

STATEMENT BY THE COMMON FUND FOR COMMODITIES

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**STATEMENT BY
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COMMON FUND FOR COMMODITIES
TO
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ON TRADE AND DEVELOPMENT
Sao Paulo 16 June, 2004**

**Mr. Chairman
Excellencies
Distinguished Delegates
Ladies and Gentlemen**

Let me begin by congratulating you, Mr. Chairman, on your election to guide the deliberations of this important Conference. We are confident that under your leadership the Conference will conclude its work successfully. I would like to also express our appreciation for the excellent preparations made by the Secretary-General of UNCTAD, Mr. Rubens Ricupero, and his staff. Last but not least we express our gratitude to the President and people of Brazil for the warm welcome and generous hospitality and facilities accorded to all participants.

Mr. Chairman,

The International Community has recognised poverty as the priority challenge facing the world by adopting the United Nations Millennium Declaration in September 2000 with its broad strategy.

Alleviation of poverty is also the overarching objective of the Common Fund for Commodities, an intergovernmental financial institution established by the United Nations, more precisely through UNCTAD. The Common Fund supports commodity dependent developing countries in their socio-economic development through the financing of commodity focused projects.

The new Five-Year Action Plan 2003 to 2007 of the Common Fund in its introduction states:

"In cooperation with other multilateral as well as national institutions, the private sector and civil society the Common Fund shall contribute to

- reducing the imbalances that exist between the players in the globalized world economy,
- alleviating poverty and
- opening up sustainable ways of economic and social progress."

There is a clear link between commodities and poverty. The large majority of the least developed countries is heavily dependent on a few commodities for employment, government revenue and export earnings. It is usually the poorer strata of the population in other developing countries which is involved in commodities production. It has been estimated that out of the roughly two and a half billion people engaged in agriculture in developing countries about one billion derive a significant part of their income from the production of export commodities. If one included production for self consumption and for local markets, the figure would be even higher.

The problems which commodity producers and commodity dependent developing countries face in the production and marketing chain include the following seven points:

- 1. Declining prices in real terms and often also in absolute terms. According to UNCTAD statistics, real commodity prices for agricultural raw materials and for minerals stood in 2001 at only 65% of their level in 1979/81. This has led to a deterioration of the terms of trade and thereby a reduction of growth, keeping many developing countries' producers in a poverty trap, as has also been shown in UNCTAD's 2004 Least Developed Countries Report. Given this scenario it comes as no surprise that the majority of the heavily indebted poor countries (HIPCs) are strongly commodity dependent.**
- 2. Volatile prices for commodities lead to income instability and thereby hardship in particular for the small producers.**
- 3. Often disadvantaged location, being either landlocked or small island developing states with consequently high transport cost.**
- 4. Lack of credit for production inputs, lack of capital for investments and lack of know how. This results in low productivity sometimes associated with insufficient product quality. The combination of low productivity with the above mentioned price volatility has a particularly severe negative effect on producers' earnings.**
- 5. Tariff and non-tariff barriers to accessing markets in industrialised countries, in particular for semi-processed and fully processed products. Since local markets are often too small for a viable level of production, the tariff and non-tariff related barriers to exports are a serious impediment to value addition and industrialisation in commodity dependent countries.**

6. **Market distorting subsidies in developed countries.** A blatant example is cotton where industrialised countries' subsidies increase supply and depress world market prices, thereby depriving producers in poor countries of employment and higher earnings.
7. **An imbalance in negotiating power where many small producers as sellers frequently face large corporations as buyers.**

Mr. Chairman,

Commodity issues have been neglected, if not ignored, by the international community over the last two decades. There has, however, emerged a change in perception in recent years, starting with UNCTAD's Plan of Action agreed in Bangkok in the year 2000, the Brussels Programme of Action for the Least Developed Countries of 2001, and several resolutions on commodities adopted by the General Assembly of the United Nations in the last few years. The new Action Plan for Commodities by the European Commission is also a very encouraging step forward. The Common Fund has always been among those who have drawn attention to the vital role of commodities in the development process.

During this eleventh meeting of UNCTAD many delegations have referred to the commodity issue. We very much welcome this needed acknowledgement of the economic reality in commodity dependent developing countries.

Actionable measures should address, among others, the seven points which I mentioned earlier, in particular productivity improvements and supply side constraints, market access and horizontal and vertical diversification. The report by the Eminent Persons who met in the framework of UNCTAD in September 2003, contains many valuable proposals, including the establishment of a Diversification Fund, possibly linked to the Common Fund for Commodities.

In this context, the successful strategies of those countries which have emerged from the dependency on a few commodities, can serve as a guidance.

Mr. Chairman,

The Common Fund for Commodities will continue to play its role as a catalyst in sustainable commodity development and as a partner of commodity dependent countries in their social and economic transformation out of poverty and towards improved living standards and prosperity.

Thank you for your kind attention.