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Better Aid for Fairer Trade: the Case for Special and Differential Treatment

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The second topic for consideration by this 72nd meeting of the Development Committee – the Doha Development Agenda (DDA) and Aid for Trade - highlights the urgency for the global community to accelerate implementation of the DDA in the run up to the Sixth Ministerial Conference of the World Trade Organization (WTO), Hong Kong, December 13-18, 2005.

Policy makers seem to agree that trade can be a forceful engine for growth, poverty reduction, and achievement of the United Nations (UN) Millennium Development Goals (MDGs). The benefits of free trade were cheered on the occasion of the 50th anniversary celebrations of the multilateral trading system, Geneva, Switzerland, May 1998. Leaders from the North argued that trade liberalization can spur growth and employment creation, raise living standards, and contribute to world peace and stability in countries worldwide.

However, both state and market are imperfect institutions. Amidst unprecedented global prosperity, the least developed countries (LDCs) have been increasingly marginalized from the mainstream of the world economy, and the gap between rich and poor has continued to widen. The fifty LDCs, 34 of which are in sub-Saharan Africa (SSA), are more vulnerable today then ever. Despite ongoing efforts, African LDCs will fall short of all MDGs if current trends continue. These countries typically rely on a narrow range of low-value-added and weakly competitive non-fuel primary commodities for an average of three-fourths of their export revenues, and have remained heavily indebted, and aid dependent. Market-based solutions have aggravated these structural vulnerabilities. African LDCs need a fair chance to trade themselves out of poverty, debt and hunger. Without structural solutions, however, intermittent food aid or more debt forgiveness will not be able to put these poor countries on a path of sustainable growth, and their future will be gloomy indeed. African economies still lack appropriate “shock-absorbers” to withstand both internal challenges - such as the devastating impact of HIV/AIDS on their economies - and to reduce their vulnerability to changes in the external environment.

Measures to protect the economies of these poor countries against low and volatile commodity prices have been gradually eroded with the dismantling of the commodity agreements and non-reciprocal trade preferences of the 1970s, 1980s and 1990s made possible under special waiver from the Most Favoured Nation (MFN) principle. The volatility in the prices for non-fuel primary commodity emanating from these fundamental mutations are compounded by adverse weather conditions, structural oversupply, and speculation in commodity futures markets. The information technology (IT) revolution is radically altering how price information takes place, erasing the barriers between the futures market and over-the-counter world commodity markets. More advanced developing countries, such as India, are developing their own futures market to arm themselves against the instability of today’s commodity markets. African LDCs have been unable to join the IT revolution in a rapidly widening digital divide, and do not have any defense against such uncertainties. Non-fuel primary commodity prices have suffered a marked long-term decline since the 1980s - the upturn since 2002 notwithstanding – and remain highly volatile. Excessive price instability complicates export revenue forecasting and makes it extremely difficult for policy makers to plan current expenditures that could help reach the poverty reduction and related MDGs.

An important objective of the WTO is to ensure that developing countries and the LDCs in particular secure a share in the growth of international trade commensurate with the needs of
their economic development. One recalls a specific provision in the mandate of the WTO as outlined in the 1996 WTO Inaugural Declaration: “The integration of the developing countries in the multilateral trading system is important for their economic development and for global trade expansion. In this connection, we note that the WTO agreement embodies conditions conferring differential and more favourable treatment for developing countries, including special attention to the particular situation of the least developed countries”.

Many developing countries had felt sidelined during the Uruguay Round (1986-1994) of trade negotiations and at the Third WTO Ministerial Conference, Seattle, USA, November 1999, which ended in failure. Encouraging progress has been made within the WTO in the past ten years to enhance transparency and participation by the developing countries in its internal decision making processes and procedures. However, the WTO can only act as a broker among its 148 member states, 32 of which are LDCs, highlighting the need for ongoing institutional reform. At the fifth WTO Ministerial Conference, Cancun, Mexico, 2003, multilateral trade negotiations again broke down due to a lack of commitment by the North to enhance market access and implement the DDA, particularly in “sensitive” areas such as agriculture, which remains the mainstay of most LDC economies, employing 75% of the labour force.

Protectionist measures and subsidies provided by the North totaling over US$1 billion a day in 2004 cost the South an estimated US$72 billion in lost revenues a year by encouraging overproduction, depressing global prices, and hindering market access. Meanwhile, the percentage of official development assistance (ODA) allocated to agriculture dropped from 20% in the 1980s to 12% today, or US$1 billion a year. In 2001, the overall share of world exports of goods and services supplied by LDCs that export predominantly agricultural commodities stood at only 56% of its level in 1980. Although the WTO July 2004 package revived hopes by setting out a framework for agricultural negotiations on the future elimination of export subsidies for agriculture, progress in this area remained slow. Delays in the agricultural talks in turn hold up progress in goods and services liberalization. Without a significant breakthrough on agriculture and a clear commitment by the North to cut agricultural tariffs, large emerging markets are unlikely to agree on liberalization of their goods and services markets. It is hoped that the March 2005 ruling of the WTO’s Appellate Body condemning the heavy US subsidy programmes for its cotton farmers can serve as a precedent for the undoubtedly arduous agriculture negotiations to come.

In addition to eroding preferences and inadequate market access, the trade position of African LDCs is seriously undermined by mounting external competition as a result of ongoing deep structural transformations under the rules-based multilateral trading system. These may be illustrated by the impact of the dismantling of textile quotas under the WTO Agreement on Textiles and Clothing as per January 1, 2005 on the economies of African LDCs. The dismantling of quantitative restrictions intensifies competition for African LDCs from producers in Asia and Latin America, and the industry will have to struggle to survive. Small developing countries and LDCs are increasingly vocal about their growing vulnerability, and are demanding access to developed country markets on a preferential basis in the context of the DDA.

The main principle behind the MFN is that of fairness and justice. The first major challenge for policy makers in developed countries is to provide special and preferential treatment as an
integral part of all elements of the forthcoming multilateral trade negotiations, as envisaged in the DDA. An encouraging step into the right direction was taken by the EU in March 2001 with the *Everything but Arms Initiative*, which provides duty- and quota-free access to EU markets on a non-reciprocal basis for essentially all LDC products - with the exception of arms and ammunition. More specifically, trade ministers from the North are encouraged to consider reviewing all special and differential treatment provisions for LDCs under the Framework Agreement on Special and Differential Treatment (WT/GC/W/442) proposed in Article 44 of the DDA at the forthcoming WTO Ministerial Conference, and to incorporate such provisions in their Ministerial Declaration or Decision, which would establish a legal basis for such treatment.

At the national level, African LDCs face serious trade capacity constraints, including acute infrastructure needs. Addressing these needs and constraints requires *more and more effective aid* that could help raise the national competitiveness of these countries, and strengthen their supply capacity. The second major challenge for the international community therefore is to help mobilize financing for development, in line with the *Monterrey Consensus* and the *Brussels Program of Action for the LDCs*. Donors are also encouraged to untie aid for LDCs, in line with the *Recommendation to Untie Aid to the LDCs* made by the Development Assistance Committee of the Organization for Economic Co-operation and Development in April 2001.

Despite the upward trend in official development financing (ODA) since 2001, and some encouraging initiatives taken in advance of the UN High Level Summit, New York, September 2005, current aid volumes remain well short of the US$100 billion that is needed every year to meet the MDGs by 2015. There remains a shortfall of some US$46 billion, a deficit which has been estimated to rise to $52 billion by 2010. The shortage is especially large for SSA, where aid flows would need to double over the next five years for the MDGs to be achieved.

The OPEC Fund for International Development aims at helping bridge this financing gap by making available concessional loans and grants to particularly the poorer, low-income countries. The Fund was established in 1976 by the then-13 member countries of the Organization of Petroleum Exporting Countries (OPEC) in the firm belief that it is our social responsibility to help unlock the poverty trap through mechanisms for *voluntary re-distribution*. Our mandate is to reinforce financial co-operation between Fund member states and other developing countries, and to promote South-South solidarity. In carrying out its noble mandate, the Fund actively participates in ongoing international efforts to enhance the quality and effectiveness of aid through harmonization and alignment, in line with the objectives of the March 2005 *Paris Meeting on Joint Progress toward Enhanced Aid Effectiveness*.

Since its inception to date, the Fund has made available a cumulative total of US$7.7 billion in untied development assistance. Activities have included infrastructure development and technical assistance for trade-related human and institutional capacity building. Among the numerous activities sponsored have been projects to encourage technical co-operation and technology transfer in such areas as agricultural development, food production, and food security, to enlarge the pool of scientifically qualified personnel, and to foster co-operation and networking among reputable research institutes and *Centers of Excellence* in the South. Recognizing the importance of the private sector in helping raise national competitiveness and standards of living, the Fund established a separate Private Sector Facility (PSF) in 1998. The
Facility aims at encouraging productive private enterprises and the development of local capital markets by providing lines of credit, direct loans, equity and quasi-equity, and leasing. The Fund further established special accounts to help mitigate the impact of HIV/AIDS and a series of food crises on the countries worst affected. Finally, the Fund continues to contribute its fair share to the Heavily Indebted Poor Countries Initiative, which aims at reducing the external debt and debt service burdens of eligible poor countries to sustainable levels.

The Fund was established by its founding fathers to provide development financing in addition to the resources already made available by OPEC member states through other multilateral and bilateral channels. By the end of 2003, Arab development institutions together had made available US$81.3 billion in development assistance. This amount includes the trade financing provided by particularly the Islamic Development Bank (IsDB) and the Arab Fund, which are most active in directly facilitating the flows of exports and imports. With South-South trade growing at a brisk pace of 10% annually, twice as fast as global trade expansion, demand for such financing is likely to increase. The OPEC Fund remains committed to fostering trade and economic cooperation among developing countries by working in partnership and joint action with its sister and like-minded institutions, and all other relevant stakeholders. The Fund has been a staunch supporter of the International Fund for Agricultural Development (IFAD) since the latter’s inception with Fund co-financing with IFAD ranking third only after the World Bank and the Arab Fund. In addition, the Fund has helped safeguard the economies of LDCs against the impact of exogenous price shocks by providing substantial grant financing for subscriptions to the Common Fund for Commodities (CFC). This longstanding partnership was moved to new horizons late 2004, when the modalities for disbursement of the unutilized US$46.4 million pledged by the Fund to the CFC’s Second Account were re-defined.

It is hoped that more and better aid and SDT provisions for LDCs in the context of the forthcoming WTO Ministerial Conference can help these countries gradually climb the development ladder and realize the MDGs by allowing them to become more active players in the global trade arena. This will require a renewed dedication and stronger political leadership by all WTO members to implement both the DDA and the Monterrey Consensus. Much is at stake. With some 824 million undernourished around the world and less than three months to go before the start of WTO negotiations in Hong Kong, time is of the essence. Successful negotiations that accommodate the needs of the LDCs and more and more effective ODA could foster economic prosperity, peace and stability in both North and South. Another failure, by contrast, would constitute another opportunity lost to give international trade a human face, with disappointing effects for particularly the poorest of the world’s poor.