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Seventh Global Commodities Forum: Breaking the chains of commodity dependence

Summary prepared by the UNCTAD secretariat

1. UNCTAD held the seventh Global Commodities Forum on 15 and 16 July 2016, co-organized with the Commonwealth Secretariat and the Food and Agriculture Organization of the United Nations. The theme was “Breaking the chains of commodity dependence”, and the programme comprised an opening ceremony, keynote session, ministerial round table and four expert panels.

2. In his opening statement, the Secretary-General of UNCTAD underlined the need to make progress on the Forum’s theme, as 67 per cent of developing countries remained dependent on one or two unprocessed commodities for the majority of export earnings, complicating their macroeconomic management and limiting capacity to transform their economies. Moreover, the number of such countries had remained relatively unchanged for decades. The Secretary-General urged the Governments of commodity-dependent developing countries and their partners to take decisive action to reduce their commodity dependence and diversify their economies, to have the best chance of achieving their national development priorities and the Sustainable Development Goals.

I. Renew commitment to smallholder-centred agriculture

3. Discussions revolved around the importance of agriculture in development strategies. Several panellists noted that almost all advanced economies passed through a period of significant agricultural development early in their development trajectories. One panellist noted that approximately 70 per cent of the world’s poor lived in rural areas in developing countries and depended on subsistence agriculture, and that individuals or families managed 90 per cent of farms worldwide, employing mainly family labour. Such small family farms controlled only 12 per cent of all agricultural land but produced more than 80 per cent of the world’s food, in value terms. The panellist relayed research showing that growth in agriculture was twice as effective at reducing poverty than in any other sector. Panellists, delegates and participants therefore encouraged Governments and development partners to adopt policies that fostered investments in small-hold agriculture.

4. Several panellists recommended policies addressing the many market failures that prevented smallholders from participating more fully in global value chains. Market failures to redress included an inability to sell smallholder labour in more productive and remunerative sectors; a lack of access to credit and risk management services; and a lack of market and transportation infrastructure that would allow smallholders to access export markets. One panellist noted that smallholders were generally aware of the inputs, technologies and techniques available to improve the yield, quality and uniformity of harvests, yet lack accessed to them. Another panellist stated that smallholders in developing countries sold only 10–25 per cent of their harvests, consuming the rest themselves.

5. In addition, several delegations highlighted the importance of putting women at the centre of a renewed agricultural development agenda in Africa, recognizing that women provided the majority of agricultural labour on small farms yet had less access to inputs and earned less than men.

II. Expand power generation capacity with renewables and, where necessary, by bridging technologies

6. Throughout Africa, energy poverty impeded economic activity. In several Forum sessions, panellists cited the more than 70 per cent of African households lacking access to energy, as well as the dampening effect of limited and unreliable electricity on businesses of all sizes, in all economic sectors. To meet both Agenda 2063 of the African Union, as well as Sustainable Development Goal 7, both of which aimed to ensure access to affordable, reliable energy for all, some panellists outlined the considerable investments required in power generation across the continent. A few delegations shared their progress towards achieving universal access to energy by 2020.

7. Most African Governments had committed to cutting emissions from energy usage under the Paris Agreement under the United Nations Framework Convention on Climate Change, adopted in December 2015.

8. Some panellists noted that several technologies existed for building new-generation capacity, each with a cost-emissions profile as follows: coal remained abundant and cheap but high in carbon emissions; diesel and fuel oil were more expensive than coal and still relatively polluting; natural gas was a cleaner fuel and allowed for the construction of large-scale power plants; and renewable technologies had low carbon emissions but were not scalable, in most cases, to fully replace fossil fuel-based technologies. One delegation illustrated the tension between the objectives of clean energy and affordable, universally available energy, explaining that the State was pursuing a hybrid strategy, investing in both low-carbon renewable projects and low-cost, coal-fired ones.

III. Strengthen regional value chains

9. With regard to small-hold agriculture, as in other economic sectors, several panellists emphasized regional value chains as a key opportunity for commodity-dependent developing countries to expand export markets and broaden export baskets. Especially in Africa, high transportation costs – both domestically and to overseas markets – could render State exports uncompetitive. Regional value chains represented an opportunity to generate export demand growth, particularly in the current context of slowing demand from advanced and emerging economies, and there were examples of successfully integrated regional value chains in Africa. One panellist related his organization’s experience in building a regional value chain for leather shoes in East Africa, developing and

coordinating capabilities to provide the different activity steps within the region, including those that attracted the greatest share of value added, such as design.

10. During discussions on the oil and gas sector, several panellists and delegations stressed the need for Governments to invest in regional energy markets, especially for transmission and distribution, two activities in which countries had had difficulty attracting foreign investment. They recommended that Governments and development partners focus their investments on the “first pipeline” to bring, for example, natural gas from an offshore field to an urban consumption market, in order for the private sector to have more profitable opportunities to invest in generation and distribution to end users.

IV. Engage the private sector

11. Despite the heterogeneous structures of different commodity sectors (such as small farms, large mines and offshore oil and gas platforms), Forum discussions highlighted the need for Governments to have greater engagement with the private sector when formulating long-term plans. This reflected not only that the private sector was the predominant investor, operator and market maker in most commodity sectors in developing countries, but that there were a growing number of foreign firms interested in a more collaborative relationship with host Governments.

12. One delegation expressed concern at conditions imposed by foreign investors, which limited, in particular, government revenues and local content that developing countries received from foreign investments in the extractive sector. A variety of examples were presented, from delegations and the private sector, of fruitful public–private partnerships to increase the long-term value that developing countries earned from natural resources.

13. With regard to agriculture, partnerships discussed concerned foreign firms improving smallholder access to inputs, credit and export markets; and developing value-addition capacities in host countries to produce high-quality, branded export products. With regard to extractive sectors, the discussions focused on collaborative negotiations on the full 30 to 40-year life span of a project; shared responsibilities in building human capital and local participation over the course of a project; and the need for investors to have a stable licence to operate in local communities. In discussions on both agricultural and extractive sectors, panellists and participants cited the term “shared value” to describe such collaborative partnerships, and the need to differentiate them from the narrower, typically rules-based concept of local content.

14. Discussions acknowledged that confrontational investment and regulatory relationships might persist in some cases, but also that Governments should engage with foreign firms that have adopted shared value as part of their core business strategy.

V. Tackle trade misinvoicing and capital flight

15. One keynote speaker shared the findings of research on the occurrence and value of trade misinvoicing on commodities exports and imports in five developing countries over the last two decades. Trade misinvoicing, the practice of misreporting the value of export or import transactions, was one mechanism within the larger complex of illicit financial flows and capital flight from developing countries. The speaker noted that in each developing country studied, losses in export earnings worth tens of billions of dollars had been recorded over the study period. Such estimates hinted at the magnitude of the total export earnings and government revenues lost to illicit financial flows by commodity-dependent developing countries in Africa and globally – a drain on the resources they had available to

invest in productive capacity and poverty reduction. They also underlined the fact that importing countries also needed to engage with efforts to eradicate trade misinvoicing.

16. In his closing address, the Deputy Secretary-General of UNCTAD stated that more research and policy analysis was needed to understand the modalities of trade misinvoicing; identify the capacity development needed at the national level to combat such practices; and strengthen international exchange of information for tax purposes.