American Model United Nations

United Nations Conference on Trade and Development

Report to the General Assembly on Commodities

CONTENTS

EXECUTIVE SUMMARY

This report summarizes the ideas and concerns of the committee, and while a consensus was not reached, there was much debate that did serve to further the work on commodities.

The first chapter of this report includes a summary of the recommendations for action to the General Assembly. The United Nations Conference on Trade And Development (UNCTAD) believes futures markets be considered as a solution to commodities as it allows producers to protect themselves from volatility risk by trading in the future. There are three important issues within futures markets: challenges of implementation, technology accessibility for best utilization, and the fairness of future prices. Many countries also believe South-South cooperation can increase technology and information sharing and decrease dependence on volatile commodities.

In chapter two, the main controversy within the deliberations dealt with subsidies of commodities. While subsides protect home markets in developed nations, they can be a obstacles to Least Developed Countries. A consensus was not reached concerning the revamping of the Common Fund for Commodities (CFC), although much open debate occurred. Grievances against the CFC included a universal standard at quality of products, free trade vis-à-vis fair trade, trade barriers, and views on the World Trade Organization. Some countries believe sustainability is necessary for commodity dependent nations to move away from monoculture cash crop production. Delegations also examined the volatility of the market, moratorium on debt, and establishment of a price floor. Multinational Corporations nurtured controversy regarding the promotion or hindrance of development.

Regarding the state of commodity prices, the body unanimously expressed its commitment to gradually reducing anti-competitive barriers to trade. UNCTAD believed that a global selection of products is offered to emerging economies for the purpose of sustainable economic development. Our cooperation in the area of bi-lateral and regional trade agreements worked to benefit all states involved. UNCTAD expressed its firm commitment to the development of the productive sector of developing economies, coordinated with partner institutions, multilateral and regional development banks, UN organizations, and other organizations on an international, regional, national and local level.

Chapter two, subsection B includes a working paper that the Conference believes contains ideas and concerns that should be brought to the attention of the General Assembly. The working paper recommends the development of special measures to compensate the poorest commodity-dependent states who are most affected by the volatility of prices within the global market. It also encourages the General Assembly to reestablish the CFC to help alleviate the current instability in the market. Finally, the paper stresses the importance of addressing the unpredictability of commodity prices as it directly relates to efforts in reducing poverty.

CHAPTER I

Matters calling for action by the General Assembly Plenary and brought to its attention

A. Recommendations for action by the General Assembly

A potentially important solution to the issue of commodities is that of futures markets. This is an issue the General Assembly should be aware of in future deliberations on the topic of commodities. Futures markets allow producers of commodities to trade in the future, thereby minimizing the risk associated with volatile prices in primary product markets. While the implementation of futures markets in developing countries is a challenge, it is possible that this tool may be useful in ensuring producers against volatility risk. However, there needs to be consideration of the lack of access developing countries have to the technology required for successful utilization of futures markets. There is also contention on whether or not prices in futures markets are fair to commodity-dependent states.

Many countries also support the idea of South-South cooperation. Trade between developing nations would be beneficial to all parties involved. This will lead to increased technology and information sharing. In the long run, this cooperation may result in reduced dependence on volatile commodities.

Chapter II
Consideration of Commodities

At its 18th meeting, on 18-19 November 2007, the Conference considered agenda item I, Commodities.

For its consideration of this item, the Conference had before it the following documents:

(a) 2007 UN Global Initiative
(b) UNCTAD Sao Paulo Consensus (2004)
(c) International Monetary Fund Debt Sustainability Framework for Low-Income Countries
(d) International Coffee Agreements of 1962, 1968, 1976, 1983, 1994, and 2001
(e) UNCTAD International Program for Commodities (IPC) (1976)
(f) 1980 Agreement Establishing the Common Fund for Commodities (CFC)
(g) 2002 Monetary Conference on Financing for Development
(h) UNCTAD's Commodities and Development Report (2007)
(i) 2003 Report of the Meeting of Eminent Persons on Commodity Issues
(j) 1995 WTO Agreement on Agriculture
(k) Report of the Commission on Trade in Goods and Services, and Commodities on its 11th Session, UNCTAD (2007)
(l) UNCTAD The Development Role of Commodity Exchange (2007)
(m) Expert Meeting on Enabling Small Commodity Producers and Processors in Developing Countries to Reach Global Markets
(n) UNCTAD Report Financing Commodity Based Trade and Development: Innovative Agriculture Financing Mechanism (2004)

A. Deliberations

The topic of Commodities produced a wide and varied discussion among the Member States of UNCTAD. There were many sub-issues which required attention. The committee deliberated in an informal manner to determine the main concerns of the entire body.

One of the primary topics, but also one of the most contentious, was that of subsidies of commodities. Some developing nations were in favor of renegotiating or eliminating subsidies in an effort to increase the competitiveness of commodities on the global market. Least Developed Countries (LDCs) dependent on commodities find artificially lower world commodity prices prevent them from being able to compete in the world market. Developed countries find subsidies a way to assist domestic producers.

Another issue the Member States discussed was the Common Fund for Commodities (CFC). The Common Fund is an UNCTAD creation used by countries to help cope with difficult economic periods and price shocks resulting from sudden drops in commodity prices. The CFC is supported by voluntary contributions of all countries party to it, and is used by any member country which is experiencing economic hardships results from price shocks. Many of the Member States wanted to increase the CFC and increase the membership to include all LDCs. There was also some discussion of greater support and monetary contributions to the CFC, but a consensus on how best to accomplish this was not reached.

Lebanon suggested forming a universal standard for the quality of products to ensure ease of access by developing countries into developed markets. This idea was strongly supported by Ecuador. Ecuador recommended that a fixed negotiated standard through the United Nations would allow for easier implementation around the globe.

The issue of free trade was also important to many Member States. Lebanon cited this as one of their primary concerns, as did the United States of America. The difference between free trade and fair trade also prompted some discussion within the committee. Many of the Member States believe that while both were important, one of the primary concerns of the body at this time should be on reducing barriers to trade to promote free trade.

Discussion also took place on the topic of trade barriers. Value added taxes exported to developed countries on goods prohibit developing countries from marketing goods in developed markets, particularly in the European Union and North America. Some countries felt that there should be a decrease in the conditionality of trade, especially since they are unequally applied to countries and many LDCs suffer because of them. An increase in bilateral agreements was cited as a possible solution to this problem. The topic of the World Trade Organization (WTO) prompted some contention among the delegates. Ecuador was particularly critical of the WTO, since some of the poorest LDCs are underrepresented within that body.

In the long run, many developing nations found it important to move out of monoculture cash crop economies dependent on commodities. This results in spending far more on imports than exports, which causes problems with balance of trade. States export raw materials for low prices and import manufactured goods made from these materials at much higher prices, resulting in huge trade deficits.

Sustainability was a concern of many of the Member States. Lebanon appealed to nations to help each other with sustainability practices including the sharing of relevant info technology, an idea with which many other countries concurred. Sierra Leone encouraged looking at the differences between renewable and non-renewable resources, which is an important aspect of sustainability.

Ecuador spoke strongly on the volatility of the market. They were particularly concerned about how this affects and perpetuates debt. They suggested a moratorium on debt payments during times of price shocks, based on a similar practice of the International Monetary Fund. Discussion then moved on to the idea of establishing price floors. Price floors would be used to lessen the impact of economic shocks on developing countries, which can be highly damaging to a growing economy. Some representatives called for the creation of a committee to examine this problem.

Ecuador proposed a re-examination of commodity markets. International Commodity Agreements (ICAs), either multilateral or through UNCTAD, may be a useful tool in helping LDCs gain access to knowledge or technologies. There exists a UN Task Force on Commodities, which provides information to LDCs dependent on commodities.

Nepal emphasized that developed countries are buying commodities from developing countries and sees that a compromise is possible. However, other nations pointed out that import and export figures are skewed as these figures include energy exports. Since many energy sectors are controlled by MNCs, exporting nations do not generally retain the revenues that contribute to export figures. France believes that developed countries are less equipped to deal with emerging markets.

Multinational corporations (MNCs) are an issue of contention among various countries. It is debatable as to whether these MNCs promote or prevent development. Some countries spoke of MNCs preventing the implementation of fair trade and manufacturing practices of nationalization of industries prompted much debate among the Member States. Some of the countries believe that nationalization allows a country to regain more control over the use of its resources and the profits of these companies. Examples cited include Venezuela's nationalization of their oil industry which allowed them to control the revenues from oil and utilize them to pay off all external debt. However, this issue is one of contention, as some nations find nationalization to be a hindrance to continued Foreign Direct Investment (FDI) and free trade.

The issue at hand, commodity crisis, is a perplexing issue and at times a sour area for The People's Republic of China. The issues surrounding the commodity crisis will garner conflict as programs and initiatives designed to aid and promote one country will hinder another. China stands as a leading nation and example to many LDC countries; however, at the current state, our interests are contrary. China recognizes the positive influence much of the work done in this body and benefits LDCs in many areas. China, as a country with state-run industries, supports the dialogue surrounding encouraged nationalization for other member nations and sees it as a benefit to the Chinese interest. Also China is extremely hesitant to address or promote the elimination of current subsidies and tariffs. China wishes to continue collaborative discussion in hopes of seeking consensus to find a beneficial solution to this problem.

France and Italy viewed the initial report and engaged in many high level discussions over the importance and value of trade restrictions. Working towards competitive markets, France and Italy stressed the importance and movement away from nationalizing industries to prevent the risk of nationalization industries as a means of promoting foreign private investment. France and Italy stressed the importance and movement away from nationalizing industries of utilization of existing frameworks, rather than the creation of new institutions, noting the importance of bilateral and regional negotiations towards the elimination of anti-competitive barriers to trade. The developed countries were firmly committed to the balanced development of the economy, society and institutions within

LDCs. France is concerned by the members of the body trending towards unilateralism on the issue of commodities. France expressed its commitment to the continued use of established frameworks for the reduction of anti-competitive trade barriers, but cautioned LDCs against movement away from liberalization.

One issue that the committee would like to bring to the General Assembly's attention is the issue of the volatility of prices and its affect on the production of legal versus illegal commodities. Because the prices of legal commodities fluctuate so much, many producers are left with no other choice than to produce illegal commodities which provide them with stability of both price and demand. Venezuela, in particular, has worked closely with other South American countries who are most affected by this by-product of market instability. Venezuela believes that these affected countries have done all in their power to encourage the production of legal commodities, however these governments cannot guarantee any kind of price stability due to the policies on tariffs and domestic subsidies of the imperialist regime of the North. Additionally, the lack of effort put forth by the Northern countries to decrease the demand of illegal commodities further exacerbates the situation. Not only is it in the best interest of Venezuela and all of South America, but it is also in the best interest of the entire international community to address the issue of volatility in the market.

The United States of America believes that by placing blame, the issue of commodities is not aptly addressed. The insinuation that Northern countries put forth no efforts within UNCTAD is false and weakens the statements made by the body. By focusing attention on the international community as a whole, the United States of America wishes to properly address commodities with the intention of improving the global economy. We also wish to stress our desire to be viewed as partners trying to stabilize the trade of all nations, both in South America and the world.

B. Working Papers

The Conference would like to submit to the working paper for consideration by the General Assembly:

Emphasizing the 2007 United Nations Global Initiative which seeks to examine the international commodity market from a development and poverty perspective,

Noting that the volatility of commodity markets can directly impede the paths towards sustainable development for commodity-dependent countries,

Recognizing that collaboration between international organizations, Member States and the private sector can contribute to the development of a more stable commodity sector,

Recalling the Sao Paulo Consensus which closely linked commodity markets with goals of poverty alleviation and sustainable development for developing economies, *Understanding* that reliance upon a limited number of commodities can be severely detrimental to developing economies, especially during periods of volatility or natural disaster,

Having considered that the resources of developing states are often exploited by multi-national industries resulting in capital flight and environmental degradation,

Reaffirming the 1980 agreement establishing the Common Fund for Commodities (CFC) as a major step towards the economic stabilization of commodity-dependent countries,

Welcoming resolutions A/62/266 and A/61/202 which reaffirm that trade-distorting barriers within the developed world exacerbate poverty within the developing world by restricting access to developed markets,

Recognizing resolution A/61/202 and its call for full implementation of the Task Force on Commodities to be headed by Benjamin Mkapa, former President of the Republic of Tanzania,

Observing the International Monetary Fund Debt Sustainability Framework for Low-Income Countries as a precedent for international recognition of the heavy burden that debt inflicts upon the Least Developed Countries,

Noting the advantages derived from active cooperation within international commodity agreements such as the successful International Coffee Agreements of 1962, 1968, 1976, 1983, 1994, and 2001,

1. *Invites* Member States and international organizations to cooperate in the development of special measures to help compensate the poorest commodity-dependent states severely affected by the instability and volatility of prices within international commodity markets, particularly the agricultural sector;

2. *Encourages* cooperation among Member States and international organizations to examine natural impediments that commodity-dependent states must face and how this affects their path towards sustainable development and achievement of the United Nations Millennium Development Goals;

3. *Urges* the United Nations Committee on Trade and Development (UNCTAD) to renew its efforts to reestablish the Common Fund for Commodities (CFC), which was created in 1980 as an instrument to provide stability to commodity-dependent countries and has suffered from a lack of sustained funding and political will;

4. *Encourages* all Member States to actively participate in the Common Fund for Commodities;

5. *Welcomes* the emergence and spread of technological and service commodities

and sponsors the expansion of post-industrial economies among developed Member States;

6. *Encourages* international support and implementation for the Task Force for Commodities, which is responsible for researching solutions to commodity based dilemmas, particularly those involving the agricultural sector;

7. *Further recommends* that UNCTAD may provide the forum for bilateral and multilateral International Commodity Agreements for the most volatile commodities to provide all member nations with access to commodity information.

With regards to the resolution that did not pass, the following discussion items were discussed,

Privatization and Nationalization was not supported by multiple nations in relation to clause 5 wich was removed due to previous arrangements between multiple nations.

This removed clause addressing trade distorting barriers including subsidies and tariffs was also highly controversial in relation to the reduction of trade distorting barriers such as subsidies and tariffs. While many developing nations supported this clause a few did not due to trade relations with developed nations. Developed national were opposed to this clause, as they felt it had the potential to negatively impact their economy.

With regards to clause 8 (which was also removed), a freeze in debt repayment, developed nations were opposed to this clause and the economic plan of setting floors and ceilings to regulate the market.

Clause 5, subclause (b) regarding freedom of information and the innovation of International Commodity Agreements to protect LDC from market instability, was also an issue for some countries in private deliberations.

It should be noted that 2 previous clauses addressing trade distorting barriers including subsidies and tariffs, as well as a clause addressing both privatization and nationalization, were the most controversial, creating the formation of numerous amendment proposals and debate between countries. Other clauses were also discussed and deliberated on, however, 5 & 8 provoked the most emotive and the largest quantity of responses from a wide variety of developed and developing states.

France, Italy, Namibia, the United States, and China would like to submit their opinions why the Resolution failed. “All present Least Developed Countries” and many developing nations deliberated and ultimately created a working poaper that failed to be accepted by this body. The working paper encompassed a multitude of issues and controversy emerged regarding the issues of nationalization and subsidy elimination, specifically opposing clauses 5 & 8. Many developed and developing countries felt as though the interests of their national governments and economics were not taken into consideration and rather the working paper primarily represented the interests and views of few likeminded Member Nations. The overwhelming opposition stated that changes in standards of the global economy must incorporate the whole of the body, seeking consensus, as opposed to the evident unilateralism. In addition, the rule of market was not considered withing the working paper.

It must be noted that great collaborative work was being done in an effort to create acceptable amendments that would allow this working paper to be adopted by this body and was greatly limited and influenced by time constraints and requirements of the body."

CHAPTER III
Adoption of the report

At its eighteenth meeting, on 19 November 2007, the draft report of the Conference was made available for consideration. The Conference considered the report, and with no amendments, adopted the report by consensus.