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CONFERENCE

Thirty-seventh Session

Rome, 25 June - 2 July 2011

Report of the 68th Session of the Committee on Commodity Problems (14-16 June 2010)

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Appendix A Agenda**Appendix B Opening statement by Mr James G. Butler, Deputy Director-General*****MATTERS REQUIRING THE ATTENTION OF THE CONFERENCE***

The Committee wishes to draw the attention of the Conference to the following matters in particular:

1. Its conclusion that open international trade, removal of trade barriers and distortions and an ambitious and balanced conclusion of the Doha Development Round will further improve the resilience of the agriculture sector to crises (paragraph 11).
2. Its recognition of the importance of investment in agriculture, in particular towards smallholder producers, in increasing productivity and resilience to shocks and the contribution of trade liberalisation and efficient international commodity markets to encouraging that investment (paragraphs 11 and 18).
3. Its call for countries to respect their aid pledges in particular in relation to MDG commitments and those made at L'Aquila (paragraph 11).
4. Its view that direct intervention in spot or futures markets to alleviate price volatility was problematic and costly (paragraph 19).
5. Its recognition of the importance of timely market information in promoting the efficient functioning of commodity markets and reducing the likelihood of price volatility (paragraph 20).
6. Its request for further development of principles for responsible agricultural investment formulated by FAO, the World Bank, UNCTAD and IFAD based on extensive consultation with Member Governments and other stakeholders, including through meetings of Permanent Representatives in Rome, the Committee on World Food Security and FAO regional conferences (paragraph 21 and 22).

MATTERS REQUIRING THE ATTENTION OF THE COUNCIL

The Committee wishes to draw the attention of the Council to the following matters in particular:

1. Its review of the state of world agricultural commodity markets and confirmation of the importance of FAO's commodity market information and analysis and its request for assistance to countries in market information and capacity building (paragraphs 7 and 12).
2. Its request for further analyses of the nature and impacts of price volatility, the effects of policies, the effects of variations in costs of production and the linkages between domestic and international markets (paragraph 7).
3. Its request for proposals for improved dissemination of market information and analyses (paragraph 8).
4. Its endorsement of FAO's trade-related capacity building and request that assistance be given to developing countries in negotiating a WTO agreement and its eventual implementation (paragraph 15).
5. Its request for further analysis relating to the establishment, operations and potential effect of a Food Import Financing Facility (paragraph 17).
6. Its request for further development of principles for responsible agricultural investment formulated by FAO, the World Bank, UNCTAD and IFAD based on extensive consultation with Member Governments and other stakeholders, including through meetings of Permanent Representatives in Rome, the Committee on World Food Security and FAO regional conferences (paragraph 21).
7. Its recognition that the CCP's terms of reference remained valid but agreement to establish an open-ended working group to consider the roles and working arrangements of the CCP and its sub-committees (paragraphs 24 and 25).
8. Its expressed preference to prioritise work on supporting smallholder integration into value chains, foreign investment in developing country agriculture, African trade policy and import dependence and market volatility (paragraph 28).

I. Introduction

1. The Committee on Commodity Problems held its 68th Session from 14 to 16 June 2010 at FAO headquarters, Rome. Of the 122 member countries of the Committee for the biennium 2009-2010, 90 were present at the session. Three Member Nations of the Organization, the Holy See, one UN organization, six international organizations and three non-governmental organizations participated as observers.

2. The previously appointed bureau comprising the following: Mr Neil Fraser (New Zealand), Chairperson; Mr Noel de Luna (Philippines), First Vice-Chairperson; and Mr Fazil Düsunceli (Turkey), Second Vice-Chairperson continued their term until the election of the new bureau at the end of the session.

3. The Sixty-eighth Session was assisted by a Drafting Committee composed of Afghanistan, Argentina, Australia, Brazil, China, Estonia, European Union, France, Japan, Oman, Philippines, Russian Federation, Sweden, Uganda (Chair) and the United States of America. It was agreed that the Chair would give a summary at the end of each item for endorsement by the Committee.

4. The Committee adopted the agenda reproduced in *Appendix A*.

5. The Deputy Director-General (Knowledge) made an opening statement highlighting the priority issues which the Committee needed to address in the current session, including the impact of the financial crisis, price volatility, investments in agriculture and the future role of the CCP. The opening statement is reproduced in *Appendix B*.

II. The State of World Agricultural Commodity Markets

A. Current situation and outlook

6. The Committee reviewed the state of world agricultural commodity markets, including recent trends in exports, imports and international prices. The Committee took into consideration the short-term outlook analysis that points to a possible further fall in some commodity prices, notably cereals, oilseeds and sugar, while a tighter market situation is envisaged for dairy and meat products. It expressed concern over the uncertainties created by recent changes in critical factors that affect world food markets. The Committee agreed that the world financial crisis continues to affect world agricultural commodity markets.

7. The Committee confirmed the importance of FAO's commodity market information and analysis, especially for developing countries, in promoting market transparency and in supporting policy formulation. However, it was noted that the analysis of world commodity markets, as presented, does not necessarily reflect the actual food security situation of all domestic markets: domestic food prices remained high in some developing countries through periods when the FFPI (FAO Food Price Index) was low. In addition, the aggregated nature in which the information is provided does not always reflect the actual complexity of particular markets. The Secretariat was requested to continue monitoring and analyzing world agricultural commodity markets, including further research into the nature and impacts of price volatility, the effects of policies and variations in costs of production, and the linkages between world and domestic markets. Such analyses should consider the implications of market developments for small farmers and for food security. The Secretariat was further requested to exchange its data and analysis with other organizations.

8. Given the relevance of market information and analyses for monitoring food security in developing countries, the Secretariat was called on to propose ways in which its dissemination could be expanded in a timely manner, for example through the release of additional publications or through issuing additional language versions.

B. Impacts of the financial crisis on agricultural commodity markets

9. The Committee welcomed the analysis presented by the Secretariat, complementing it with information on their own members and making a number of recommendations with a view to guide the Secretariat in its future work in this area.

10. While agreeing that the paper provided useful information on the impact of the financial crisis for developing countries, some Members felt that the paper treated the developing world as a homogeneous group of countries and this undermined the validity of some of the conclusions. In this regard, Members viewed a more focused analysis, on countries or regions, as more useful. Members agreed with one of the paper's main conclusion that agriculture has weathered the global financial crisis better than most other sectors but felt deeper scrutiny and analysis, especially based on recent data, were needed in order to better evaluate the lessons learned and to draw policy recommendations.

11. Members recognized that open international trade, removal of trade barriers and distortions, and an ambitious and balanced conclusion of the Doha Development Round will further improve the resilience of the agriculture sector to future crises. The Committee also recognized the importance of investment in agriculture, in particular towards small holder producers in low income countries. It called on national governments to help improve their domestic market integration and infrastructure in order to make their farmers more responsive to prices. At the same time, it called upon countries to respect their aid pledges in particular to accelerate efforts to implement the commitments towards MDGs and those made recently in L'Aquila.

12. The Committee requested the Secretariat to expand the scope of its future studies to: make them more global by increasing the regional coverage; analyse the role of private investment in domestic agriculture; look into the importance of saving windfalls in the case of commodity exporting developing countries; assist countries in market information and capacity building as well as with policy recommendations; and last, but not least, to attempt at channelling the results of its analysis and studies into other FAO activities, in particular to the COAG.

III. Policy developments affecting agricultural commodity markets and trade

A. Multilateral trade negotiations in the World Trade Organization (WTO)

13. The Committee considered the current state of the multilateral trade negotiations in agriculture in the WTO on the basis of the document CCP 10/03, and concurred that the document provided a good summary of the current state and issues. Additional insights were provided by Members on the issues addressed from the standpoint of their countries.

14. The Committee lent support to concluding an ambitious and balanced Doha Round agreement in view of its contribution to creating an enabling environment for agricultural development and food security, as well as to responding to the food and financial crisis. It noted that several of the issues are of a divisive nature, and continued engagement among WTO Members is important. Several Members also pointed to a mischaracterization of the sensitive products rationale in paragraph 14 of the document CCP 10/3, stating that this is a competitive trade issue and not a non-trade concern. Furthermore, it was commented that the outstanding issues are broader than those indicated in paragraph 17 of the document.

15. The Committee appreciated FAO's trade-related capacity building programme and endorsed the continuation of this work. FAO was encouraged to assist the developing countries in particular in the preparation of various statistics and templates necessary for the meeting of the commitments of the negotiation. Once the agreement is concluded, FAO should play a much expanded role on assisting countries in implementing the agreement. This might require raising additional resources. The Committee also took note of the Secretariat's other trade-related work programme, notably assisting Members in mainstreaming trade policy in development.

B. Management of wide international commodity price movements – national and international experiences and policy responses

16. The Committee assessed national and international policy options to manage international price volatility on the basis of document CCP 10/4. The Committee agreed that the document provided a balanced account of the impact of food price surges on developing countries and the policies that were implemented both at national and at international level.

17. The Committee took note that a Food Import Financing Facility could provide a mechanism to address short-term food financing difficulties faced by low-income net food importing countries during price surges. The Committee recommended that the Secretariat conducts further analysis on the establishment, operations and the potential effect of such a Facility.

18. Many Members suggested that trade liberalization will ensure competition and the efficient functioning of the international commodity markets and can be conducive to a friendly environment for investment in agriculture. Many Members noted that the implementation of export restrictions by food exporting countries in times of crisis can result in more uncertainty in the market. Other Members stressed that export restrictions are a necessary policy measure to assure domestic food security during food price surges.

19. The Committee recognized problems associated with direct intervention in either the cash or the futures markets as a way to alleviate food price spikes. Many Members underlined that the costs of such interventions can be significant.

20. The Committee concurred that the provision of timely market information is important in promoting the efficient function of commodity markets, instilling more confidence and thus reducing the likelihood of price volatility. The Committee also stressed that increases in agricultural productivity through investment and improvements in infrastructure will lead to enhanced buffer capacity of the agricultural markets making the possibility of food price surges less likely.

C. Foreign investment in agricultural production – issues, policy implications and international responses

21. The Committee recognized the role of foreign investment in increasing agricultural production and stressed that FAO had an important role to play in this area. It supported the work undertaken by the Secretariat so far and encouraged it to deepen this work. It underscored the need for more detailed information and data on the nature, magnitude, scope and effects of foreign investment in agriculture and looked forward to the results of the Secretariat's ongoing work in this area. It also highlighted the need of a holistic and comprehensive approach that take into account the situation of smallholder farmers. It supported the development of principles for responsible investment in agriculture by the Secretariat, the World Bank, IFAD and UNCTAD and urged them to hold broad consultations with all Member Governments and stakeholders. In particular, it insisted on the need of giving transparency to the discussion and on the importance of holding meetings in Rome where the Permanent Representations to FAO, IFAD and the WFP are based. The Committee approved that consultations be held during the next session of the Committee on World Food Security in October 2010 and in conjunction with other FAO meetings such as the regional conferences.

22. The Committee emphasized the need for coordination with other processes such as the voluntary guidelines for responsible land tenure and the initiatives of multilateral organizations such as the OECD, African Union and UN Economic Commission for Africa in order to ensure coherence and synergy.

IV. International action on agricultural commodities

A. Roles and working arrangements of the Committee on Commodity Problems and the Intergovernmental Commodity Groups

23. The Committee considered the roles and working arrangements of the CCP itself and of the Intergovernmental Commodity Groups in the light of the IEE recommendations and the ongoing

discussions in the Open-ended Working Group on Measures Designed to Increase the Efficiency of Governing Bodies, including Representation. While noting that review of the roles and working arrangements of the CCP and IGGs required detailed consideration, Members expressed their views on a number of the issues raised in the document (CCP 10/6) prepared by the Secretariat to support this item.

24. Members agreed that the CCP's terms of reference remained valid. Members also agreed to establish an open-ended working group with a core membership of two members per region and under the chairmanship of the Chairperson of the CCP. This working group would need to focus on technical matters and on administrative matters to liaise closely with the open-ended working group on the efficiency of the FAO governing bodies.

25. The working group will consider issues such as, *inter alia*, timing and duration of sessions, working methods, the role and the working arrangements of the IGGs, bureau representation, linkages with other technical committees and international organizations, the role of CSSD, drafting committee including the possibility of a rapporteur, the relations between the IGGs and the Committee.

26. The Committee received the reports of the various IGGs which had met since its last session. It was noted in relation to the Report of the 22nd Session of the IGG on Meat and Dairy Products (CCP 10/7) that while statements such as that on mitigation of greenhouse gas emissions might be discussed in an IGG, they can only be endorsed by the CCP after further discussion under a specific CCP agenda item.

27. With respect to the Report of the Joint Meeting of the 30th Session of the IGG on Oilseeds, Oils and Fats, the 32nd Session of the IGG on Grains and the 43rd Session of the IGG on Rice (CCP 10/9), the Committee noted that a consensus view should not be reported where participation in an IGG is limited, and adequate and extensive discussion has not taken place. More generally, it was noted that broad participation in IGGs is needed if the views of the FAO membership are to be reflected adequately.

B. Identification of priorities for work under the terms of reference of the Committee on Commodity Problems

28. The Committee discussed work priorities for 2010/2011 under the area of its remit with the aid of document CCP 10/Inf 8 and provided guidance to the Secretariat on potential priorities of the work areas described in that document. The Committee considered all of the topics indicated by the Secretariat to be important but noted that prioritization was necessary in the light of resource constraints, and that besides costs also comparative advantages, results of previous work and the possibility of benefiting from partnerships should be taken into consideration. It was noted that work on the various topics indicated would need to extend beyond the current biennium through the medium term. However, there was an expressed preference to prioritise work on strategies and policies to support smallholder integration into value chains, on foreign investment in developing country agriculture, on Africa trade policy and food dependence and on market volatility and its impact on food security. The Committee noted that the priority on smallholder market integration reflected one of the priorities expressed by the Africa Regional Conference. All of the priorities identified came under Strategic Objective G.

V. Other matters

A. Any other business

29. There were no items of other business.

B. Election of Chairperson and Vice-Chairpersons

30. The Committee elected Mr Mohamad Oemar (Indonesia) as Chairperson, Mr Alberto Lopez (Spain) as First Vice-Chairperson and Ms María del Carmen Squeff (Argentina) as Second Vice-Chairperson.

C. Arrangements for the Sixty-ninth Session

31. The Committee was informed that the 69th Session will take place in the first half of 2012. The exact date will be communicated in due course.

APPENDIX A

**AGENDA FOR THE SIXTY-EIGHTH SESSION OF THE
COMMITTEE ON COMMODITY PROBLEMS**

1. Organizational matters
 - (a) Adoption of Agenda and Timetable
2. The State of World Agricultural Commodity Markets
 - (a) Statement on behalf of the Director-General
 - (b) Current situation and outlook
 - (c) Impacts of the financial crisis on agricultural commodity markets
3. Policy developments affecting agricultural commodity markets and trade
 - (a) Multilateral trade negotiations in the World Trade Organization (WTO)
 - (b) Management of wide international commodity price movements – national and international experiences and policy responses
 - (c) Foreign investment in agricultural production
4. International action on agricultural commodities
 - (a) Roles and working arrangements of the Committee on Commodity Problems and the Intergovernmental Commodity Groups
 - (b) Identification of priorities for work under the terms of reference of the Committee on Commodity Problems
5. Other matters
 - (a) Any other business
 - (b) Election of Chairperson and Vice-Chairpersons
 - (c) Arrangements for the Sixty-ninth Session
6. Adoption of the report

APPENDIX B

OPENING STATEMENT BY MR JAMES G. BUTLER DEPUTY DIRECTOR-GENERAL (KNOWLEDGE)

Welcome to the 68th Session of the Committee on Commodity Problems.

The adjustment to the calendar of meetings and realignment of sessions of technical committees means that we meet only one year after the 67th session. This session provides an opportunity to have an in-depth discussion of the CCP itself and it is expected that you will devote a substantial portion of the Session addressing the role of the Committee and its working arrangements.

The CCP is FAO's oldest technical committee, having had its first meeting in 1950. The intervening 60 years have seen major changes in international commodity markets. Policies and institutions have evolved accordingly, with progressive reform in agricultural trade policy under the auspices of the WTO. The basic terms of reference defining the scope of the CCP's work remain valid and it continues to be a unique global forum for reviewing market developments and policy matters. But the time has come for the Committee to see how it can better address these terms of reference and strengthen its position at the centre of global discussions on commodity trade and related policy matters. The FAO reform process has already provided some useful guidance on this.

Agriculture has faced a number of severe shocks in the last few years – record high oil prices, commodity price spikes, food security fears and the most serious global economic recession for thirty years. Recovery in commodity markets from the impacts of the financial crisis is one of the key issues for your attention. Some normality seems to be returning this year with production closer to historical levels and demand recovering, but many governments remain concerned about the possibility of further external shocks to agricultural markets and continuing – and even increasing – price volatility.

Volatility problems and how to deal with them feature strongly at this session of the CCP: the recent experience in managing price swings and the policy lessons that can be learnt is an agenda item requested by Members at the 67th Session; volatility and responses to it is also a particular theme for the latest *OECD-FAO Agricultural Outlook* which will be launched in a special event at this Session and this will be followed by a further event focusing on these issues.

At the 67th session, Members agreed on the urgent need to conclude the Doha Round. Sadly there has been little progress in the WTO negotiations since that last session but you will have the opportunity to review the current state of play. In spite of the slowing down in progress in the negotiations, the Secretariat has continued to provide information, analyses, technical assistance and capacity building to support Members in working towards agreed new modalities for international agricultural trade and participating fully in informed debate on this subject.

In discussing the high food prices on world markets between 2007 and 2008 and the ensuing food crisis which confronted many developing countries, Members highlighted the low productivity and weak production growth in developing country agriculture which in turn reflects the lack of investment over decades. The implication is that investment needs to be increased, but the recent increase in foreign investment in developing country agriculture, especially in land, has attracted a lot of international concern. You will have the opportunity to review the issues surrounding these investments and to discuss appropriate policy responses including the draft principles for responsible agricultural investment developed by FAO, the World Bank, UNCTAD and IFAD.

This session is a crucial one in shaping the future role of the CCP, to define its strategic priorities and how they will be addressed. I therefore wish you a constructive and successful meeting.