodity-dependent exporting countries have been known for decades, and important and valuable work on this issue has been undertaken by several institutions. While taking note, and appreciating the work done by others, especially UNCTAD, I will focus mainly on the developments that have taken place in the WTO since this issue was introduced into the discussions there.

The commodities issue was brought to the WTO in 2003, when Kenya, Tanzania and Uganda submitted a paper in the WTO's Committee on Trade and Development – the CTD – calling for "urgent action in the WTO" to deal with the problems faced by commodity-dependent exporting countries. They asked WTO Members to consider ways of assisting those Members which are highly dependent on certain commodity exports, primarily agricultural products. On the basis of the discussion that took place in the CTD, the African Group of countries took the commodities issue into the Doha Round of negotiations. At present, it is very much a part of the discussions related to the agriculture negotiations.

As a general observation, let me say that all three pillars of the agriculture negotiations – export competition, domestic support and market access – are in principle relevant to commodities. Many of the trade-related concerns of agricultural commodity exporters in developing countries should, therefore, get addressed in the agricultural negotiations.

In fact, thanks to the efforts of some developing country WTO Members – particularly the African countries – the commodity issue, has been effectively highlighted in the negotiations, as an issue needing particular attention. An indication of their success in bringing commodities to Members' attention lies in the simple observation that the subject of commodities was not specifically mentioned in the Doha Declaration. On the other hand, there is a full paragraph on the subject in the Hong Kong Ministerial Declaration of 2005. This recognition by WTO Members of the commodities problem can be seen as a major achievement.

Let me now briefly outline some specificities relating to commodities, as they are reflected in the latest version of the draft modalities on agriculture, which was issued in December 2008.

Tariff escalation has hindered many countries in their efforts to move up the value chain. Through the use of the so-called tiered formula in the Doha Round's agriculture negotiations – with which tariffs in higher ranges will be cut by a greater percentage than tariffs in lower ranges – much of the tariff escalation issue will be addressed. In the possible event that all the adverse effects of tariff escalation for commodities are not to be eliminated via the tiered formula, the draft modalities also call on Members to engage with commodity-dependent producing country Members to ensure satisfactory solutions.

The draft modalities also call for provisions to be made for suitable procedures for negotiations on the elimination of non-tariff measures affecting trade in commodities, which, it is recognised, often act as significant barriers to developing countries' exports.

In addition, African countries have raised concerns with respect to existing WTO rules related to commodities, asking that these be clarified. In response to this, the draft modalities specify, *inter alia*, that action for negotiations and adoption of intergovernmental commodity agreements may be taken either jointly by producing and consuming countries, or by commodity-dependent producing countries only. I believe that such proposed clarifications to the WTO's rules will go far in addressing some longstanding concerns of commodity exporting countries.

It is also important for me to make a point on the need for technical and financial assistance for commodity producing developing countries to help them improve their productive capacities, to add value to their agricultural products, to help them diversify and to help them build their trade related infrastructure. Broadly speaking, this can be placed within the ambit of Aid for Trade. Simply put, Aid for Trade aims to help developing countries, particularly least-developed countries, develop the trade-related skills and infrastructure that is needed to implement and benefit from the WTO agreements and to increase their participation in international trade. Aid for Trade – which was brought into the work programme of the WTO on the basis of the Hong Kong Ministerial Declaration of 2005 – is not meant to be a substitute to the development benefits that will result from a successful conclusion to the Doha Round, particularly in regard to market access, but it will be a valuable complement to the Round.

Mr Chairman let me conclude by saying that the discussion in the CTD has helped WTO Members to appreciate not only the trade-related issues surrounding commodities, but also the broader development concerns of commodity-dependent countries, including production and diversification, and global attempts to improve the overall quality of commodities and add value. Debates in the CTD have taken place mainly in the context of presentations by WTO Members and the relevant international organizations, outlining their experiences or work in the area of commodities.

These presentations in the CTD have also made it clear that the commodities issue is essentially a development issue, and therefore must be addressed in a holistic manner. The WTO cannot solve all problems related to commodities. The WTO's contribution will come mainly through a successful conclusion of the Doha Round, as well as through its coordinating role in the Aid for Trade initiative. However, it is only through collaboration between key players – including national governments and domestic farming cooperatives, civil society organizations, international organizations and the private sector – that a long-term solution to the commodities problem can be found.

Thank you for your attention.

Mr. David Luke
Senior Advisor and Coordinator
Geneva Trade and Human Development Unit
United Nations Development Programme (UNDP)

Commodity Development Strategies in the Integrated Framework

CFC 20th Anniversary Seminar
The Hague, 14 December 2009

David Luke
Senior Adviser, Trade and Human Development Unit, UNDP

Overview of the presentation

1. Integrated Framework and DTIS
2. Commodity *Problématique*
3. DTIS Analysis :
   - Objectives
   - Methodology
   - Findings
   - Recommendations

Integrated Framework

Partnership of six agencies, donors and LDCs

The IF aims

•to "mainstream“ trade into national development plans of LDCs;

•to assist in co-ordinated delivery of trade-related technical assistance in response to needs identified by the LDC,

•to promote integration of LDCs into the global economy

Integrated Framework

Systematic approach to trade capacity building, primary tool: ‘Diagnostic Trade Integration Study’ (DTIS).

DTIS: address trade development needs and seek to identify ways countries can improve linkages between trade and poverty reduction strategies.

Not designed specifically to develop commodities.

Commodity *Problématique*

Primary commodities

- Major source of income and employment, especially for LDCs
- Countries dependent solely on primary agricultural commodities rank low on the Human Development Index (HDI)
- Volatility of prices, changes in demand
- High demand – gains not evenly distributed

Commodity *Problématique*

Primary commodities

- Potential for poverty reduction, esp. of small farm producers and women
- Poverty reduction through development of commodity sector and transition up the production ladder
- Commodity development strategy – address supply side and value chain issues and inadequate diversification of production
- In the past - emphasis on trade in primary commodities at the cost of industrial development

Analysis

Analysis of existing DTISs of the IF with reference to commodity diversification, value addition and industrial development.

National focus.

Global trade issues such as market access not examined.

Analysis

Objectives

Assess whether/ to what extent supply side constraints, diversification, value chain creation and backward and forward linkages for industrial development have been addressed in DTIS.

- Analysis of different stages of the commodity chain
- Focusing on actors at each stage, policy makers, institutions and entrepreneurs
- Identify areas for further action

Analysis - Methodology

Set of criteria developed spanning supply side (domestic production capacities) and value chain (trading capacities) issues.

Analysis - Methodology

Criteria of supply-chain analysis:

- Infrastructure issues:
  - warehousing and storage (cold chains)
  - electricity
  - IT and telecom
  - transportation
- Production of primary commodity inputs: productivity improvements, technology inputs, management know-how, skills development of workforce, gender particpation

Analysis - Methodology

Criteria of value-chain analysis:

- Processing production inputs (primary and secondary)
- Standard setting (creating, adopting, implementing)
- Quality culture (general awareness and demand for quality products)
- Quality infrastructure (laboratories, accrediation facilities, personnel training)
- Distribution system (including marketing- and export-promotion services)
- Business linkages (availability and conditions for joint ventures, franchising, credits, financial serives)
- Pricing mechanisms (existence of commodity boards, futures trading)
- Investment climate (regulations on competition rules, repatriation of profits)
- Social and environmental sustainability

Analysis - Methodology

Criteria integrated into a Commodity Development Matrix in which relevant information from each DTIS recorded and analyzed.

Commodities listed separately at 3 levels of intervention:

- Policy
- Institutional actors
- Enterprise development

Country Commodity Development Strategy Map

COUNTRY: BENIN

Commodities: 1. Cotton 2. Cashew nuts 3. Pineapple 4. Shrimps & fish

CRITERION	POLICY				INSTITUTION				ENTERPRISE			
	1	2	3	4	1	2	3	4	1	2	3	4
Warehousing and storage												
Electricity												
IT and Telecom												
Transportation												
Production inputs												
Processing the production inputs												
Standard setting												
Quality culture												
Quality infrastructure												
Distribution system												
Business linkages												
Pricing mechanisms												
Investment climate												
Social and environmental sustainability												

Key:
Shaded cells indicate correspondence of DTIS text with criterion
Blank cells indicate absence of DTIS text with respect to the criterion
Total no. of cells (No. of criteria x Levels of intervention x No. of commodities) = 14 x 3 x 4 = **168**
Correspondence of DTIS to the criteria = **26 (15%)**

Cross-country comparison - quantitative count of the distribution of references in the DTIS
→ nature and depth of analyses made within each country DTIS.

Analysis - Findings

DTISs have these characteristics:

1. Heterogeneous in-country approach to commodity development, across commodities

TABLE 4: TOTAL NUMBER OF OCCURRENCES BY SUPPLY AND VALUE CHAIN ACROSS ALL DTISs
(N = 29 countries x 42 cells = 1,218 cells)

	Warehousing and storage	Electricity	IT and Telecom	Transportation	Production inputs	Processing	Standard setting	Quality culture	Quality Infrastructure	Distribution System	Business linkages	Pricing mechanisms	Investment climate	Social and environ-mental sustainability
Total	21	11	2	36	77	47	44	17	44	60	30	45	40	58

Analysis - Findings

2. Heterogeneous between-country approach to commodity development
3. Policy oriented bias – long on policy recommendations and short on implementable actions

TABLE 6: TOTAL NUMBER OF REFERENCES MADE AT DIFFERENT LEVELS OF INTERVENTION WITHIN DTIS
(N= 29)

	POLICY	INSTITUTIONAL ACTORS	ENTERPRISE
Total number of references in all 29 DTISs	296	132	103
Average	10.2	4.6	3.5

Analysis - Findings

•Insufficient attention to the adequacy of the existing infrastructure

•Supply-side issues lack in depth analysis, commodities discussed more from a macro perspective

•Processing of primary commodities not linked to a comprehensive strategy for commodity development and diversification

•Systematic approach to building a quality culture (standard setting establishments and control mechanisms) is missing

•Need for personnel training broadly indicated only in some DTIS

•General recommendations in all DTISs directed towards increasing exports. Factors of supply production not given adequate attention.

Analysis - Recommendations

Policy recommendations

- Sensitize relevant ministries in LDCs about the need to develop integrated national policy frameworks for commodity-led growth strategies
- Implement policies to improve productivity, to create linkages between farming community, enterprises with universities and research entities
- Develop a viable programme for R&D to employ newer technologies to build competitiveness
- Create policy framework to facilitate dev of backward and forward linkages in production, processing, value addition and marketing
- Support local economic development and cluster initiatives
- Make quality a national priority
- Create sustainable regional partnerships for economies of scale

Analysis - Recommendations

Recommendations on institutional arrangements

- Need for supportive institutional framework comprising banks, commodity boards, donors and a dynamic public sector
- Development of cooperatives for ec of scale
- Development of functioning market information systems
- Institutions in charge of competition policy, SME development etc

Analysis - Recommendations

Recommendations on enterprise participation

- Strenghten producer`s organizations, use them for information dissemination
- Develop consultative strategies to inform Government
- Mobilize enterprise inputs to identify areas of value addition
- Encourage participation of enterprises in policy dialogue
- Raise awareness of the enterprises of their social and environmental impact

Thank you

david.luke@undp.org

http://www.undp.org/poverty/
http://www.undp.org/geneva/index.html

Session 4: International Commodity Governance and the Role of International Commodity Bodies (ICBs)

Ms. Elisabeth Tankeu
Commissioner
Trade and Industry, African Union (AU)

Mr. Chairman,

Allow me first of all to express our sincere thanks to the Managing Director of the Common Fund for Commodities (CFC) for having associated the African Union (AU) with these strategic deliberations on commodities in this context of world economic crisis, so far dominated by ultra-liberalism.

I should also like to take this opportunity to convey the profound gratitude of the AU to the CFC for having helped to provide Africa with a collective framework for engagement with respect to commodities: I am referring here to the Arusha Declaration and Plan of Action adopted in November 2005.

The African Union is following with keen interest the current debates on the reconfiguration of the institutions of world economic governance, since the market economy spiralled out of control, giving rise to several crises.

The AU is happy to take part in this meeting in order to remain proactive alongside the leaders of some bodies that serve as an interface between commodity producing and consuming countries.

The AU was thus keen to participate in this meeting, as commodities are central to the development process in most of Africa's producing countries. The achievements of the AU in this realm range from organizing the producing countries, forging solid partnerships with other world regions, to the formulation of common positions on matters of vital interest to Africa.

I shall begin on a somewhat provocative note. The international commodity bodies, whose role has been confined to gathering and disseminating information useful for decision-making purposes and for the formulation of strategies that reflect the interests of producers and consumers, have undoubtedly helped achieve greater market transparency. Yet their presence on this market did not avert the food crisis, which has triggered food riots in many countries. It could even be said that the signals provided by these organizations have been of great service to speculators: 30 per cent of the increase in commodity prices is thought to be attributable to speculation. The commodity market has witnessed no long-term price stability but instead is constantly plagued by volatile prices. Demand in some sectors of this market still remains under the control of oligopolies, which at times manipulate information and organize speculation. Being completely unorganized, smallholder producers are still powerless against these oligopolies. At the same time, other market segments not controlled by these giants are emerging as growth niches for producers.

The WTO negotiations on agricultural goods and on commodities in particular (cotton, bananas) are extremely arduous.

By their very nature, commodities can only obey market rules when they are supported by price stabilization mechanisms. A clear example of this is the way the European agricultural market is organized. These mechanisms have indeed led to overproduction from time to time, with the well-known consequences of surpluses that are exported at dumping prices.

At a time when market forces have shown their limitations, when the international community is considering is the Green New Deal for an equitable economy, the context is crucial for deliberations of this kind.

The countries producing commodities with high market demand must be able to develop their own value chains to meet consumer demand for finished goods. To that end, some commodity bodies will always have a place on this market for the purpose of properly regulating supply and demand. Moreover, the producing countries themselves should develop their own consultation mechanism so as to adequately meet demand while avoiding suicidal competition.

The Regional Economic Communities (RECs) should play a leading role in establishing regional value chains, in formulating supply strategies to meet demand, and in building human and institutional capacities for market access:

- In this field, the AU and RECs are currently developing the market access capacities of producers and exporters;
- the AU is supporting the countries and RECs in setting up their commodity exchange;
- it is also at REC level that the AU provides support for organizing producers.

To conclude, Mr Chairman, poverty eradication in the countries of the South and the attainment of the Millennium Development Goals will depend on the solution provided by the international community to the problems bound up with commodities. Our expectations from the international community in the framework of the talks on the New Deal for a green and equitable economy include the supply of clean technologies to African countries for the local processing of commodities. Furthermore, pressure should be exerted on the oligopolies in the North to relocate and thereby enable the producing countries to benefit, considering the additional environmental cost of the excessive movement of goods, which is hardly sustainable. This is only way for the world to achieve stability, fairness and justice.

This solution is within the reach of the international community. Aid for trade combined with the fund to be set up in Copenhagen to reconvert the "grey" economy into the "green" economy through development banks, cooperation agencies and commercial banks will have to play a part in financing:

- The acquisition of clean technologies
- the development of production capacities
- the formation of market access capabilities

In terms of world economic governance and in the context of the Green New Deal for the economy, which means reducing the environmental cost of economic activities, commodity producing countries should add value to their products in their own economies, bringing only finished goods to the market. This is the only way for producing countries to achieve prosperity, as is eloquently demonstrated by the case of Brazil.

Mr. Nestor Osorio
Executive Director
International Coffee Organization (ICO)

I. Introduction

1. Firstly, I should like to thank the Managing Director, Ambassador Alí Mchumo, and the members of the Common Fund for Commodities for hosting this important seminar and congratulate the CFC for the prominent role and effective support given to the International Commodity Bodies (ICBs) to tackle issues related to commodities.

2. I would also like to thank the Heads of ICBs for giving me the honour to speak on their behalf and thus represent a wide range of products, from grains to mineral ores and from cotton to tropical timber, before this distinguished gathering.

3. Over the last eighteen years, the commodity organizations have developed a close and constructive relationship with the CFC. The CFC has provided funding for more than 280 projects covering around forty commodities. These projects with a total value of over US$500 million, approximately 51% of which came from the CFC and the rest from bilateral and multilateral donor institutions in the form of co-financing, and from beneficiary countries in the form of counterpart contributions. This is a tremendous achievement for both the CFC and ICBs in fulfilling their mission to support commodity development.

4. Agricultural commodities continue to be at the heart of social and economic life in a great number of developing countries, in many cases affecting their very political stability. Dependence on a few commodities remains a constant factor in the developing world. In fact, some 38 Least Developed Countries (LDCs) depend on a single commodity for over 50% of their export revenues. These characteristics illustrate the need for institutions such as the CFC and ICBs.

II. Relevance and role of ICBs in a liberalised global economy

5. As we are all aware, most ICBs were established in a very different political and economic context to that which prevails today and initially had as their main role the regulation of the markets for their respective commodities. While the role of ICBs as market regulators is no longer relevant, these institutions are positioned to contribute positively to the development of commodity producing countries.

6. ICBs, which bring together all the major stakeholders in the respective commodity sectors in developing instruments for cooperation and specific initiatives, are firmly oriented towards development for the following reasons:

- The economic performance and development prospects of many developing countries are highly dependent on commodity production and exports. The heavy dependence of such countries on a few commodities has in general had an adverse economic impact, with harmful consequences for growth and the reduction of poverty.

- Commodities provide an important share of the export earnings of developing countries, and the large number of growers who depend on these products for most of their income have been hard hit by price volatility.

- By their very nature, the production of most commodities requires substantial amounts of labour. Commodities are a key source of rural employment and help discourage migration to cities that are already overcrowded and unable to absorb more people in a sustainable way. Within the framework of the fight against poverty in producing areas, ICBs are able, through development projects and other actions, to promote activities that can improve the livelihood of producers and thus living conditions in rural areas.

7. In defining and coordinating development initiatives, ICBs have the capacity to mobilize all stakeholders in the sector, and contribute their specialist knowledge of the issues concerning specific commodity chains that are highly complex in terms of the range of technologies and economic factors involved in production, trade and consumption.

8. Many ICBs have established mechanisms to integrate the work of the private sector in their activities, thus enriching the pool of knowledge and expertise. It is important, therefore, that they receive the necessary support to work effectively in pursuance of their goals. Herein lies the particular value of the approach of the CFC, which can address the specific characteristics of commodity issues through projects involving a range of countries rather than through the conventional model of projects involving donors and a single target country.

9. Cotton provides a good example of the need to take into account the specific features of each commodity. A project financed by the CFC to improve the marketing of cotton from zones with a reputation for "stickiness" has been highly effective, increasing the revenues of producers in Sudan and other African producing countries by approximately 10% a year, for an annual gain of approximately US$10 million.

10. I would also like to share with you the experience of bamboo. A project in East Africa, which is in its final stages, seeks to promote the development of the sustainable production and use of bamboo products, with a focus on markets as the driving force behind such development. The project is contributing to the reduction of poverty in rural, degraded and marginalized areas by turning bamboo – as a "pro-poor timber" into a cash crop for wood substitution creating rural and urban employment and value-addition, while preventing further deforestation. The project has trained over 1,500 people in Ethiopia, as well as establishing nurseries, a training centre, processing facilities and providing equipment. Nationally, the inherent economic value of bamboo plant is now recognized at all levels in Ethiopia, encouraging farmers to pay due attention to this resource.

11. ICBs also have a significant role in helping commodity dependent countries achieve the Millennium Development Goals. Problems related to rural development and poverty reduction remain closely linked to commodity trade issues.

12. In the specific case of coffee, it is becoming increasingly clear that the value chain is all too often skewed against producing countries and that growth in world consumption could be even more dynamic. The world coffee economy experienced the worst crisis in its history during the last decade, with low prices giving rise to growing levels of poverty, unemployment and social

unrest in producing countries. The International Coffee Organization worked not only to increase awareness of the problem in the global community but has also appealed to international cooperation agencies to collaborate with it in channelling efforts aimed at solving the problems created by the crisis, which have increasingly become problems of development rather than of the market. To this end, the ICO also contacted leaders of major multilateral institutions, coffee trade associations, and political leaders, which has led to a number of results.

13. The growing awareness of the problem in the international community together with the measures proposed by the Organization to address the market imbalance have generated widespread support at a conceptual level, but still need adequate funding to implement them effectively. I very much hope that the gap between conceptual agreement and incorporation of the necessary resources within development cooperation budgets can be reduced.

14. The challenge now is to build on these expressions of support to ensure that ICB initiatives receive the fullest possible support for them to be effective and that financial support is mobilized for development projects, in particular for those aimed at diversification and market development activities.

15. Meanwhile, many instances exist where the challenges faced by ICB stakeholders, especially smallholders, transcend the scope of any single commodity body. For this reason, ICBs welcomed proposals, which were discussed in a preliminary manner at the 16th Meeting between the CFC and ICBs held earlier this year, at INBAR in Beijing, to work together with the CFC to raise the global visibility of commodity issues. We look forward to continuing this dialogue and taking concrete steps to put this in practice.

16. There are common issues that are important for many - if not all - commodities in developing countries. By combining experiences and lessons learned, and coordinating communication about the subject, the CFC and the ICBs can increase their efficiency and raise a much stronger voice in the international arena.

17. One particular area where collaborative action may be fruitful is that of certification. While the demand of consumers for ‘fair’ and ‘green’ production and trade is understandable and justified, the requirements this may create, in particular for small producers, are often akin to unintended ‘non-tariff barriers’. At a workshop (Certification of Commodities: Opportunities and Challenges for the Rural Poor) held during the Beijing meeting, ICBs shared their experiences with each other, the CFC and experts from various certification schemes.

18. The meeting provided useful signposts for certification schemes in commodities and will help facilitate the full participation of smallholders, so as to ensure a more equitable playing field for the rural poor in commodity production and trading in the future.

III. **The regulatory role of National Commodity Boards and their interface with ICBs**

19. As with the ICBs themselves, the role of National Commodity Boards in producing countries has changed since the end of market regulation and increased liberalization from the late 1980s onwards. These developments have produced some significant benefits, particularly a boost in the proportion of the sales value (FOB price) that reaches producers. However, the last two decades have also brought problems in many commodities, such as reductions in yields and quality as a result of a decline in support and quality control services that used to be provided by

national authorities. Nonetheless, the National Commodity Boards continue to be important partners in activities of the ICBs.

20. In producing countries, the main beneficiaries of projects financed by the CFC, the following aspects underline the need for close collaboration between the ICBs and National Commodity Boards:

- Many commodity-producing countries are LDCs, and project activities favour targeting this category effectively since LDCs often require international assistance to tackle major commodity problems effectively. Indeed, the geographical breakdown of CFC projects reflects a definite priority given to LDCs.

- The main target groups of beneficiaries for commodity development projects represent the core constituencies of the National Commodity Boards and can be identified with reference to:

  (a) populations suffering substantial poverty;
  (b) populations and economies heavily dependent on a commodity;
  (c) areas where there are few viable economic alternatives to the commodity; and
  (d) areas where the commodity provides stable rural employment, where the alternative may be disruptive movements of population to urban areas, illegal emigration or cultivation of socially harmful products.

- The dedicated participation of National Commodity Boards in project implementation not only guarantees sustainability of the activities promoted by the project over time, but also represents an effective way of supporting capacity building at a national level and technology transfers between producing countries.

IV. Commodity strategy

21. The starting point for projects financed by the CFC is the definition of a clear development strategy for the commodity. This makes sense given the specialist expertise in each commodity held by the designated ICBs and the fact that they bring together major stakeholders and decision-makers. As the designated ICB for coffee, the ICO is also responsible for prioritization, formulation and supervision of projects and for seeking stakeholder, and, more particularly, target beneficiary participation. It is important to highlight that the key overall aim of the development strategy for any commodity should be to make a practical contribution to sustainable development and poverty reduction, giving due importance to the economic, environmental and social aspects of sustainability. Within this context, all projects are intended to be sustainable.

22. In the specific case of coffee, important aspects of the development of a coherent strategy include:

- The preparation of an ICO development strategy for coffee to provide a frame of reference for project activities. The strategy is periodically revised taking into due consideration both the priorities of the CFC and coffee development issues put forward by ICO member countries. On this basis, a set of areas for action is identified, discussed and approved by the International Coffee Council. Additional contributions are also obtained from the experience of concluded projects, suggestions arising from major events, such as periodic World Coffee Conferences, and surveys carried out on specific technical issues, such as diversification and sustainability.

- In general, projects sponsored by the ICO contribute to sustainable development and poverty reduction as they seek to:

  (a) encourage stability and reasonable living standards for those involved with coffee by securing adequate returns to producers, while ensuring that adequate care is given to maintaining quality rather than the volume of coffee produced;

  (b) encourage – without intervening in the market – the development of balance between supply and demand, particularly through developing consumption in areas such as the producing countries, where the private sector may not be able to act comprehensively by itself.

  (c) promote the use of environmentally friendly technologies, such as integrated biological pest control, throughout the production and processing chain;

  (d) assist in finding alternative sources of income in many coffee growing areas – in particular through diversification programmes (both horizontal and vertical) as part of the new strategic vision of the Organization to fight against poverty in coffee producing areas.

  (e) explore synergies and establish partnerships with other bodies promoting sustainability in order to avoid duplication of efforts.

- Establishment of guidelines for the prioritization of projects for which funding is sought. Particular emphasis has been given to the **supply chain concept**, which has been an essential element in project design, implementation and monitoring together with sustainable development and diversification.

- CFC action plans are developed in consultation with the ICBs. To help the CFC to develop its Five-Year Action Plan (FYAP) for 2008 to 2012 a number of consultations were held with ICBs, such as the CFC/ICO Forum on coffee development priorities in September 2006.

V. Market information

23. One particular area where ICBs provide relevant services is in assisting commodity producers to move up the value chain through the provision of market information. In today's world, commodity value chains are often characterized by a large number of smallholder producers on one side and a much smaller number of large traders, processors and retailers on the

other. These developments lead to a situation of information asymmetry, where an imbalance of power can sometimes skew transactions.

24. The supply of market information is made more challenging by the deficiencies in the collection, accuracy and dissemination of statistics in many commodity producing countries, especially LDCs. At the same time, value chains have become more complex, as shown by the increasing demand for niche products, such as those covered by certification and verification programmes, geographical indications and the like. These characteristics pose a particular challenge, since collection and analysis of statistics must go beyond the traditional emphasis on international trade flows, which are more readily measurable, and encompass all elements of the value chain. As we say in the world of coffee, we must go from "seed to cup".

25. In this respect, ICBs have an exceptional technical capacity to provide technical assistance to their member countries in order to improve their ability to furnish reliable statistics and are uniquely placed to enhance transparency by providing statistics, research studies and other information on the market for a specific commodity, thereby reducing transaction costs to the benefit of all members of the value chain and enabling economic decisions to be taken on the basis of timely and accurate data.

VI. Membership of ICBs and CFC

26. ICBs have developed a close and constructive relationship with the CFC in the last eighteen years by working closely to monitor and supervise the operational and financial side of projects. This mutual collaboration has yielded substantial knowledge and expertise for the benefit of their member countries. In particular, ICBs have developed effective selection mechanisms of proposals to be submitted for CFC consideration. ICBs also conduct continuous monitoring and supervisory field visits to ensure that successful results are obtained for subsequent replication and dissemination to other member countries.

27. More specifically, dual membership in the CFC and ICBs facilitates:

- consultation between producing and consuming countries on key issues to address by means of projects;
- mutual contributions to the development of policies and priorities relating to important objectives of the respective commodity sectors;
- strengthening of existing synergies between the Fund and ICBs, especially with regard to procedures for securing the effective use of the resources;
- access to co-financing from bilateral and multilateral donor institutions; and
- technology transfer between producing countries.

28. For the above reasons, ICBs support the general principle that dual CFC-ICB membership should constitute a pre-requisite for the participation of any country in projects.

VII. Conclusion

In conclusion, I would like to stress once more the high regard of ICBs for the CFC and the results of our mutual collaboration. The project work funded by the CFC is an essential part of the services ICBs render to their members. The challenges faced by the commodity sector are increasing in both scale and complexity. Climate change is one example of an area in which much work must still be done. Therefore, ICBs believe that ensuring the long-term financial sustainability of the CFC is a key element in addressing the problems faced by commodity producers. All ICBs look forward to continue working for many years with a strong and vibrant partner in the Common Fund for Commodities.

INTERNATIONAL COMMODITY GOVERNANCE AND THE ROLE OF INTERNATIONAL COMMODITY BODIES

The Role of Commodities in Development

CFC 20th Anniversary Seminar
World Forum, The Hague

14 December 2009

Néstor Osorio
Executive Director

Introduction

- Importance of commodities for developing countries
  - Generation of foreign exchange
  - Source of cash income to smallholders
  - Generation of rural employment, avoiding migration to cities
  - Part of complex supply chains

Relevance and Role of ICBs

- Bring together major stakeholders
- Define and coordinate development initiatives
- Integration with private sector
- Help achieve MDGs
- Raise awareness of commodity issues

Regulatory role of National Commodity Boards and interface with ICBs

- Changing role in liberalized economic environment
- Priority on LDCs
- Identify and target groups of beneficiaries
- Promote local "ownership"

Commodity strategy

- Defines frame of reference and priorities
- Emphasis on sustainable (economic, environmental and social) development and poverty alleviation
- Supply chain approach
- Interaction between ICBs and CFC

International Coffee Organization - www.ico.org

Market information

- Commodity value chains marked by asymmetry of information
- Deficiencies of data in producing countries
- Challenges in looking at entire value chain, need to go from “seed to cup”
- ICBs uniquely well-equipped to enhance market transparency for benefit of all

International Coffee Organization - www.ico.org

Membership of CFC and ICBs

- Relationship of ICBs and CFC is mutually fertile
- Dual membership faciliates:
  - Consultation between producing and consuming countries
  - Mutual contributions to setting prioirties
  - Strengthening of existing synergies
  - Access to co-financing
  - Technology transfer

Conclusion

- High regard of ICBs for CFC
- CFC project work is essential part of services rendered to ICB members
- Challenges growing in size and complexity, e.g. climate change
- CFC must have long-term financial sustainability


Thank you
International Coffee Organization - www.ico.org

Mr. Enzo Barattini
Deputy Head of Division
Directorate General for Development
European Commission (EC)

Mr Chairman,
Your Excellencies,
Mr Managing Director of the CFC,
Ladies and Gentlemen,

Introduction

It is a great pleasure and honor having been called to speak on the occasion of this important event represented by the 20th Anniversary of the CFC. As you know, in the field of Commodities, the Institution I represent, has been always present, considering this participation as a major contribution to development.

Today, I am particularly happy that the present Seminar coincides with an historical event that the European Union celebrates: the ratification and entry in to force of the Lisbon Treaty. This reform is the outcome of a period of reflection further to the acknowledgement of our Ministers that the challenges before the European Union would require additional Treaty changes. The Lisbon Treaty introduces a more democratic and transparent Europe with a strengthened role of the European and national Parliaments. The division of competencies and powers is stated more clearly with fields of exclusive competence, where the Union can act alone (competition rules for the functioning of the internal market, common commercial policy); fields of shared competence with the Member States (internal market, environment, transports) and fields where the role of the Union is limited to supporting coordination or complementary measures. This makes the EU more effective, with an improved ability to act in areas of priority for the today's Union.

What is said above has a direct repercussion on the role of the EU in the International Commodity Bodies as the participation of the EU –and not any more European Community- together with its Member States has been definitively defined. If the trade aspect is preponderant, the competence will be exclusive, otherwise the shared competence will continue to apply.

This has a direct link with the subject I am going to develop today, as the main argument I intend to deal with touches the evolution of the competencies of the European Commission and the Member States, at the level of commodities. The latter, I believe, represents one of the major achievements occurred during these 20 years in parallel of the CFC, which has characterized the field of commodities at the EU level.

Representation of the EU and Community Competence

International Cooperation in commodities was borne of a long and difficult process. What today has been definitively settled at institutional level was already initiated some years ago.

For the Governments participating to international commodity agreements, achieving the common interests inherent in the objectives has always entailed overcoming numerous national barriers.

For the EU, the experience has been one of gradual transition from national level to Community level. This process has been driven in the first instance by the law of the Community's fundamental Treaties, helped by the jurisprudence of the European Court of Justice. The transition has not been an easy one, as it has entailed reconciling decisions adopted in an international multilateral context, (within UNCTAD in particular) on the one hand, with the European law and the Member States' national competence, on the other.

Until a few years ago, what it was still Community's participation in international commodity agreements was always specially managed under arrangements, based essentially on political compromise. This approach was dictated by the fact that the mixed nature of participation in agreements concluded in international contexts, required pragmatism in the sharing of competence between the Commission, acting on behalf of the Community and the Member States within the Council.

Accordingly, what before 1981 was a situation where individual Member States were speaking and acting individually, after that date it is the Commission that gradually has spoken on behalf of all the Members. Positions were coordinated in advance within the Council, where decisions were taken jointly by all the parties: Commission and Member States, contributed in that way to the formulation of a joint position, voiced by the Commission' representative.

This compromise was not easy to reach; the stumbling block being the question of whether action in pursuit of the objectives of a specific international commodity agreement was fitting within the concept of commercial policy (implying the exclusive responsibility of the Community) or because of specific circumstances, falling within the direct competence of the Member States.

At origin, the answer to this question was based on the concept of mixed responsibility provided by an Article in the Rome Treaty, allowing for a joint action by the Community and its Member States. It was applied, in particular, to commodity agreements and combined trade and development aspects with financial aspects of a national competence. With the need to better define Community and national competences; this article was subsequently repealed by the Treaty of the European Union.

In these circumstances, participation by the European Community and Member States, while anchored in a political will, gradually came under renewed scrutiny as a result of the changes over time, in the nature of commodity agreements. As the latter became less and less like economic tools for achieving stabilization, what had been seen as a justification for mixed responsibility, gradually gave the way to instruments where the link between trade and development took precedence over all other goals; albeit without recourse to intervention machinery.

These changes compelled the Commission to think anew about the best system for cooperation with the Member states, taking into account the developments in the jurisprudence of the Court of Justice. The process has not been easy, culminating in the Community procedure for signature and conclusion of the international Coffee Agreement of 2001, which represents a milestone in the story of the EU participation to commodity agreements. For the first time, the Council at last, accepted the Commission' argument that Community competence should be determined only by Article 133 of the Treaty of the Union, meaning that from that moment, the trade element was considered the only valid justification for fixing the basis of exclusive competence. Compared with the past, this meant that the Commission were recognised to represent in full the Member States of the EU, also in legal matters, and that it will let the European Community (today Union) be able to act and vote on their behalf in international organisations. The above reasoning has been extended gradually to all other Commodity Agreements as Cocoa, Jute and Rubber. However, every agreement has its own characteristics and the approach will always depend on the legal analysis of the objectives.

Most of the commodity agreements today are under exclusive community competence, with the exception of the Tropical Timber Agreement, which still falls under a shared competence due to its environmental component, which it is also national.

A word, for the CFC: this Organisation occupies a very special position within the sharing power between the European Commission and the Member States. In fact, as it was recognised by the Court that some international agreements were providing financial intervention mechanisms directly supported by the Member States, such obligations were then considered to be the criteria for determining whether agreements were or not of a mixed nature. CFC is the example of a direct financial intervention of the EU Member States and therefore the competence is fully shared. The European Community has concluded the agreement and most of the EU Member States are also members however, with some exceptions. As you know, the EU is also represented in the CFC bodies, because there is nothing to prevent the EU to financially intervene to the second account through voluntary contributions. This happened in 2006/2007 in the framework of the EU Action Plan on commodities when an amount of more than 9 million € has been allocated through the EU Commission for cotton and other actions related to commodities. Our role, nevertheless, is quite different compared to the role the Commission plays in many other commodity fora. The Commission and the Member States remain competent in their respective sphere of action.

It is important and positive to note, as general comment, that the modalities of participation by the EU and its Member States in international commodity agreements have always enabled common and joint action, thanks to the good will of all the parties involved.

At this stage, it is necessary, however, to clear up a misunderstanding regarding the real position of the representative of the EU vis-à-vis of the representatives of the Member States, attending the major ICBs councils. One can believe that the presence of the EU representative overshadows the presence and participation of the EU MS representatives. This is absolutely not true. MS delegations are all members of the EU delegation composed by the representative of the Commission, the representative of the EU Presidency and the remaining Member States. Their presence is important not only for the individual contribution of delegates, but also in view to sharing the different charges inherent to the EU membership. Let me take this opportunity to reiterate the invitation to all the EU Member States, to continue to attend the meetings of the International Commodity Bodies.

Reasons for the EU participation to Commodity Agreements

We have examined until now the legal participation of the EU to the major commodity agreements, but I think one question needs also an answer: why does the EU participate? What are the expectations of this common action?
As you know, the EU participation stems from the EU membership to UNCTAD, where most of the commodity agreements have been negotiated (except the coffee agreement). The interest derives from a political and economic assessment made by the Commission together with the Member States, to promote the trade of the commodities in such a way that the different Agreements can be considered a mean for development through trade and consequently, a poverty alleviation instrument. In addition, according to the respective specificities of the products, these

agreements intervene in most of the sensible fields of development as sustainability, at producing countries level. In recognising then the importance of a sustainable economy for the achievement of the Millennium Development Goals, the commodity agreements are looked as an additional instrument for the above purposes, where consumers may also intervene in the supply chain for ensuring, where and when possible, fair prices, good quality and availability of origins.

The agreements can be looked as tools to avoid strong competition among countries, for the benefit of a more stable economy. This important role was also reaffirmed in the conclusions suggested by the EC Study on ICBs carried out in 2006/07, where the central role of most of ICBs and the CFC was highlighted.

The EU added value is linked to the Member states involvement. We have seen that the EU does not duplicate but replaces and complements Member States. Thanks to the clear definition of competencies, the EU is now presenting united its position, allowing the European voice to be heard in the commodity fora and, more importantly, securing that the European added value can bring its contribution to balanced discussions. The united view of the EU in international commodity fora could also play an increasingly important role in the functioning of the CFC. This dimension is of a particular importance, notably in the current world crisis.

Regarding the Aid, quite often the Commission is criticised for its limited action in the field of commodities. The EU represents 60% of the whole world aid. The Commission is the third donor after US and Germany; the Commission is the second donor for humanitarian aid. In 2008 the Commission has committed 9,3 billion € for development. Today, with the Action Plan, the Commission has allocated firstly 45 million € destined to commodities and cotton. The Philosophy is to finance important and enlarged activities and projects through multilateral organisations acting in the sector as UNCTAD, FAO, World Bank and CFC.

As you see the CFC is representing an important actor in our strategy, as the Commission considers the role played by this Organisation as a development funding arm for all ICBs. CFC supports measures and actions to overcome specific difficulties faced by commodities and their bodies and replaces, in more occasions, the lack of bilateral interventions.

The Commission considers that only by channelling resources at integrated global level provisions can be made for more effective intervention for financing specific actions and programmes, including commodities. CFC provides a comprehensive and integrated approach to commodity development and should therefore be seen as an ideal mechanism for channelling resources for specific actions in the commodity sector.

The Commission strongly believes, nevertheless, that it is the task of the Governments of commodities dependent countries to establish their own strategies to combat the decline in the sectors concerned and to cope with constantly –changing in international markets. To this end, the EU insists on the need to take account of priorities relating to commodity chains in sectoral strategies (e.g. agriculture) or multi sector strategies (e.g. rural development). In this way, Governments could achieve synergies between the aid granted, between current production and possible replacement solutions, between the volume of investment in traditional producing sectors (commodities) and investment in regions having fewer resources. Such strategies also make it possible to take account of regional constraints and prospects and to include sustainable commodity chains as an important component of national poverty reduction strategies (PRS).

Looking to the future, let me remind that two years ago the EU adopted a joint Aid for Trade strategy aiming at supporting all developing countries, particularly the Least Developed Countries (LDCs) to better integrate into the rules-based world trading system and to use trade more effectively in promoting the overarching objective of eradicating poverty. These principles perfectly fit in with the general policy concerning commodities, outlined above.

Coming back to the Commodity Organisations, the Commission believes that it is the right time that the main actors involved at multilateral, international and national level seat together and discuss on the strategies that could help to better respond to the new challenges: a kind of rethinking on a renovated "Integrated Programme".

At present, we note, for example, ferment towards a kind of nostalgic approach aiming at reintroducing some market mechanisms that past experiences showed of difficult implementation. We are of the opinion that the present market conditions do not allow any more such a strategy, but it is significant that the need of new actions is clearly felt.

The ICBs, on their side, must show their improved ability to implement the objectives of their Agreements in a cost effective manner showing their "*Added Value*" vis-à-vis of other organisations acting in the same sectors.
Mr Chairman, Your Excellences, Ladies and Gentlemen,

This statement tried to provide a general overview of the approach followed by the European Union in relation to the evolution of its competence in the field of commodities, but also tried to briefly explain the EU support to the sector.

Commodities have always been considered a very special tool for development in order to tackle poverty and world inequality.

Today, looking to the different discussions afflicting the ICBs, sometimes far from the real commodities problems, one could spontaneously ask why we still need such form of international cooperation. We personally believe that without the current exclusive platforms represented by ICBs, the general action inherent to products and countries, would be lost, diluted in less specific actions with detrimental impact. Therefore, the best reply that we can suggest is a collective general effort to strengthen the efficiency of ICBs. We have to face challenges on a common ground and with a common interested work.

Thank you for your attention.

Wrap-up session and the Future Role of CFC

Mr. Rolf W. Boehnke
former Managing Director of CFC, 1996 to 2004
Advisor to the Office to the President of the Republic of Armenia
Team Leader of the European Union Advisory Group to the Republic of Armenia

Mr. Chairman,

It is a great pleasure and honor for me to be here at the 20th anniversary of the Common Fund for Commodities. It means coming home to a subject which is very close to my heart, and this is development and particularly commodity development. It has been said several times during this day that commodities are still at the center of the production of the poorest strata of the population in developing countries and, of course, at the center of the economies of the least developed countries.

Indeed, commodities continue to play a very important role in the economic and social development of many developing countries. This fact is one of the reasons, if not the *raison d' être*, for the existence of the Common Fund, and it was the starting point.

We will have to analyse the problems with which commodity producers are confronted and whether the Common Fund did live up to the challenge, and will live up to it in the years to come.

We have received today an overview on several facets of the current situation. There was reference to the increasing world population which would mean raising demand for commodities. If production cannot meet this demand then prices will increase. It was pointed out that the growing world population will lead to structural shifts in its composition, mainly towards stronger urbanization. While these people in the cities need to be fed, the shift towards urban population may deprive rural areas of production expertise. That, in turn, can have repercussions on commodities.

Another facet is climate change which is now debated in Copenhagen; it will certainly have an effect on commodities. Among the consequences, sudden floods were mentioned which would affect post harvest losses and storage.

Everybody, and in particular the Common Fund, will have to face these new types of challenges. Referring to the traditional aspects, such as supply side constraints, we heard comments on low productivity, high transport costs, lack of infrastructure investment, lack of finance, insufficient links to markets and lack of transfer of technology. The recourse to indigenous technology will, in my view, not be a sufficient substitute because technology always needs to be developed further.

Regarding poverty reduction, we heard the comment that the focus should be on wealth creation through strengthening the productive base, not on hand-outs. This is at the heart of the Common Fund's policy: to improve the economic situation of commodity producers. By assisting producers to earn more, one would also contribute to the development of society.

It is common knowledge that commodity production and trade nowadays are no longer a matter of governments but of the private sector, and this has changed the setting of policy interventions. Thus the preconditions for one element of establishing the Common Fund, which was stabilizing prices through commodity agreements, have disappeared. However, it has been underlined by several speakers that price stabilisation is no longer the main objective of commodity policy.

Developments have made it also clear that the stabilization of world market prices for commodities does not work and would be extremely costly. Price risk management as a partial substitute to price stabilization needs advanced expertise, as the joint efforts of the World Bank and the CFC have shown. A way to reduce the impact of fluctuating prices to some extend is to move up in the value chain and to diversify the income base.

The contemporary paradigm is not price stabilization but productivity improvement, diversification, and income enhancement.

What are the lessons learnt? What can be done?

Let me refer to productivity improvement. We heard from Mr. Pronk that in this area more is needed: scaling up and then pouring down the results. I agree with this but it is not the only measure. We have to add a few other aspects.

An area, in which the Common Fund has been active in addition to productivity improvement, is supporting processing and value added. However, certain constraints are being encountered, such as tariff escalation and non-tariff barriers to trade. If one then looks into the question of marketing and the market chain, because the commodities produced and the value added goods have to be sold, a close link must be established between the producers on the one hand and the market, the consumers, on the other. The Common Fund should intensify its support to processing, marketing, and reducing barriers to entry.

One would also have to look at the state of competition at the buyer's level, particularly addressing the problems of oligopsonies and monopsonies to be found in commodity markets, and strengthen producer organizations. Assistance in access to modern information technology, and how to use it, would also enhance the competitiveness of commodity producers.

An increasingly important aspect in the context of market access in developed countries are the regulations which producers from developing countries face, mainly in the sanitary and phyto-sanitary field but also in the whole area of quality infrastructure comprising metrology, standardization, testing and conformity assessment, including certification and accreditation. The Common Fund has only partly addressed these issues and should expand its activities in these areas. I was pleased to hear the statement by Mr. Barattini from the EU Commission and his assessment of the Common Fund. I hope it will be possible for the EU to give more resources to the CFC for the purpose of assisting developing countries in the approximation of their laws and regulations to the acquis communautaire of the EU in the above fields.

It must be stressed that all support measures require a conducive environment and in particular good governance, without which nothing can be achieved.

Projects which started or have been initiated during my time as Managing Director of the CFC (until 2004) are now coming to fruition. This shows that development needs time. The Governing Bodies of the CFC may wish to take this into account.

What is required to bring the Common Fund forward and adjust it to the changing world, is vision, dedication and commitment. With this in mind, it is hoped that the Common Fund will continue to play an important role in development.

Thank you, Mr. Chairman.

Mr. Jan Pronk
former Minister for Development Co-operation of the Netherlands
and
former Deputy-Secretary General of the United Nations Conference on Trade and Development (UNCTAD)

Mister Chairman,
Distinguished Delegates,
Ladies and Gentlemen,

My interest in commodity policy making goes back to the early 1960's, studying economics and teaching development economics based on theories like the ones of Raul Prebisch.

The thinking during those times was that a structural deterioration of their terms of trade resulted in a structural decline in the position of countries belonging to the periphery in the world economy in relation to the centre. Most developing countries were mainly exporting primary commodities. It was thought that factors behind supply and demand on the markets concerned – technology, labor conditions, capital availability, consumer preferences and other factors – would always result in a transfer of the economic surplus from developing countries producing primary commodities to industrialized countries with market power. For the former countries the trend was negative. Moreover, more than the latter they were suffering consequences of a large volatility in world market prices. Nowadays, fifty years later, the situation is different. But it is a fact that during a number of decades the terms of trade of commodity producing developing countries did go down structurally. So, it was only natural that commodities were playing a central role in the debate on a New International Economic Order (NIEO) in the 1970s. In the nineteen seventies, when I was the Netherlands Minister for International Development Cooperation, I had participated actively in the international negotiations on the NIEO.

I have been involved in the negotiations during the 1980's, commodity by commodity, when I was the Deputy Secretary General of UNCTAD for about 6 years, serving Gamani Corea, the then Secretary General of UNCTAD, who had succeeded Perez-Guerrero in that position.

In those times trade negotiations were intensive. Within UNCTAD each week two parallel negotiations took place, one of them mostly about a specific commodity. One of the objectives was to establish a Common Fund which could finance coordinated policies with regard to different commodities. One of those policies was international stock building. Enlarging and decreasing those stocks could help restraining fluctuations in world market prices. In addition to this the Common Fund could help financing policies which would result in a higher value added of processing commodities within the developing countries themselves, enabling these countries to keep a larger part of the economic surplus and to countervail the declining trend in the terms of their trade with richer countries.

We have not been very successful. Times have changed. The ideas concerning a new international economic order have faded away. Market regulation became taboo in a period dominated by the new wisdom of liberalization and deregulation. Somewhere in the mid nineteen eighties countries decided not to establish the Common Fund as had been originally intended. Instead a new kind of Common Fund, less ambitious, was established. The idea was to focus in particular on increasing the value added, by doing research, giving technical assistance, building domestic capacities, providing better processing facilities and broadening marketing opportunities. No effort anymore was made in order to dampen price and volume fluctuations.

I must admit I was quite skeptical about the turn of events. A few years later, in 1989, just around the time that I was appointed as the Netherlands Minister for Development Cooperation for a second term; the CFC established itself in Amsterdam. Since then the Netherlands government has given some assistance to the CFC headquarters.

Looking back, I think that my initial skepticism has turned out not to be justified, because times have changed. In the light of the new circumstances, both economically as well as politically, the CFC new style has done a great job. But now we have to think ahead. Having functioned twenty years the CFC has an opportunity to rethink its own mandate. Globalization has become much more intense and complete than twenty years ago. We should not only discuss production and trade, but also labor relations, human development, environment and climate. Moreover, since the CFC has begun its work on commodities many other international organizations got involved: WTO, UNIDO, UNDP, UN Habitat, UNEP and others.

I would like to draw your attention to seven priorities for a truly comprehensive approach.

First: further opening up world markets for processed primary commodities from developing countries. At this conference again many references have been made to the benefits of international free trade. However, it should be international free trade offering equal opportunities to all. This is still not the case. There are still high non-tariff barriers and discriminating tariffs, weakening the international market position of developing countries. Opening up world markets, much more than hitherto, is an essential condition for improving the economic opportunities of countries whose people fall in the category of the world's so-called bottom billion.

Second: scaling up projects and programs aiming at improved commodities processing. This also calls for a scaling up of the necessary finance. This second priority is not a call for something new, but a call to do things better. The CFC has proven to be effective. It is a small organization, with small money, seed money only. The CFC is not itself investing in major production and trade activities. It does not substitute market operations. It helps parties to make a better use of market opportunities. It has enabled entrepreneurial initiatives to come off the ground and it has done so in a cost effective manner. But it is too small. So, do not start something new, but scale it up, so that more countries and producers can benefit from it.

Third: it is not only a matter of scaling up, but also of pouring down. The CFC is basically an international organization with a macroeconomic view of development processes. This is important but not sufficient. The question has to be raised to which extent small holders, farmers and urban consumers in developing countries can benefit from an international commodity policy which is benefiting countries and big companies. Answers to such questions require a pouring down approach: the benefits should not accidentally trickle down to small holders and farm laborers in the periphery of the commodities economy, but pour down to the poor.

That brings me to the fourth priority: diversification. Diversification should not only be perceived in macro terms, but also in terms of the rural economy as a whole, beyond commodities. Peasants and villagers should be able to earn a livelihood, this year, as well as next year and the year thereafter, by diversifying their rural activities rather than being caught in the straightjacket of a monoculture. I just come back from Costa Rica where I had been teaching at a university. I was able to visit some promising agro forestry projects based on family farming. The farmers had been given some small initial subsidies only, together with good technical advice. They had changed some traditional production methods and chosen in favor of multi cropping together with some cattle, not cutting trees but planting new ones in order to stop soil erosion. In doing so farmers in the districts concerned had been able to increase their income, to invest in further land improvement and to send their children to good schools, guaranteeing them an income and employment also at a later stage.

Opening up, scaling up, pouring down and further diversification together require a comprehensive approach, integrating activities within the countries with regard to commodity policy with environmental activities and with poverty eradication. This is my fifth priority. Please do not focus on commodities only, but bring the whole evolving development picture into focus. That, of course, calls for sustainability in all respects: economic, social and – last but not least - environmental. Last but not least? Indeed, because there will be no environmental sustainability without halting climate change or – at least – halting the effects of climate change. When I say “halting”, I mean: stopping, not: compensating. This is priority number six. Climate change is affecting commodities production, but the production of commodities does also result in climate change. Addressing the problems concerned requires an integrated approach, rather than compartmentalized international consultations, conferences and negotiations.

Finally, priority number seven: fostering human rights and human security. Controlling commodities gives power. Power can easily be abused. There is a scramble for resources, and a scramble for land and water. Companies investing in exploration and exploitation of natural resources are competing with people whose livelihoods are at stake. For the latter access to land and water is crucial. They need property rights, rights to use land, democratic procedures, and the rule of law. Their rights can easily be violated, by companies supported by authoritarian and corrupt regimes, using security forces to oppress people or even expelling them from their homelands. Sometimes this is being done with the pretext of “development”, but such development is not inclusive. When the exploitation of natural resources is trampling down the people whose existence depends on these very resources, development will result in impoverishment of many and enrichment of a few.

So, commodity policy makers cannot close their eyes for issues concerning the environment, poverty, power and human rights. All stakeholders should be Involved in commodity policy making, not only governments, international organizations and private business. Farmers unions, indigenous peoples, women’s groups, non-governmental organizations, human rights defenders and civic society as a whole are stakeholders as well. Natural resources are too important for the future well being of a society to be left in the hands of the managers in an economy.

These are the issues for the years ahead. They cannot be dealt with by a single international organization. Many organizations will have to be involved. But we need a linchpin, a monitor, a watchdog, a key group which is able to keep a bird eye’s view on all these aspects of commodity policy making. I hope that the CFC can play that role in the years ahead.

LIST OF PARTICIPANTS

I. OPENING CEREMONY

Mayor of The Hague	Mr. Jozias van Aartsen, The Netherlands
Fundacao Armando Alvares Penteado	Mr. Rubens Ricupero
Managing Director of CFC	Amb. Ali Mchumo

II. CHAIRPERSONS

Alternate Governor of CFC for Italy	Ms. Giuseppina Zarra, Ministry of Foreign Affairs
Governor of CFC for Pakistan	H.E. Mr. Aizaz Ahmed Chaudhry, Embassy of Pakistan
Governor of CFC for Costa Rica	H.E. Mr. Francisco José Aguilar Urbina, Embassy of Costa Rica
Chairman of CFC Governing Council	Mr. Saint Cyr Djikalou, Permanent Representation of Cote d'Ivoire

III. SPEAKERS

UNIDO	Mr. Kandeh Yumkella, Director-General
UN-HABITAT	Ms. AnnaTibaijuka, Executive Director
FAO	Mr. David Hallam, Deputy Director
AOAD	Mr. Tariq Al Zadjali, Director-General
UNCTAD	Mr. Kwabena Baah-Duodu, Senior Advisor to the Secretary-General, on behalf of Mr. Supachai Panitchpakdi, Secretary-General
WTO	Mr. Shishir Priyadarshi, Director, Development Division
UNDP	Mr. David Luke, Senior Advisor and Coordinator, Geneva Trade and Human Development Unit
African Union	Ms. Elizabeth Tankeu, Commissioner, Trade and Industry
ICO	Mr. Nestor Osorio, Executive Director, International Coffee Organization
EC	Mr. Enzo Barattini, Deputy Head of Division, Directorate General for Development
European Union Advisory Group to the Republic of Armenia	Mr. Rolf Boehnke, Advisor to the Office of the President of Armenia, Team Leader of the European Union Advisory Group to the Republic of Armenia, former Managing Director of CFC
Institute of Social Studies	Mr. Jan Pronk, former Minister for Development Co-operation of the Netherlands and former Deputy-Secretary General of the United Nations Conference on Trade and Development (UNCTAD)

IV. COUNTRIES

Algeria	Mr. Khalfi Mouna Aicha, Embassy of Algeria
Angola	Mr. Francisco José Fernandes, Angolan Trade Representation
Angola	Ms. Adelaide Cassungo, Angolan Trade Representation
Argentina	Ms. Melisa Campitelli Mayor, Embassy of Argentina
Austria	Mr. Wolfgang Müller, Ministerial Counsellor
Bangladesh	Mr. Md. Ruhul Amin Sarker, Ministry of Commerce
Belgium	Ms. Christine Detaille, Governor of CFC for Belgium
Bolivia	Mr. Erik Garcia, Embassy of Bolivia
Brazil	Mr. Roberto Teixeira de Avellar, Embassy of Brazil
Burkina Faso	Ms. Salimata Somé-Traoré
Burkina Faso	Mr. Amadou Sagnon, Embassy of Burkina Faso
Burkina Faso	Mr. Andre Moise Traore-Nignan
Burundi	Mr. Appolinaire Butoyi, Vice Presidency
Burundi	Mr. Evariste Ngamempore, ARFIC
Burundi	Mr. Oscar Baranyizigiye, CFC/ICO/30 Project
Burundi	Ms. Euphrasie Bigirimana, Ministry of Trade, Industry and Tourism
Burundi	Mr. Jean Ntirampeba, Ministry of Commerce, Industry and Tourism
Cameroon	H.E. Ms. Odette Melono, Embassy of Cameroon
Cameroon	Mr. Michael Ndoping, National Cocoa and Coffee Board
Cameroon	Mr. Sylvestre Essono Messanga, External Trade
Cameroon	Ms. Laurentine Bihina, Ministry of Finance
China	Ms. Liang Hong, Executive Director of CFC
Colombia	Ms. Juliana Botero, Embassy of Colombia
Costa Rica	Mr. Allan Mauricio Solis Fonseca, Embassy of Costa Rica
Cote d'Ivoire	Mr. Ngoran Koffi, Fond de Garantie des Cooperatives Café-Cacao
Côte d'Ivoire	H.E. Mr. Kouadio Adjoumani, Embassy of Côte d'Ivoire
Côte d'Ivoire	Mr. Kindia Etienne, Embassy of Côte d'Ivoire
Côte d'Ivoire	Mr. Mel Eric Gahie, Permanent Representation of Cote d'Ivoire
Côte d'Ivoire	Ms. Illa Ginette Donwahi, Coffee and Cocoa Sector Management Committee
Côte d'Ivoire	Ms. Marie-Claude Degni-Segui, Permanent Representation of Cote d'Ivoire
Cuba	H.E. Mr. Oscar De Los Reyes Ramos, Embassy of Cuba
Cuba	Mr. Jorge L. Alfonzo, Embassy of Cuba
Ecuador	H.E. Mr. Francisco Suescum, Embassy of Ecuador
Ecuador	Ms. Helena Yanez, Embassy of Ecuador
Egypt	Mr. Khaled Rady, Embassy of Egypt
Ethiopia	Mr. Melaku Tadesse, Eastern Africa Bamboo Project

Ethiopia	Mr. Fisseha Kidane, Embassy of Ethiopia
Finland	Mr. Ilkka-Pekka Similä, Ministry for Foreign Affairs
Finland	Mr. Pekka Säilä, Ministry for Foreign Affairs
France	Mr. Eric Adam, Ministere des Affaires Etrangeres et Européennes
Germany	Mr. Wolfang Gaerte, Embassy of Germany
Germany	Ms. Ursula Horn, Federal Ministry of Economics and Technology
Ghana	Mr. Eric Odoi-Anim, Embassy of Ghana
Ghana	Mr. Salamatu Yakubu, Embassy of Ghana
Greece	Ms. Sophia Tsamicha, Embassy of Greece
Guinea	Hadja Zenab Diallo, Governor of CFC for Guinea
India	Mr. K.K. Saini, Embassy of India
India	Mr. Pankaj Sharma, Embassy of India
India	Mr. Gangan Boriah, Tea Board India
Indonesia	Mr. Asianto Sinambela, Ministry of Foreign Affairs
Indonesia	Ms. Amalia Muthia, Embassy of Indonesia
Indonesia	Mr. Imron Mochamad, Ministry of Finance
Italy	Ms. Celeste Molina
Japan	Mr. Masayuki Magoshi, Ministry of Foreign Affairs
Kenya	H.E. Ms. Ruthie C. Rono, Embassy of Kenya
Kenya	Mr. Salesio Mbogo, CFC Kenya Input Credit Project
Luxembourg	Mr. Sergej Hentzig, Embassy of Luxembourg
Malaysia	Mr. Mohamed Rusiah, Embassy of Malaysia
Malaysia	Ms. Norlizah Muhamad, Embassy of Malaysia
Malaysia	Ms. Siti Afzan Baharudin, Embassy of Malaysia
Mexico	Mr. Luis Parada, Embassy of Mexico
Morocco	Mr. Said Safi, Embassy of Morocco
Nepal	H.E. Mr. Pramesh Kumar Hamal, Embassy of Nepal
The Netherlands	Mr. Menkvela, Dutch Ministry of Foreign Affairs
The Netherlands	Mr. Rob Zaagman, Dutch Ministry of Foreign Affairs
The Netherlands	Mr. Ronald Goldberg, Dutch Ministry of Foreign Affairs
The Netherlands	Mr. Ewald Wermuth, Embassy of the Netherlands in the UK
Nigeria	H.E. Ms. Nimota Akanbi, Embassy of Nigeria
Nigeria	Mr. Ibrahim Naibbi, Federal Ministry of Commerce
Nigeria	Mr. Omololu Ope-ewe, Federal Ministry of Commerce
Nigeria	Ms. Margaret Igbinobaro, Embassy of Nigeria
Norway	Mr. Havard Hugas, Multilateral Bank and Finance Section
Pakistan	Mr. Fazal Qadar, Ministry of Commerce
Pakistan	Mr. Muhammad Ashraf, Embassy of Pakistan
Peru	Mr. Carlos Briceño Salazar, Embassy of Peru

Philippines	H.E. Mr. Cardozo Luna, Embassy of the Philippines
Philippines	Ms. Maria Cynthia Pelayo, Embassy of the Philippines
Saudi Arabia	Mr. Abdularahman A. Aloraini, The Saudi Fund for Development
Saudi Arabia	Mr. Ahmad Alteraifi, The Saudi Fund for Development
Sierra Leone	Mr. Ibrahim Keh Turay, Commodity Marketing and Monitoring Unit (CMMU)
South Africa	Mr. Marthinus van Schalkwyk, Embassy of South Africa
Spain	Ms. Aurora Tarruella, Embassy of Spain
Sri Lanka	Mr. Senarath Dissanayake, Embassy of Sri Lanka
Sudan	Mr. A. Elgezouli, Ministry of Agriculture
Sudan	Mr. A.M. Elhadi, Embassy of Sudan
Sudan	Mr. Bader Eldin Mohamed Elhassan, Ministry of Agriculture
Sudan	Mr. Bahaeldeen Mohamed Khamis, Embassy of Sudan
Sudan	Mr. Salh B. Bahkiet, Banana CFC Funded Project
Sweden	Ms. Anna Tofftén, Ministry of Agriculture
Sweden	Ms. Christina Törnstrand, Ministry of Agriculture
Tanzania	Ms. Flora Musonda, Director Trade, EAC
Tanzania	Mr. Alfred Mapunda, Ministry of Industry, Trade and Marketing
Tanzania	Mr. Louis John Kasuga, Naliendele Agricultural Research Institute
Tanzania	Mr. Odilo M. Majengo, Ministry of Industry, Trade and Marketing
Tanzania	Mr. Peter Masawe, PEA Coordinator
Tanzania	Ms. Agnes Kayola, Embassy of Tanzania
Tanzania	Ms. Joyce G. Mapunjo, Ministry of Industry, Trade and Marketing
Thailand	Mr. Benjawan Siribhodi, Ministry of Agricultural and Cooperatives
Thailand	Mr. Chan Chiumkanokchai, Ministry of agriculture and Cooperatives
Thailand	Ms. Tatsamee Muangkaew, Ministry of Agricultural and Cooperatives
Togo	Mr. Pilakiwé Abouzi, Embassy of Togo
Tunisia	H.E. Mr. Mohamed Salah Tekaya, Embassy of Tunisia
Tunisia	Mr. Habib Bedhiafi, Directorate of Trade, Promotion Office
Uganda	Ms. Mirjam Blaak, Embassy of Uganda
Uganda	Mr. Fredrick E. Mwesigye, Ministry of Tourism, Trade and Industry
Yemen	H.E. Mr. Nageeb Ahmed Obeid, Embassy of Yemen
Yemen	Mr. Abdulaziz Sallam, Embassy of Yemen
Zimbabwe	Ms. Abigail Shonhiwa, Ministry of Industry and Commerce
Zimbabwe	Mr. Basilio Sandamu, Horicultural Promotion Council
Zimbabwe	Mr. T. Mufundisi, Ministry of Industry and Commerce

V. ORGANISATIONS

Africa Rice Center	Mr. Afiavi Agboh, Benin
Agri Profocus	Mr. Wim Goris, The Netherlands
Berci International	Mr. Mohamed Ramouch, Canada
CABI	Mr. Charles Agwanda, The Nederlands
CABI	Mr. George Odour, The Nederlands
CABI	Ms. Janny Vos, The Nederlands
CABI	Ms. Julie Flood, The Nederlands
CABI	Mr. Davis Tamsin, The Nethrlands
Central Coffee Research Institute	Mr. Jayarama, India
CGIAR	Mr. Michael Bolton, France
Cocoa Producers Alliance	Mr. Anuar Khabar, Cote d'Ivoire
COFEWAC	Mr. Juan Vera, Ecuador
CTA	Mr. Hansjörg Neun
DED	Mr. Seidler Gerd, Peru
EHPEA	Mr. Tilaye Bekele, Ethiopia
EU	Mr. Yves Leenaerts, Europe Aid Office, Brussels
Fairfood International	Ms. Cindy Johnson, The Netherlands
FLAR	Mr. Gonzalo Zorrilla, Colombia
ICRAF	Mr. Anthony Simons, Kenya
ICRAF	Mr. Eliot Masters, Kenya
Instituto Agranomico per L'Oltremare	Mr. Baschieri Alessio, Italy
Instituto Agranomico per L'Oltremare	Mr. Massimo Battaglia, Italy
Instituto Agranomico per L'Oltremare	Mr. Nicola Arbace, Italy
Instituto Agranomico per L'Oltremare	Ms. Chiara Sgreva, Italy
Instituto Agranomico per L'Oltremare	Ms. Francesca Margiacchi, Italy
Inter Press Service	Ms. Suzanne Hoeksema, The Netherlands
KPMG Accountants N.V.	Gineke Bossema, The Netherlands
KPMG Accountants N.V.	Ms. Ana Milic, The Netherlands
KPMG Accountants N.V.	Ms. Caroline Lagerwaard, The Netherlands
NVG	Mr. Laurens J.C. van der Ziel, The Netherlands
Royal Tropical Institute	Ms. Anna Laven, The Netherlands
Sindifibras	Mr. Wilson Andrade, Brazil
Solidaridad	Ms. Rachel Diender, The Netherlands
UNCCD	Mr. Heitor Matallo, Germany

UNIDO	Mr. J. Hierold, Vienna
Universidad Veracruzana	Mr. Jose Jaime Flores, Mexico

VI. COMMON FUND for COMMODITIES

Managing Director	Amb. Ali Mchumo
Chief Finance Officer	Mr. Javed Akhtar
Chief Operations Officer	Mr. Guy Sneyers
Chief, Policy, Programme Management and Evaluation Unit	Mr. Parvindar Singh
Accountant	Ms Michele Schwarz
Senior Project Manager	Mr. Sietse van der Werff
Senior Project Manager	Mr. Andrey Kuleshov
First Project Manager	Mr. Caleb Dengu
Project Manager	Ms. Verena Adler
Project Manager	Mr. Nicolaus Cromme
Associate Project Manager	Mr. Francesco Gibbi
Associate Project Manager	Mr. Nianjun Shen
Development Economist	Mr. Hardi Vieira
Communications Officer	Mr. Charles Jama
PA to Managing Director	Ms. Helen Lee
Secretary OMD	Ms. Maria del Carmen Aldana
Secretary	Ms. Jenny Birch
Conference Secretary	Ms. Frieda Hilfer
Unit Secretary	Ms Ute Langhammer
Unit Secretary	Ms. Catherine Malabanan
Unit Secretary	Ms Joyce Rodriguez
Office Assistant	Mr. Ruli Rusli
Treasury Assistant	Ms Tia Sudjarwo

Cover:
Bio fuel extractor	Jute products
Bamboo products	Olive oil