

UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

**MULTI-YEAR EXPERT MEETING ON COMMODITIES
AND DEVELOPMENT**

9-10 April 2014

Opening Statement
on behalf of
Dr. Mukhisa Kituyi
Secretary-General of UNCTAD

delivered by

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The views expressed are those of the author and do not necessarily reflect the views of
UNCTAD.

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Secretary-General of UNCTAD
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**Multi-year Expert Meeting on Commodities and Development
Geneva, 9 April 2014**

Mr. Chairman,
Excellencies,
Distinguished Experts and participants,
Ladies and Gentlemen,

It is my great pleasure to welcome you to the sixth session of the Multi-Year Expert Meeting on Commodities and Development. This meeting is held back to back with the Global Commodities Forum which has deliberated, during the past two days, on the issues of global value chains, and transparency in commodity-based development. Over the next two days, you will review the recent developments in key commodity markets, including agriculture, energy, minerals, ores and metals. You are also expected to discuss challenges and opportunities for commodity-dependent developing countries to make the most of natural resources for inclusive growth and sustainable development.

In general, commodity markets in 2013 were characterized by price easing and lower price volatility. From January to December 2013, the UNCTAD non-oil commodity price index fell by about 10 per cent. This is a remarkable decline even though the price level was still higher than its long-term trend. Food prices trended downwards after reaching a record high in the summer of 2012, partly thanks to favourable weather which boosted grain production. Indeed, over the most recent planting seasons, we have had a global grains surplus and stocks have been at comfortable levels.

Minerals, ores and metals markets were subdued in 2013 compared with the previous two years. The slowing recovery in the United States and European Union as well as the deceleration of the Chinese economy, which are the main importers, drove down the prices of major base metals. This was coupled with good supply due to high investments undertaken during the boom period. Copper prices, for example, dropped by about 15 per cent from February to July 2013. Despite its recovery in the following months, the average price of copper in 2013 was 8 per cent lower than in 2012 and 17 per cent lower than in 2011. For the first time in 13 years, the year 2013 also witnessed a fall of the annual average price of gold. Heavy selling by institutional investors resulted in the gold price losing 27 per cent of its value between January 2013 and December 2013.

In the energy market, geopolitical tensions in the Middle East and North Africa and supply-side constraints in some OPEC member countries kept the crude oil price elevated. On the other hand, the shale gas and oil boom in the United States has dramatically changed the country's energy landscape and will have a profound impact on global energy production, consumption and trade. Indeed, ample supply and relatively low prices of natural gas in the United States have promoted a switch from coal to gas in electricity generation, while encouraging investment and employment creation in energy-intensive industries. This new development is expected to enhance the competitiveness of the manufacturing industry in the United States. Furthermore, the displacement of coal by natural gas, a relatively clean fossil fuel, in the power sector has contributed to the reduction of greenhouse gas emissions recently observed in the United States.

However, the rising popularity of natural gas should not negatively affect the development of renewable energy. To combat global climate

change, a deeper cut in carbon emissions is required in the long-term. Investment in carbon-free renewable energies such as solar, wind, and geothermal is critical. In the past two decades, the supply of renewable energy (including hydroelectricity) has increased steadily and its share in total energy supply has stabilized at around 12-13 per cent. Renewable energy is increasingly used in power generation but in other sectors such as transport and heating, progress is less remarkable. We need to put in place the right policies and incentives to encourage technological innovation and private sector participation in the development of renewable energy.

Ladies and Gentlemen,

Policies are crucial in transforming natural resources endowment into broad-based economic development. Historically, in their early stages, the economic development of many developed countries such as the United States and Canada was underpinned by natural resources. Moreover, a number of developing countries that are endowed with mineral resources such as Malaysia, Indonesia and Brazil have successfully diversified their economies and achieved a relatively high level of industrial development. However, there are also many developing countries whose economies continue to depend on a handful of commodities, thus making them highly vulnerable to external shocks. This meeting will particularly discuss policy issues relating to mineral taxation, the management of windfall revenues from commodities and ways of creating and strengthening linkages between the mining industry and local economies.

Appropriate taxation regimes are essential for governments to achieve long-term and sustainable development objectives. With the

rising investment in the mining sector during the past decade, policy makers are facing two major challenges in mineral taxation. First, how to set up a fiscal regime which reconciles government's interests in maximizing its share of economic rents with investors' profitability requirements. Second, how to combat tax evasion associated with mining operations, including through transfer pricing. Let us make our discussions here the beginning of a wider reflection on these issues of critical importance to the development of commodity-dependent developing countries.

As a result of higher prices for mineral commodities in recent years, commodity exporting developing countries that have succeeded in capturing a large share of the commodities windfall have accumulated important revenues that could be used for development purposes. In this context, several governments have established sovereign wealth funds (SWFs) purportedly to ensure macroeconomic stability, to sterilize financial inflows from so-called "Dutch disease" and to build a buffer against future price volatility. However, in several cases, the opportunity costs associated with keeping resources in Sovereign Wealth Funds have not been fully acknowledged. Countries in urgent need of investment should think twice before committing their resources to Sovereign Wealth Funds. This is particularly relevant in developing countries that need massive investment in infrastructure, human capital and productive capacity for economic development. There has to be a balance between financial resource accumulation through Sovereign Wealth Funds and investment for economic diversification and broad-based economic and social development.

Many developing countries are still characterized by economic overdependence on a few primary commodities, exposing these

economies to the vagaries of international markets. Among them, economies dependent on the extractive sector mostly rely on imported capital-intensive technologies to extract the primary commodities in what has been termed "enclave industries." Indeed, the extractive sector in these economies is characterised by weak linkages with other sectors, providing few local employment opportunities. In these economies, one finds high-value extractive industries coexisting with high levels of poverty. This situation invites us to consider doing business differently. Policy measures can help foster forward and backward linkages and to generate more complex and less dependent economies. Some countries need to orient their economic policy towards investing in infrastructure development; investing in human capacities, such as engineering, management, and R&D; and investing in good governance. For example, properly designed local content strategies can help to increase employment, develop local supply chains, and maximize the economic contribution to local economies made by extractive industries.

Ladies and Gentlemen,

There is no reason why natural resources should be a curse! It is our governance systems, our institutional capacities and the way we manage our natural resources that determine the extent to which these resources contribute to our populations' wellbeing.

This multi-stakeholder meeting provides a good opportunity to discuss these important issues, to share country experiences and to generate new ideas that will help us to derive maximum benefits from our natural resources. Let us use this opportunity to start shaping a new, fairer and sustainable relationship between commodity producers, the private

sector, governments and civil society in both commodity producing and consuming countries.

I wish you fruitful deliberations!