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# COMMITTEE ON COMMODITY PROBLEMS

## Seventieth Session

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### CONCEPT NOTE OF THE THIRD MINISTERIAL MEETING ON GOVERNANCE AND COMMODITY MARKETS ROME, 6 OCTOBER 2014

1. The theme for this year's Ministerial Meeting is "Governance and International Commodity Markets" where governance is taken to embrace all the formal and informal rules, institutions and organizations and processes through which public and private actors articulate their interests; frame and prioritize issues; and make, implement, monitor, and enforce decisions. This theme should provide a wide context for statements by ministers, including on important questions surrounding price volatility, transparency and stability, commodities and development, sustainability and the international institutional architecture governing global agricultural commodity markets.
2. The succession of three price spikes within five years prompted concerns that international food markets had become more vulnerable to "excessive" price volatility and that current governance arrangements for these markets had proved weak in the face of new drivers of food prices and their linkages with energy and financial asset prices. Some food-importing countries lost their trust in world markets as reliable sources of supply and turned to policies to enhance their food self-sufficiency.
3. At the international level, it was recognized that there were deficiencies in reliable and up-to-date information, especially on stocks, and a lack of clear and comprehensive indicators of market conditions. The consequent lack of transparency and the absence of an effective mechanism for issuing alerts concerning deteriorating international market conditions prompted hoarding, panic buying, and sub-optimal and uncoordinated policy choices that made matters worse. A new element in international governance, the Agricultural Market Information System (AMIS), was created in 2011 in response to improve information and enhance transparency and to promote policy coordination.
4. The food price hikes attracted global attention but also provoked a broader debate on aspects of market behavior and governance, transparency and stability, the regulation of derivatives markets, the possibility of active market stabilization and reform of international trade rules. Price volatility is a major issue affecting all agricultural commodities. However, the focus on food price volatility distracted attention away from other, long-standing issues in international agricultural commodity markets not just for basic foods but also for tropical products such as coffee or agricultural raw materials such as cotton. Such commodities, mainly produced by smallholders in low income countries are vitally important to incomes, employment, export earnings and development.

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5. Measuring dependency on the top three commodities, nearly two thirds of developing countries rely on primary commodity exports for more than 50 percent of their export earnings. Commodity export dependency was declining up to 2000 as countries diversified their production but then increased again, especially in Africa and Latin America, with the so-called “recommoditization” of exports in favour of unprocessed commodities rather than value-added forms. There are still ten countries with more than 5 percent of their total export earnings accounted for by coffee alone – two thirds in the case of Burundi and a third in Ethiopia. Other countries have high levels of dependency on exports of tea, bananas, jute, cocoa and cotton.

6. Commodity production and export are estimated to provide incomes and employment for more than a billion people. Up to 20 million people are employed in coffee production in more than 50 producing countries. Eighty percent of coffee and 90 percent of cocoa is produced by smallholders. However, commodity processing, distribution and trade, and upstream seed and fertilizer supply tend to be highly concentrated, controlled by small numbers of transnational corporations that dominate the global value chains. Producers in low income countries typically receive only a small share of the revenues deriving from their commodities. More generally, smallholders are often marginalized in international governance and their voice and interests neglected in global debates and decision-making processes. This situation arguably worsened with the structural adjustment programmes that reduced the role of the national commodity marketing boards which, in spite of their many weaknesses, did at least provide a channel to communicate producer interests.

7. For commodity dependent countries, developments on world markets clearly impact sharply on poverty, economic growth and development and the incomes and food security of smallholders and the rural sector generally. Many of these commodity dependent countries are also net food importers and hence buyers as well as sellers on international commodity markets. Civil society groups have highlighted the need for more inclusiveness in governance of international commodity markets and the need for governance to reinforce the linkages between commodities, sustainability, growth and development.

8. Much of the dedicated institutional architecture governing the international commodity economy, such as the international commodity agreements and organizations and the Common Fund for Commodities (CFC), was developed in the 1970s or even earlier. Today, the international commodity organizations such as the International Coffee Organization and the International Sugar Organization seek to promote the development of their particular commodity sector through dialogue, projects and research, and to enhance market transparency through provision of market information and statistics. The CFC was initially intended to finance the international commodity agreements but since these collapsed soon after it was established, today the CFC finances commodity development projects aimed at improving commodity markets and strengthening the capacity of developing countries, and small farmers to participate in trade.

9. Beyond these dedicated organizations, organizations such as FAO, UNCTAD and the World Bank collect and disseminate relevant market information and undertake analysis of commodity market issues to enhance transparency and understanding, and provide policy support. In practice, FAO actually spans the two categories of organization since besides its more general service provision it also has dedicated commodity mechanisms in the form of the Committee on Commodity Problems (CCP) and the intergovernmental commodity groups (IGGs) that fulfil many of the same roles as the international commodity organizations. Relevant trade rules are set by the WTO which has considered market access for bananas and tropical products and highlighted the particular problems of African cotton producers.

10. More recently, the G20, the G8 and various civil society organizations have taken an interest in commodity market governance issues with the G20 in particular focusing on price volatility and market transparency.

11. The period since most of the institutional architecture was established has seen enormous changes in market structures, policies and technology: changing consumption patterns resulting from urbanization and increasing incomes; technological innovation including the development of biofuels and competitive synthetic substitutes for many agricultural raw materials; increasing concentration in international commodity markets; institutional changes in commodity exporting countries as a result of structural adjustment programmes with an expanded role for the private sector in commodity trade; the development of global commodity value chains; changes in the agricultural terms of trade; and changes in the nature and extent of commodity price volatility. The policy debate has evolved accordingly. The economic and political approach to enhancing commodity market efficiency has shifted away from the interventionist price support and market stabilization, typified by the international commodity agreements with “economic clauses”, towards an increasing emphasis on market transparency and price risk management. However, there has recently been some revival of interest in buffer stocks to control price volatility. Agricultural trade policy has seen progressive reform not least through the Uruguay Round Agreement on Agriculture and the move towards a rules-based international trading system under the auspices of the WTO. Climate change has raised awareness of the need for sustainability and will cause shifts in the geographical distribution of commodity production and trade. All these changes have had far-reaching implications not only for the functioning of international commodity markets but also for food security, property rights and access to productive resources, and the position of smallholder commodity producers.

12. In spite of these profound changes that have taken place in the nature of commodity markets, many of the objectives of the creation of the existing institutional architecture for commodities remain valid today: avoidance of excessive price volatility; improvement of real income of developing countries; improvement of market access and reliability of supply for primary products; diversification of production and expansion of agro-processing in developing countries; encouragement of research and development to improve productivity and competitiveness; improvement of market structures and systems of marketing, distribution and transport. Many of these were reiterated more recently in international fora such as in the *African Union’s Arusha Declaration and Plan of Action on African Commodities* in 2005 or the CFC, UNCTAD, UNDP and *ACP Global Initiative on Commodities* in 2007. Both referred to the need for reform in global governance but momentum seems to have been lost.

13. Some individual institutions have made efforts to update and upgrade themselves. FAO has recently undertaken a major review of the CCP and is completing a review of the FAO IGGs to ensure their continuing relevance to contemporary commodity issues. FAO has also successfully piloted the idea of creating inclusive multi-stakeholder fora involving all stakeholders in a particular commodity market – private sector, NGOs, government, producers, traders and consumers. The CFC has been reviewing its own activities with a far-reaching reform effort that began in 2009 to reform all aspects of its objectives, functioning and structure. AMIS is the only new institutional response to changed circumstances and might provide a model for future development as probably the only intergovernmental commodity market initiative designed to address current circumstances through enhancing transparency and policy coordination. Such initiatives are obviously welcome but they have emerged from the perspective of individual organizations or have targeted single issues. They are not the outcome of a broad and inclusive debate on the future of the international commodity economy and appropriate governance reform in line with the new realities and changing global priorities. The major changes that have taken place in international commodity markets, together with the recognition that governance arrangements may need to be reconsidered, make such a debate timely.

14. Governance of international commodity markets is a broad subject with many dimensions. Ministers might wish to give their national perspectives on the particular issues facing their country’s commodity production and trade.

15. There are three sets of broader questions that ministers might wish to consider:
- What should be the priorities of a global policy and development agenda for commodities and how should they relate to the broader international development goals of the Post-2015 Development Agenda?
  - What should international governance arrangements be expected to deliver bearing in mind what is politically and economically feasible?
  - How effective are current governance arrangements in providing what is required and how might existing institutions and arrangements be strengthened to meet the new challenges?