GLOBAL COMMODITIES FORUM

RECOMMITTING TO COMMODITY SECTOR DEVELOPMENT AS AN ENGINE OF ECONOMIC GROWTH AND POVERTY REDUCTION

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FOREWARD

The Global Commodities Forum (GCF), commenced in 2010, is fast establishing itself as a major multistakeholder forum that actors along the commodity value chain look forward to each year. The fourth edition, as in previous years, attracted participants from governments, the private sector, international organizations, civil society, academic institutions, and the media. One innovation this year, relative to previous forums, was to invite three prominent experts as keynote speakers to share their perspectives on: the relevance of smallholders in agricultural development policies; the contribution of farmers’ associations to agricultural and rural development; and the increasing convergence of the interests of governments, local communities and transnational corporations both in agribusiness and extractive industries. Their presentations helped not only to set a high tone for the deliberations that ensued but also to stimulate active participation by delegations. Furthermore, this facilitated a convergence of views around the need to ensure that the commodities sector contributes more to sustainable growth and development.

Another first this year for the GCF was to collaborate with the Gas Centre of the United Nations Economic Commission for Europe (UNECE) in its organization. This joint organization gave us an unprecedented access to three big energy companies, namely GDF Suez, Gas Natural Fenosa and Total. They discussed, using practical projects as examples, how the energy sector is contributing to economic growth, development, and poverty reduction in selected countries in Asia, Latin America, and Africa. This was a practical illustration of the policy of the United Nations system to “deliver as One” as advocated by the United Nations Secretary General.

The Forum emphasized that increasing the contribution of the commodities sector to economic growth and development would require action from all stakeholders in the commodities sector. And, in order to reduce the high price volatility that had been observed over the last few years, transparency in commodities markets and along the entire commodity value chain is crucial. This would require regulatory bodies and policymakers that set standards to ensure a free flow of information to all market participants in order to forestall abuse of asymmetric information. Indeed, access to information on commodity indicators such as prices, production and stocks, including by small producers in rural areas could pre-empt panic buying which in the past had contributed to increasing volatility. The regulatory bodies and policy makers would also ensure that commodities play their role in fostering economic growth and development, particularly in commodity-dependent developing countries.

As to the way forward, two issues emerged as particularly cogent. The first is that agricultural development strategies in commodity-dependent developing countries, particularly in Africa, should be built around small farming. This will not only improve food security but also generate employment particularly in regions with persistently high youth unemployment rates. The second is to strengthen farmers’ associations in order to ensure that policymakers respond to the real needs of the agricultural and rural communities.

Making the commodity sector an engine of economic growth and poverty reduction, which was the theme of this fourth GCF, will require concerted action from private, public and civil society actors. UNCTAD, through its global commodities forums and other consensus-building processes, is committed to facilitating dialogue among the parties. The GCF, however, cannot be organized without the generous funding from a variety of donors who have rallied to its objectives. This year, we acknowledge gratefully funds from Afreximbank and Gaz Nat and contributions in kind from the Gas Centre (UN ECE), GDF Suez, Gas Natural Fenosa and Total. We hope that other donors will be encouraged by the objectives and achievements of the GCF to date to offer their support in the coming years.

Mukhisa Kituyi
Secretary General
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INTRODUCTION

The fourth edition of the Global Commodities Forum (GCF) was organized by UNCTAD on 18–19 March in Geneva, Switzerland under the general theme: “Recommitting to Commodity Sector Development as an Engine of Economic Growth and Poverty Reduction.” As in previous years, the conference brought together different stakeholders involved in the commodities value chain. They included government representatives, academics, private sector operators, international organizations, farmers’ associations and other civil society actors, as well as the media. Through this forum which has been organized every year since 2010, UNCTAD’s main objective is to offer a neutral discussion platform to reflect on different aspects of the global commodities economy. Discussions by stakeholders from different horizons within the commodities world allow participants and the wider public to identify the key policy and institutional challenges in the commodities economy; find practical solutions to address these challenges afflicting commodity producers, intermediaries and consumers; and to address the root causes of the instability of commodity markets.

An innovation during the 2013 Forum was to invite three keynote speakers who are renown in their fields of work in academia, private or corporate sector and civil society. After the opening ceremony, the three keynote speakers delivered statements on the importance of small farms in food production and poverty alleviation; the convergence of the interests of multinational corporations, smallholder farmers and civil society; and the role of agricultural farmers’ associations in shaping policy in favour of agriculture and rural development.

OPENING CEREMONY

The Forum was opened by UNCTAD’s Deputy Secretary-General, Mr. Petko Draganov. He highlighted the complexity of the commodity problematique with two major paradoxes. The first is the recent disconnection between commodity prices and market fundamentals. High commodity prices in a period of economic contraction as observed over the last few years is partly a consequence of this disconnect. The second paradox is that many commodity-dependent developing countries (CDDC) have not reduced their high poverty levels in spite of a commodity windfall resulting from a substantial boost to export revenue during the commodity boom. Increases in GDP have not translated into poverty reduction in CDDCs as they should have. Persistently high levels of inequality, poor linkages between the commodities sector with other productive sectors such as manufacturing and services, have limited spillover effects and job creation in commodity-dependent economies. Participants were invited to reflect on these two paradoxes and suggest policies that CDDCs could implement to maximize benefits arising from their commodities sector. Most particularly, given the importance of economic diversification for sustainable poverty reduction, the question of how to diversify CDDCs economies should be a focus of the discussions.

As emphasized by Pascal Lamy, Director General of the World Trade Organization (WTO), trade is important for economic growth and poverty reduction. However, effective multilateral discipline is needed to ensure that the benefits of trade are shared by all members of society. Robust trade policies must go hand-in-hand with robust domestic policies that particularly strengthen
the agricultural commodity sector in order to address poverty and hunger. An open and predictable multilateral trading system contributes to reducing price volatility in commodities markets. For example, high subsidies in some developed countries distort the cotton market by dampening cotton prices. As a result, producers in developing countries, including the Cotton-4 countries--Benin, Burkina Faso, Chad and Mali--experience income losses that compromise their poverty reduction efforts.

Ambassador Jüri Seilenthal, President of UNCTAD’s Trade and Development Board (TD) centered his opening message on the issue of governance in the commodities sector. The current commodities market is different from the traditional commodities market governed by the law of supply and demand. In recent years, speculation and the “financialization” of commodities have been driving commodity prices, contributing to high price volatility and creating uncertainty which has particularly harmed CDDCs. In the current system, the benefits to commodity producers, who are, and remain, at the low level of the value chain, are often not commensurate with those accruing to other participants in the commodities market and value chain. Discussions at the forum should reflect on the best ways of achieving a fairer distribution of the benefits arising from commodity booms among the different actors of the commodity value chain. In this context, institutions including the G-20 have called for more transparency in the physical and financial spheres of commodity markets.

Keynote Speakers

Professor Michael Lipton of Sussex University noted a stark dichotomy in the global food chain: while about one billion people suffer from over-nutrition or nutrient excess, another billion people suffer from under-nutrition or nutrient deficiency. Very little food is transferred from the former to the latter group, highlighting one of the major failures of economics in the world today. These facts illustrate that the major food problem facing the world is not its limited availability but its distribution across space and groups. The current “food problem” is the result of perverse policies and incentives which do not pay due attention to the actors who produce and trade in food staples, particularly subsistence farmers who dominate the ranks of poor people. For example, while 60 per cent to 70 per cent of the populations in many developing countries are engaged in agriculture, the sector accounts for only 4 per cent to 5 per cent of national budgets. The negligence of the agricultural sector, particularly smallholder farming, threatens the viability of subsistence farming and hence food security.

Most subsistence farmers--smallholders who grow staple foods mainly for their own use--are food deficit farmers as their production is not high enough to feed their families through the year. They purchase the difference by selling labour or non-farm products, or products of small non-farm enterprises. Contrary to popular belief, subsistence farmers are active economic agents who play a central role in the process of food production and trade, poverty reduction, and socio-economic development. Over 60 per cent of families and 75 per cent of the absolute poor in Sub-Saharan Africa are engaged in subsistence farming, which is their main source of nutrition, food security, income stability and employment.

In societies with low savings and abundant labour as is the case in most developing countries, subsistence farmers are more socially efficient than large farms; they have lower unit transaction cost in managing labour. Moreover, with limited capital and more employment, they produce more per unit of scarce land and water.

Moreover, in many instances, small farms use more fertilizer per hectare than large farms, illustrating their sense of innovation. It has been established that Asian economies owe their economic takeoff and
impressive poverty reduction to a green revolution that substantially increased the production of food staples on subsistence and near-subsistence smallholdings. Similarly, given the fast rate of labour growth in Africa and parts of Asia, it is difficult to envision how these regions will reduce poverty without an increase in the demand for labour and the availability of cheap, locally available food staples from subsistence smallholdings. As was the case with Asia’s green revolution, poverty reduction in developing countries requires pro-smallholder and pro-subsistence policies that are efficient, equitable and sustainable politically, fiscally and environmentally.

The alternative large-farm development model in a context of extreme land inequality as in Latin America has had a muted effect on poverty reduction and overall economic development. Being the next frontier for agriculture development, Africa should seize the moment to recommit to its agriculture. Leading institutions such as the New Economic Partnership for Africa’s Development (NEPAD) and the Alliance for a Green Revolution in Africa (AGRA), based on scientific evidence and global experience, have been calling on African governments to put smallholder agriculture at the heart of their development policies. Powerful groups with vested interests in large farm ventures have misled the public into thinking that developing countries should encourage the establishment of large farms considered to be economically more viable than smallholdings. This strategy has led to severe land inequality and land grabs particularly in countries with poor governance and lacking egalitarian land policies. Subsistence farmers should be acknowledged as being key actors in the fight against hunger and poverty. They deserve more attention from political leaders in view of their contribution to society. Political, economic and social returns to investment in the agricultural sector and the rural economy have proved to be potentially very high in most developing countries. In many countries, these returns are not fully realized due to the fragmentation of small farmers, preventing them from constituting a political force that could impact on policy choices.

Ruth Rawling, Cargill’s Vice-President for Corporate Affairs Europe, Middle East and Africa, shared her company’s experience to illustrate what the private sector could do to help developing countries end hunger and poverty by unlocking their farmers’ potential. A global agri-food conglomerate, Cargill operates in 63 countries in 70 core businesses with annual revenues of US$134 billion. Even such a big conglomerate realizes that its own success depends on the capacity of small farmers to run thriving and prosperous businesses. As a result, Cargill has initiated a number of projects to assist farmers’ efforts to increase yields and incomes, which in turn has helped the company to access reliable inputs.

Some examples illustrate how smallholders and large private companies could collaborate in order to increase their respective incomes. In South Sumatra, Indonesia, Cargill joined forces with its suppliers of palm oil, the PT Hindoli Smallholders, to bring production to international standards. This scheme allowed them to become the world’s first smallholder scheme certified under the Roundtable of Sustainable Palm Oil (RSPO) in 2010. The partnership enabled smallholders not only to produce palm oil sustainably but also increase their yields and double their incomes in just a few years. In Brazil, Cote d’Ivoire, Ghana, Indonesia and Vietnam, Cargill established the “Cocoa Promise” to help farmers to increase productivity and raise standards through certification. Additional services such as the provision of education, access to healthcare, sensitizing about child protection, farm development and assistance to farmers’ associations were also provided. These programmes reached tens of thousands of farmers in the countries covered. In Zambia, 500 Cargill Cotton Women’s Clubs have been established to allow 32,000 female farmers to get training and access to extension services. Similar initiatives have been deployed in major grain producing countries including the USA, South Africa, Romania, Hungary and Ukraine. The main lesson from this experience has been that working collaboratively allows producers, the private sector, the public sector and civil society to achieve better outcomes than when stakeholders focus on their individual narrow interests.
Dhano Sookoo, President of the Agriculture Society of Trinidad and Tobago (ASTT), shared the experience of this 176-year old umbrella organization representing the interests of 86 producer organizations and 12,000 individual farmers. By giving voice to farmers, ASTT illustrates the extent to which farmers’ associations could shape policy in favour of a sustainable agriculture sector. The Society adopts a four-pronged approach in its efforts to assist its members. It relies on strong advocacy particularly targeted to policymakers to ensure that agricultural policy reflects the interests of the farming community. Secondly, ASTT provides a Tractor Pool Service to its members to help them access a farming technology that, individually, they would not be able to afford. Third, they provide references about individual farmers to agricultural financing institutions as a way of facilitating their members’ access to agricultural credit and finance. Finally, they get involved in infrastructure development, particularly rural roads. Such projects, when executed by ASTT, cost a fraction of what they would cost if executed by the government.

In addition to helping the farming community to generate higher incomes ASTT undertakes several other actions aimed at raising the profile of the agriculture sector. For example, the ageing of the farming population has prompted ASTT to introduce and support “Youth in Agriculture” programmes in schools across the country. The programme’s aim is to raise awareness among the youth about the importance of agriculture development for food security and revenue generation. Moreover, ASTT helps to address and diffuse societal problems such as juvenile delinquency by organizing social events including youth sports programmes. Through its various interventions, ASTT provides valuable economic and social services that benefit people even beyond its 12,000-strong members.

**Thematic session 1: Risk management and resilience: methods and mechanisms for developing countries and small producers to prosper in spite of price volatility in the commodity markets**

The recent years have been characterized by high commodity prices and high volatility. This has particularly affected the grains markets and the management of grains prices has focused the attention of governments as they consider grains not to be just like any other commodity. Grains markets are thin relative to domestic consumption in producing countries; only 10 per cent of grains production is traded. Moreover, grains are crucial to developing countries’ food security. They strongly influence the level of households’ calories intake and are a key determinant of households’ expenditures. In view of the strategic importance of grains, price surges tend to escalate into bubbles following governments’ reactions. Furthermore, considering that grains are used as food, feed and fuel, their price instability simultaneously destabilizes different markets. High volatility increases uncertainty, affecting governments’ capacity to plan. Historically, high volatility has been combined with price increases leading to rising import bills that have negatively affected developing countries’ balance of payments. A similar effect has been observed at the household level: volatility and high prices of grain destabilize budgetary planning while increasing the share of household budget allocated to food. Ultimately, high price volatility increases farmers’ risk exposure, discouraging them from investing in agricultural production.

What are the solutions that have been explored to reduce price volatility? Hedging is not a viable option for small farmers as they cannot control large volumes as do traders. Historically, countries have attempted to use public interventions to stabilize prices via buffer stocks, export controls and ex-post compensatory transfers. With the exception of some marginal provisions that could be invoked in extreme circumstances, such as the use of IMF facilities in extreme cases of balance of payments problems, the current doctrine based on free trade does not leave developing countries with much policy space to address the issue of grains price volatility. Outlawing
export bans or even the creation of a publicly accessible Agriculture Market Information System (AMIS) will only have marginal effects on volatility. A novel approach, which is being discussed in some circles, is the creation of a large international food reserve that would be used to stabilize prices. But even this solution has its limits. In addition to the difficulties that would be associated with its management, it is difficult to envisage that such a stock could be large enough to influence market prices over a relatively long period if volatility persists.

The development of local commodity exchanges was considered as an opportunity to deliver price-risk management services to producers in developing countries. Commodity exchanges could potentially play a positive role in enhancing the functioning of agricultural commodity markets, improving transparency and diversification. Commodity exchanges are market-based business institutions that could provide an integrated solution for grading, standardization, and access to finance. They could also contribute to consistent supply, quality improvement, and price transparency. However, in many developing countries, commodity exchanges are limited by the low volume of transactions and the restrictive regulations governing trade in food commodities. An alternative to the creation of local exchanges could be to establish branches of international exchanges until a local exchange becomes viable. With their reputation, international exchanges would attract investors and traders to help reach the critical trading mass required for the viability of commodity exchanges in developing countries. Given the scope of potential services international exchanges may offer to local buyers and sellers, the feasibility of this model in specific countries should be given consideration.

A related issue is how to manage risk exposures in commodity-dependent developing countries where producers have no access to derivatives instruments. Developing country producers are in large numbers but are not global players. They are price takers, not diversified and have little access to information on global markets. Moreover, the intricacies of contracts’ negotiations and risk analysis are too complex for them. A long-term understanding of risk requires educated farmers and other stakeholders in risk management. Furthermore, in order to invest in basic infrastructure and commodity and industrial development, governments must put in place systems of green field investment risk management particularly in the areas of price volatility, regulatory environment, and credit risk exposure. For small operators, governments could put in place a guarantee fund—to which small farmers and miners would contribute a small amount—that would act as collateral and help small commodity producers to access much needed financial resources.

Addressing commodities markets volatility requires collaboration between public and private institutions. As an illustration, the debate about financialization and its effect on commodity price volatility cannot be fully appreciated without understanding the relationship between physical and financial markets, as well as the role of regulation and public policy in commodities markets. Hence, the stability of commodities markets requires collaborative action between market participants, including producers, traders, and financial institutions, as well as regulators and policymakers who ensure that the actions of all stakeholders are in line with permissible practices. In this regard, commodity-dependent developing countries may need to build more capacity in commodity finance and trading in order to understand the implications of these complex relationships.
Thematic session 2: Playing catch-up in the agricultural sector: investing in neglected infrastructure and services in the agricultural sector; filling the void left by the elimination of parastatal institutions

Low productivity is one of the key features of Africa’s agriculture. There is a long list of factors that have contributed to low productivity. They include the scarcity of properly trained labour, lack of irrigation infrastructure, very low level of mechanization, poor soil management, high cost of inputs, including fertilizer, poor quality of seeds, plant diseases, crude harvesting methods, high post-harvest losses, weak extension services, lack of information on science and technology and its application in the agricultural sector, and difficulty in accessing affordable finance and risk management products. Moreover, while large-scale farmers may have irrigation facilities most farming in Africa is rain fed, making agricultural yields dependent on erratic rainfall patterns. The paucity of data on crop specific water requirements increases farmers’ difficulty to manage water efficiently. Proper use of fertilizer in farming can increase productivity and yields. However, most farmers in Africa today only use one general fertilizer (NPK 15-15-15) and don’t have adequate information and education on the right type and quantity of fertilizer to be used for different crops. The high cost of fertilizer and other inputs such as pesticides makes them less accessible to small producers. Extension services should be strengthened to advise small farmers on how these inputs are best used according to their different crops.

Farmers need relatively large farms in order to achieve economies of scale and promote mechanization. However, access to land has become difficult in many African countries due to competing use for mining, quarrying and real estate. High population densities have also resulted in smaller farms. Even where there is enough land for large farms, negotiations to acquire the land could take years, hindering investment in agriculture.

Some of the problems facing the development of agriculture in Africa and other developing countries stem from the liberalization of the agricultural sectors in the 1980s and 1990s under pressure from the Bretton Woods institutions. The process led to the withdrawal of governments’ assistance to agriculture as illustrated by the dismantling of commodity marketing boards in many developing countries. These institutions offered extension as well as marketing services to small farmers who, left alone after liberalization, witnessed a decline in their sector. The case of Ghana Cocoa Board is informative as Ghana followed a different path relative to most countries in the region. Instead of fully dismantling its marketing board as done elsewhere, it opted for gradual reforms. It partially liberalized its internal marketing while maintaining its control over external marketing and quality control. As a result, the country seems to have escaped some of the negative consequences of the dismantlement of commodity boards in most African countries.

Ghana’s current cocoa supply chain is unique as it combines private sector activities (i.e. cocoa purchases, transportation) with strong government presence. Under this system, Ghana cocoa farmers get higher cocoa producer prices than farmers in neighboring cocoa producing countries such as Côte d’Ivoire. The Ghana Cocoa Board case has demonstrated the useful role that a parastatal institution could play in the development of the agricultural sector through the provision of public goods that the private sector is either unable or unwilling to provide, such as research and development, and quality control.
To better regulate the cocoa supply chain and serve cocoa producers, Ghana Cocoa Board should find ways of addressing a number of challenges, including: fluctuating world cocoa prices, low technology adoption by farmers, aging farmer populations, aging cocoa trees, emergence of cocoa diseases and pests, poorly organized farmers’ organizations, and constraints in land tenure system. In particular, the provision of certain services such as the procurement and distribution of fertilizer could be taken over by the private sector as it would be expected to carry out these functions more efficiently.

**Thematic Session 3: Information and transparency in the commodities sector**

Market information is crucial for well functioning markets. With the development of Information and Communication Technologies (ICTs), new tools have been developed to disseminate information on agricultural markets in developing countries. ESOKO, for example, is an agricultural intelligence platform providing communication tools used by farmers and businesses to access agricultural markets’ intelligence such as market prices, bids and offers, and weather conditions. The information is accessed via mobile telephones, smart phones and internet. It has become Africa’s leading market information platform operating in 16 countries and covering 833 markets and 980,000 prices in four languages. ESOKO’s experience shows that the collection of timely and accurate data collection from the field is challenging. The right incentives must be in place to ensure that quality control measures are set up and data collection methodologies adapted to each context.

Information collection is not just about developing and applying the right technology. The technology of data collection and validation represents only 10 per cent of ESOKO’s activities. Deployment of the technology accounts for the other 90 per cent. Hence, training, awareness building and support are crucial for ESOKO’s success. In this regard, the illiteracy of the main users of the system is the main challenge that needs to be overcome by ESOKO. It has tried to address the issue by using voice SMS. But the challenge is to be able to reach farmers in their own local languages which are often the only languages they speak. Donors supported the system during its first year after which each farmer has to pay $1 per month to access the information. Maintaining a good quality of services in these conditions has proved to be a challenge.

The Agricultural Market Information System (AMIS) is another tool used to collate and disseminate information on four key food commodities, namely wheat, maize, soybeans and rice. Established at the request of the G-20 in the wake of the 2007-2008 food crisis AMIS’ aim is to increase transparency in the markets for these four cereals in order to limit price volatility and improve food security. Participating countries are mainly developed countries and large emerging economies. They represent the main producers and consumers who together account for about 80 per cent to 90 per cent of world production. The AMIS working group is developing a series of key indicators on production, price, stocks and use which are made public free of charge. If “abnormal” circumstances are detected through the analysis of these indicators, AMIS quickly convenes a meeting of relevant stakeholders to discuss strategies that would pre-empt the occurrence of a full-blown food crisis as experienced in 2007-2008.

The experience of China in collecting and using agricultural market information illustrates some of the steps needed to put in place a market information system at the country level. As the world’s largest producer of agricultural commodities, the government of China realized that it needed to put in place a monitoring and early warning...
system for its major crops. China’s Market Information System (MIS) and Portable Agricultural Market Information Collector (PAMIC) contain standardized information on prices, production, consumption and trade. Data collection requires collaboration among various Government bodies including the State Statistical Bureau, Ministry of Agriculture, Ministry of Commerce, and Customs. In total 18 commodities are covered and MIS has agencies in 5 provinces. An early warning system called China Agricultural Market Monitoring and Early-Warning System (CAMES) is under development. The next step will be the linkage of the two systems, namely monitoring and early warning. Once finalized, the integrated system will allow the analysis and forecast of agricultural indicators in the country by commodity, region, and time period, using high frequency data.

Using cotton as an illustrative case, a public-private partnership (PPP) is probably the best model for the dissemination of agricultural market information. Statistics on cotton critically depend on estimates of the cotton mill use and stocks, which are provided by the private sector. In this respect, information from China is crucial, given that the country represents about 40 per cent of the world’s cotton mill use. Private companies are pushing governments to be more transparent given that it is in their interest to have reliable and credible data. But it is also clear that accessing and collating all private sector data, particularly stocks, is a challenge. Many developing countries, particularly in Africa, require training in order to produce reliable data that would be used to understand market dynamics in the region.

Commodities stakeholders have recently increased calls for improving transparency in commodities markets and value chains. The debate on transparency is made complex by the fact that different participants in the commodities value chain have different interpretations of the concept of transparency. For example, traders and shippers are important participants in the commodities trade. In taking the best decisions across the supply chain, commodity traders are able to provide the best services to the market and to react swiftly to disturbance in a commodity’s market equilibrium. Hence, market transparency does not imply excessive regulation but a correct set of regulatory rules that are properly applied. Such rules must be applied internationally and multilaterally to all actors involved in the market. At times, a multi-stakeholders’ approach to voluntary standards may produce better and more efficient results than a compulsory regulatory approach. The level of transparency to be introduced must be weighted against the need to remain flexible in the usually risky and evolving environment that has characterized current commodities markets over the last few years.

Some countries have introduced transparency in commodities’ national stock and price levels by integrating warehouse receipts into exchange operations. Through its Warehouse Receipts System (WRS), the Agricultural Commodity Exchange for Africa (ACE) increased producer prices while ensuring transparency in national stock and price data. Such a structure facilitates transport, provides warehouse facilities and guarantees quality and quantity of the stocked merchandise. The system has its own challenges. They include financing, particularly in countries where the financial sector is shallow; technological concerns particularly in rural areas; lack of access to the right insurance instruments and the limited number of buyers.

Transparency in commodities value chain is an important component of agriculture transformation and economic development in general. Focusing on just one or some aspects of the value chain has proved to be a wrong approach in commodities development. For example, concentrating on on-farm production without paying due attention to issues such as marketing, value addition and other forward and backward linkages would not go far in the long term development of the commodity sector. Issues such as the sustainability of production, the roles of the private and public sectors, gender and environmental protection must be integrated. Moreover, given their importance in developing countries commodity landscape, smallholders must be included in any successful commodity development policy. Clarifying the contractual relationship between these actors and farmers groups’ associations, extension service workers, as well as private sector agents such as banks, transporters, and insurance companies would help. A successful commodity development policy must align the interests of different stakeholders and this requires strong public, private and community-level institutions. Some elements of the strategy are more important than others depending on the context. As a result, each policy must be context-specific.
Special panel session on the contribution of the energy sector in economic growth and development: the lessons from experiences of Total, GDF-Suez, and Gas Natural Fenosa

Three transnational corporations (TNCs), namely Gas Natural Fenosa, the largest integrated gas and electricity company in Latin America; GDF Suez, the leading producer of non-nuclear power in the World; and Total, the leading private sector investor in Congo where it contributes 30 per cent of the country's national oil production, illustrated, from their experiences, the contribution of the energy sector to economic growth and development.

TNCs in the energy sector have high capital and technology intensive operations which often are weakly linked to the rest of developing countries’ economies. Nevertheless, these companies contribute to human capital formation, infrastructure development (access to electricity and gas distribution), and help to create a more competitive local business environment and industrial base. For example, Gas Natural Fenosa has a unique inclusive business model in Latin America where they help people in poor neighborhoods who would otherwise have no access to electricity to access power. GDF Suez has projects in Asia that promote the United Nations’ Secretary-General’s initiative on “Sustainable energy for all”. Total contributes to local content development in Congo and Nigeria’s oil and gas sectors.

All three cases highlight some important factors that underlie a successful relationship between TNCs in the energy sector and their host communities. The first is respect and empowerment. Through genuine dialogue, TNCs can help local communities to design their own solutions to their problems. Second is the need for a symbiotic relationship between TNCs and local communities. Local communities’ economic growth must be considered as a positive factor for the sustainability of TNCs operations. Thirdly, there must be a long term companionship between local enterprises and TNCs in order to bridge the skills gap. It is only through their strong involvement in their host countries’ development efforts that TNCs may boost their local content, a key requirement in the extractive industries’ quest to strengthen forward and backward linkages with the host economy. The merits of developing local content also include the creation of direct, indirect and induced jobs, skilled and unskilled, as well as local procurement of goods and services. The effectiveness of local content strategies could be measured by enhanced productivity and diversification of host country economies.

In principle, the development of local content must be based on existing domestic capabilities in manufacturing and services sectors. However, many developing countries have a weak and narrow industrial base, poor access to technology, financing and information, and hence are unable to generate local suppliers who meet international standards. In this context, TNCs which generally are engaged in long term operations should be forthcoming in helping their host countries to address these bottlenecks. Initiatives to enable host countries to attain the necessary quality and reliability standards, through, for example, the deployment of local suppliers’ development programmes,
should be considered as long-term investments that are ultimately in the interest of TNCs. Indeed, local content development initiatives must ensure benefits for both TNCs and host countries. Such initiatives could consist in cluster development, pre-qualification schemes, technical and management support, financial support to local companies and innovative arrangements to encourage subcontracting by local companies.

Building an educated and diversified workforce with transferable skills that can support the energy as well as other economic sectors even beyond the life of TNCs projects is imperative. TNCs face tensions between the right to exploit resources and their social responsibility. Corporations seek profitability and sustainability of their operations while attempting to accommodate the interests of their stakeholders, including their host countries. One of the challenges facing TNCs is how to identify valid community representatives and understanding their real issues of concern and their aspirations. Campaigns about community-wide awareness of the costs and benefits implied by TNCs activities could reduce externalities such as free riding. Whether voluntary or mandated, there is a clear trend towards TNCs community involvement although it is not clear what has triggered this trend and what are its pitfalls.

Different countries or localities require different approaches for promoting local content in extractive industries. Policymakers, particularly in commodity-dependent developing countries, are progressively recognizing the potential benefits of the energy sector beyond the tax and export revenues. It is a sector that can generate linkages with other non-energy sectors, contributing to economic diversification and densification.

The proximity of an efficient supplier to TNCs’ operations provides flexibility and improved supply chain management, allowing TNCs to concentrate on their core operations. Therefore, mutually beneficial approaches are those that align public economic policies and priorities for industrial development, private sector development, investment promotion, competitiveness, and sustainable development.

**Concluding remarks**

The fourth edition of the Global Commodities Forum innovated relative to previous forums, by introducing three prominent keynote speakers who shared their specialized knowledge on: the relevance of smallholders in agricultural development policies; the contribution of farmers’ associations to agricultural and rural development; and the increasing convergence of the interests of governments, local communities and transnational corporations both in agribusiness and extractive industries.

Despite the complexity of the issues that were discussed and the fact that participants represented different interests in the commodities sector, there was convergence of views around the need to have a commodities sector that contributes more to sustainable growth and development.

Increasing the contribution of the commodities sector to economic growth and development will require action from the relevant participants in the commodities sector. Transparency along the commodity value chain will be crucial in order to reduce the high price volatility that has been observed over the last few years. Not every actor in the commodities value chain could be expected to self-regulate in order to keep the commodities market undistorted. Regulatory bodies and policymakers have to use their prerogatives to set standards that ensure not only “moderate” price volatility in commodities markets, but also that commodities play their role in
fostering economic growth and development, particularly in commodity-dependent developing countries. Access to information on commodity indicators such as prices, production and stocks, including by small producers in rural areas could pre-empt panic buying which in the past has contributed to increasing volatility. Agriculture development strategies in commodity-dependent developing countries, particularly in Africa, should be built around small farming. This will not only improve food security but also generate employment particularly in regions with persistently high youth unemployment rates.

Strengthening farmers’ associations will help to ensure that policymakers respond to the needs of the agricultural and rural communities.

Making the commodity sector an engine of economic growth and poverty reduction, which was the theme of the fourth Global Commodities Forum, will require concerted action from private, public and civil society actors. UNCTAD, through its global commodities forums and other consensus-building processes, is committed to facilitating dialogue among the parties.
ANNEX 1. BACKGROUND NOTE

Introduction

Since 2002, commodities prices have staged the longest and most sustained rally in modern history, after three decades of stagnation at relatively low levels. For commodity-dependent developing countries (CDDCs), export revenues increased along with prices, but this windfall was accompanied by less comparable rates of economic growth or poverty reduction (Loayza & Raddatz, 2010).

For CDDCs, commodities sectors are often one of their most important sources of earnings and employment. Therefore, their inability to translate the recent commodities-led growth into generalized growth and poverty reduction calls into question their development model: what changes to their policies, institutions and infrastructure are necessary to link commodities revenues with the achievement of development outcomes, including the Millennium Development Goals (MDGs)?

The above question is similar to those raised by Prebisch and Singer’s seminal works observing and predicting long-term deterioration in the terms of trade for developing countries. Nowadays, there appears to be a consensus on long decades of steady deflation of primary commodities prices relative to those of manufactured goods (e.g. Brown et al. 2008). However, the high commodity prices have led some observers to posit whether the reverse is now true (Farooki and Kaplinski, 2011). Other aspects of the “commodity problem” facing commodity-dependent developing countries, such as the “Dutch disease” and the “resource curse” concepts, have also come under greater scrutiny. For example, in the extractive sectors, the then prevailing common wisdom of their enclave nature has been challenged based on available best practices (Morris et al., 2012). One observation from this empirical research is the existence of fewer opportunities for forward linkages than for backward linkages. Therefore, the latter linkages could serve as powerful leverage tools for decent job creation and poverty reduction. Indeed, diversification is important – as are comprehensive policies that are not limited to a “ministry of agriculture” or “ministry of mines,” but instead incorporate rural development, banking and credit, the environment etc. (UNDP, 2011). Equally important is an enabling global context in which commodity-producing countries could fulfill their development aspirations.

The 2013 Global Commodities Forum (GCF) provides participants with a platform to debate potential solutions to these challenges, at the vital intersection of commodities, economic growth and poverty reduction.

Agricultural development back on the policy agenda

Throughout the 1980s and 1990s, international policy orthodoxy encouraged developing countries to cut public budgets and privatize public assets, including the parastatal agricultural marketing boards that were seen to distort and hinder market-based opportunities for development (Poulton et al., 2006). During this so-called Washington Consensus era, prices for agricultural commodities stagnated at low levels, discouraging both public and private investment in the sector, and therefore relegating agriculture to the policy wilderness.

Beginning in the mid-2000s, and particularly after the food price crisis of 2007-8, agriculture returned to prominence in the public policy discourse. In developing countries, this renewed attention has highlighted the dilapidated state of the institutions and infrastructure after two decades of relative neglect. Although the retreat of the state in the 1980s and 1990s from participation in the sector was meant to create incentives for private actors to drive development, a void remained in the functions, such as regulation and promotion, which can only be effectively provided by a single legitimized authority. Similarly, the private sector underprovided public goods, such as infrastructure and extension services, which are difficult to deliver profitably.

As governments in developing countries continue to re-enter vacated policy roles in agriculture and rebuild neglected public goods, they do so amid a policy discourse

1 Source: UNCTADStat
2 A commodity-dependent developing country relies on commodity exports for 60% or more of its export earnings.
on the subject that is both rich and challenging. Recent research has highlighted lessons from the outcomes of past policies, and points to the need for nuanced agricultural development policies.

At a macro level, agriculture is the ideal engine of both generalized growth and poverty reduction in low-income countries, most particularly in sub-Saharan Africa. As countries move into middle-income levels, other sectors tend to drive growth and agriculture remains as the most important activity for reducing rural poverty. Above middle-income levels, national economies employ agriculture as one of several components in a multi-sectoral growth and poverty reduction strategy (World Bank, 2007a).

Just as research shows that macro agricultural development policy evolves as national income levels rise, so too does it show that governments must calibrate micro policies to a variety of sector-, firm- and household-level outcomes. The smallholder has rightly re-entered the agricultural policy discourse as key actor: after all, the small farming household is often involved both as a producer in growth strategies and as a subject of poverty reduction strategies. Indeed, among the poorest rural households, increased opportunities in agriculture represent the most poverty-reducting vector (Christiaensen et al., 2011; Lipton, 2006).

The rural-urban migration component evokes the dualistic growth model proposed by Lewis (1954), with agricultural productivity improvements freeing up rural inhabitants to work in higher-growth industries in the city. Indeed, the imperative remains for modern rural development models to increase agricultural productivity and provide more productive and remunerative activities for underemployed rural inhabitants (Loayza & Raddatz, 2010). But the modern development experience has balanced the Lewis growth model with poverty reduction imperatives, and thus has included rural-urban migration and increased agricultural productivity, not as two absolute points on a linear development path, but instead as two of the many elements in improving the livelihoods of rural households.

In the specific case of Africa, a recent report by the World Bank highlighted the importance of clear and predictable trade policies in achieving food security in order to contribute to the first goal of the MDGs on the continent. The report identifies removing trade barriers in general but also enhancing market transparency and building resilience as possible entry points to an effective contribution of the continent to its food self-sufficiency.

**Extractive sector: Building linkages**

As stated above, although there is acknowledgement of fewer opportunities for forward linkages, backward linkages could serve as powerful leverage tools for the creation of decent jobs and therefore for poverty reduction. It should be noted that up until now, the political focus of most developing countries was outward-looking, which means seeking to respond to the needs of foreign investors and at the inducements offered by other States. Although it is recognized that extractive activities have intrinsic characteristics that result in weak linkages with the rest of the economy, recently there has been a shift in focus towards the services sector and affected communities (UNCTAD, 2012).

The so-called local content can be obtained through value addition in the host country economy either directly (employment, profits and taxes) or indirectly (purchase of goods and services). Under these circumstances, the model would suggest an arbitrator role for the State, negotiating between the private investor and the local community. Therefore, appropriate economic policies ensure that jobs are created and that they are durable enough to provide long-term development beyond the operational life of the extractive project. This requires not only natural resource management, but a wider economic management including planning capacity.

**Expected outcomes**

As an outcome of this meeting, we expect to arrive at clear cut multi-stakeholder policy consensus to address the following issues:

1. Risk management and resilience in low income commodity dependent economies; there are ongoing discussions to launch a study on risk management tools in cooperation with external partners such as the “Strategic Risk Management” Group based in Paris;
2. Developing infrastructure and services to support the agriculture sector;
3. Improving transparency in commodities markets and value chains at national and global levels;
4. Developing production linkages from the extractive sector with the objective of enhancing local employment, local content and local value addition.

Conclusion

As shown above, discussions about commodities development policies quickly spill beyond the narrow policy files of agriculture, natural resources and trade. They sweep into areas such as taxation, rural development, human resources and the environment, among others. From this perspective, it is imperative that governments formulate their commodities development policies as part of a comprehensive growth and poverty reduction strategy (World Bank, 2007b). Prerequisites to such holistic policy approaches are appropriate responses to the challenges of price volatility at the global level and weak infrastructure.

Moreover, in order to have a balanced structure of an integrated commodities sector, countries would need improved transparency in commodities markets in general, through effective data collection systems within an enabling global context. As a result, one would expect better analyses of the data that would lead to the formulation of the policies and their dissemination.

With a view to building consensus around the above-mentioned issues and others related to risk management and resilience, the 2013 Global Commodities Forum will provide participants with a platform to debate potential solutions to the identified challenges of linking commodities revenues to the achievement of development outcomes, including the MDGs, and, more specifically, the daunting challenge of poverty reduction.
REFERENCES


ANNEX 2. FINAL PROGRAMME

Monday, 18 March

10 a.m. – 1 p.m.

PLENARY THEME: Recommitting to commodity-sector development as an engine of economic growth and poverty reduction

10 a.m.–10.40 a.m.

WELCOMING REMARKS AND OPENING STATEMENT

Opening statement by:

- Mr. Supachai Panitchpakdi, Secretary-General, UNCTAD
- Mr. Pascal Lamy, Director-General, World Trade Organization
- Mr. Jüri Seilenthal (Estonia), President, Trade and Development Board, UNCTAD

Keynote speakers: Moderator: Mr. Markus Mugglin, former journalist SRF

- Mr. Michael Lipton
  Sussex University
  Staples production: efficient subsistence smallholders are key to poverty reduction, development and trade

- Ms. Ruth Rawling
  Cargill
  Lessons from experience: unlocking farmers’ potential, enabling entrepreneurs

- Ms. Dhano Sookoo
  Agricultural Society, Trinidad and Tobago
  Role of farmers’ organizations in promoting commodity development and poverty reduction

Moderated question-and-answer session with keynote speakers

1 p.m. – 3 p.m. Lunch break
3 p.m. – 4.30 p.m.
PLENARY THEME: Recommitting to commodity-sector development as an engine of economic growth and poverty reduction (continued)
Risk management and resilience: methods and mechanisms for developing countries and small producers to prosper in spite of price volatility in the commodities markets

Moderator: Mr. Jean-François Lambert, Global Head of Commodity and Structured Trade Finance, HSBC Bank Plc

- Mr. Franck Galtier
  Centre de coopération internationale en recherche agronomique pour le développement
  Managing commodity price instability. Why grains are different

- Dr. Sushil Mohan
  School of Business University of Dundee
  Delivering price-risk management services to commodity producers in developing countries: the case of coffee

- Mr. Jean-François Casanova
  Strategic Risk Management, Paris
  Beyond derivatives, How to better manage risk exposures in commodity dependent countries

- Mr. Bruce Tozer
  Common Fund for Commodities Expert, Former Managing Director, JP Morgan Environmental Markets
  Outcomes of the Public–Private Initiative on Commodity Market Volatility

4.30 p.m. – 6 p.m.
Playing catch-up in the agricultural sector: investing in neglected infrastructure and services in the agricultural sector; filling the void left by the elimination of parastatal institutions

Moderator: Mr. Atsen Ahua, journalist

- Mr. Frank Deveer
  Managing Director Villa Development Company Limited Farms of Old Domeabra
  Playing catch-up in the agricultural sector: some practical problems from West Africa

- Mr. Ebenezer Tei Quartyey
  Director Research Department of Ghana Cocoa Board
  The role of parastatal institutions in the agricultural sector. the case of Ghana Cocoa Board

- Dr. Bharat Kulkarni
  Stalwart Management Consultancy Services India
  Attaining economic diversification and growth using commodity exchange in Malawi

6.30 p.m. – 8 p.m. Cocktail reception
Tuesday, 19 March – 10 a.m. – 11.30 a.m.

BREAKOUT THEME: Information and transparency in the commodities sector
Challenges and solutions in collecting, analysing and disseminating market information and other commodities data

Moderator: Ms. Emma Farge, Journalist, Reuters

- Mr. Daniel Asare-Kyei
  Agriculturist and geo-information specialist
  ESOKO Mobile agriculture: providing tools and support for market information services and commodity price exchange

- Mr. David Hallam
  Director, Trade and Markets Division Food and Agriculture Organization of the United Nations
  Enhancing international market transparency: the Agricultural Market Information System (AMIS)

- Mr. Shiwei Xu
  Agricultural Information Institute of the Chinese Academy of Agricultural Sciences
  China Enhancing agricultural market information: China’s experience

- Ms. Armelle Gruere
  Statistician, Consultant
  International Cotton Advisory Committee, United States of America
  Public–private partnerships in meeting the challenges of data collection and dissemination in the cotton sector

11.30 a.m. – 1 p.m.

BREAKOUT THEME: Information and transparency in the commodities sector
Improving transparency in commodities markets and value chains

Moderator: Ms. Emma Farge, Journalist, Reuters

- Mr. Stéphane Graber
  General Secretary
  Geneva Trading and Shipping Association, Switzerland
  Commodity trading: value chain and specificities to consider in the transparency debate

- Mr. Kristian Schach Moller
  Agricultural Commodity Exchange for Africa, (ACE)
  Malawi’s experience: integrating warehouse receipts into exchange operations

- Mr. Dougou KEITA
  Agriculture & Agro-industry 2 Division, African Development Bank, Tunisia
  Agriculture Transformation Through Commodities Value Chain Development

1 p.m. – 3 p.m. Lunch break
3 p.m. – 5 p.m.

PLENARY THEME (continued): Recommitting to commodity-sector development as an engine of economic growth and poverty reduction

Panel discussion organized in collaboration with: Economic Commission for Europe - Gas Centre

www.gascentre.unece.org

Contribution of the energy sector in economic growth and development: the lessons from experiences of Total, GDF Suez, Gas Natural Fenosa

Moderator: Mr. Tom Miles, Thomson Reuters

GAS NATURAL FENOSA

Xavier Vives
Director of Customer Service for Gas and Electricity Businesses in Latin America

GDF SUEZ

Bernard Saincy
Vice-President for Corporate Social Responsibility
Strategy and Sustainable Development Division

Christian Van Dorpe, Senior Vice-President, Sustainable Development

Energy Europe

TOTAL

Jean-Marc Fontaine
Vice-President, Health Safety and Environment Total Exploration and Production

Léa Judith Ndombi
Head, Local Content Department, IT Engineer and Economist, Total E&P, Congo

Alexis Béguin
Deputy Executive Director, Institut européen de coopération et de développement

Catherine Sanchez
Local Content for the Moho Nord Project, Total E&P Congo

5 p.m. – 5.30 p.m.

Moderators’ panel: summaries from moderators of key policy outcomes from their sessions

5.30 p.m. – 6 p.m.

GCF closing session: Statement by the Secretary-General of UNCTAD
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