UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

UNCTAD

2014 REPORT

Palais des Nations, Geneva
7-8 April 2014

GLOBAL COMMODITIES FORUM

REPORT OF THE GLOBAL COMMODITIES FORUM 2014

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NOTE

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FOREWORD

Launched in 2010, the Global Commodities Forum is part of an overall effort to reinvigorate UNCTAD's commodities mandate and address the resurgent challenges faced by commodity-dependent developing countries in the production and trade of commodities. The Forum is a neutral platform that assembles stakeholders from across the commodities economy to debate topical issues, form partnerships and generate innovative policies.

The 2014 Forum attracted approximately 300 attendees, representing Government, private industry, civil society organizations, academia and the press. They heard interventions by 26 experts, including two keynote speakers, in the form of an inaugural panel and five plenary sessions.

Keynote addresses were initiated in the 2013 Forum programme. For the 2014 Forum, UNCTAD was fortunate to secure two keynote speakers – from academia and civil society – to frame the range of issues for debate during the subsequent sessions of the Forum's two-day programme.

To complement this year's sub-theme of transparency in commodities, the Forum also featured a special session devoted to the Extractive Industries Transparency Initiative. The panel included national coordinators from Nigeria and the Philippines, who shared their countries' different experiences and outlooks in implementing the Initiative. This special session highlighted how the Initiative fits into wider strategies for resource wealth governance in developing countries.

With features such as keynote speakers and special sessions, UNCTAD hopes to continue improving the quality of the Global Commodities Forum and to adapt it to participants' needs. In response to encouragement from member States, sponsors and experts to orient the Global Commodities Forum towards more concrete outcomes and to follow through on those that involve UNCTAD, a renewed focus was given to actionable outcomes at the 2014 Forum.

The productive debates at the 2014 Forum led to a number of such actionable outcomes. There was a general call to include civil society as an equal partner alongside Government and industry in governance discussions. More specific proposals included calls for the Extractive Industries Transparency Initiative and for national Governments to extend their legislation and initiatives related to transparency in the extractive sector to include commodity trading companies.

UNCTAD intends the Global Commodities Forum to continue to be a setting for productive debates, partnerships and outcomes and contribute to overcoming the entrenched challenges facing commodity-dependent developing countries. The Forum complements UNCTAD's wide range of consensus-building activities and generates follow-up opportunities in UNCTAD's two other pillars of activity: research and analysis and technical assistance.

The Global Commodities Forum benefited from the generous contributions of Afreximbank and the Government of China, as well as in-kind support from the Common Fund for Commodities, which sponsored the participation of one panellist. All three of these sponsor organizations have supported the Forum in previous years and UNCTAD remains extremely grateful to them.

UNCTAD is also thankful for the contributions of the Global Commodities Forum Steering Committee, which is composed of experts in the commodities field who volunteer their time to advise UNCTAD on preparations for the Forum.

Mukhisa Kituyi
Secretary-General of UNCTAD

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INTRODUCTION

UNCTAD's Special Unit on Commodities organized the fifth Global Commodities Forum (GCF) on 7-8 April 2014. It proposed to participants an engaging programme of speakers to address the theme of "Global value chains, transparency and commodity-based development." Global value chains (GVCs) and transparency are two topical governance issues facing CDDCs.

Developing countries that depend on the export of commodities, with little or no value added, are typically absent from GVCs. Non-participation foregoes a considerable range of trade-related opportunities, including value added, jobs and technological upgrading. Participants at the 2014 GCF debated how developing countries can pursue global value chain strategies that fit with their overall development plan, contributing to structural transformation, job creation and entrepreneurship opportunities for their citizens.

The second subtheme of transparency is also timely. High commodities prices in recent years have motivated the development of new oil, mineral and agricultural projects in developing countries. But citizens in many of these countries are wary of the "resource curse" effects that have dogged previous commodities projects. In these instances, transgressions such as corruption, trade mispricing and tax evasion prevented citizens from realizing the full value of their natural resource wealth. Participants at the 2014 Forum debated the features of a governance reform in the commodities sector, which would reinforce transparency and accountability in the collection of commodities revenues, and in their development-oriented investment.

OPENING CEREMONY

In his opening address, UNCTAD Secretary-General ***Mukhisa Kituyi*** expressed the need to transform natural resource wealth from a poverty trap into a development opportunity. For many developing countries, windfall revenues from the ongoing commodity price super cycle have fuelled economic growth. But this growth is characterized by stagnant job creation and a widening wealth gap. The current governance model has also proven weak in minimizing externalities associated with increased commodities production and trade, such as pollution, workplace health and safety concerns and food price volatility.

Secretary-General ***Kituyi*** stated that current governance efforts have also failed to curb illicit rent-seeking behaviours related to the exploitation of natural resource wealth. Corruption, trade mispricing and tax evasion are mishbehaviours that seek to illegally divert physical and financial flows generated from publicly owned natural resources.

To combat this predation of public wealth, transparency is a central principle in governing natural resource transactions. Policy makers need to devote renewed attention, and greater budgets to tightening disclosure rules, developing the technical and human capacity to implement them, and strengthening their enforcement. This will reassure citizens that their natural resources are governed responsibly and that the benefits from this wealth are more equitably shared.

In his statement, ***Michael Møller***, the Acting Head of the United Nations Office at Geneva (UNOG) echoed the need for governance reform in the commodities value chain. He remarked that such a governance reform dovetails well with the "leave no one behind" theme of the Post-2015 Development Agenda. The General Assembly has acknowledged that, going forward, official development assistance (ODA) will be insufficient to fund development needs. Increasing the returns that developing countries draw from global value chains and from the continued expansion of the commodities sector will therefore be an important source of funding for their poverty reduction and social transformation efforts.

As well as identifying innovative policy tools and approaches, governance reform in the commodities sector must involve a wider range of stakeholders in the decision making process. ***Arancha González***, the Executive Director of the International Trade Centre (ITC) emphasized that private sector companies undertake the majority of value added activities in the commodities value chain and deserve an equal role in formulating the policies that govern their activities. This includes not only large transnational corporations (TNCs), but also small and medium enterprises (SMEs) in developing countries.

H. E. Addis Alem Balema, the Director-General of the Commodity Exchange Authority of Ethiopia, described his country's approach to commodity-led development. The country began by formulating a comprehensive development plan, in which it identified agriculture as a growth engine that would propel its industrialization and poverty reduction efforts. In particular, Ethiopia focused on increasing its share of the value added to its agricultural raw materials. A key component of this strategy involved the creation in 2008 of the Ethiopian Commodity Exchange, which has increased the efficiency and transparency of the country's agricultural marketing system. As a result of its commodity-led development strategy, Ethiopia's has become one of the fastest growing economies in Africa, alongside achieving a significant reduction in poverty rates.

As dignitaries in the opening ceremony debated governance reform in the commodities value chain, two specific warnings emerged. First, standards have become popular governance tools, but they have multiplied without coordination. This has resulted in rising complexity, overlap and costs. In designing a new governance model for the commodities value chain, policy makers must mitigate the burden that falls on small producers.

Still more vulnerable than small producers are the poorest population segments in developing countries, who have few opportunities to participate in GVCs, but suffer from many of their negative consequences. In debating governance reforms, policy makers tend to focus their remedies on quantifiable consequences. But ***Ms. González*** reminded participants that this ignores the problem of degraded biodiversity, which is difficult to quantify, despite its disproportionate impact on the livelihoods of the extreme poor. Their relative absence from the formal economy means that their livelihoods are not easily represented in policy measures. Yet new research suggests that extremely poor people draw services and non-marketed goods from natural ecosystems that represent as much as 50-90% of their livelihoods. The survival of these ecosystems depends on preserving their biodiversity - a challenging objective for policy makers.

Keynote Speakers

The sovereign nation state remains the central actor in the governance of the international commodities value chain. The international initiatives that exist in the sector are voluntary, with their effectiveness dependent on individual states making a serious effort to implement and enforce them.

Dr. Peter Eigen, the founder of Transparency International and a member of the Africa Progress Panel, proposed that this state-by-state governance model has proven inadequate in responding to many of the supranational problems that affect the commodities economy. The reach of most states does not extend beyond national borders, undermining the governance of cross-border commodities trade. Diverse national and international constituencies, combined with inconsistent incentives in the international trade system, preclude states forming an international consensus to address global problems related to commodities production and trade.

Investment cycles for natural resource development projects are long. Timelines are comparably long for addressing entrenched problems related to commodity-based development, such as reducing poverty, fighting corruption and diversifying the domestic economy. The long-term considerations of commodity-based development are therefore difficult to incorporate into the short-term election cycles that drive national policies in democracies.

As well as being fragmented among states, the current commodities governance system is fragmented among activities along the chain. This model complicates an end-to-end governance of the chain, for example in the transmission of information and standards from the extractive step through to the end user.

Participants debated the need for a governance model that is capable of responding to the geographic and temporal considerations of the commodities value chain. At a political level, this implies expanding the representation in governance institutions. States remain the dominant actors in these institutions; private sector actors are represented to a lesser degree; and civil society organizations (CSOs) are largely absent.

Dr. Eigen insisted that commodities governance must evolve to a tripartite partnership between government, the private sector and civil society. Although civil society represents a valuable third perspective in a reformed governance system, CSOs must justify their elevated role by improving their own governance, and by developing the political skills to convert their principles into practical policy compromises. A tripartite governance model would have expanded geographic and political reach, and would more closely represent the international, multi-stakeholder organization of commodities value chains. This is an important point to emphasize: the new governance model should seek not only to achieve a broader representation,

The global commodity trade is one of the world's largest industries, procuring from some of the world's poorest and most unstable countries.

But its contribution to human development in most of those countries will be tiny without more transparency.

Transparency prevents corruption and boosts accountability too.

PETER EIGEN
Member, Africa Progress Panel

but also to adapt its strategies and methods to the actual organization and operation of global value chains.

Another institutional consideration involves the balance between hard and soft law employed to govern the chain. Legislation and regulation can be effective governance methods, but only if they are enforced consistently across the many jurisdictions in which the chain operates. This is a particular challenge in the commodities value chain: raw materials are often produced in developing countries, where effective enforcement is lacking; and are sold to transnational trading companies, which can engage in "regulatory arbitrage," channeling physical and financial flows through the most advantageous regulatory jurisdictions.

Dr. Eigen explained that soft law can lead to hard law, as legislation is typically the culmination of a long-term political process that builds consensus around social norms. Prior to being codified into law, norms must gain social consensus through, for example, activism, advocacy or voluntary compliance initiatives. For example, the signatory countries of the Extractive Industries Transparency Initiative (EITI) combat corruption by publicly reporting the details of extractive resource transactions. Ethical sourcing brands are another type of voluntary initiative, through which suppliers commit to deliver to their customers goods produced according to any number of economic, environmental or social standards.

The Forum's second keynote speaker, ***Dr. Stefano Ponte***, is a professor at the Copenhagen Business School and a leading thinker and researcher on global value chains (GVCs). In describing the different activities and relationships that populate GVCs, Dr. Ponte stressed that these chains are mainly controlled by transnational companies (TNCs), who coordinate the composite activities and outcomes to their advantage. This vertical coordination of GVCs means that their dynamics are rarely driven by arms-length, market forces, but are actively governed by the lead firms.

At a national level, ***Dr. Ponte*** encouraged developing country governments to pragmatically evaluate their position relative to opportunities in global value chains. This may not always lead to the classical development strategy of "upgrading" - it may present developing countries with more lucrative opportunities in activities based on high volumes and low value-added. Participants questioned this advice to "trade down" in some cases, arguing that it could have negative development consequences. ***Dr. Ponte*** insisted that "trading down" was not his normative advice, but rather a possible strategy that a country could pursue, following a rational process of comparing available opportunities with its comparative advantage.

Similarly, an analytical use of the GVC framework allows developing countries to pinpoint their competitive shortcomings in the pursuit of activities along the chain, and therefore to devise solutions.

Further, policy structures are necessary to ensure that the governance of GVCs upholds societal norms and provides a net benefit to participating actors and communities. For example, from a vertical perspective, policy makers must ensure: contract enforcement; equal access to opportunities; the collection of applicable taxes; and a net creation of jobs. From a horizontal perspective, communities will demand that: environmental effects are minimized and properly costed; labour standards are respected and that they retain a fair share of value added.

Understanding governance in global value chains can help explain why some countries, regions and groups prosper in international trade, while others do not. It can also clarify what are the possibilities and limitations of upgrading, and what role the public sector can play in facilitating positive outcomes.

STEFANO PONTE
Professor, Copenhagen Business School

At an international level, standards have become popular tools to transmit norms and principles of good governance throughout vast global value chains. These principles often emanate from consumer markets in rich countries and are implemented by producers around the world, including in developing countries. Voluntary standards programmes have the added advantage of a model that assembles multiples stakeholders, such as governments, suppliers and CSOs.

Unfortunately, the use of standards as governance tools has focused on their potential benefits, and not on the mitigating the extra costs they impose on small producers in developing countries. A portion of the cost to implement standards may be passed on to the consumer, but the remaining portion is typically passed from the most powerful to the least powerful suppliers. These are often small producers in developing countries, who are least able to bear these costs: they typically earn a small share of total value added in the chain and have low purchasing power.

Plenary session 1 "Global value chain participation as a component of the wider development and industrial strategies of commodity exporting countries"

Global value chains (GVCs) are typically coordinated by transnational corporations (TNCs) and disaggregated across many countries. In other words, their internal market-based incentives are rarely linked to an individual country's development outcomes.

As a result, governments have an important role to play in GVCs: first, investing in the prerequisite conditions to attracting GVC contracts, and then structuring that GVC participation so that it contributes to durable development outcomes.

Participants began by discussing the potential gains from GVC participation available to developing countries. UNCTAD[1] estimates that the internal commerce of GVCs represents 60% or more of global trade, but this is not equally distributed across activities and countries in the chain. Moreover, re-exporting process steps in these chains lead to double-counting in trade data: one country counts the export of an intermediate good, only for the next country in the chain to recount its value as part of a re-exported finished good. The new OECD-WTO Trade in Value Added (TiVA) database[2] is therefore important in sifting out the actual value added income that countries can earn from GVC participation.

Jodie Keane

GVC lead firms are typically based in OECD countries, and TiVA data shows that OECD countries capture 67% of value created in GVCs. The BRICS economies,[3] plus a handful of economies from East and Southeast Asia, capture a further 25%. This leaves the remaining 100+ developing countries to compete for the balance of 8% of value added in GVCs.

For developing countries, gainful participation in GVCs is therefore highly competitive. It involves balancing the vertical economies of scale required for low-cost production, at the same time as creating the horizontal economies of scope (e.g. clusters, learning by doing) that create linkages and structural transformation in the domestic economy. Balance is essential, since the two processes - buildings scale and scope - are rarely complementary. For example, low-cost manufacturing may require paying low wages to unskilled workers to perform specific, repetitive tasks that are non-transferable to other vocations or sectors. By contrast, building clusters requires a critical mass of workers with transferable skills, which requires education and training programmes, as well as higher wages.

Balancing economies of scale and scope is further complicated by the implied political geographies of the two processes. Building vertical economies of scale and competitive advantage implies central planning; whereas building clusters emphasizes local governance.

1 UNCTAD, 2013. World Investment Report 2013: Global value chains: Investment and trade for development, p. 122. United Nations, New York and Geneva.

2 Available at: http://oe.cd/tiva [Accessed 23 May 2014].

3 BRICS: Brazil, Russia, India, China and South Africa.

From an upgrading perspective, a further challenge for a government is to balance its investments in a particular product or process, with its investments in elsewhere on the chain. For example, it is an important upgrading process for cotton-producing countries to improve their capacity to gin and spin their raw cotton: they increase their share of value added and unlock the possibility of producing higher quality, higher margin grades of cotton. But this product-process upgrading must be balanced with investments in upgrading to higher margin activities further along the chain, such as cutting and sewing.

Participants suggested that, in certain situations, branding can help producers increase their share of value added. These are necessarily niche opportunities, in which customers are willing to pay a premium for the consistent, recognizable characteristics of a branded product. Retail branding is prohibitively expensive, so the business-to-business (B2B) branding of intermediate goods is a more feasible option for small producers in developing countries.

Overall, participants repeated that, as with other trade channels, developing countries should aim to “create more” rather than “trade more” in global value chains.

Plenary session 2
“Country and sector experiences with global and regional value chains”

In this session, participants reviewed examples of successful global value chain (GVC) strategies from developing countries.

In Ethiopia, horticulture producers grew their business, from a small base 10 years ago, to a lucrative export industry today. The Ethiopian government played an important role in this growth. It helped attract foreign investment with reduced land lease rates, tax holidays, the duty-free importation of capital goods and attractive credit terms. At the same time, it enforced strict labour and environmental standards on the sector, to ensure that the horticultural sector benefitted local communities and could market to exacting consumer markets in Europe.

In Barbados, falling world sugar prices presented a serious threat to the viability of the country’s sugar industry. As a small island, its plantations could not achieve the economies of scale required to compete on price. In response, the government formed the West Indies Sugar & Trading Company, which it positioned as an “ingredient brand,” selling quality, branded sugar products to producers of retail food brands. To date, the Company has been able to collect prices for its branded products that are more than double the benchmark world price for sugar. Nonetheless, the venture is risky: the government made significant capital investments in the project, and production costs are higher. Therefore, despite the superior price collected, returns on investment have been slow, and the eventual success of the venture will depend on customers continuing to pay a premium for branded Barbadian sugar.

In Africa, the stakeholders in the cotton value chain have collaborated to resurrect the fortunes of the continent’s cotton sector. African cotton producers face significant competitive challenges when trying to access consumer markets, not the least of which is a value chain that is

Plenary session 2 - Panel

fragmented among several African countries, which compete against each other, each from a weak competitive position.

In response, African governments and stakeholders see regional value chains as part of their strategy to revive the cotton sector. At a political level, this involved inserting the sector's priorities into the larger regional integration process, for example in discussions about the tripartite EAC-COMESA-SADC[4] free trade area (FTA). At a sector level, regional cotton strategies, such as COMESA's, employ an end-to-end, "cotton-to-clothing" view, linking the comparative advantages of each country into a more logical, efficient regional value chain. Creating regional cotton value chains in Africa remains a work in progress, but stakeholders hope that it will improve the competitive position of African cotton exports, as well as capturing more value added in producing countries.

In the above examples, and in other discussions at the Forum, participants expressed a strong preference for GVC strategies that prioritize upgrading to higher value added activities. This emphasis on upgrading implies avoiding low value added activities, which typically involve building economies of scale to produce simple, low-cost intermediate goods. Nevertheless, several participants in the second session warned that this pursuit of higher value added activities cannot ignore the need to build economies of scale, which are prerequisite to winning business at any step of global value chains.

From a different angle, it is rare that any value chain actor, other than the lead firm, has visibility of the entire chain. For producers in developing countries to develop a GVC participation strategy, it is therefore important to form associations and engage relevant government agencies that have a wider view of the value chain. Development partners, such as UNIDO, can also play an important matchmaking role, as they often have contacts among both multinational buyers and local producers. In other words, to meet the scale requirements to participate in GVCs, small producers in developing countries must undertake a networking process that extends beyond their regular business channels - a process that can deliver political and development benefits, alongside business ones.

From several experts, the Forum heard that the growing diversity of trade-related standards programmes is threatening the gainful participation of developing country producers in international trade and global value chains. In particular for small producers, uncoordinated standards programmes can represent a drain on livelihoods, or an outright barrier to trade, due to:

- The accumulated cost of conforming individually to standards that are fundamentally similar, but that each impose a separate, rigorous implementation process;
- The disproportionate share of costs borne by small producers in developing countries, who are often the least powerful actors in the value chain;
- The dearth of programmes designed to mitigate the burden standards programmes on small producers in developing countries.

The coordination of standards programmes is also important to ensure the consistent and equitable application of environmental and social standards. For example, in the cotton-textile value chain, a number of standards apply to textile manufacturing, but comparatively few to growing the cotton that supplies the chain. This places a disproportionate burden on actors involved in textile manufacturing, and compromises chain-wide performance against the important environmental and social standards in question.

Plenary session 3
"Policy tools to ensure transparency in the governance of resource wealth"

For policy makers, ensuring the transparency of resource-related transactions is not an end objective. Rather, policies related to transparency and accountability should contribute: to dialogue among stakeholders; to efforts by governments to collect an equitable share of resource

[4] The tripartite agreement involves three of Africa's Regional Economic Communities (RECs), namely: the East Africa Community (EAC), the Common Market for Eastern and Southern Africa (COMESA) and the Southern African Development Community (SADC).

rents; and to debate about how developing countries use resource revenues to effect structural transformation.

In the third session of the Forum, participants examined different instrumental uses of the principle of transparency in policy making.

In Switzerland, for example, the Government's 2013 Background Report on Commodities[5] was a landmark effort to review the policy landscape of the country's commodities sector. The report responded to demands for governance reform, and was intended as a tool to inform and advance debate, both among the different government departments with policy responsibilities, as well as in dialogue with the private sector.

The Background Report is comprehensive in scope, treating the entire commodities value chain, as well as issues that span departmental boundaries, including: the domestic economy, fiscal policy, international competition, foreign relations and development assistance. The report is frank in tone, for example highlighting the dilemma faced by the Swiss Government, as it attempts to balance its reputational concerns and the rule of law; with its competitive position relative to other international hubs, such as Dubai, London and Singapore.

Debate at the Forum underlined the dilemma faced by the Swiss Government, with some participants favouring a stronger regulatory intervention to protect Switzerland's reputation, and others acknowledging that Switzerland is not in a position to introduce regulation that goes further than laws in the USA, in the EU and elsewhere. Implicit in this conversation was the value of the Background Report on Commodities in informing the debate.

Participants also urged policy makers to consider transparency as one of several principles for effective resource wealth governance. In Africa, Heads of States and Governments have adopted the Africa Mining Vision, in which transparency is recognized as a necessary, albeit insufficient element. Alongside transparency-themed measures, the African Mining Vision stresses human capital, for example to strengthen governments' capacity to negotiate mining concession contracts, and to account for mining revenues. Other areas of intervention include infrastructure, reliable GIS data on the resource potential and due attention to artisanal and small-scale mining.

Transparency is also a key principle in effective Sovereign Wealth Funds (SWFs). The number and assets under management of these government-owned accounts have grown considerably in recent years. Participants agreed that, as a policy tool, SWFs were not inherently more effective than other savings vehicles. Rather, their success depends on establishing clear objectives and operational parameters, such as funding and withdrawal procedures, which are respected by the government.

If possible, SWFs that will be funded by resource revenues should be established as those resource revenues begin to flow. This avoids the formation of a constituency of rent-seekers who would potentially impede the later diversion of a portion of these rents into an SWF.

More generally, there is often confusion between "transparency" and "accountability" in relation to commodity-based activities. This confusion is reinforced

[5] Available at: http://www.news.admin.ch/NSBSubscriber/message/attachments/30136.pdf [Accessed 20 May 2014].

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Plenary session 4 - Panel

by many uncoordinated international accountability mechanisms that can contribute to "image laundering," involving compliance with reporting guidelines that are narrowly focused on commercial transactions, but do not address larger human rights concerns. Going beyond image laundering may involve broadening transparency standards to include human rights, for example demonstrating zero tolerance for child labour along the entire value chain.

Some participants suggested that, to fully address human rights concerns, policy controls must extend to commodity trading companies. Currently, the burden of upholding human rights is placed disproportionately on governments in developing countries, and to a lesser extent on the foreign companies with which they sign concession agreements. This ignores the significant role that trading companies can play on the ground, through off-take agreements, for example.

Towards the close of the session, participants commissioned UNCTAD to convene a multi-stakeholder Working Group, to promote transparency and accountability in the governance of the commodities value chain. They felt that, after a promising debate on the commodities governance reform at the GCF, it was important to pursue this subject in greater detail, and to develop practical solutions. They proposed a multi-stakeholder Working Group, explaining that this format had a better chance at building consensus and developing durable policy recommendations, than if participants were each to work in isolation on the subject after the event.

The membership, conduct of the group and work to date are described in more detail in a brief on the Working Group for Commodities Government, included in annex 2.

Plenary session 4
"Prospects for transparency-themed reform in the commodities trading sector"

In the fourth plenary session, participants pursued the debate about reform in the commodity trading sector. Current US and EU disclosure rules related to the commodities sector apply to listed companies undertaking extractive activities. Nearly all international trading companies are privately held, and few are engaged in extractive activities. This means that the US and EU rules in question do not apply to trading companies - a significant regulatory gap.

Participants called on governments and regulators to formulate a more coherent and comprehensive regulation of the commodities sector. But, whatever happens with the direct regulation of the commodities sector, other dynamics will have more immediate governance effects.

For example, impending rule changes in the financial sector will raise the capital requirements for banks

Box 1: Working Group for Commodities Governance

At the Forum, participants suggested to examine the topic of commodity governance more closely after the Forum in order to promote transparency and accountability in the governance of the commodities value chain. UNCTAD undertook the initiative and started the first steps of establishing Working Group for Commodities Governance and the Working Group's initial phases of work.

participating in the commodities sector. This has already prompted many major banks to exit the commodities sector, with trading companies often replacing them. Where this involves core trading activities - storage, transportation and hedging - the regulatory picture for trading companies changes little. But where this involves trading companies acquiring physical assets, especially large production assets, there are pulled towards regulatory conformity in two ways.

First, any extractive assets that a trading company buys come under the jurisdiction of US and EU payment disclosure rules related to extractive projects. Second, productive assets typically require fixed capital investments that do not fit with a trading company's typical, capital-light structure. Funding any significant investments in productive assets would require raising new sources of long-term capital, for example with a public offering on a stock exchange. Whether or not it results in more public exchange listings by trading companies, raising capital for asset acquisitions will expose trading companies to more demands for transparency from investors and regulators.

Commodity trading companies not only fit into a gap in recent US and EU legislation, but they also sit outside of major multi-stakeholder transparency initiatives in the commodities sector, most notably the Extractive Industries Transparency Initiative (EITI). For implementing countries, the information provided by the EITI Process informs policy discussions about how effectively an implementing country is converting its natural resource wealth into revenue, and how it spends those revenues.

But the EITI applies only to a government's transactions with extractive companies, and not those it undertakes with trading companies. This omits from scrutiny the transactions between state-owned enterprises and trading companies, which are more common in many African countries, which lack the marketing capacity to sell directly to end users and therefore depend on trading companies to bring their resources to market. These transactions between states and trading companies can include loans, joint ventures, subcontracting and outright sales of raw materials - all currently exempt from EITI and similar reporting.

Participants therefore encouraged the extension of disclosure requirements to include trading companies, under EITI or a comparable programme. For these relationships, the disclosures should include: the identities and selection criteria of the buyers, basic sales information (e.g. price, volume, grade and date), and a record of where the payment was sent. In addition to mandatory disclosures required by US and EU laws, examples of voluntary disclosures exist, such as those by the UK company Tullow Oil.[6]

Transparent resource wealth governance, including the role of trading companies, will continue to grow in importance, as an increasing number of developing countries exploit their natural resources, especially in Africa. Advances in extractive technologies, coupled with the recent discovery of many new petroleum and mineral reserves, mean that many new resource revenue streams will begin to flow in the coming years. Citizens will want proof that these revenues are generated responsibly and spent on effective development programmes and investments.

Plenary session 5
"The EITI experience and its lessons for strengthening resource wealth governance in developing countries"

The session examined the Extractive Industries Transparency Initiative (EITI), through the EITI experiences of the Philippines and Nigeria, and discussed how the EITI process supports good governance.

Generally speaking, the successful implementation of a national EITI programme gives the implementing country a source of detailed information on physical and financial flows related to extractive activities. In many developing countries, this information is not otherwise available. The information itself allows for the possibility of specific political discussions about the revenues generated by the sale of a country's resources, how much of that amount the government captures, and how revenues are spent.

6 Tullow Oil. 2012 payments to major stakeholder groups. Available at: http://www.tullowoil.com [Accessed 23 May 2014].

Plenary session 5 - Panel

But these political discussions are only possible if the country has: a) a critical mass of intermediaries - for example, citizens and civil society organizations (CSOs) - who are capable of accessing and evaluating the data; and b) a relative freedom of expression. Absent these factors, even a robust EITI programme has no channel by which to contribute to the fight against corruption. Indeed, in recent years the EITI has increased its focus on civil society, both as part of the EITI Standard,[7] and with capacity-building training programmes, responding to criticism that the early versions of the EITI Standard paid too little attention to the importance of an empowered civil society.

Further along in the process, an EITI-informed political discussion can only result in change if the authorities are committed to investigate suspicions raised during the process, and then punish transgressions.

In a more abstract sense, the formation of an EITI national coordination agency institutionalizes an important consensus building process among stakeholders. Moreover, the research and mapping that is involved in establishing an EITI reporting process is also useful in identifying gaps or redundancies in the legal and operational framework of resource wealth governance. This governance dialogue, although originating in the extractive sector, can lead to important spillovers into other policy areas, such as freedom of information legislation.

The EITI process can also have important effects on behaviour in the private sector. In terms of incentives, companies can obtain documented evidence of their compliance with local laws, and of their contribution to their host economy. These are often important credentials, for example, in a foreign company's license to operate in the host country, in its home country reporting and in raising capital. Moreover, protecting the value of those credentials can motivate companies to participate in efforts to eliminate transgressions by their competitors, a phenomenon that is unlikely without the reputational incentive of EITI compliance.

Concluding Remarks

The 2014 Global Commodities Forum highlighted, above all, that global value chains (GVCs) remain an evolving topic in the development discourse. There is a clear need for more study on the methods by which developing countries can earn more durable benefits from participation in global value chains.

Structural transformation and upgrading are often held as key objectives of macro development policy. But, except for niche products, the pursuit of higher value added activities must also be based on economies of scale, which are prerequisite to winning business at any step of GVCs.

Regarding the governance of GVCs, standards are often held up as tools that can improve, for example, labour and human rights conditions for workers in developing countries, who do not have sufficient power in the chain to demand such conditions themselves. Sadly, the costs of compliance with these standards tend to be shifted to

7 In 2011, the EITI Board voted to include in the EITI Standard a protocol for the participation of civil society.

Box 2: Form Letter to the EITI

The commodities value chain operates on a global scale. Accordingly, illicit behaviours, such as corruption, trade mispricing and tax evasion, often involve multiple legal jurisdictions and economic activities in the chain. In response, several Forum participants repeated the need for an end-to-end perspective in the governance of the commodities value chain. They encouraged multi-stakeholder action on extending transparent and accountable governance across the entire chain.

In this spirit, Peter Eigen encouraged participants to write to the Extractive Industries Transparency Initiative (EITI) and encourage it to extend its mandate, from only dealing with extractive activities, to include trading activities as well. Below is a form letter to this effect, addressed to Ms. Clare Short, Chair of the EITI Board. An electronic copy of this form letter is available on the GCF website unctad.org/gcf2014, for participants to download, sign and send. (http://unctad.org/meetings/en/SessionalDocuments/suc_gcf2014_Petition_letter_EITI.pdf)

“Dear Clare Short,

Debates at the recent 2014 Global Commodities Forum reinforced the need for an end-to-end perspective in the governance of the commodities value chain, and in combatting detrimental behaviours such as corruption, trade mispricing and tax evasion. From this perspective, we believe that applying the principles of transparency and accountability to the extraction and sale of natural resources cannot be done effectively without also considering the trading activities that deliver those resources to onward markets.

We therefore encourage the Extractive Industries Transparency Initiative (EITI) to extend the EITI Standard to include the activities of commodity trading companies and their like.

In this and other ways, we look forward to the continued development of the EITI as an effective, multi-stakeholder tool in promoting the responsible governance of natural resource wealth.

Sincerely yours,”

the least powerful actors in the chain, thereby potentially harming the livelihoods of the standard’s intended beneficiaries. Therefore, in addition to harmonizing existing standards, policy makers need to devote more resources to programmes that mitigate compliance costs on the poor.

The worrying scale of trade mispricing and illicit financial flows in the commodities sector demands a policy reform that improves the accountability of resource wealth governance in developing countries. The current, fragmented governance approach - with individual states regulating individual activities in isolation - must evolve to an end-to-end approach, involving the private sector and civil society, alongside governments. In the commodities sector, this reform must incorporate the activities of private trading companies, which are currently exempt from transparency-related legislation and initiatives that focus on the extractive sector.

In addition to hard law, there is a need for voluntary measures in the trading sector, such as an industry code of conduct. These soft tools, if undertaken by industry as a core part of its strategy, can act as important first steps towards improving norms, laying the foundation for an eventual passage into law.

In the special session on the Extractive Industries Transparency Initiative (EITI), case studies illustrated how simple, reliable reporting regulations, combined with more transparency in the extractive sector, have helped countries such as the Philippines and Nigeria to increase Foreign Direct Investment in the sector and generate durable development for their citizens.

As we heard, EITI process is not without its challenges. Along with the technical capacity to collect, reconcile and report on complex transactions, there is the more fundamental challenge of finding effective ways to communicate this information, whether to generate consensus among private sector stakeholders, or to make it accessible and relevant to average citizens.

From these and other debates, participants arrived at the following actionable outcomes:

- They called for multi-stakeholder cooperation in harmonizing the various standards initiatives so as to minimize the burdens and barriers to trade that they can impose on actors in developing countries. And for donors to devote attention and budgets to programmes that mitigate the effect on the most vulnerable actors in the chain.
- Participants called on stakeholders in the EITI to extend its coverage to include trading companies operating in signatory countries.
- Similarly, participants called on Northern governments to extend their legislation related to payments in the extractive sector, to include trading companies.
- Participants called on UNCTAD's Special Unit on Commodities to facilitate a multi-stakeholder Working Group to debate and elaborate a governance framework for the commodities sector.
- In these and other governance dialogues, participants urged a greater role for civil society organizations.

These recommendations represent promising opportunities for UNCTAD's ongoing work, as well as the work of its partners. They also underline the value of the Global Commodities Forum as an effective platform to debate issues in commodities and development. Through the Global Commodities Forum and its other consensus-building activities, UNCTAD remains committed to facilitating the ongoing debate about how commodities production and trade can improve outcomes for developing countries.

Box 3: Topics for Further Study

As well as generating several specific recommendations, debates at the 2014 GCF highlighted the need for further study on the following topics, among others:

Sovereign wealth funds and the opportunity cost of deferred consumption

Sovereign wealth funds (SWFs) funded by natural resource revenues have existed for decades, but since 1998, their numbers have expanded rapidly.[8] The growing number of SWFs has prompted two types of evaluations of their effectiveness: best practices on the structure and operation of SWFs, most notably the Santiago Principles;[10] and empirical studies of their investment portfolios.[9] But, to date, there exists no study comparing the impacts of deferring a portion of resource revenues, in a SWF or in a similar vehicle; with those of long-term investments, either in infrastructure projects or in endowments devoted to social programmes.

Transparency in development policy

The wider "transparency" subtheme of the 2014 Global Commodities Forum focused on the development implications of transparency and accountability in extractive resource sale transactions, several participants remarked that this led to questions of transparency and accountability in development policies. For example, how are governments held to account on responsibilities such as:

- Formulating development policies that are coherent and practical;
- Communicating these policies to their citizens;
- Monitoring the implementation and outcomes of development policies; and
- Reconciling programme expenditures with their development impacts, such as poverty reduction and structural transformation.

For citizens in developing countries, these concerns apply to all development policies, whether or not they are related to natural resource wealth.

A coordinated framework for trade-related standards programmes

Forum participants recommended that the United Nations oversee a harmonization of trade-related standards programmes. For producers in developing countries, this harmonization would simplify their adherence to trade-related standards that are fundamentally similar, but which are currently implemented individually.

But harmonization alone is insufficient. Additional governance concerns remain, related to:

- The shifting of a disproportionate share of compliance costs onto small producers, who are often the least powerful actor in the value chain; and
- The dearth of programmes designed to mitigate the burden standards programmes on small producers in developing countries.

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[8] Sovereign Wealth Funds Institute. Sovereign Wealth Fund Rankings. Available at: http://www.swfinstitute.org/fund-rankings/ [Accessed 14 May 2014].

[9] Sovereign Wealth Funds Institute. Sovereign Wealth Fund Rankings. Available at: http://www.swfinstitute.org/fund-rankings/ [Accessed 14 May 2014].

[10] For example: Bernstein, S., Lerner, J., Schoar, A., 2013. The Investment Strategies of Sovereign Wealth Funds. The Journal of Economic Perspectives 27, 219–238. doi:10.1257.

ANNEX 1
PROGRAMME OF THE GLOBAL COMMODITIES FORUM 2014

Monday, 7 April

Opening Ceremony

Welcoming remarks

- **H.E. Mr. Triyono Wibowo**, Ambassador of Indonesia, President of the Trade and Development Board

Opening statement

- **Dr. Mukhisa Kituyi, Secretary-General of UNCTAD**

Inaugural panellists

- **Mr. Michael Møller**, Acting Head, United Nations Office at Geneva
- **Ms. Arancha González**, Executive Director of the International Trade Centre
- **H. E. Mr. Addis Alem Balema**, Director-General of the Commodity Exchange Authority of Ethiopia

Keynote session

Moderator: **Mr. Edward Harris, Head of Communications, Africa Progress Panel**

Keynote speakers:

Mr. Peter Eigen
Founder, Transparency International
Founding Chair, Extractive Industries Transparency Initiative
Member, Africa Progress Panel

Strengthening governance in the commodities sector: Civil society's role in supporting governments and private sector in improving natural resource-based development

Mr. Stefano Ponte
Professor, Copenhagen Business School

Governance of global value chains: Opportunities and challenges for commodity-dependent developing countries

Plenary session 1

Topic: **Global value chain participation as a component of the wider development and industrial strategies of commodity exporting countries.**

Description: In isolation, participation in global value chains (GVC) is an insufficient development strategy. It may provide small, short-term returns, but without investments in human capital and infrastructure, there are few opportunities for durable economic and industrial development. Moreover, trade in value added (TiVA) data shows that global value chain participation does not necessarily increase a country's domestic share of value-added. In this session, participants will debate the benefits of participation in global value chains, and how developing countries can embed global value chain participation within their wider development and industrial strategies.

Moderator: **Mr. John Struthers, Professor, University of West of Scotland**

Ms. Rashmi Banga Senior Economist, UNCTAD	Measuring value in global value chains
Mr. Frank Hartwich Industrial Development Officer, United Nations Industrial Development Organization	Beyond infant industries and trade liberalization: Productive development in a value chain and cluster context
Ms. Jodie Keane Research Fellow Overseas Development Institute	Global value chain governance structures and firm-level upgrading trajectories: Examples from modern sector exports
Mr. Masataka Fujita Head, Investment Trends and Issues Branch, UNCTAD	Global value chains in commodity-dependent countries: patterns of involvement and policy implications

Plenary session 2

Topic: Country and sector experiences with global and regional value chains

Description: In the last two years, the global value chain concept has received increased attention in the trade and development discourse. But practitioners have employed the concept for more than 15 years to formulate national, regional and sector-wide strategies for participating in the globalized world economy. Presenters in this session will share practical lessons from their value chain experiences.

Moderator: **Mr. Anders Aeroe, Director, Division of Market Development, International Trade Centre**

Mr. Zelalem Messele Chair, Ethiopian Horticulture Producers Exporters Association	Increasing value retention in Ethiopian horticulture
Mr. Gerardo Patacconi Chief, Clusters and Business Linkages Unit, United Nations Industrial Development Organization	Linking to the buyers: UNIDO approaches to commodity-based value chain and cluster development
Mr. Chris Docherty Managing Director, Windward Commodities	Using brand recognition to streamline and shorten commodity value chains
Mr. Rajeev Arora Executive Director, African Cotton and Textile Industries Federation	Upgrading the international competitiveness of Africa's cotton value chain

Tuesday, 8 April

Plenary session 3

Topic: Policy tools to ensure transparency in the governance of resource wealth

Description: To be effective, a Government's commitment to the principle of transparency must overcome informational and technical constraints, to then be implemented in robust policies and institutions. Experts in this session will outline examples of technological, policy and institutional approaches to operationalize the principle of transparency in the governance of resource wealth.

Moderator: **Mr. John Schluter, CEO, Café Africa**

Mr. Werner Thut Senior Policy Adviser Swiss Agency for Development and Cooperation	Policy coherence in a top commodity hub: The Swiss Government's Background Report on Commodities 2013
Mr. Sven Behrendt Managing Director, Geoeconomica	Sovereign wealth funds as a tool for responsible governance of resource wealth
Ms. Beris Gwynne Director, World Vision International	Beyond economics: Accountability frameworks to optimize public good from global value chains
Mr. Babajide Sodipo Regional Trade Adviser, African Union Commission	Africa Union Frameworks for Natural Resource Governance

Plenary session 4

Topic: Prospects for transparency-themed governance reform in the commodity trading sector

Description: By way of the extractive and derivatives sectors, the effects from a recent wave of disclosure legislation will flow through the rest of the commodities value chain. The reform movement now looks set to turn its attention to the activities of traders. Participants in this session will debate the prospects for reform in the commodity trading sector, acknowledging both the distinct characteristics of the trading activity, as well as its connectedness to other, more regulated activities in the chain.

Moderator: **Ms. Nicolette de Joncaire, Journalist, AGEFI**

Ms. Alexandra Gillies Head of Governance, Revenue Watch Institute	Developing countries and the commodities trade: Why transparency matters
Mr. Eric Schreiber Professional investor, Commodity-trading expert	The impact of banking sector reforms on the commodity trading sector
Mr. Olivier Longchamp Responsable fiscalité et finances, Berne Declaration	Towards greater transparency in Switzerland's commodity business – where we stand and the way forward

Plenary session 5

Topic: The experience and lessons of the Extractive Industries Transparency Initiative for strengthening resource wealth governance in developing countries

Description: The Extractive Industries Transparency Initiative is perhaps the most successful and recognizable transparency initiative in the commodities sector. Panellists in this session will review a decade of experiences with the Initiative: expanding its participation, strengthening its standards, and implementing the process at the national level. The objective of the session is to highlight development outcomes from implementation of the Initiative, while emphasizing that the process is but one component of an effective national strategy for ensuring transparency in the commodities sector.

Moderator: **Mr. Atsen Ahua, Expert in communication for development**

Ms. Marie Gay Alessandra V. Ordenes National Coordinator, Philippine Extractive Industries Transparency Initiative	EITI implementation in the Philippines: Early gains in extractive sector governance
Ms. Zainab Ahmed National Coordinator, Extractive Industries Transparency Initiative, Nigeria	Consolidating the role and reach of the EITI process in Nigeria
Ms. Liz David-Barrett Research Fellow Saïd Business School, Oxford University	The Extractive Industries Transparency Initiative as a tool for reducing corruption TBC

Moderators' panel

Description: A summary from moderators of the key conclusions, policy outcomes and topics for further debate that emerged from their sessions.

Closing ceremony

Mr. Petko Draganov Deputy Secretary-General of UNCTAD	Closing statement

ANNEX 2 BRIEF: WORKING GROUP ON COMMODITIES GOVERNANCE[11]

UNCTAD formed the Working Group on Commodities Governance, at the recommendation of participants at the 2014 Global Commodities Forum (GCF). Participants wanted to pursue the discussion, begun at the Forum, about promoting transparency and accountability in the governance of the commodities value chain, and to elaborate more detailed policy recommendations.

In its first exchanges, the Group agreed on its terms of reference, summarized in a concept note. In short, the Group will present its draft recommendations to the 2015 GCF, in the form of "policy companions": practical analyses and proposals, to be used by governments, companies and civil society policy makers.

Membership

The membership of the Working Group initially comprised only volunteers from among GCF participants. To ensure a more representative membership, UNCTAD recruited new members, representing the following organizations: Bunge (a trading company), the Better Cotton Initiative and the Bureau of Energy of the US State Department.

UNCTAD intends to continue expanding the Group's membership to underrepresented stakeholders, notably from mining companies and European regulators. The Group currently has 24 members, summarized in the attached list.

Conduct of the Group

The Working Group's deliberations proceed in monthly paired sequences, involving a substantive email review of working documents, following by a teleconference to discuss issues and next steps. UNCTAD conducts research and prepares the working documents for the Group's discussions.

In the two teleconferences to date, an average of 10 of the 24 Group members have participated. The response rate in the email exchanges is comparable. This has proven a manageable number of participants for the teleconference format.

Work to date

As mentioned, the Working Group has had two teleconferences: one in mid-May and another in early July. The next teleconference is scheduled for September, to avoid summer holidays.

In the teleconferences to date, the Group has discussed mainly the working framework it will use: key definitions, flowcharts, evaluation grids, etc. As such, its discussions had to resolve only technical disagreements, such as whether to adopt general or specific definitions. When the Group begins addressing substantive issues in its September teleconference, or later when it begins formulating recommendations, its discussions may have to navigate more fundamental disagreements.

As for approach, the Working Group has settled on evaluating one extractive commodity group as an example, followed by an agricultural commodity group. For the extractive example, the Group selected crude oil, about which the expertise among Group members is strong. The Group will choose the agricultural commodity later, with corn or wheat as early suggestions.

The Group will evaluate the existing set of initiatives that govern each example commodity value chain, to identify gaps. For the gaps it selects, the Group with then develop "policy companions" for the public, private and civil society actors whose policies govern the value chain in question.

With this approach, the Working Group aims to present to the 2015 GCF its substantive policy recommendations for the two example commodity groups, as well as submit a proven governance evaluation framework for ongoing work.

[11] As at 16 July 2014.

www.unctad.org/gcf2014

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