

UNCTAD
GLOBAL COMMODITIES FORUM 2013
Recommitting to commodity sector development
as an engine of economic growth and poverty reduction

Room XVIII
Palais des Nations
Geneva, Switzerland

18 March 2013

**Recommitting to Commodity Sector Development as an Engine of Economic Growth
and Poverty Reduction**

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Director-General

Ladies and Gentlemen

I would like to thank UNCTAD for inviting me to address the issue of how to ensure a sustainable growth model for translating the rise in commodity prices into development on the ground.

The fundamental premise of the WTO is that trade contributes to economic growth and to poverty reduction and that effective multilateral disciplines are needed to ensure that the global benefits of trade opening can be shared by all. This is the framework in which I suggest we need to approach the growing importance of commodity sector development as an engine of economic growth and poverty reduction. I will focus my few remarks on agriculture commodities which takes a large section of the programme of your forum. Rightly so, given that the poor are typically concentrated in rural areas with a high dependence on agriculture for livelihoods. Policies to strengthen the agricultural commodity sector can play an important role in a development agenda to address extreme poverty and hunger.

But I also think we need to recognise that more than trade will be needed to ensure benefits accrue to individuals. A robust trade agenda must go hand in hand with a robust set of domestic policies in soft and hard infrastructure, in capacity building, in education and skills, in healthcare or in innovation to name just a few.

For decades, commodity trade has been understood from the point of view of "commodity dependent" exporting countries, those whose revenues are largely generated by commodities' exports. The trend of decreasing agricultural commodity prices was the focus of attention. However, from the beginning of the 2000s, there was an upward trend in agricultural commodity prices culminating in the price peak of 2007/08. Following this period of historically high prices food prices have started to ease but remain at relatively high levels underpinned by:

- Continuing strong demand resulting, among other factors, by the 'nutritional transition' that goes hand in hand with poverty reduction,
- Rising costs of inputs
- Often slow reaction of supply to price signals, stemming notably from partial 'marketisation' of livelihood farming.

Nominal prices of agricultural commodities are expected to trend upwards over the next ten years, or even more, and are projected to average 10%-30% above those of the previous decade. These developments have shifted the focus from commodity trade, and more specifically food commodity trade, more towards importing developing countries and the bill they have to pay for their food commodity imports. This is the "food security" concern, which is an important one for the global community. Does looking at the two faces of the same "commodity coin" imply some contradiction as

regards the role of the WTO in opening trade and the disciplines applicable to international commodity trade? I suggest there is no contradiction:

- One, an open, non-distorted and predictable multilateral trade regime is required to address the challenges faced by both commodity-exporting and importing developing countries.
- Two, an open and non-distorted multilateral trade regime can lead to a distribution of prices and production across the world that better reflects countries' comparative advantages in their respective economic activities, including in commodity production or processing ; and
- Three, an open and predictable multilateral trade regime can contribute to the reduction of price volatility by better connecting areas of consumption and areas of production and thus strengthen confidence in the reliability of the international market.

WTO rules, and more specifically the disciplines of the Agreement on Agriculture and the Agreement on Sanitary and Phytosanitary measures, remain of major importance for agricultural commodity trade. The same can be said of the on-going negotiations on a multilateral Trade Facilitation Agreement which, with its focus on shrinking the thickness of borders, removing customs-related red tape, will also increase the regular flow of agricultural commodity trade within and between regions; including for time sensitive products such as fruit, flowers or some processed food.

Again, this is not to say that trade is a "magic bullet" that will concurrently guarantee development based on export of commodities and food security. Trade is one necessary part of a comprehensive policy package which includes other policies such as land management, access to fertilizers and credit, water and natural resource management, property rights, nutrition policies, energy, transportation and distribution networks and sound macro-economic and development strategies. The importance of an open, rules-based trading system in building food security has been recognized by the range of international agencies contributing, along with the WTO, to the global effort on this key goal, for instance through the UN Secretary-General's Zero Hunger Challenge.

Let me now address more specifically some of the ways in which the work of the WTO can contribute to ensuring that commodity trade can address both import and export priorities.

Export subsidies are recognised as the most egregious form of trade distorting support. In the past, export subsidies contributed to decreases in already low world prices, with negative consequences for producers and exporters from developing countries. While prices are generally higher now, it remains true that eliminating export subsidies and agreeing on further disciplines on export credits, exporting state trading enterprises and food aid modalities would contribute to a less distorted and more predictable international trading system.

Export restrictions can contribute to unpredictability and price volatility. Here again, by promoting consistent and predictable trade measures through binding and transparent rules, the WTO could bring a more positive contribution. In this area the network of WTO disciplines has relatively large stitches.

Policies that support domestic prices, or subsidize production in some other way, artificially encourage production. These policies end up discouraging imports or leading to subsidised exports having a direct impact on more efficient producers in other countries. Reducing trade distorting **domestic support** would therefore increase global welfare by eliminating inefficiencies introduced by government intervention and offer producers a fairer price. Regional and bilateral agreements tend to leave domestic support out of their scope. The multilateral negotiating table remains the sole forum for ensuring a fairer trade in agriculture products, one that allows countries to better capitalize on their comparative advantages.

Consider the case of **cotton**. A number of poor countries are dependent on cotton exports for their economic development. However, the cotton sector remains highly subsidized, especially in some developed countries as well as in some emerging ones. These subsidies depress prices and

increase the difficulties faced by countries such as Benin, Burkina Faso, Mali and Chad. Progress has been made in this area, especially on strengthening the development support aspects, or on improving market access for cotton exporters but more remains to be done, in particular to address the trade distorting subsidies that remain.

Bound **Tariffs** on agricultural goods remain substantially higher than those on manufactures almost everywhere around the world. Furthermore, tariff escalation where tariffs increase with value addition to commodities is frequent in agriculture. Reduction in peak agricultural tariffs increases market access opportunities for countries enjoying a comparative advantage, it can lower the cost of food for consumers and also allow for the diversification of production, including value-added processing, and export markets.

Trade opening has created opportunities for agri-food firms to reorganise their production and distribution systems around **value chains**. A particular challenge is to ensure that smaller companies in poorer countries can join in value chains. **Aid for Trade** has an important role to play here. This is why the WTO's Fourth Global Review of Aid for Trade, to be held next July will focus on connecting to value chains including in the agri-food sector. With the help of surveys by companies on the ground, we will examine the barriers which developing countries face in entering, establishing and moving up value chains, something which is of key importance for commodity exporters too.

But as the WTO's 2012 World Trade Report made clear, standards - quality but particularly safety and quarantine requirements - also play a decisive role in agricultural trade. The Agreement on Sanitary and Phytosanitary Measures requires these measures to have a scientific justification, and also that the least trade restrictive measures be used.

But meeting even justified standards is a daunting task for many developing countries. This is where the Standards and Trade Development Facility (STDF), which serves to help match sanitary and phytosanitary measures on the export side, can channel Aid for Trade to enhance the ability of developing countries to meet SPS standards.

This model of interagency cooperation is mirrored by the WTO's active role in cooperation with other agencies, including UNCTAD, in addressing the food security challenge. Through the UN High-Level Task Force on Food Security and through the Agriculture Monitoring and Information System established by the G-20, we work to ensure that the multilateral trading system contributes to growth and stability for exporters and importers alike.

Recommitting to commodity sector development in all its aspects is crucial to our shared objectives of promoting growth and eradicating poverty. This meeting comes at a timely moment and I am more than happy to recommit the WTO to playing its part in this vital effort.
Thank you