Developing countries and the commodities trade:

Why transparency matters

by

Mr. Alexandra Gillies
Head of Governance, Revenue Watch Institute

The views expressed are those of the author and do not necessarily reflect the views of UNCTAD.
Developing countries and the commodities trade: Why transparency matters

Alexandra Gillies
Head of Governance, Revenue Watch Institute
Overview

The challenge of extractives and development

The role of commodity trading

How can transparency help?
The scale of resource wealth

<table>
<thead>
<tr>
<th></th>
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</thead>
<tbody>
<tr>
<td>ODA</td>
<td>$12bn</td>
<td>$36bn</td>
</tr>
<tr>
<td>Resource Rents</td>
<td>$39bn</td>
<td>$240bn</td>
</tr>
</tbody>
</table>

Source: World Bank, Changing Wealth of Nations & World Development Indicators
Rents versus Aid, 2008

Source: World Bank, Changing Wealth of Nations & World Development Indicators
### Under-exploration in developing countries

<table>
<thead>
<tr>
<th>Region</th>
<th>‘Known’ subsoil assets/km² (USD), average</th>
</tr>
</thead>
<tbody>
<tr>
<td>World</td>
<td>105,000</td>
</tr>
<tr>
<td>OECD</td>
<td>114,000</td>
</tr>
<tr>
<td>Africa</td>
<td>23,000</td>
</tr>
<tr>
<td>South Asia</td>
<td>53,000</td>
</tr>
<tr>
<td>Latin America</td>
<td>95,000</td>
</tr>
<tr>
<td>MENA</td>
<td>361,000</td>
</tr>
<tr>
<td>East Asia &amp; Pacific</td>
<td>77,000</td>
</tr>
</tbody>
</table>

Source: World Bank (2006), Collier and Hoeffler calculations
New discoveries across Africa

Significant petroleum producers 2005

Potential petroleum producers (by 2020)

[Source: Ross (2011), RWI research]
The Challenge of turning extractives into equitable development

50 resource rich countries
>1 billion people
$5 per day
1970 – 1993
resource rich countries
grow 4 times slower
than their resource-poor counterparts
**1980-2006: Oil-rich states 3 times less likely to democratize than non-oil producers**

<table>
<thead>
<tr>
<th></th>
<th>1980</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total autocracies</td>
<td>103</td>
<td>74</td>
</tr>
<tr>
<td>Oil rich autocracies</td>
<td>27</td>
<td>30</td>
</tr>
</tbody>
</table>
Nigeria: exemplifying the resource curse

Oil revenues per capita:
US$33 in 1965; US$325 in 2000

Poverty:
26% in 1970; 70% in 2000
Non-renewables mean you get one shot...
One estimate of Ghana’s future oil production

[Source: Joe Amoako-Tuffour (2013), ACET]
Political and economic outcomes

Natural resource governance

Resource wealth
Need transparency and accountability at each stage

Licences to inappropriate individuals

Preferential contract terms

Tax evasion

Savings fund malpractice

Investment in crony projects

Discovering the wealth

Getting a good deal

Managing revenues

Investing for development

Environmental & social costs

Crude mis-selling by NOC

Illicit flight of revenues

Government officials personal gains
How is it going?

• **2013 Resource Governance Index**
  
• 58 countries.

• Primary data on 50 indicators of transparency and accountability

• [www.revenuewatch.org/rgi](http://www.revenuewatch.org/rgi)
80% of countries do not meet satisfactory governance standards.
Transparency is missing where it is needed most

Index Scores by Resource-dependency

- Resource-dependent countries
- Non resource-dependent countries

<table>
<thead>
<tr>
<th>Category</th>
<th>Resource-dependent</th>
<th>Non resource-dependent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Composite</td>
<td>48</td>
<td>57</td>
</tr>
<tr>
<td>Institutional and Legal Setting</td>
<td>58</td>
<td>63</td>
</tr>
<tr>
<td>Reporting Practices</td>
<td>48</td>
<td>54</td>
</tr>
<tr>
<td>Safeguards and Quality Controls</td>
<td>51</td>
<td>63</td>
</tr>
<tr>
<td>Enabling Environment</td>
<td>35</td>
<td>52</td>
</tr>
</tbody>
</table>
Trends in Control of Corruption, Extractive vs. Non-Extractive Intensive Countries, 2002-2011

World Governance Indicators 2012
Widespread global response

All in the last 10 years:
• PWYP – 700+ members
• EITI
• African Union’s Africa Mining Vision
• Natural Resource Charter
• US / EU mandatory transparency laws
• World Bank, IMF, IFC, regional development banks
• G8, G20
• UN Resolution, UNDP program
• Actions by Australia, Canada, US,

Commodity trading is an increasingly obvious gap.... Why?
Trading companies’ work in developing countries

Play a major role

Traders and developing countries with weak institutions – a natural fit

- Financing
- Logistics
- Risk management
Trading companies’ work in developing countries

Activities include:

• Sell petroleum products

• Provide loans

• Operate joint-ventures and subcontracts with state-owned companies and politically-connected individuals

• Buy raw materials from state-owned entities
NOC commodity sales as a share of gov’t revenues
<table>
<thead>
<tr>
<th>NOCs selling most crude direct to end-users</th>
<th>NOCs selling significant amounts to trading companies</th>
</tr>
</thead>
<tbody>
<tr>
<td>US</td>
<td>Russia</td>
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<tr>
<td>Canada</td>
<td>Angola</td>
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<td>Saudi Arabia</td>
<td>Libya</td>
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<td>UAE</td>
<td>Nigeria</td>
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<td>Kuwait</td>
<td>Ghana</td>
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<td>Iraq</td>
<td>Chad</td>
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<td>Iran</td>
<td>Sudan</td>
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<td>Kazakhstan</td>
<td>South Sudan</td>
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<td>Norway</td>
<td>Congo-Brazzaville</td>
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<td>UK</td>
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<td>EU</td>
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<td>Netherlands</td>
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<td>Mexico</td>
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<td>Venezuela</td>
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<td>Algeria</td>
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</table>
Swiss traders engagement in developing countries

- Oil bought by IOCs, private traders, African players, Chinese state-owned companies, etc.

- Swiss traders are important players

- Very, very difficult to say when, where, how much, but some illustrations....
$95,000,000 transactions
What should be transparent (and why)?

• Identity and selection of buyers

• Sale information
  • price
  • volume
  • grade
  • date

• Where the money goes
How to promote this transparency?

1. Voluntary action by companies and producing governments

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**MAY 2014 OSP ANNOUNCEMENT**

March 9th, 2014

1- Masila Blend Crude Oil.

- The Official Selling Price (OSP) for May 2014 Masila blend crude oil has been set at **Brent DTD Plus Two Dollars and Sixty Eight US cents**.

- UNIPEC UK is the highest bidder for May 2014 Masila Crude. As per the OSP Setting Procedures, the highest bid price of Brent DTD Plus 268 US cents set the OSP.

- The highest bidder requested the entire announced quantity (1,500,000 bbl). As there are no additional quantities to be offered, the committee will not be issuing "Invitation for Purchase Orders" for the May 2014.
How to promote this transparency?

2. EITI (Extractive Industries Transparency Initiative)
How to promote this transparency?

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How to promote this transparency?

3. Home country mandatory measures
Trading companies’ work in developing countries

Natural resource governance

Trader activities include:
• Sell petroleum products
• Provide loans
• Operate joint-ventures and subcontracts with SOEs and PEPs
• Buy raw materials from state-owned entities

Political and economic outcomes

Resource wealth