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STATEMENT

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ECOSOC 2007 HIGH-LEVEL SEGMENT

Annual Ministerial Review: Strengthening efforts at all levels to eradicate poverty and hunger, including through global partnership for development

United Nations
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Mr. Chairman,

The thematic discussion at this year's ECOSOC is of crucial importance and relevance to the mandate of the Common Fund for Commodities. We believe that it is impossible to eliminate poverty and hunger and achieve sustainable development and attain the targets of the MDGs without addressing the commodity *problematique* and improve the conditions and prospects of commodity producers. This is so because for many developing countries commodities remain the backbone of their economies. Indeed, it is this thesis that inspired the international community in the 1970s and 1980s to establish the Common Fund for Commodities in the search for a new international economic order that would be supportive of the development aspirations of the developing countries.

Even today, there are more than 55 developing countries that depend on commodities for at least 50% of their export earnings. In Africa, approximately half the countries derive more than 50% of their merchandise exports from commodities and this is especially so in the case of the Least Developed Countries (LDCs) where sometimes only one or two commodities are the main exports. In the middle-income countries, it is frequently the poorer strata of the population who are mostly often involved in commodity production. Overall, more than 70 percent of the world's poor live in rural areas and directly or indirectly depend on commodities for their livelihood. In this context, any discussion and subsequent policy recommendation relating to poverty and sustainable development must bring to centre stage the issue of commodities.

Mr. Chairman,

Today, almost 20 years since the Common Fund for Commodities was established, while we are talking of eradication of poverty and attainment of sustainable development, the commodity sector, which is an important pillar of the economy of many developing countries where poverty and hunger exist, is still facing a host of problems and challenges which limit the capacity of the commodity sector to become the engine of growth and development.

Supply-side constraints including inadequate infrastructure, low productivity, commodity price volatility and decline, disproportionate sharing in the value chain, inequitable international trading regime, inadequate domestic and international support measures are some of the major constraints that limit the competitiveness of commodity producers and exporters in developing countries.

While we recognise that the current favourable commodity prices, mainly due to the demand surge in China and India, have helped to lift many commodity dependent developing countries from a prolonged period of economic stagnation, the price increases do not include all commodities and in some cases their magnitude is reduced by other factors such as exchange rate movements and higher oil import bills. At the same time, while the current commodity price boom may last for a while, the secular trend of declining real prices is likely to reassert itself since the underlying causes for the volatility and long-term decline in commodity prices have not been fully addressed.

In order therefore to overcome the challenge facing the commodity sector, we feel that following are some of the key areas that should be addressed both by national governments and the international community in partnership.

1. Supply Capacities

Commodity-dependent developing countries (CDDCs) face enormous capacity problems to meet product and process standards. Major investments, in cooperation between national government and donors, should be channeled to improve infrastructure such as communications, technology, irrigation, roads and storage. In this regard, Public-Private Partnership (PPPs) could be an important instrument and should be fostered. The partnership of private sector and producers in contract farming in some key commodities is another possibility of enhancing productivity.

2. Value Chain

In the current global value chain, commodity producers, who actually grow the crop, have a minimum share of the gains of the profits achieved in the final stages of the chain. There are several ways to shift more of the profits to the farmers who actually grow the crops. Policies in this area include improving market entry, improving the functioning of domestic and regional markets, and enabling producers to carry out more of the "value-added" steps themselves. There is a need to improve the effective participation of developing country commodity producers, especially smallholders, in the value chain. Such measures will also assist in correcting the existing imbalance in the value chain between the producing developing countries and importing developed countries which get the lion's share in the final value.

3. Diversification

Resources have to be mobilised to support actions towards diversification into non-traditional agricultural exports and adding value by exporting processed products. New strategies should contemplate horizontal diversification from one commodity to others (e.g. from coffee to other viable and more remunerative crops) and/or vertical diversification (moving up the value-added chain).

In adopting diversification strategies, financing is key. In many international fora recommendations have been put forward for the international community to establish an export diversification and productivity improvement fund, which would have as major objective to provide assistance to developing countries in commodity diversification. We would therefore urge the international community to act upon this important recommendation together with the acknowledged need to scale up the resources of the Second Account of the Common Fund for Commodities.

4. Price Fluctuation

Despite the current price boom and as identified by the African delegations in the WTO, the consistent decline and volatility in commodity prices is the most challenging task faced by the international community in the commodity sector and there is the urgent need to address this unresolved problem. The current market-based instruments such as price risk management and warehouse receipts, although relevant, do not provide for long-term solutions. Workable, appropriate and pragmatic compensatory financial schemes must be considered to offset the effect of commodity price decline. More fundamentally, commodity price mechanism should be established through trade negotiations in the WTO.

5. International Trade System

As mentioned throughout the interactive debate over the last two days, the existing international trading system does not provide for a supportive regime of rules in favour of commodity producers in developing countries. Commodities produced in developing countries still face enormous barriers to reach the markets of developed countries due to imposition of tariff measures (including tariff peaks and escalation), and domestic and export subsidies. These measures distort the international trading environment against developing countries and undermine their comparative advantage. A fairer and open trade environment in agriculture would benefit all countries and result in major benefits to developing countries more than what official development assistance can assist. In this context, we urge for a successful conclusion of the Doha Round which will take into account the needs of developing countries in general and of commodity producers in particular.

6. Global Partnership

For commodity producers to become more competitive, it is necessary to undertake basic support measures to assist them. As mentioned above, such measures include provision of infrastructure, storage and irrigation facilities, capacity to comply with required market and SPS standards, and financing mechanisms. Naturally such measures can best be provided by national governments. However, support measures are also required at the international level because one of the major obstacles to tackling the commodity problem remains the lack of political will and resource allocation in international development.

It is a matter of regret that in 2004-2005 only 3.4% of the total official development assistance (ODA) was directed to agriculture and commodity development, a major decrease from the already low levels of 11.5% in 1984-1985. If the international community is to meet the agreed international commitments, including those contained in the MDGs, it would need to reverse the current trend in ODA and allocate more resources to agriculture and commodity development.

Mr. Chairman,

In conclusion, we believe that it is important for commodity dependent countries that benefit from the current positive commodity market situation to use their rich natural resources to transform commodities into an engine of growth and development and use this momentum to escape poverty and marginalisation. At the same time, this is the best time for the international donor community to seize this opportunity and increase their assistance to these countries so that they have the right capacity and conditions to benefit from the upswing in commodity prices and thereby laying the strategy for growth and sustainable development towards eradication of poverty.

I thank you, Mr. Chairman.