

**DIRECTOR-GENERAL’S OPENING STATEMENT TO THE
COMMITTEE ON COMMODITY PROBLEMS**

28 May 2012

Miss Gothami Indikadahena, Deputy Permanent Representative of Sri Lanka and Chairperson of the Committee on Commodity Problems,

Honorable Ministers, Ambassadors and Permanent Representatives,

Distinguished Delegates,

Representatives of civil society, private sector and International Commodity Bodies,

Colleagues from FAO and other UN Organizations,

Excellencies, Ladies and Gentlemen,

1. Welcome to FAO for the 69th Session of the Committee of Commodity Problems.
2. This is FAO’s oldest technical committee, with its first session convened in 1950. And it remains a unique global forum for reviewing market and policy developments and for addressing emerging issues. As relevant today as it was then.
3. In 2011, the food import bill of low-income food deficit countries, which are among the most vulnerable to income and price shocks, was over US\$212 billion.
4. Close to three billion people live in these countries. Many more depend on food imports and are exposed to developments on international food markets.
5. So, for consumers and producers, importing and exporting countries, international markets and trade play an important role in achieving food security.
6. This is why the increased market volatility in recent years, is a worrisome development. In 2010 volatility was about twice the level observed in the early 90’s.
7. While high prices have costs for poor consumers but can benefit producers, high levels of volatility have negative consequences for both.
8. Simply put, it can transform vulnerable people into hungry people.
9. For farmers, volatility increases the uncertainty that is inherent to agricultural production and discourages investments.

10. Today, high food prices are a threat to poor consumers worldwide. But, in a not so distant past, low agricultural prices made farming economically unsustainable for many smallholders in developing countries.
11. Up until 2006, the cost of the global food basket had fallen by almost a half over the previous thirty years, when adjusted for inflation.
12. In this scenario, with cheap and ready available food supply in international markets and the need for structural reforms in governments, the agricultural sector lost importance in many developing countries, especially in the poorer ones.
13. The recent spike changes this scenario. The price increase and their high volatility may be explained by several causes, including supply shocks, low stocks, rising energy prices, excessive speculation, trade restrictions applied by some countries in response to the food crisis and growing global demand.
14. Of all causes, the role of excessive speculation is, without a doubt, among the most polemic.
15. At one extreme, some authors agree that speculation has no or only minimal effect on prices. At the other, some consider that there are people gambling with food commodities in international markets.
16. We are not talking about speculation related to price discovery and the normal functioning of future markets. We are talking of excessive speculation in derivative financial markets, which increases price swings and their speed.
17. This is not a new controversy. Following the stock market crash of 1929, and the depression of the 1930's, the United States Government tried to limit the negative effects of unchecked speculation.
18. Food price volatility is set to continue high on the international agenda and is a high priority issue for FAO analysis and policy advice.
19. Last year, FAO and the Organization for Economic Cooperation and Development (OECD) coordinated the report of the international organizations to the G20 on responses to food price volatility and provided policy workshops in every region. FAO also supported the initiative of President Fernandez of the Dominican Republic that led to the adoption of the UN resolution on “Addressing excessive volatility in food and related financial and commodity markets.”
20. Last week I met with Patricia Espinosa, Foreign Relations Minister of Mexico, country that holds the G20 Presidency. She voiced the opinion that we need global mechanisms to promote food production and financial speculation should be controlled to avoid those distortions. She also asked FAO to work more on this issue.
21. More research is needed on this subject, but there is an emerging consensus that financialisation of agricultural commodity markets has exaggerated agricultural price movements. And some kind of regulation is needed to avoid that it continues to amplify the price oscillations in international derivative markets.
22. In the near future, prices are likely to remain on a high plateau compared to previous decades, and the high volatility is expected also continue.
23. This is one of the global trends that have been identified in the strategic thinking process that FAO is undergoing to adjust the strategic direction and future priorities of the Organization.

24. This is a participative process, with consultations with Members, staff and external experts and partners that I started as soon as I took up office in January. The first step was to map out the major trends that are shaping our world and affect the areas of FAO's mandate.
25. Eleven trends were identified. They include increasing food demand and higher and more volatile food prices, growing competition for natural resources, climate change and increased vulnerability.
26. From these trends, we have identified seven challenges, that include eradicating food insecurity; shifting to sustainable food production and consumption; improving livelihoods and resilience of rural populations; and ensure fairer and more inclusive food and agriculture systems and strengthen governance mechanisms at all levels.
27. We are discussing the Strategic Thinking Process in different meetings of FAO Governing Bodies. We have already received inputs and strong backing of all five FAO Regional Conferences and from the Committee of Agriculture. I look forward to receiving your comments on the global trends and challenges. The discussions will continue over the next weeks including at the next session of the FAO Council, in mid June.

Ladies and gentlemen

28. At this session, you have a rich and varied agenda that includes the reform of this Committee. I fully support the efforts to improve its functioning and to strengthen its position at the centre of global debate on agricultural commodity markets, trade and related policy matters.
29. The Committee will have the opportunity to review important developments in regional trade issues and agreements. In this regard, a special event on the theme "Enhancing Intra-African Trade" will be held.
30. There are many benefits of deeper regional integration but there are also many challenges. Intra-African trade, for example, represents only 10 percent of the continent's total trade.
31. The Committee will also receive reports on FAO's engagements with the G20 over the last two years in the area of agriculture and food security. You will be informed about our support and the progress made in the implementation of the Agricultural Market Information System.
32. At this session, you will review short and mid-term outlooks for agricultural commodity markets.
33. As you well know, 2012 has been recognized as the International Year of Cooperatives by the United Nations.
34. It is my pleasure to inform you that a special event with the participation of Her Excellency Laura Chinchilla, the President of the Republic of Costa Rica, will be held tomorrow morning. This fits well with the concern of this Committee on smallholder integration into markets, which is another item on your agenda.
35. Market integration contributes to food security. At least 70 percent of the world's extremely poor population lives in rural areas. Most of them are small and subsistence farmers and, in many cases, produce just enough to survive. Better access to

- technologies, adapted to their needs, and to markets can make them go beyond subsistence farming and help close the productivity gap that many smallholders have.
36. Smallholders cannot continue to be seen as part of the hunger problem. They are an important part of the solution and are crucial to promote sustainable agriculture and management of our natural resources.
 37. And, with the United Nations Conference on Sustainable Development Rio+20 less than one month away, let's remember and reaffirm that sustainable development cannot exist unless hunger and malnutrition are eradicated.
 38. Rio+20 is a golden opportunity to explore the convergence between the agendas of food security and sustainability to ensure that happens. Both require changes towards more sustainable production and consumption patterns.
 39. At the same time, let's keep in mind that the transition to a sustainable future also needs fundamental changes in the global governance of food and agriculture and an appropriate financing of the transition to a more sustainable production system. Who pays this cost is an important question.
 40. The exact cost of this transition is still unclear. But according to preliminary estimates made by the United Nations Environmental Program (UNEP), the cost is high.
 41. In the past, the poorer have paid a greater share of transition costs and received a smaller share of benefits. That's an unfair balance that needs to change.
 42. Distinguished delegates, ladies and gentlemen, your discussions on the various agenda items will help guide FAO's priority setting, particularly in the area of commodity markets and trade. I wish you a constructive and successful meeting and look forward to the results of your deliberations. Thank you.