

Statement by Dr. Mukhisa Kituyi, Secretary-General of UNCTAD
at the Opening Session of the Global Commodities Forum
7-8 April 2014

Excellencies,
Distinguished delegates,
Ladies and gentlemen,

I am pleased to welcome you to the fifth UNCTAD Global Commodities Forum. This year's event falls at a time when UNCTAD is celebrating its 50 years. I hope that the next two days of debate and exchange will provide us all with opportunities for new projects and collaborations.

Since its creation in 1964, UNCTAD has striven to help overcome commodity-related problems facing developing countries. Our aim has been to identify solutions that transform the commodity sector from a poverty trap to an engine of growth. It is in this spirit that we meet here today for this year's Global Commodity Forum.

This year, we tackle a complex, challenging theme: “Global value chains, transparency and commodity-based development.” This theme incorporates two concepts that are topical in current trade and development discourse: global value chains and transparency. And while these two themes can be approached from a variety of angles, we at UNCTAD see them as opportunities for improved resource wealth governance.

Transparency has become ubiquitous in our public lives. The notion of transparency we are discussing at this Forum centres on transactions related to the extraction of oil, gas and minerals. These transactions

include the awarding of contracts, the sale of these raw materials, and their eventual export to onward markets.

When used to scrutinize these types of transactions, transparency standards help expose corruption by both buyers and sellers. This corruption may take the form of illegal or undocumented payments as well as the over-invoicing of imports and the under-invoicing of exports. These illicit activities may also give rise to illicit financial flows.

By their nature, these illicit activities are difficult to observe and quantify. But estimates suggest they represent an enormous loss for developing countries. For example, the Africa Progress Panel recently estimated that trade mispricing deprived countries in sub-Saharan Africa of approximately US\$38 billion per year, and that other illicit outflows deprived them of an additional US\$25 billion. These are staggering figures - these illicit outflows are greater than the total inflows of aid and foreign direct investment that these countries receive on an annual basis.

Corruption and illicit financial flows remain major concerns for citizens in developing countries, who stand to lose if their natural resource wealth is exploited without improving their standard of living. For example, recent research on Cameroon estimates that out of approximately US\$20 billion in oil revenues over the period from 1977 to 2006, less than half was transferred to the government budget, with the rest presumed to be misappropriated.

Corruption and illicit financial flows also present major legal and reputational risks for countries whose companies do business abroad. For example, last year the Swiss government issued a report seeking to balance the country's competitive position and a sound reputation in response to mounting allegations of large-scale trade mispricing by

Swiss-based commodity trading companies, which operate in developing countries.

A highlight of the Forum's focus on transparency this year will be a special session devoted to the Extractive Industries Transparency Initiative, which will feature interventions by the national coordinators from Nigeria and the Philippines. The objective will be to highlight how the EITI process fits into wider strategies for transparent resource wealth governance in developing countries.

On the transparency side, the commodities sector faces an increasing concern with equity issues and the negative perception of its social outcomes. These outcomes are poorly addressed by the sector's traditionally informal and opaque governance practices.

I trust that your discussions at this Forum will help identify better governance practices and principles to overcome these concerns, and to ensure that increased transparency leads to improved development benefits from commodity exports.

Global value chains are playing an increasingly dominant role in international trade. Today they account for over 60% of all international trade. They represent an opportunity for developing countries to diversify their economies, build new capabilities and reach new markets. But the informal governance of these value chains is weak on questions of equity and negative externalities. This weak governance can lead to "capture" by a small number of powerful firms and can allow pollution, workplace health and safety concerns, as well as food price volatility to undermine the net social benefit of value chain participation.

The challenge is to identify governance practices that permit value chain participation, but ensure an equitable distribution of benefits, while minimizing social costs.

So what can these value chains offer commodity-dependent developing countries? For a developing country, an overreliance on raw material exports leads to difficulties in upgrading and diversifying its economy. Assisting such countries in their structural transformation has been a central mission of UNCTAD since our founding in 1964.

Today we continue to warn about the risk of commodity extraction projects becoming enclaves - oriented towards export markets, isolated from the domestic economy, and disassociated from the outcomes for the country's citizens.

As many developing countries have experienced, foreign and domestic political interests take root around the rents that flow from extractive projects. This can drain value away from public coffers through corruption and other abuses. This drain on rents impedes efforts to diversify towards higher value-added activities.

Up until 20 years ago, creating a more rewarding role for developing countries in the value chain inevitably involved transnational corporations and their vertically integrated supply chains. They were often the investors and operators in extractive projects which, in turn, would export raw materials to company-owned processing plants and factories further along the chain.

These vertically integrated supply chains implied a certain approach for developing countries to upgrade their role. This meant attractive incentives for transnational corporations to invest in company-owned

processing plants, with the hope for a progressive transfer of technology and know-how to local actors.

Today global value chains have substantially changed this paradigm, with consequences for how developing countries pursue upgrading and diversification. Advances in transportation and communication technologies have disaggregated supply chains globally.

Transnational corporations retain control of core functions related to marketing and intellectual property, but today they outsource non-core activities and bundles of services. Other speakers in the programme will explain in more detail this evolution and its consequences. But I want to highlight that this new, disaggregated framework shifts the types of opportunities available to commodity-dependent developing countries. As corporations outsource control and ownership, global value chains open doors for domestic investors and entrepreneurs. But of course they also may pose new challenges.

At UNCTAD, we have incorporated global value chains into the policy advice we deliver to our member states, particularly with respect to investment policies that can harness these value chains in the service of development. I hope that this year's Global Commodities Forum takes this discussion further.

I hope that the theme of this year's Global Commodities Forum - "Global value chains, transparency and commodity-based development" - will offer a fresh lens through which to view the challenges facing commodity-dependent developing countries.

Commodities and natural resource wealth are not inherently a "curse" for developing countries. They are an opportunity, which,

governed responsibly - with patience and foresight - can underwrite durable improvements in the quality of life of citizens.

Finally, allow me to thank Afreximbank and the Government of the People's Republic of China for their generous contributions this year to the Global Commodities Forum. Both are repeat supporters of the Forum and we are grateful that they continue to see value in the Forum, as a multi-stakeholder platform to generate partnerships and innovative policy ideas on issues related to commodity-based development.

I also wish to recognize the contributions of the GCF steering committee, which is composed of experts in the field who volunteer their time several times a year to advise us in preparations for the Forum. Thank you for your continued support and contribution.

I wish you all a productive conference.