



**United Nations Conference
on Trade and Development**

Distr.: General
13 November 2017

Original: English

Trade and Development Board
Trade and Development Commission
Multi-year Expert Meeting on Commodities and Development
Ninth session
Geneva, 12–13 October 2017

**Report of the Multi-year Expert Meeting on Commodities
and Development on its ninth session**

Held at the Palais des Nations, Geneva, from 12 to 13 October 2017

GE.17-20037(E)



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Introduction

The ninth session of the Multi-year Expert Meeting on Commodities and Development, mandated at the fourteenth session of the United Nations Conference on Trade and Development in July 2016,* was held at the Palais des Nations in Geneva, Switzerland, on 12 and 13 October 2017.

I. Chair's summary

A. Opening statement

1. In her opening statement, the Deputy Secretary-General of UNCTAD recalled the problems that commodity-dependent developing countries had faced, since the fall in commodity prices in 2011, vis-à-vis from public revenues to smallholder farm incomes. The negative effect of commodity price volatility on countries and households highlighted the need for economic diversification and industrial development. Renewable energies were important for reducing carbon dioxide emissions, thereby contributing to climate change mitigation. Green energy could also contribute to structural transformation as it could allow developing countries to build energy infrastructure that was more flexible and decentralized than that associated with fossil fuels.

B. Recent developments and new challenges in commodity markets and policy options for commodity-based inclusive growth and sustainable development

(Agenda item 3)

Overview

2. The UNCTAD secretariat presented the background note, entitled "Recent developments and new challenges in commodity markets and policy options for commodity-based inclusive growth and sustainable development" (TD/B/C.I/MEM.2/38).

3. While the general upward trend in commodity prices that began in 2016 halted in early 2017, individual commodity markets had shown a mixed pattern in the first half of 2017. Though all subindices of the UNCTAD non-oil nominal commodity price index decreased between January and June 2017, prices for minerals, metals and ores picked up in the third quarter of 2017. Excess supply was particularly significant for cocoa, sugar, vegetable oils, coal and crude oil. Overall, it was unlikely that commodity prices would return to their peak levels of 2011 in the near future.

4. The UNCTAD secretariat also highlighted the strong association between commodity prices and economic growth in developing countries, the key role played by China in terms of demand for commodities and the increasingly important role of renewable energy.

5. Three policy recommendations were noted: (a) countries should adopt countercyclical fiscal policies and precautionary savings to shield public budgets from impacts of price volatility; (b) countries should lower the effects of volatility through risk management instruments (in the short term) and diversification (in the long term); and (c) countries should embark on development of sustainable energy.

* The terms of reference for the present session were approved at the thirty-first special session of the Trade and Development Board (see TD/B(S-XXXI)/2, annex V).

Minerals, ores and metals

6. The panel discussion on minerals, ores and metals revolved around recent market and price trends and their drivers, as well as consequences for commodity-dependent developing countries. Some panellists noted that prices of minerals, metals and ores started to recover in 2016, after several years of downward movement. A key question was whether those price increases constituted a real trend reversal or rather a temporary rebound. Some panellists pointed out that several factors had contributed to the recent increases in prices of minerals, metals and ores. Among them were strong demand driven by improving macroeconomic environments in key economies and technological factors, such as the large investments being made in the electric automotive sector. Supply conditions, such as increasing depletion of existing zinc mines and disruptions in the copper supply due to strikes in a key exporting country, had also contributed to the recent price evolution. Low stock levels were another factor supporting rising prices.

7. One panellist presented a case study on the ban on nickel ore exports from Indonesia as a trade policy to promote the development of local smelter capacity and boost domestic value addition in the nickel sector. The export ban had achieved some results, but did not seem applicable across countries and commodities as country and sector-specific factors determined its effectiveness.

8. The panellists and one delegate pointed out the negative impacts of excessive price volatility on commodity-dependent developing countries. Some panellists and participants noted that the increasing financialization of commodity markets could have led to more speculation, which had added to volatility based on market fundamentals, and that it was necessary to address factors causing extreme price volatility and market distortions. One participant noted that commodity price fluctuations rendered planning and investment decisions difficult and caused economic stress at all levels from public budgets to smallholder farmers in commodity-dependent developing countries. Another delegate and one participant pointed out that commodity price volatility was unlikely to disappear and was hard to control. A key policy challenge for commodity-dependent developing countries was to find ways to mitigate the effects of volatility and manage associated risks. In the short term, financial tools including insurance mechanisms and hedging instruments could help reduce risks due to price volatility. Some delegates and participants noted that the most promising long-term measure to decouple economic development from commodity price movements was economic diversification.

9. Another delegate and one participant noted that it was crucial for commodity-dependent developing countries to increase in-country value addition to ores and minerals. One delegate noted that a ban on exporting nickel ores had been renewed in early 2017 with that objective, which underlined the importance of pursuing trade interests fully within the context of efforts to implement the national development agenda and in line with the Sustainable Development Goals.

10. Some participants underscored the importance of industrialization and diversification for commodity-dependent developing countries. Another participant noted that Governments alone could not achieve industrialization and diversification. A concerted effort to build partnerships between the public and the private sectors was necessary to mobilize needed investments and drive economic restructuring. Some participants pointed out that diversification could take different forms and that each commodity-dependent developing countries had to find the most suitable strategy. One panellist noted that vertical integration was only one of several models of diversification, and that all models of diversification needed careful consideration before their adoption.

Agriculture

11. The panel meeting, moderated the Director of the Centre for African Research on Enterprise and Economic Development of the University of the West of Scotland, opened with presentations by an Economist of the Trade and Markets Division of the Food and Agriculture Organization of the United Nations (FAO), the Deputy Head of the Embassy of Ecuador in the United Kingdom of Great Britain and Northern Ireland and the Environmental Adviser and Partner of Le Cercle du Cacao, followed by an interactive discussion.

12. One panellist described medium-term market projections for agricultural markets in 2017–2026. Key figures indicated: (a) slow demand growth, except for milk, sugar and oils; (b) few sources of demand to replace China and biofuels; (c) yield improvement as the main driver of output growth; (d) important sustainability issues, particularly with respect to calorie and protein consumption per capita in regions vis-à-vis varying growth in food production systems; (e) slow trade growth; and (f) real prices at or below current prices.

13. Another panellist focused on recent developments in the cocoa sector, noting that in 2017, signatory countries of the 2010 International Cocoa Agreement undertook political and technical efforts to address declining cocoa prices, which culminated in proposals for the reformulation of the Agreement. Key elements of the reform package include sustainable cocoa production, income diversification, promotion of local consumption, sector transparency, increased farmer bargaining power, improved understanding of cocoa price formation and stronger sectoral coordination. She shared the experience of Ecuador, highlighting that local producers have benefited from: (a) farm “technification”, through a programme to reactivate coffee and fine flavour cocoa; (b) encouragement of farmer participation in fair trade, organic and single origin certifications; and (c) promotion of small producer associations.

14. Another panellist used the example of a private sector company to argue that direct contact between cocoa processors and farmers had the potential to shift farmers away from a position of price-takers in bulk and fungible markets and into a position of price-makers of fine cocoa. That implied a shift in perspective: consumers needed to know the reasons for paying more for cocoa; growers needed to adopt the right production practices; and institutions needed to provide adequate training, education and law enforcement.

15. One delegate stressed that the oil price assumptions underlying agricultural commodity projections of the Organization for Economic Cooperation and Development and FAO could be unrealistic. In response to a question from another delegate, the UNCTAD secretariat clarified that the UNCTAD non-oil nominal commodity price index was based on observed data and not on forecasts. One participant stressed that Governments should focus more on managing risks rather than on price forecasting.

16. Some participants inquired about specific aspects of the experience of the private sector company. In response, the panellist suggested that the company’s practice could be transferrable to other commodities, especially in sectors that were 100 per cent traceable and for products that were not vital for human consumption, such as coffee. He noted that the company was not active in Côte d’Ivoire and Ghana due to difficulties in tracing cocoa beans between farm gates and ports in those countries. The company carried out its own independent tests and surveillance to ensure complete traceability.

Energy

17. The panel discussion on energy focused on recent developments in global energy markets, the link between energy access and sustainable development and the role of renewable energy in the context of climate change.

18. One panellist pointed out that the drop in oil prices in 2014 was due to high supply from shale oil and large oil stocks. Production cuts by exporters from and outside the Organization of the Petroleum Exporting Countries might have stabilized the crude oil price, but had not led to a sustained price increase as other producers had stepped up production. The reduction in the cost of shale oil production due to technological advances could prevent the oil price from increasing significantly in the near future.

Shale gas expansion had also led to persistently low natural gas prices in North America, while impacts on gas prices in other regions were heterogeneous due to the disconnected nature of natural gas markets. Technological advances and infrastructure development had led to rising maritime transport of liquefied natural gas, which could open up markets for natural gas in areas without a pipeline connection.

19. Another panellist highlighted that, for commodity-dependent developing countries to be less vulnerable to market volatility and to ensure economic sustainability, there was a need to invest in the diversification of both trade and production. One way to do this was to recirculate resources generated from commodities to other sectors. Access to sustainable energy was critical in operating sustainable production technologies.

20. One panellist shared the experience of Senegal with respect to solar power generation, which had helped to expand energy access in particular in rural areas without access to the grid. Another panellist noted that biogas offered the potential to simultaneously reduce waste and provide energy for a variety of uses, including cooking, lighting and refrigeration.

21. Some delegates and panellists noted that energy access was a critical element of sustainable development under Sustainable Development Goal 7, which aimed at achieving access to affordable, reliable, sustainable and modern energy for all. In that context, renewable energy sources had a crucial role.

22. One delegate noted that, as a secondary benefit, in some cases residues from biogas production could be used as fertilizer. Expanding sustainable energy access was also necessary for industrialization and technology adoption in developing countries. Some delegates and panellists noted that in order to further promote energy access in developing countries, the regulatory framework needed to be supportive of renewable energy generation. International cooperation and supportive leadership were important. Projects that introduced new renewable energy technologies in developing countries should be inclusive they provided jobs for the local population and training for maintenance and operation of equipment.

23. Some delegates and panellists pointed out the link between the global energy mix and climate change. In particular, renewable energy sources played a key role in the context of the Paris Agreement. A transformation was happening at a dramatic pace: renewables were growing rapidly with the help of technological innovations and the sector was attracting large investment flows, due to the political and financial support mechanisms in place and important cost reductions that had made renewables competitive relative to fossil fuels. One panellist underscored that the trade-off that used to exist between cheap but polluting energy sources and more expensive but clean energy sources was fast eroding. The automotive sector was another example where a major technological shift towards electric vehicles was expected in the near future.

C. Commodity dependence and the Sustainable Development Goals

(Agenda item 4)

Contribution of primary commodities to trade and sustainable development: mechanisms and policy options

24. The UNCTAD secretariat presented the *State of Commodity Dependence 2016*. After defining commodity dependence and presenting some key indicators in the publication, the secretariat highlighted that most developing countries remained commodity dependent in 2016, and more than 80 per cent of least developed countries were still commodity-dependent developing countries.

25. The secretariat then presented a background note entitled “Commodity Dependence and the Sustainable Development Goals” (TD/B/C.I/MEM.2/37), highlighting potential opportunities associated with the commodity sector, when well managed. Of note were opportunities resulting from high export revenues, commodity-based diversification and important development linkages. In reality, commodity dependence was negatively correlated with human development in commodity-dependent developing countries.

Commodity dependence tended to hamper development, acting through various transmission channels including terms of trade effects, fiscal and monetary challenges and microeconomic channels, leading to higher poverty in commodity-dependent developing countries than in other developing countries. A series of policy actions were needed to overcome those challenges, such as reduction of food waste, harnessing of renewable energies and increase in energy access, addition of value to commodities and fostering of sustainable consumption and production of commodities.

Dynamics in the commodity sector and food security

26. One representative from civil society presented ways to accelerate achievement of Sustainable Development Goal 2, through the improvement of local food systems and global supply chains. Strategic foresight should be the basis for action, namely mapping the present and the future, as well as anticipating and timing the future with the aim of creating alternatives to the present. This required effort to better take into account the need for action against a backdrop of growing threats to global food security.

27. From that perspective, one panellist analysed the strategy of the Lao People's Democratic Republic on food security. She highlighted the key targets and activities of the eighth five-year national and socioeconomic development plan for 2016–2020 and more specifically on project implementation under the umbrella of the National Coordination Committee.

28. A panellist from FAO presented the state of food security and nutrition in the world, based on figures for 2017. The panellist stated that, after a prolonged decline, world hunger appeared to be on the rise again, as one in nine people were hungry. Chronic child malnutrition continued to fall in developing countries, while obesity among adults was increasing in all regions. Conflicts, climate change and economic slowdown were the main drivers of slowing progress. Addressing food insecurity and malnutrition in conflict affected situations should be a priority, and eliminating hunger and malnutrition by 2030 would thus involve rethinking the ways of solving conflicts.

29. The representative of one intergovernmental organization mentioned the negative effect of export subsidies and domestic support in developed countries on food security in developing countries. The representative of one non-governmental organization pointed out challenges related to sharing food in a more equitable way.

30. One delegate underscored the need to establish a distinction among commodity-dependent developing countries and to acknowledge differences among countries when discussing the negative relationship between commodity dependence and human development. Another delegate noted the impact of land disputes on local food security in Palestine. One delegate praised efforts to scale up national support to local farmers in Africa. Another delegate also took note of the emergency rice reserve mechanism in South-East Asia as an example of addressing food security risks at the regional level.

Dynamics in the commodity sector and energy security

31. One panellist from the United Nations Framework Convention on Climate Change made a presentation on the relationship between commodity dependence and implementation of mitigation actions in the context of the Paris Agreement. She recalled the key provisions for response measures and trade under the Framework Convention, the Kyoto Protocol and the Paris Agreement and gave an overview of the main sectors impacted. The Framework Convention offered opportunities and raised challenges for developing countries involved in assessing and addressing the impacts of mitigation actions.

32. Another panellist shared the experience of Algeria with regard to the energy sector and the achievement of Sustainable Development Goal 7 on energy security. Reaffirming the importance of fossil fuels for the Algerian economy, he described the legal framework prevailing in the energy sector and underscored the ambitions of the most recent reforms. He also stressed efforts in Algeria to rationalize energy use and ensure sustainable consumption and production of fossil fuels.

Policy options for commodity-dependent developing countries to achieve the Sustainable Development Goals by 2030*Value addition and natural resource management*

33. A three-member panel discussed aspects of management of natural resources in order to achieve the Sustainable Development Goals, namely development of human capital, negotiation of equitable petroleum and mining contracts, and overcoming obstacles in trade and harnessing opportunities offered by global value chains.

34. The panellists agreed that capacity-building was critical to ensuring gains from the commodity sector. One panellist highlighted efforts made by Senegal in building capacity to develop renewable energy (solar) as a means of reducing dependence on petroleum. For example, cooperation with Germany, as a donor country, on offering training to stakeholders had led to skills development. The introduction of new subjects on energy in university curricula had made it possible to offer training to a large number of people. As a result, Senegal had recorded an increasing number of jobs in the energy sector.

35. Another panellist underscored the need for capacity-building in negotiating oil/mining contracts so that resource owners could derive more gains from the sector. He highlighted a number of challenges facing developing countries, such as capacity constraints in contract negotiation and execution, asymmetry in information, corruption and low remuneration of negotiators and encouraged Governments to, inter alia, create favourable conditions to resist corruption and monitor contract implementation after successful negotiations.

36. Another panellist highlighted ways in which smallholder farmers could be better integrated into global value chains. Using the example of coffee from Ethiopia, he underscored that good market information, better credit facilities, transport facilities and harmonization of non-trade barriers and non-trade measures would enhance smallholder farmers' participation in global value chains. Moving up a value chain required products of higher quality from smallholder farmers, and commodity exchanges could contribute to improving quality and reducing transaction costs. He encouraged Governments to embark on training in standards and regulations to overcome obstacles encountered in trade.

37. Some delegates and participants noted in relation to developing the commodity sector and trade that, for example, in China, farmers were guided to add value to farm products; basic infrastructure was developed in rural areas; small farmers were linked to major markets; and help was given to farmers to sell products at good prices. One representative from civil society pointed out that smallholder farmers were the least powerful in negotiating good deals and international organizations should start looking at regional models that unified smallholder farmers across borders to help them negotiate better. One participant noted that coffee in Ethiopia was unlike most commodities exported by developing countries, given that half of the country's production was consumed locally, which implied that the commodity had both a domestic value chain and an external value chain.

II. Organizational matters

A. Election of officers

(Agenda item 1)

38. At its opening plenary, on 12 October 2017, the multi-year expert meeting elected Mr. Kamal Gubara (Sudan) as its Chair and Ms. Maria Teresa T. Almojuela (Philippines) as its Vice-Chair-cum-Rapporteur.

B. Adoption of the agenda and organization of work

(Agenda item 2)

39. Also at its opening plenary, the multi-year expert meeting adopted the provisional agenda for the session, as contained in document TD/B/C.I/MEM.2/36. The agenda was thus as follows:

1. Election of officers
2. Adoption of the agenda and organization of work
3. Recent developments and new challenges in commodity markets, and policy options for commodity-based inclusive growth and sustainable development
4. Commodity dependence and the Sustainable Development Goals
5. Adoption of the report of the meeting

C. Outcome of the meeting

40. At its closing plenary, on 13 October 2017, the multi-year expert meeting agreed that the Chair should summarize the discussions (see chapter I).

D. Adoption of the report of the meeting

(Agenda item 5)

41. Also at its closing plenary, the multi-year expert meeting authorized the Vice-Chair-cum-Rapporteur, under the authority of the Chair, to finalize the report after the conclusion of the meeting.

Annex

Attendance*

1. Representatives of the following States members of UNCTAD attended the session:

Algeria	Ethiopia
Austria	Germany
Bolivia (Plurinational State of)	Iran (Islamic Republic of)
Brazil	Kenya
Brunei Darussalam	Kuwait
Burundi	Lao People's Democratic Republic
Canada	Mali
Chile	Mauritius
China	Mexico
Colombia	Nepal
Congo	Philippines
Cuba	Spain
Ecuador	Sudan
Egypt	Uganda
El Salvador	

2. The following non-member observer State was represented at the session:

State of Palestine

3. The following intergovernmental organizations were represented at the session:

Common Fund for Commodities
Organization of Islamic Cooperation
South Centre

4. The following United Nations organs, bodies and programmes were represented at the session:

Economic Commission for Africa
International Trade Centre
United Nations Framework Convention on Climate Change

5. The following specialized agency was represented at the session:

Food and Agriculture Organization of the United Nations

6. The following non-governmental organizations were represented at the session:

General category

Engineers of the World
International Trade Union Confederation

* This attendance list contains registered participants. For the list of participants, see TD/B/C.I/MEM.2/INF.9.