

GLOBAL COMMODITIES FORUM

7-8 April 2014

Developing countries and the commodities trade:

Why transparency matters

by

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The views expressed are those of the author and do not necessarily reflect the views of
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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

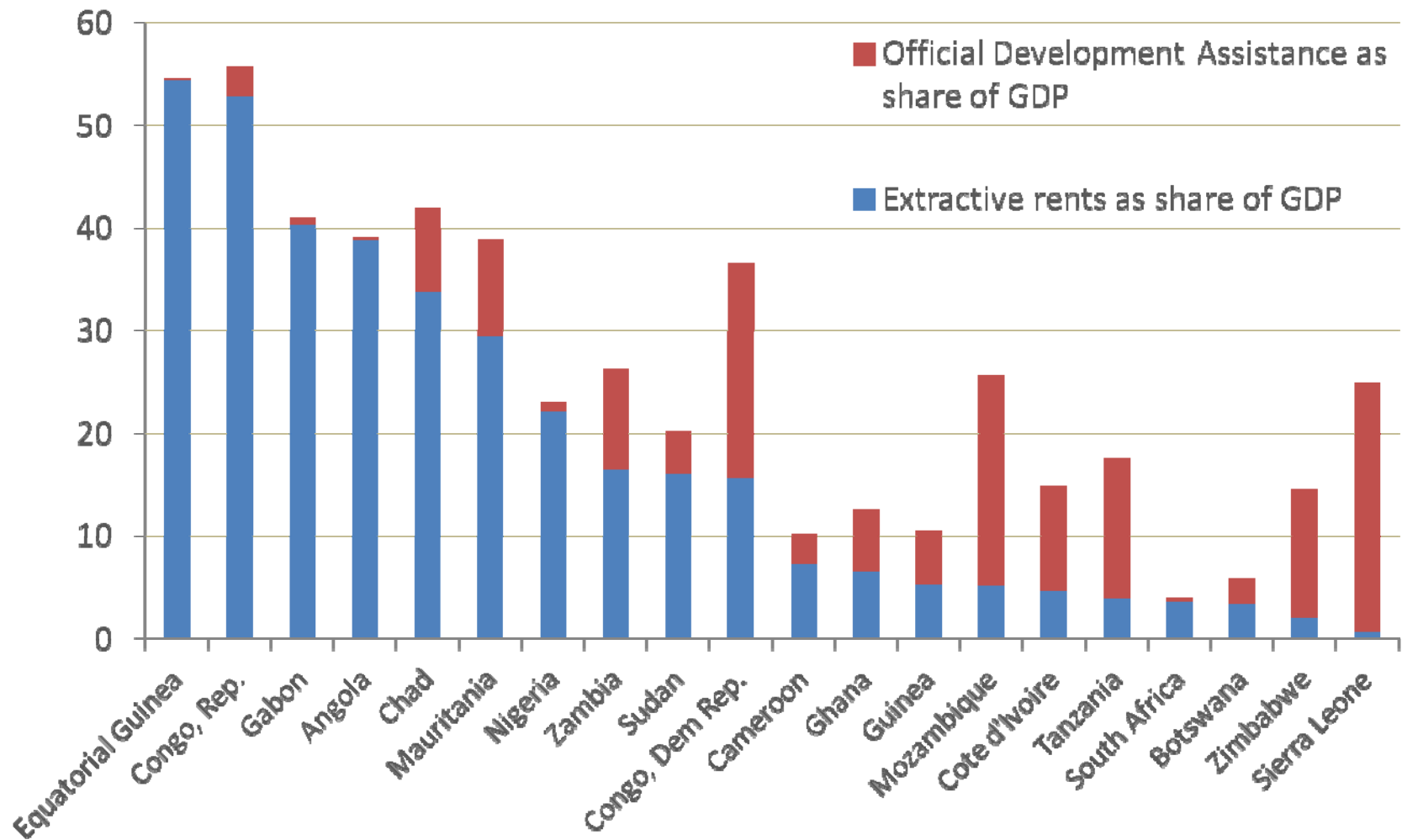
How can transparency help?

The scale of resource wealth

Total Sub-Saharan ODA and Resource Rents, US\$ Billion

	2000	2008
ODA	\$12bn	\$36bn
Resource Rents	\$39bn	\$240bn

Rents versus Aid, 2008

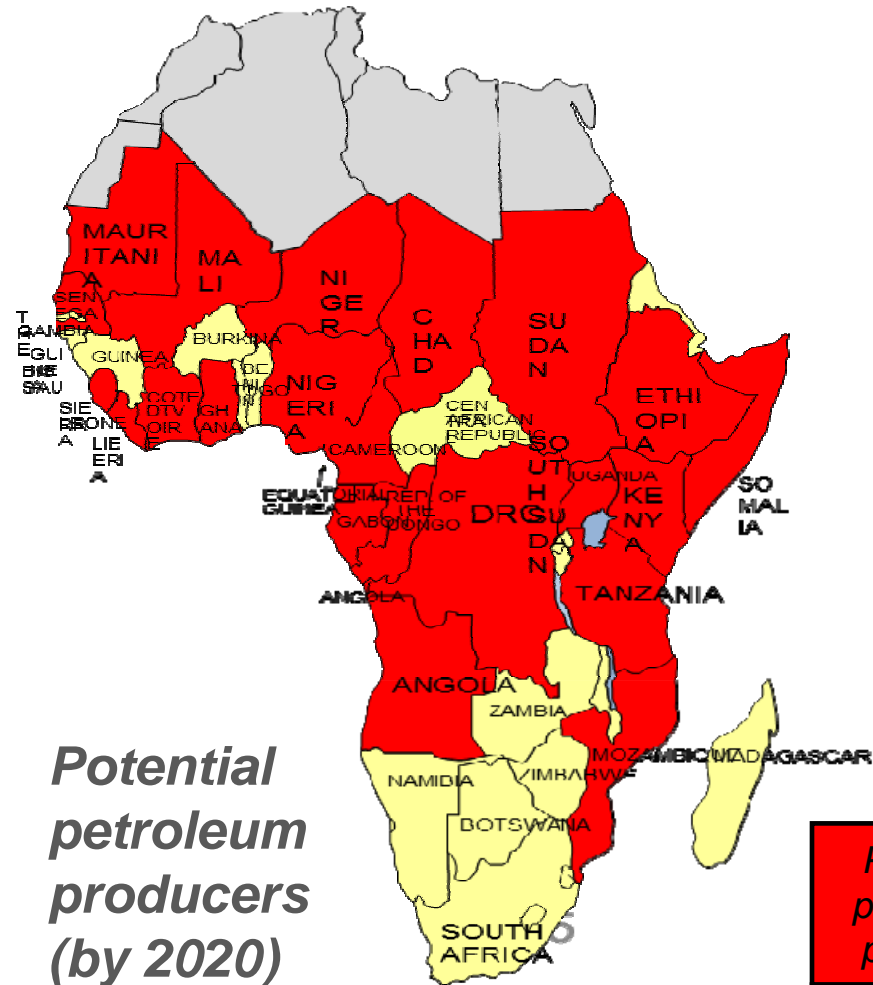
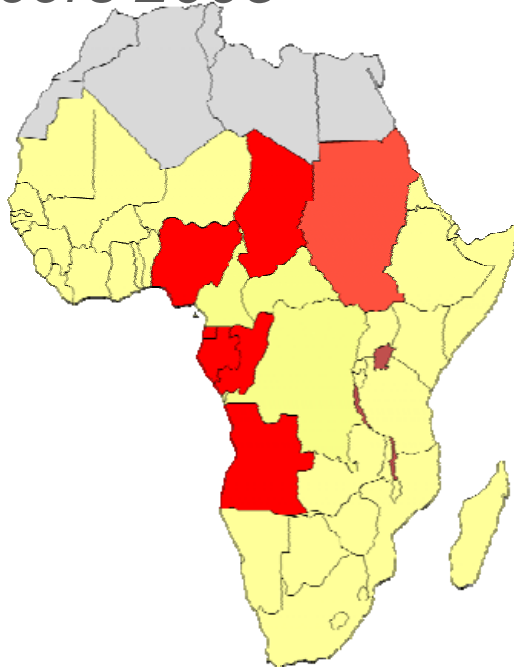


Under-exploration in developing countries

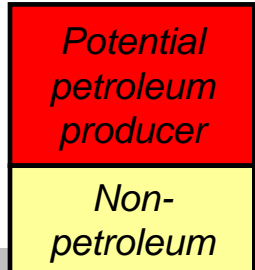
Region	'Known' subsoil assets/km² (USD), average
World	105,000
OECD	114,000
Africa	23,000
South Asia	53,000
Latin America	95,000
MENA	361,000
East Asia & Pacific	77,000

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

	1980	2008
Total autocracies	103	74
Oil rich autocracies	27	30

Nigeria: exemplifying the resource curse

Oil revenues per capita:

US\$33 in 1965; **US\$325** in 2000

Poverty:

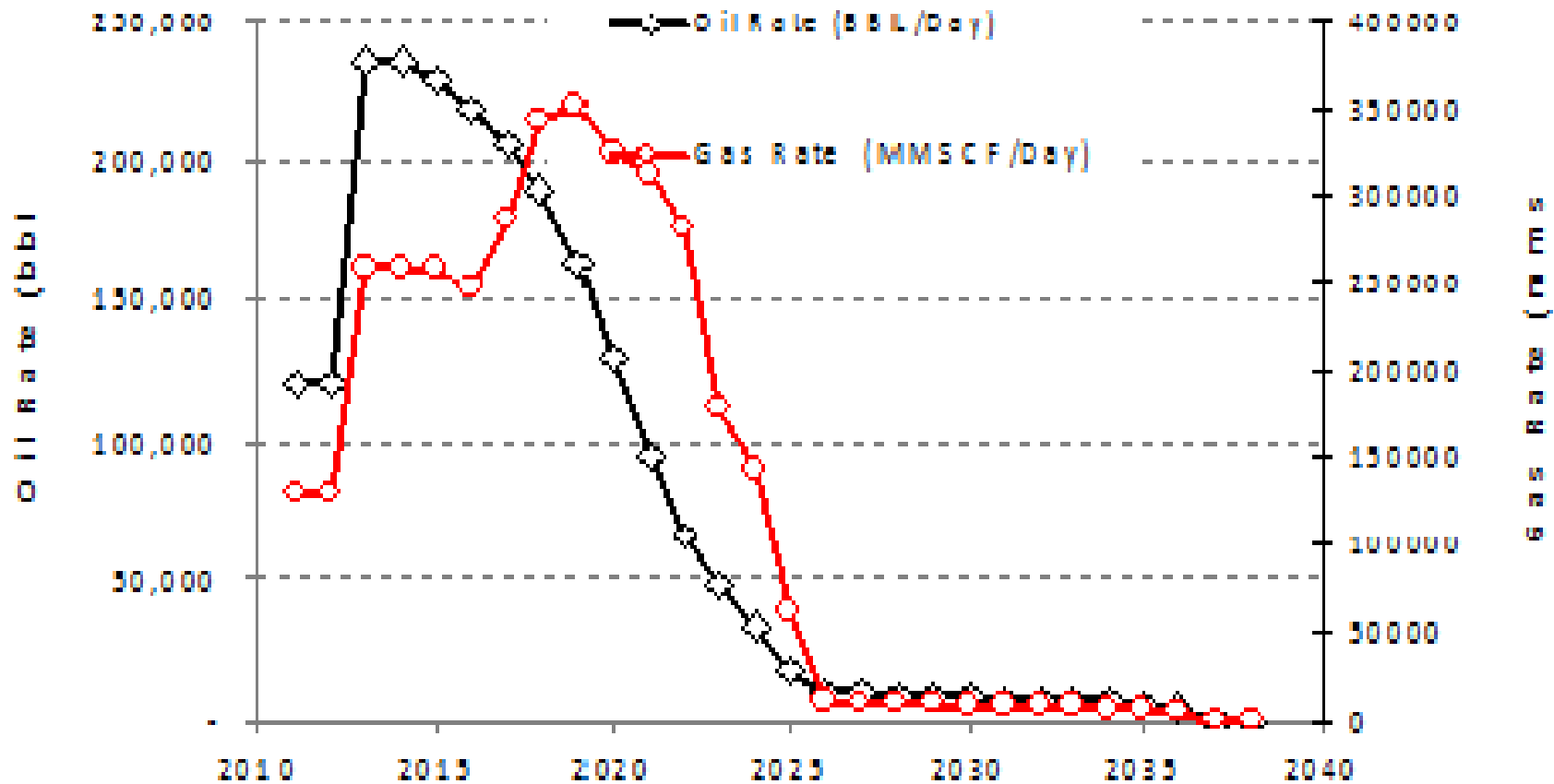
26% in 1970; **70%** in 2000

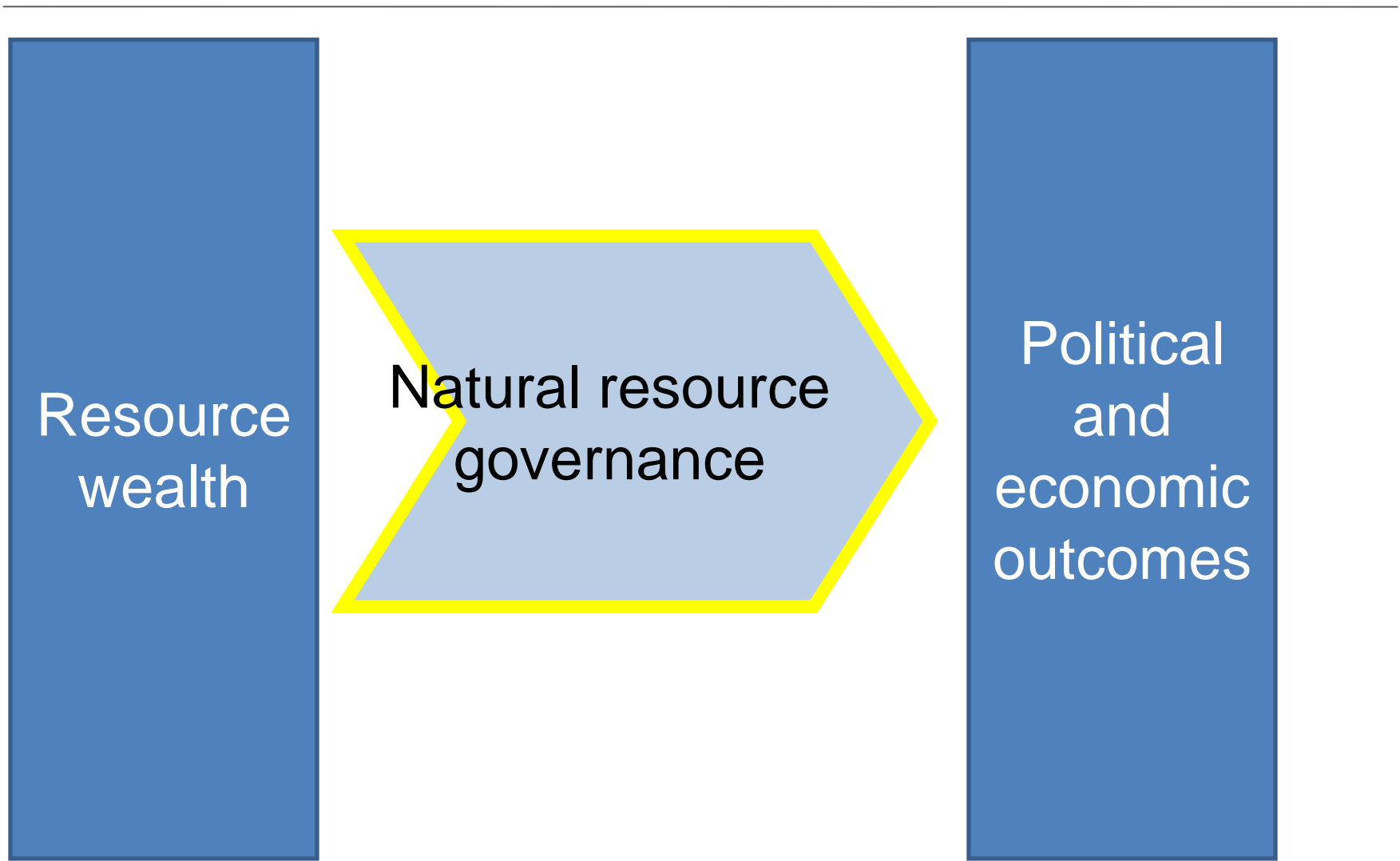


Non-renewables mean you get one shot...

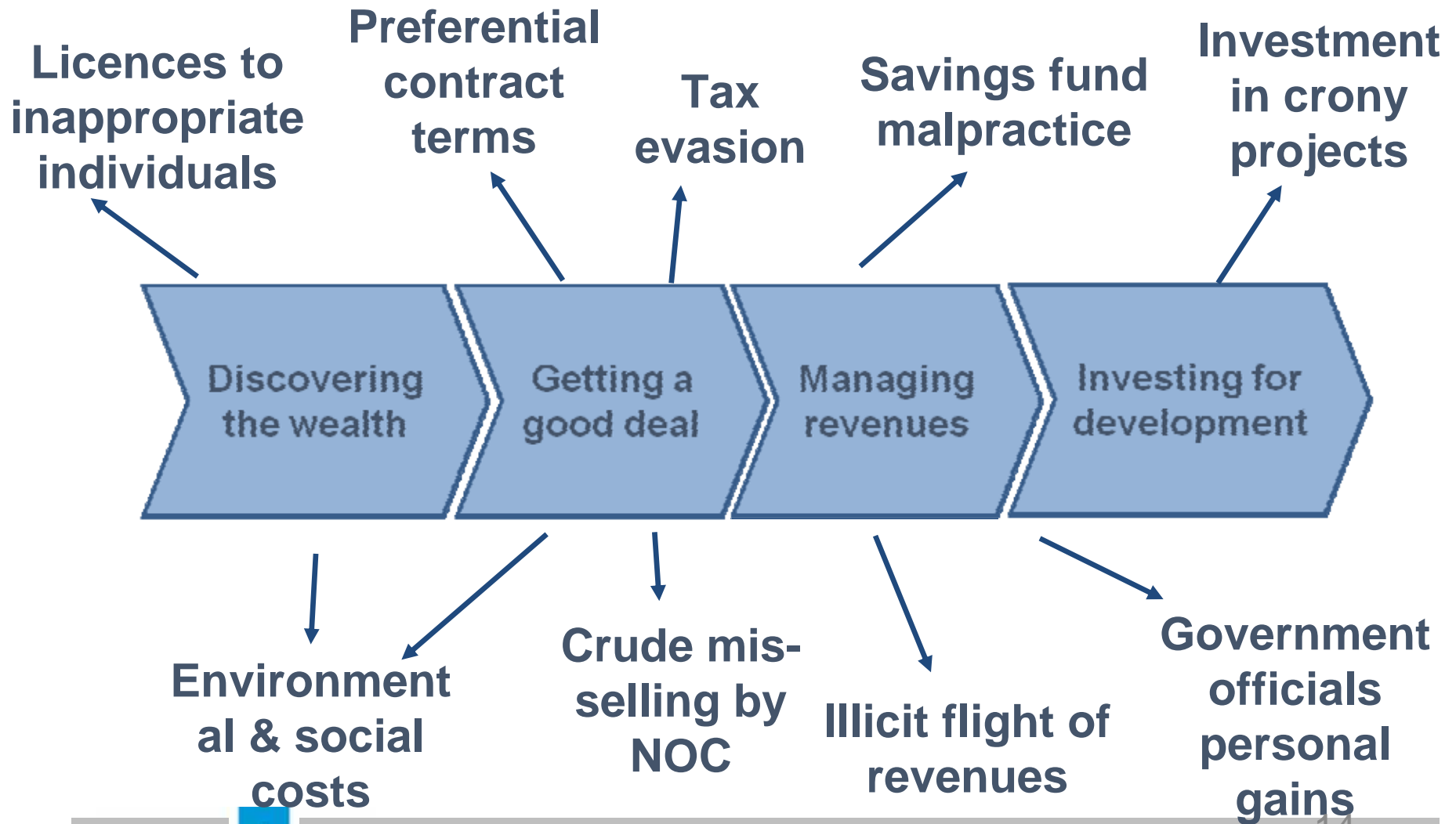


One estimate of Ghana's future oil production





Need transparency and accountability at each stage

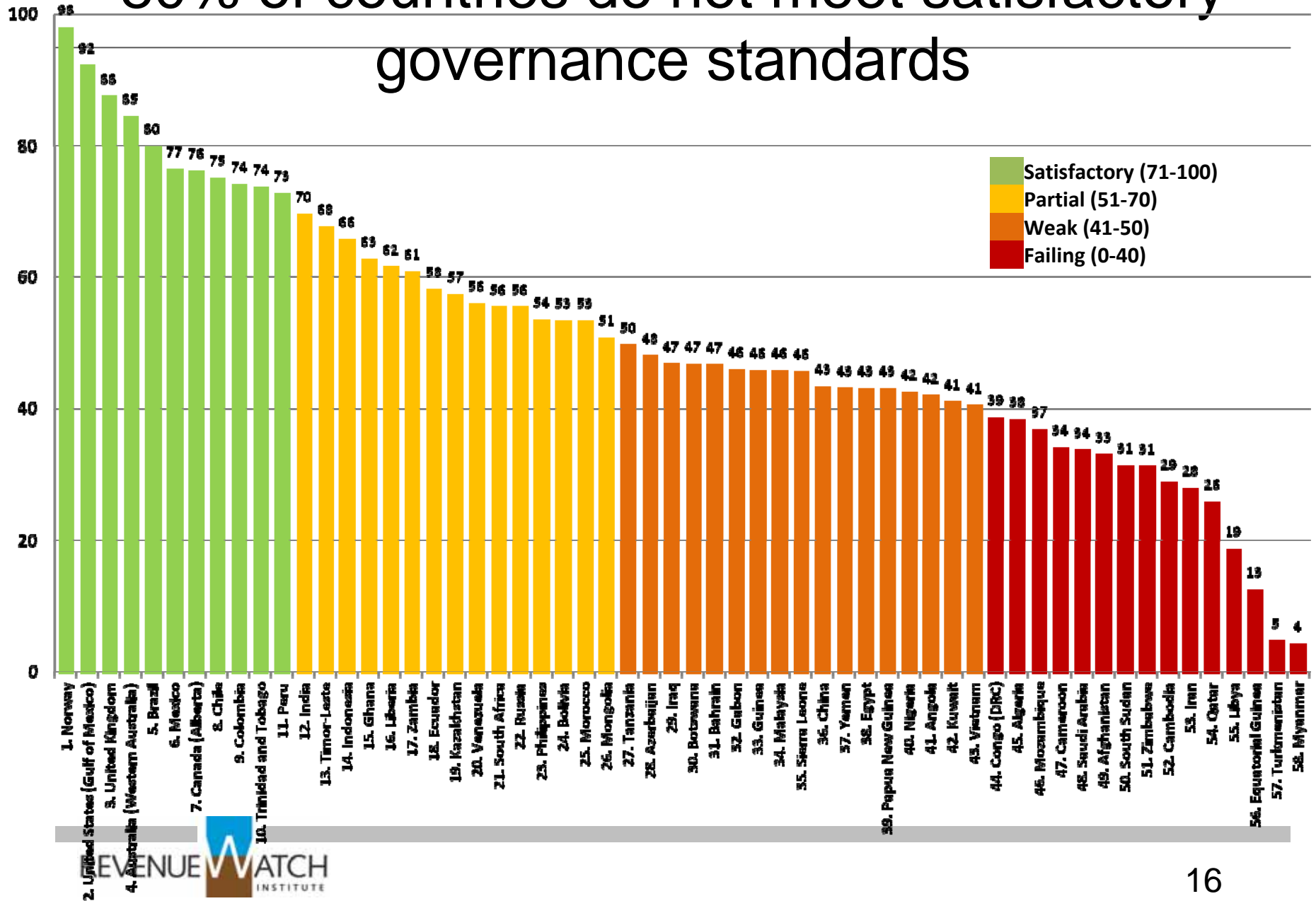


How is it going?

- ***2013 Resource Governance Index***
- 58 countries.
- Primary data on 50 indicators of transparency and accountability
- www.revenuewatch.org/rgi



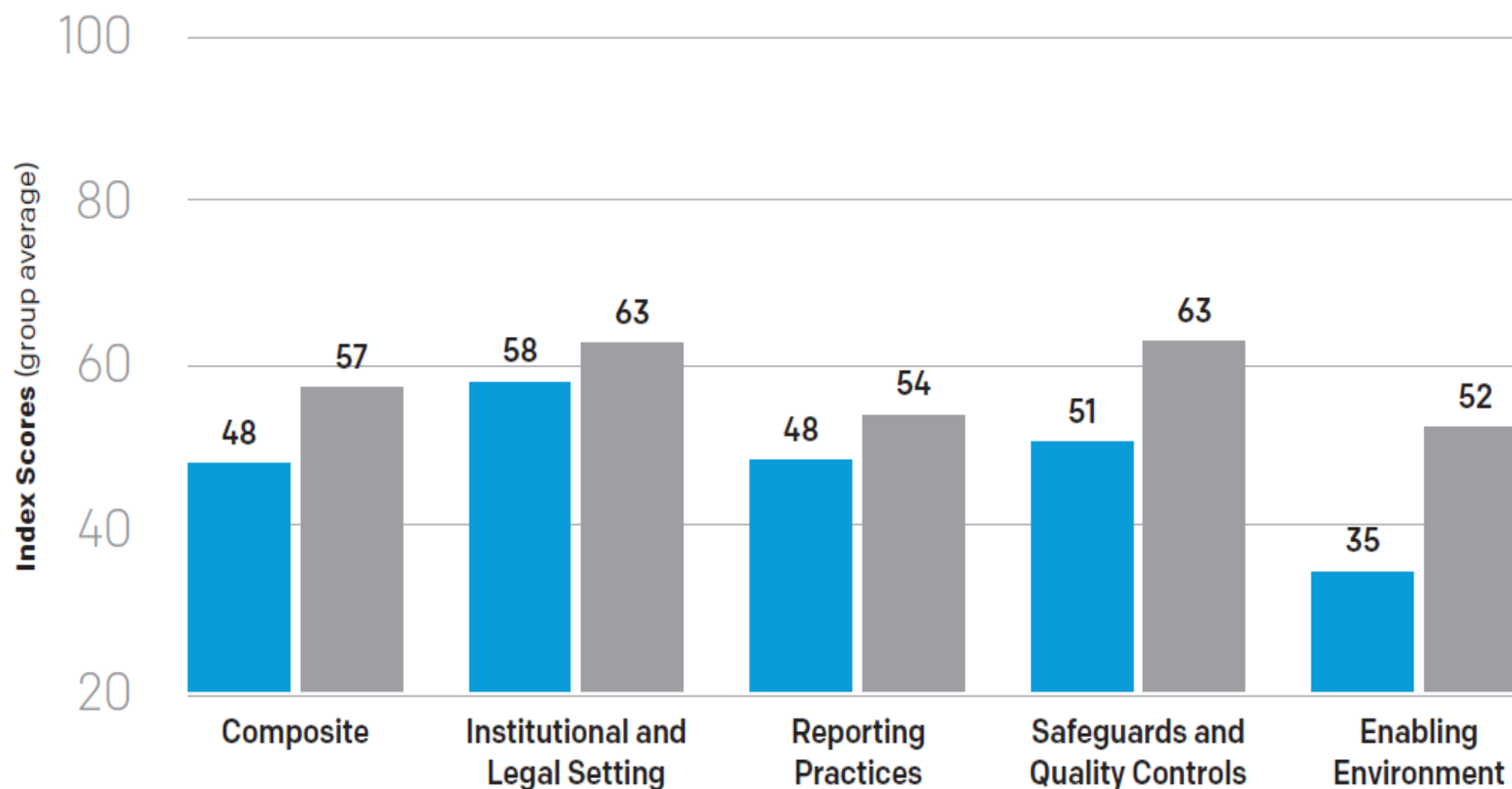
80% of countries do not meet satisfactory governance standards



Transparency is missing where it is needed most

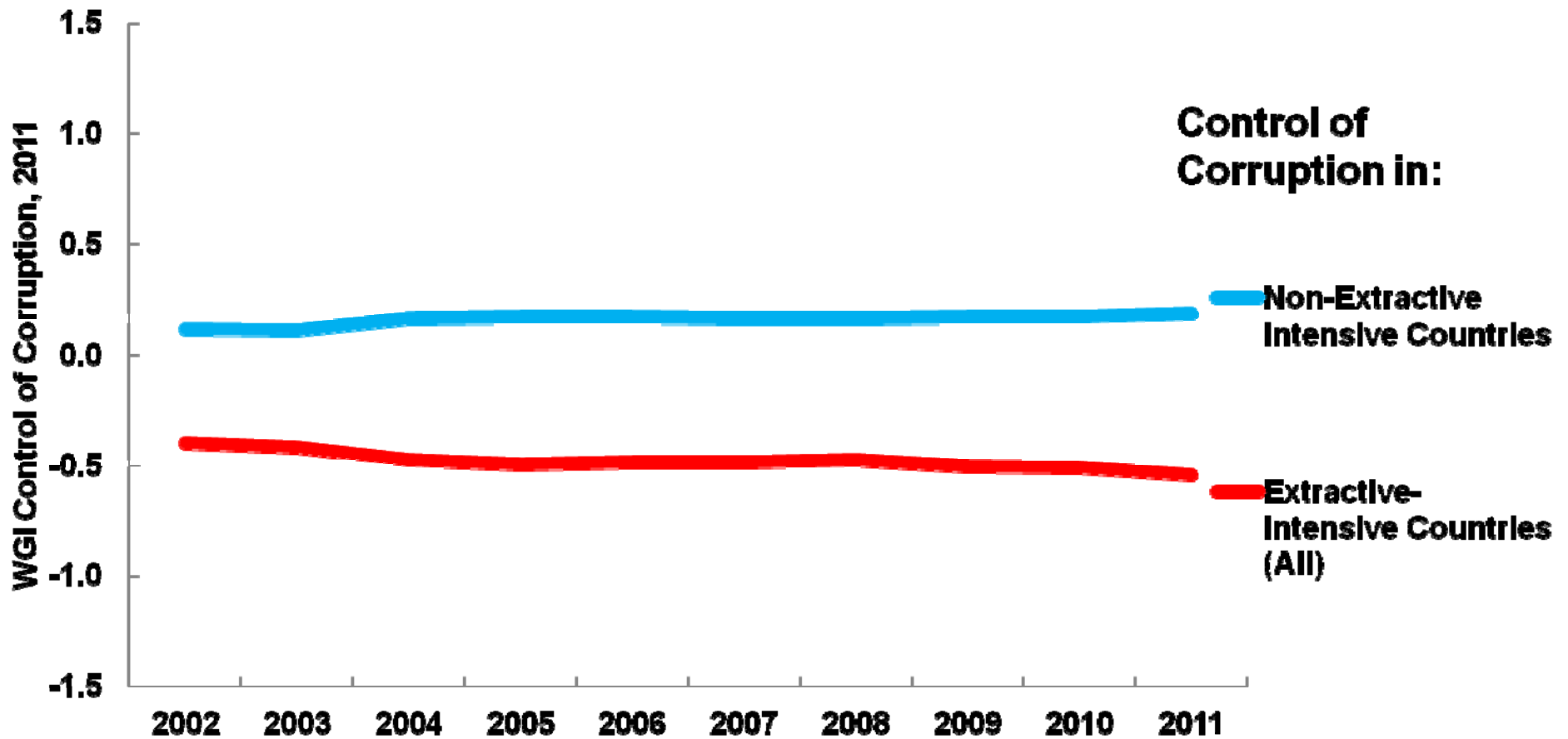
Index Scores by Resource-dependency

■ Resource-dependent countries
■ Non resource-dependent countries



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

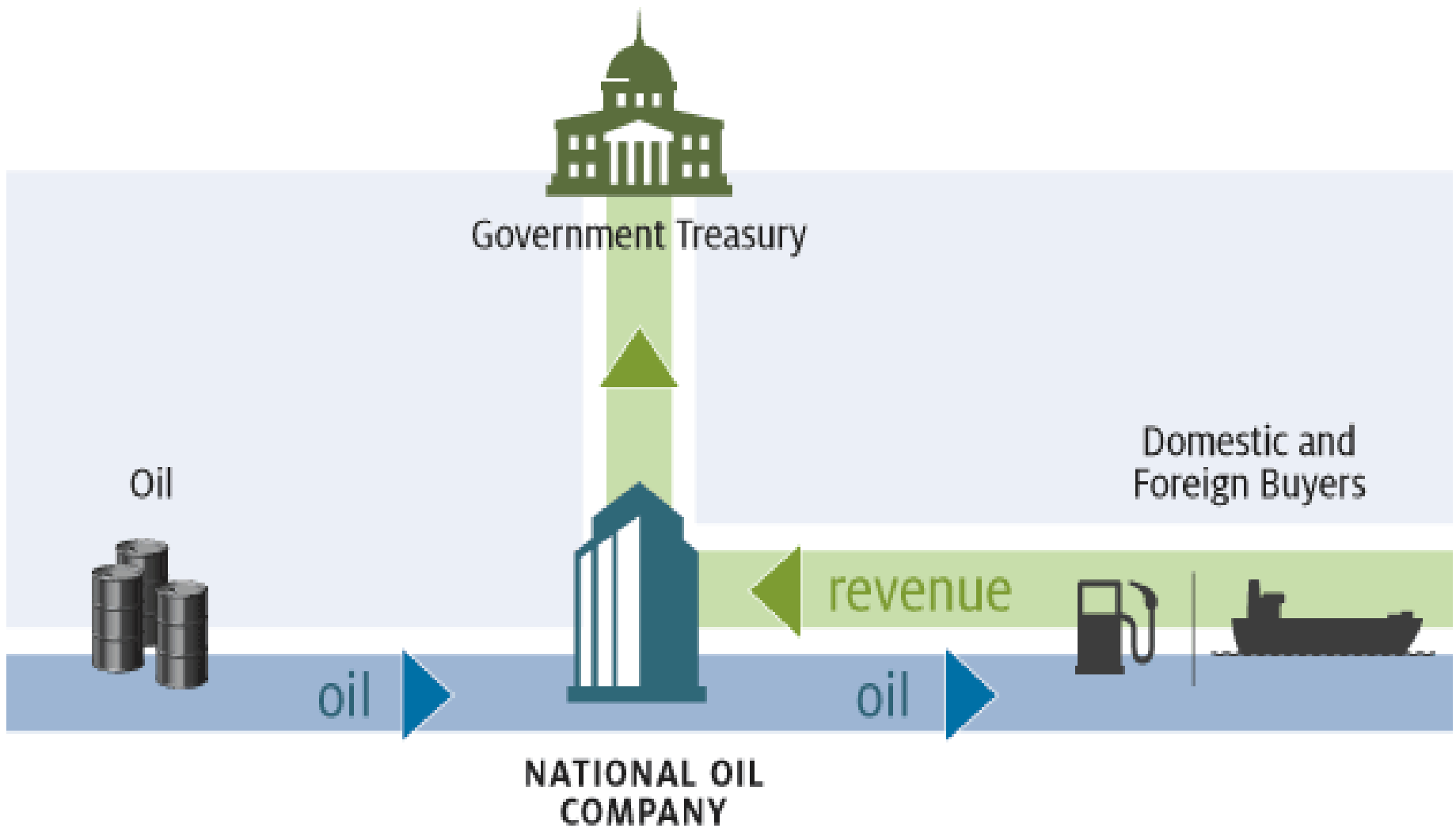
Traders and developing countries with weak institutions – a natural fit

- Financing
- Logistics
- Risk management

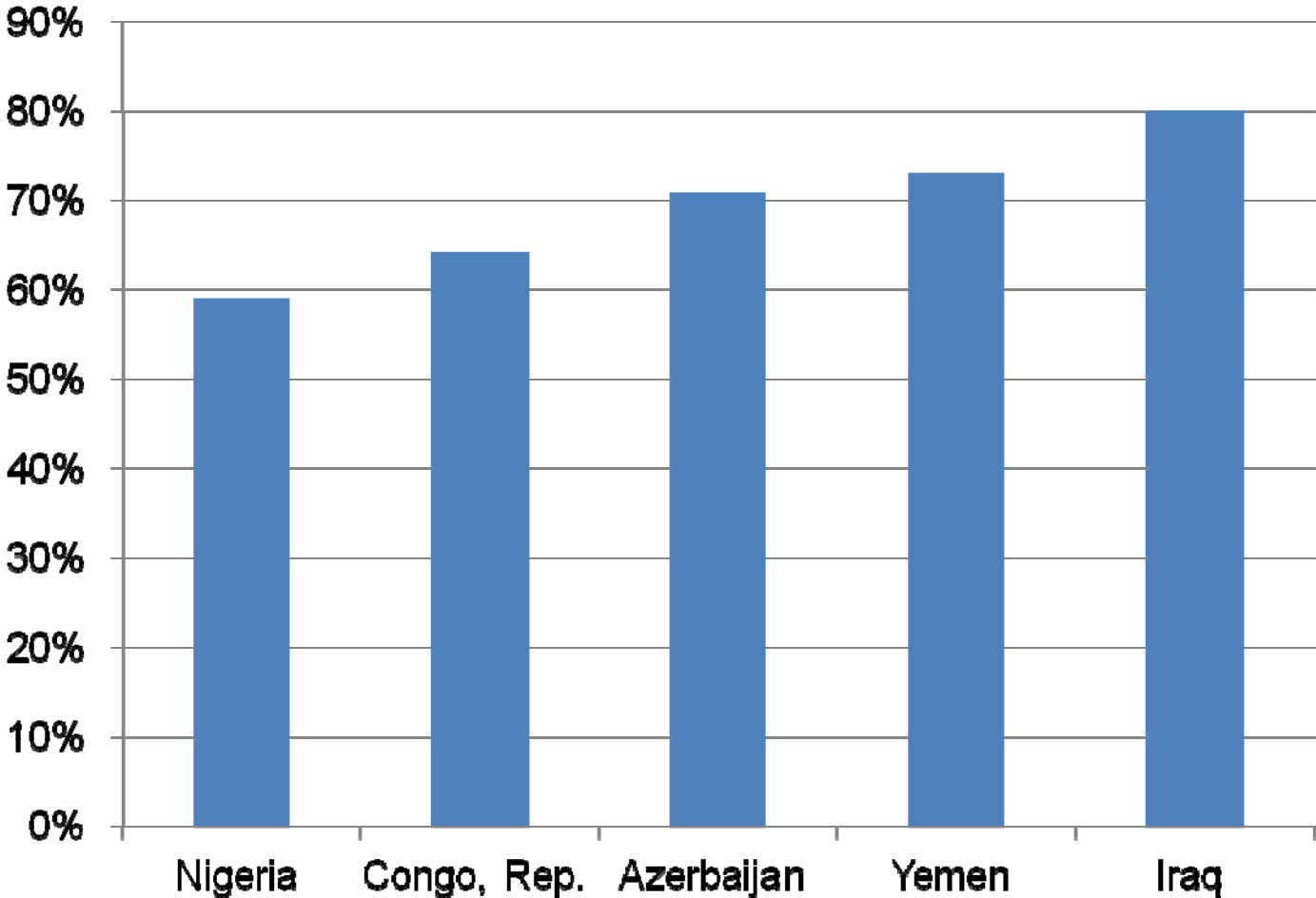
Trading companies' work in developing countries

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



NOCs selling most crude direct to end-users

US
Canada
Saudi Arabia
UAE
Kuwait
Iraq
Iran
Kazakhstan
Norway
UK
EU
Netherlands
Mexico
Venezuela
Algeria

NOCs selling significant amounts to trading companies

Russia
Angola
Libya
Nigeria
Ghana
Chad
Sudan
South Sudan
Congo-Brazzaville

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



REPUBLIC OF YEMEN

HIGH MINISTERIAL COMMITTEE FOR CRUDE OIL MARKETING

Grade 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.

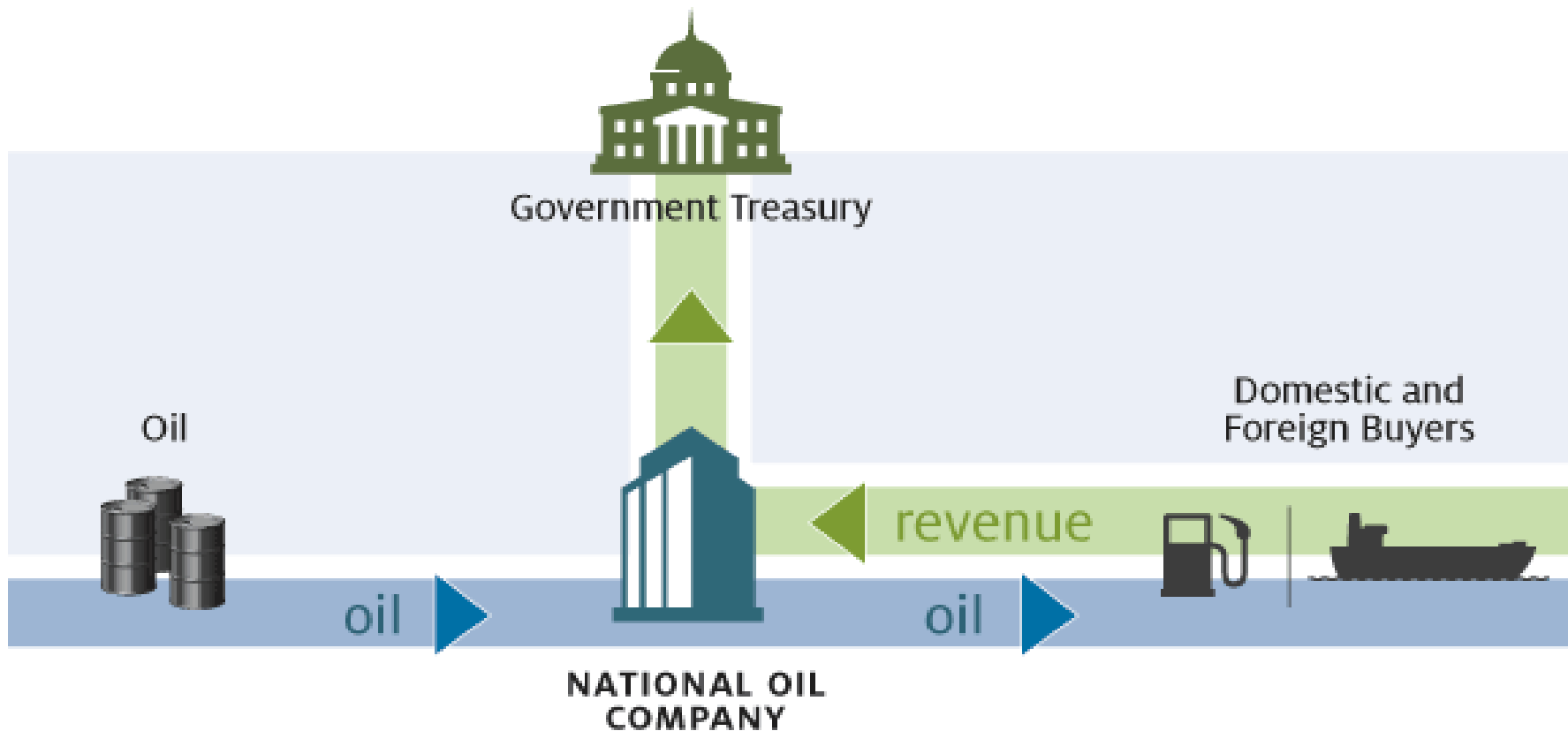
Buyer →

Price →

Volume →

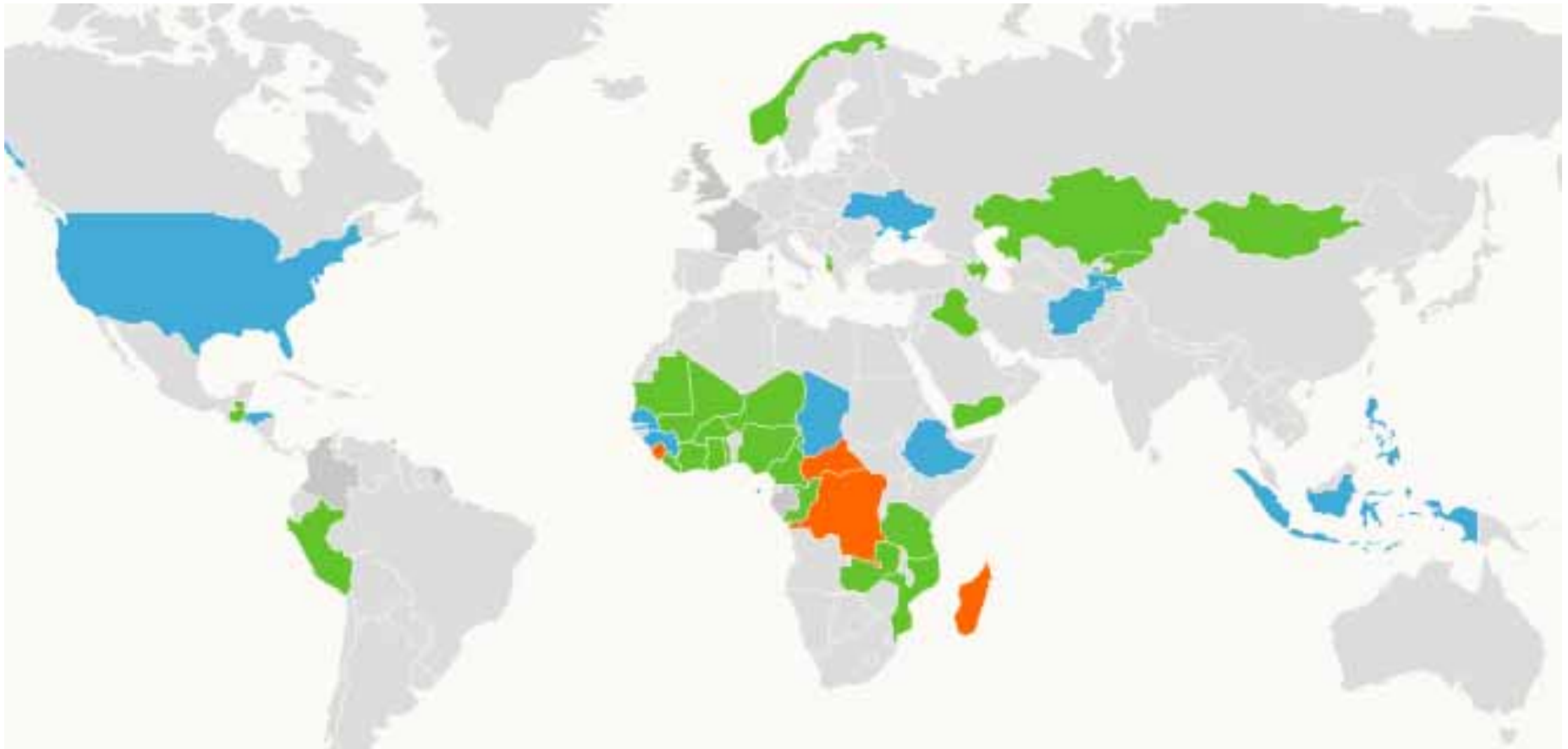
How to promote this transparency?

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

