The imperative for on-site value addition

By

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The views expressed are those of the author and do not necessarily reflect the views of UNCTAD.
Ladies and Gentlemen

It’s an honor and great pleasure to be here today, to discuss how commodity dependent developing countries can gain much more of the economic benefit from their natural resources. And when I talk about much more of the economic benefit, I mean a very substantial amount, a transformational amount. Over time, it could be all of the economic benefit.

This is a tremendously important subject. It’s about developing countries leveraging their natural resources to enable human, economic and political development. Important benefits will also be realised outside of the developing countries including geo-political and supply chain stability.

This is all in marked contrast to the situation today where developing countries get little benefit, or no benefit at all from natural resources, which are simply exported as raw materials. But instead-suffering all negative implications associated with predatory mining. The economic value – or value creation - is captured elsewhere, in developed industrial countries.

The value doesn’t flow back to the developing countries, where the value chain actually originated, so a developing country is left behind, moving forwards very slowly if at all, trapped without the vital enablers of development such as capital, technology and skills transfer.

It’s called subjugation, and should not be allowed to continue. In this short keynote, I intend to demonstrate a method by which developing countries can really develop, and to remove any reason why this subjugation should continue.

Instead of just being countries from which raw materials are being extracted and exported, developing countries should process the materials themselves, in situ, to progressively higher levels up the value chain, for example in the battery industry.

I call this Vertical Value Creation, and its advantages are many but particularly in enabling a CDD Country to grow its economy, its prosperity and its position and to strengthen its political stability that comes with it.

It’s critical that the development of natural resources industries in CDDCs takes place in line with UN Sustainable Development Goals, which I believe is both realistic and necessary.

It’s realistic because long-overdue environmental, social and governance standards in developed countries is forcing the mining industry, and the industries it supplies, to improve accountability and sustainability. This provides a model for how the industry could develop in a CDDC. It’s necessary commercially because it also will benefit the western industries, economies and improve the resiliencies of their supply chains.

Improvements on accountability, sustainability and provenance are in the making:

1) A new Game Changer law called CSDD - The novel ‘Corporate Sustainability Due Diligence’ law will involve ‘the whole functioning of companies’. Directors are being called-on to ‘take into account human rights, climate change and environmental consequences of their decisions and actions’. Boards and management will be held personally accountable for any wrongdoing; suppliers, too, are included in these far-reaching new rules.

2) In her 2022 State of the European Union address in September, European Commission President von der Leyen recalled some hard facts: “without secure and sustainable access to the necessary raw materials, our ambition to become the first climate neutral continent is at risk”. For many of these essential raw materials, the global market will not be able to
cater for the rapidly increasing demand. In light of the risk of structural supply shortages, trade diversification alone – although necessary – will not suffice. We know it. Our systemic rivals know it. So do our partners. And, most of all, our industry has come to realise it too. Our twin - green and digital – transition will live or die through the functioning of our supply chains.

Supply of raw materials has become a real geopolitical tool. But it is not only about Geopolitics or Geostrategy - the flavour of the day is called: Geosecurity.

The provenance of materials is becoming of major importance. There is a growing requirement to demonstrate the ESG credentials of a finished product throughout the entire value chain, starting with the raw material. Hence the development of natural resource industries in developing countries must be based on strong ESG principles.

Also, it is vitally important to appreciate that the strongest positive impact on climate and protection of the environment always unfolds at the beginning of the value chain, at the bottom, where the raw materials are being removed from the ground. If the extraction process of these minerals or metals already poses a risk to nature, climate and workforce at such an early stage of production then the entire value chain is tainted, including the end product.

This creates a unique opportunity for developing countries – they can develop 1) modern mining, 2) processing and 3) product development industries, which meet the ESG criteria of developed countries and therefore have strong markets for their materials and products.

Processing of materials within developing countries bring environmental benefits, time efficiency and less exposure to vulnerable long supply chains. Why export a raw material when there is a significant reduction in carbon dioxide output that can be achieved by avoiding the transport of bulk materials by ship? Instead, use Vertical Value Creation – process in situ, right there where the extraction takes place, benefiting the developing countries the environment and the customer throughout the entire value chain. But there is more about it - acces to raw material is of no value when infrastructures or pipelinesystems are at risk or exposed to sabotage. Vertical Value Creation leads to a substantial reduction of transport routes and dramatically reduces such exposures.

Most importantly, when more of the value creation takes place inside the developing country, the greater the potential to deliver huge social value in terms of overall prosperity and job creation. By moving up the value chain, these jobs would be much higher quality than just basic mineral extraction. Implementation of this approach would create a stronger industrial base for the CDDC, which could have the effect of kick starting the overall development of the developing country’s economy.

But how can this win-win-win scenario - for the developing countries, the environment and the customer - of Vertical Value Creation be made to happen?

I believe that it can only come through partnership, strong relationships and shared goals between industry, policy makers, financiers and the commitment of developing countries themselves. And of course the United Nations.

As part of turning this vision into reality, I think the United Nations should add one more icon to its list of 17 Sustainable Development Goals. The 18th SDG would be called: Vertical Value Creation. It
would measure an organisation’s impact in a CDDC and create a powerful symbol around the world, an ambition of what could be achieved and needs to be achieved.

On that note, I’ll provide some more reasons why I think Vertical Value Creation in CDDCs can become a reality, and why the win-win-win scenario can be delivered.

Firstly, it’s been done before. Look at China, and the enormous transition it has been through in the past decades. **Vertical Value Creation is one of the secrets of China’s success.**

China has moved up the value chain in many industries to become highly R&D based. In some industries, such as rechargeable batteries, it **arguably leads the world** in terms of innovation. CDDCs in Africa can reinvent themselves and learn from the successful value creation in China to position Africa as a China 2.0.

And then there’s timing and context. The past three years have been characterised by turmoil and catastrophies, with the pandemic, intensifying climate change, and war in the midst of Europe. Apart from the terrible human cost, these recent crises have exposed weaknesses in the way the world economy operate.

**Verticalization is the new Globalization.**

Security of supply, national and regional interests, and a focus on standards in environmental, social and governance are all now challenging globalisation, which has been shown to need to evolve to create a more equitable, secure and environmentally focused world economy.

Supply chains, security of supply and choice of supplier have never been higher up the agenda. Globalisation is being re-evaluated and nations, industries and corporations are being forced to seek new structures, alliances and practices.

**New geopolitical agendas, regions structures and power alliances** are being shaped, such as the EU’s policy of strategic autonomy in materials. It’s not only seeking to reduce dependence on imports **but also to localise production**, owing to the vulnerability that dependence on imports creates, particularly when importing from adversarial states.

This upheaval in how the world conducts business will, I believe, creates a huge opportunity for CDDCs and catapults these **into the drivers seat!**

I mentioned earlier that Vertical Value Creation could only be achieved **through cooperation and strong partnerships.**

Let’s take Europe as an example. Whilst Europe is seeking to strengthen domestic production of critical raw materials **there are resources that are simply not found in Europe.** Europe must import those from overseas and, as we’ve seen, it would need to do that from a country with which it has a strong relationship to avoid a situation, for example, like the current energy crisis in Europe.

I advocate strong partnerships developing between western industrial nations and African CDDCs. This would enable the import of critical raw materials to the western economies but at the heart of this arrangement would be a commitment to foster **Vertical Value Creation** in the developing countries through **investment, technology transfer, and training.** Europe might begin by importing raw materials but progressively the developing countries would move up the value chain so that it was exporting processed materials and eventually finished goods.
This type of partnership, which I call a “NATO of Critical Raw Materials” in which everyone wins, would create a strong, stable supply chain, delivering the key requirements of security of supply along with environmental and social sustainability.

The past three years have shown that strong, resilient supply chains are essential to avoid geopolitical and other disruption, including the weaponization of natural resources and of infrastructures such as pipelines or other transportation routes.

The timing of the green energy transition is also an important opportunity for developing countries. Owing to the high concentration of critical raw materials in African states, they are ideally placed to benefit from the shift from fossil fuels to renewable energy to create a carbon neutral economy. Critical raw materials play an essential role in green energy production and storage.

Through Vertical Value Creation, CDDCs could supply processed raw materials for the green energy transition and then develop a strategic industries, perhaps even to compete with China.

Let’s create that 18th Sustainable Development Goal: Vertical Value Creation.