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TRADE IN COMMODITIES: CHALLENGES AND OPPORTUNITIES



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REPORT OF THE GLOBAL COMMODITIES FORUM 2015

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Detailed programme, presentations and statements are available online at unctad.org/gcf2015.

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Foreword

With its theme of "Trade in commodities: Challenges and opportunities", discussions at the 2015 Global Commodities Forum reflected on the significant shift in commodity markets since mid-2014. These discussions underlined the continued centrality of commodities in the development prospects for many countries. The timing and communication of this message is important, with several major international conferences scheduled over the next 12 months that, taken together, will form an important part of the post-2015 development agenda.



The recent fall in commodity prices has prompted a reflection on how developing countries managed the price boom. Discussions at the Forum cited a few examples of pragmatic boom-time policies, such as the establishment of sovereign wealth funds. But there was general consensus that developing countries' macroeconomic management of the boom was insufficient, leaving doubts as to whether they can afford to pursue important strategies, such as investments for the enhancement of productive capacity and the decarbonization of their economies. These issues reflect the challenges facing delegates at the trio of major United Nations conferences in 2015: the Financing for Development Conference in Addis Ababa in July, the Summit to Adopt the Post-2015 Development Agenda in New York in September, and the Climate Change Conference in Paris in December.

Participants at the 2015 Global Commodities Forum also discussed several issues related to the trade policy space available to commodity-dependent developing countries. On the extractive side, there was a well-informed debate on the role and effectiveness of export restrictions in exporting countries' development strategies. On the agricultural side, participants debated issues and approaches that could build on the momentum generated by the 2013 Bali Package towards completing the Doha Round of World Trade Organization (WTO) negotiations. These sorts of discussions about the asymmetries that developing countries face in the international trading system will continue during the remainder of this year and beyond, first with the WTO hoping to agree on a post-Bali work programme before its Tenth Ministerial Conference in Nairobi in December and then with UNCTAD's own quadrennial ministerial meeting in 2016.

The Forum also examined transparency in the commodities sector, trying to build consensus on how best to shine light on the physical and financial flows in the value chain, with the goal of reducing and eliminating the illicit activities that divert resources within and from commodity-dependent developing countries. This issue has potential to recover significant financial resources for developing countries and therefore will be an important part of UNCTAD's work on commodities going forward.

As these three examples show, participants at the 2015 Global Commodities Forum debated pressing challenges facing commodity-dependent developing countries. Given that more than 90 developing countries continue to depend on the export of raw agricultural or extractive commodities, reducing commodity dependence is a development priority. UNCTAD looks forward to seeing commodity dependence debated at the major development-related United Nations conferences slated for the next 12 months, for inclusion in the post-2015 development agenda.

Important debates such as these are only possible with the generous support of our sponsors. This year's Forum benefitted from large contributions from the Government of China and Afreximbank. Past forums received support from the Common Fund for Commodities, the Governments of Switzerland and France, Audit Control and Expertise, and Gaznat. We are gratified that these partners see the continued value of the Global Commodities Forum as a multi-stakeholder platform to debate commodity issues.

We also recognize the important contributions of the Global Commodities Forum Steering Committee, which is composed of experts from the private sector, non-governmental organizations, academia and other United Nations institutions. They volunteer their time to advise UNCTAD on preparations for the Forum, for which we are grateful.

(signature)

Mukhisa Kituyi
Secretary-General of UNCTAD

Trade in Commodities: Challenges and opportunities

Introduction

UNCTAD hosted the sixth annual Global Commodities Forum on 13-14 April 2015 at the Palais des Nations in Geneva. Participants examined and debated the theme of: “Trade in commodities: Challenges and opportunities.”

On the first day of the Forum, panels reflected on the shifts seen in commodities markets over the past year, resulting in particular from the dramatic fall in oil prices as of mid-2014. Debates focused on implications for resource-rich developing countries, as well as for other stakeholders in the commodities value chain. The latter sessions of the 2015 Global Commodities Forum looked forward, examining the development implications of the recent shifts in commodities markets and trade policy.

Recent shifts in commodities markets and trade policy have changed the context in which countries pursue their development plans. In sharing and debating their experiences at the 2015 Global Commodities Forum, stakeholders helped build consensus around potential solutions to these shifts, informing their ongoing work towards a more inclusive commodity-based development.

Opening session

UNCTAD Secretary-General Mukhisa Kituyi opened the 2015 Global Commodities Forum by urging participants to apply their collective expertise to respond to the recent decline in commodities prices. The most drastic effects of the end of the commodities supercycle were visible in countries such as Venezuela, Nigeria and Angola, where oil revenues have collapsed, forcing the governments of these countries to revise their national ambitions and cut spending on infrastructure and social programmes. Moreover, countries that developed their oil sector during the boom years, such as Chad, Ghana, Myanmar and Timor Leste, now face their first bust and a retreat from the heady initial expectations kindled by high oil prices.

In fact, a post-supercycle reassessment of development policies is necessary in most commodity-dependent countries. Although oil prices fell most dramatically, prices of many commodities have fallen considerably from their supercycle peaks. With 70 per cent of developing countries dependent on commodities for the majority of their merchandise exports, the



Opening Session, Global Commodities Forum 2015

generalised retreat of commodity prices confronts governments in most of these countries with how they will manage the end of the supercycle. Secretary-General Kituyi framed their dilemma by paraphrasing the following message from UNCTAD's 2013 Least Developed Countries Report: "If you are not creating enough decent jobs during the boom years, what will you do when the bust comes?"

From this perspective, Secretary-General Kituyi expressed his satisfaction at the selection of session topics at this year's Forum. Among them, he placed particular emphasis on agricultural trade and the importance of a prompt completion of the Doha Round of negotiations at the WTO. The 2013 Bali Package was remarkable, both for negotiators' willingness to conclude a partial agreement and for its focus on agricultural issues. In this spirit, Secretary-General Kituyi encouraged Forum participants to identify other partial solutions that can contribute to an eventual completion of the Doha Round. The timing of the Forum is optimal, as its discussions can help developing countries clarify their priorities on agricultural issues, for inclusion in the next WTO work programme.

As well as for moving forward on priority agricultural trade issues, completion of the Doha Round would also revitalise a stalled multilateralism. In the absence of sufficient progress at the WTO, countries and regional blocs have turned to plurilateral arrangements. While plurilateralism has its place, it is insufficient to address the outstanding issues related to agricultural trade and development, which are of central interest to commodity-dependent developing countries. A robust multilateralism is therefore vital to maintaining an efficient, equitable global trading system.

In his inaugural remarks, Yi Xiaozhun, Deputy Director-General of the WTO, echoed the need for continued progress on multilateral trade negotiations. The recent fall in commodities prices illustrates the volatility that is a constant threat to producers and governments in developing countries. Multilateral trade negotiations can help address this challenge by improving the transparency of markets, contributing to greater stability and an improved flow of information.

From this perspective, Mr. Yi expressed his optimism that the completion of the Doha Development Agenda (DDA) will bring considerable benefits to developing countries. At the heart of the DDA is a reform of agricultural trade. This reform would include benefits on both sides of trade deals: improving farmers' livelihoods in exporting

countries and ensuring food security for communities in importing countries.



Yi Xiaozhun, Deputy Director-General at the WTO

Mr. Yi also highlighted the Trade Facilitation Agreement, a central piece of the 2013 Bali Package. With respect to agricultural trade, the Agreement promises to smooth the flow of perishable agricultural commodities, attract investments and promote regional trade.

H.E. Mr. Triyono Wibowo, Indonesian Ambassador to the United Nations Office in Geneva, stressed the need for sufficient policy space for countries to pursue their development strategies.

Volatility and declining terms of trade are two features of commodity dependence that undermine a country's development prospects. Developing countries are therefore encouraged to reduce their dependence on raw material exports and, instead, use their resource endowments to ensure the spillover effect of industrial development. Diversifying into more technologically advanced activities gives access to a greater share of value added and more skilled, higher paying jobs.



Ambassador Triyono Wibowo, Permanent Mission of Indonesia

Pursuing a commodity-led development strategy requires a holistic approach, coordinating trade, industrial and human capital policies. But it also requires the policy space to innovate. After all, commodity dependence typically breeds vested interests, meaning that rigid, status quo policies will

be insufficient to spur diversification and break the state of dependence. In the context of multilateral trade negotiations, therefore, Ambassador Wibowo encouraged negotiators to avoid an overly rigid reliance on liberalisation and to preserve developing countries' policy space.

René Bautz, Chairman of the World Energy Council–Global Gas Centre and CEO of Gaznat, discussed the importance of efficient energy markets in mitigating current risks and arbitrating the ongoing transition to a lower-carbon economy.

In the current context of deflated oil prices, Mr. Bautz identified three forces affecting countries' energy plans. Most immediately, oil producing countries face major cuts in government revenues and private greenfield investment. Next, the growing threat of climate change raises pressure on existing energy policies. Governments cannot realistically hope to achieve their emissions reduction targets without revisiting, for example, counteractive policies favouring high-emissions fossil fuels, especially coal. Looking forward, countries must wait for advances in storage technology before adopting renewable technologies as their predominant sources of energy.

In this context, natural gas already has an established share in the energy mix, with such applications as, for example: power generation, heating and urban public transportation. From a climate policy perspective, natural gas also has a bridging role to play, as a lower emissions fuel to replace fossil fuels, until renewable energy technologies are ready for widespread implementation.

Following this vision, Mr. Bautz estimated that world consumption of natural gas would rise to 5.4 trillion cubic feet (tcf) per year by 2040, of

which liquefied natural gas (LNG) will represent 50 per cent or more of traded volume.

Given the geopolitical and trade challenges to this vision, Mr. Bautz emphasised the international community's role in designing energy markets capable of arbitrating supranational objectives, such as energy security, equal access to energy and a reduction of global carbon emissions. Redesigned energy markets would require new international energy exchanges and improved interregional cooperation on energy issues. These are natural projects for the international community and would complement national efforts towards achieving a global energy transition.

Keynote session

The feeling that "the boom is over" pervaded the keynote session; that is, the recent commodity price boom ended after mid-2014, with the dramatic fall in oil prices and the more moderate fall in prices across other commodity groups.

Following from this assertion, the session moderator, Martin Khor, Executive Director of the South Centre, emphasised that the end of the boom was consistent with the long-term problématique of commodity-based development. Among other challenges, declining terms of trade between commodities and manufactured goods complicate whether or not countries can realistically expect to develop their economies by relying on the production and trade of commodities. UNCTAD itself was founded in part to address this perennial problématique.

Mr. Khor stressed that, although its timing was surprising, the fall in prices was inevitable. From this perspective, he encouraged Forum participants to focus less on the details of the bust, and more on a reassessment of commodity-led development strategies in the current context.



Opening Session, Global Commodities Forum 2015

After this introduction, the first keynote speaker, Yilmaz Akyuz, Chief Economist at the South Centre, presented the findings of his research on the macroeconomic management of the 2003-2014 commodity price boom among emerging and developing countries. To illustrate, he often compared overall performance during the recent boom with the previous commodity price boom in the 1970s-1980s.

Mr. Akyuz began by identifying some differences between the two most recent commodity price booms. In general, the price spikes of the 2003-2014 boom were relatively less severe than those during the 1970s-1980s boom. The recent boom was also fuelled by more favourable financial conditions, due especially to expansionary monetary policy, in particular after the 2008 financial crisis.

In terms of fundamentals, a major factor in the price boom of the 1970s was the structural shift resulting from the growing influence of the Organization of the Petroleum Exporting Countries (OPEC). No such structural shift contributed to the 2003-2014 boom. Mr. Akyuz also noted that, despite their retreat since mid-2014, current commodity prices remain higher than prior to the 2007-2008 crisis.

In general, Mr. Akyuz's research finds that developing countries managed the recent boom more effectively than that of the 1970s-1980s. Among developing countries, he found that Sub-Saharan African economies managed the boom better than Latin American economies.

Although better than during the 1970s-1980s, countries' macroeconomic management of the recent boom was nevertheless weak. Investments and expenditures did not contribute to a reduction of commodity dependence or to improved economic diversification. Indeed, Mr. Akyuz remarked measurable deindustrialisation in Brazil, Russia and South Africa. Moreover, counter-cyclical policies were few, precluding most countries' capacity to smooth their social spending after the bust and over time.

Mr. Akyuz also noted an increase in spending on social programmes. He acknowledged the political pressure that exists to fund these programmes during good times. But that same political pressure makes it difficult to cut spending on them during tight times.

By contrast, investments in infrastructure and productive capacity were lacking during the boom, preventing commodity-dependent economies from improving their productivity or competitiveness by the end of the boom. Moreover, Mr. Akyuz

remarked little investment in non-traditional sectors, underlining the continued track dependence on commodity exports in many countries.

Instead of productive investments, most net exporting countries devoted their windfall revenues to spending on consumption goods, real estate and non-traded services.

From spending, Mr. Akyuz turned his attention to the management of national debt and foreign exchange reserves among emerging and developing economies. Overall, these economies reduced the share of debt in their external assets, from approximately 50 per cent in 2000 to approximately 33 per cent in 2013. More remarkably, these economies' increased exponentially their foreign exchange reserves, from \$800 billion in 2000 to \$7.8 trillion in 2013, or from less than 25 per cent of total external assets in 2000, to 43 per cent in 2013.

On average, two thirds of the reserves accumulated from 2000 to 2013 came from current account surpluses and the remaining third came from borrowing. But this average breakdown hides considerable differences among subgroups. For example, oil exporting countries increased their reserves entirely from current account surpluses and not from borrowed funds. China's reserve growth mirrored the average, that is: two thirds came from the current account and a third from borrowing. But the remaining emerging and developing economies, apart from a few exceptions, such as Malaysia, ran current account deficits from 2000 to 2013 and financed the increase in their reserves entirely from borrowed funds.

This increased borrowing came in two forms. Among developing economies, many of them traditional aid recipients, governments sold their sovereign bonds on international credit markets.

Among emerging economies, public borrowing actually fell during the boom. But these countries typically opened their domestic bond markets to foreign investment. This opening of domestic bond markets served, in essence, to replace public obligations with private ones in emerging economies.

As a result, coming out of the boom, emerging economies have increased private debt risk and developing economies increased sovereign debt risk.

Mr. Akyuz concluded by acknowledging that, although it was still inadequate, macroeconomic management of the recent commodity boom reflects that policy makers learned from the

mistakes made during the previous boom in the 1970s-1980s. During the next boom, Mr. Akyuz encouraged policy makers to: restrain their structural budgets; invest in infrastructure and productive capacity; and save. For a pragmatic benchmark, he recommended increasing savings by more than spending. As for spending, he recommended that developing countries should respond to shrinking export revenues by adjusting their spending patterns by prioritising imports that are essential to production and job creation and reducing imports of luxury goods.

The second keynote speaker, Philippe Chalmin, President of Cyclope and Professor at Université Paris-Dauphine, elaborated the topic "What is the new normal in commodity markets?", albeit with a certain irony. He expressed his dislike for the term "supercycle," which implied that the recent boom was exceptional. In fact, Mr. Chalmin explained that the recent commodity price boom, ending with the unexpected plunge in oil prices in 2014, was not a "new" phenomenon. Rather, it was entirely consistent with the 20-30 year cycles that commodity prices have followed over time, with 5- to 10-year booms pressed between 15- to 20-year busts.

From this historical perspective, Mr. Chalmin proposed that there was academic value in comparing the context and factors that contributed to the recent boom with those in previous booms. In terms of similarities, the booms in the 1970s, 1980s and 2000s were all driven by fundamentals, with supply unable to satisfy strong global demand growth. In both cases, demand from China was central.

By contrast, the institutional context changed considerably from the 1970s until the start of the recent boom. Through the 1980s and 1990s, most producing countries dismantled state agricultural

marketing agencies and the producer prices they underwrote. Among other effects, this institutional void exposed producers in developing countries to more market volatility.

Later, in the early 2000s, financial investors moved their capital from sagging equity markets to commodities, beginning the so-called "financialisation" of commodities markets. A consequence of this phenomenon was an increased generalisation across commodity groups, with capital flowing more fluidly in and out of commodity markets, and from assets in one commodity group to the next.

The combination of the institutional void and greater capital in- and outflows led to what Mr. Chalmin described as the current "institutionalised volatility," which did not exist in the 1970s. If anything, he said, this instability is the "new normal" on commodity markets.

In his analysis of the recent boom, Mr. Chalmin posited that the underlying fundamentals were largely a consequence of investment time lags. In the early- to mid-2000s, global supply was unable to respond to strong demand growth from emerging markets, leading to a boom in prices. Investors responded, leading to a rush of investments in new productive assets, such as mines and shale oil plants, as well as in logistics assets, such as warehouses, port facilities and, especially, bulk carrier ships. These projects often require 10-15 years to become operational, meaning that many of them came online in a rush over the last couple of years, leading quickly to oversupply and a fall in commodities prices and freight rates. In fact, new projects will continue to come online over the next few years, maintaining the current situation of oversupply and lower prices.



Opening Session, Global Commodities Forum 2015

Both Mr. Akyuz and Mr. Chalmin stressed the importance of the US dollar: the "commodity among commodities." The inverse relationship between the dollar and commodity prices is well established, so the dollar's strong performance in recent months seems to confirm that the boom is over and that the market is consolidating around lower prices. Furthermore, indicators suggest that the US dollar will continue to strengthen throughout the near term, which, when combined with slowing demand in China, underpins both speakers' predictions that commodity prices will not rebound to their recent highs.

Given the 20-30-year commodity price cycle described earlier, Mr. Chalmin now expects a prolonged period of reduced activity and lower prices on commodity markets. Looking ahead to the next boom in 20 years or more, he opined that the as-yet unrealised economic catch-up in India may propel the next boom, just as the Chinese catch-up propelled the recent one.

To conclude his intervention, Mr. Chalmin expressed his belief that the recent boom reinforced that the "resource curse" still infects commodities activities. Along with its classic symptoms, such as corruption, commodity dependence and so-called Dutch disease, the "curse" manifests more generally in the false belief that booms, like the recent one, can transform economies and reduce poverty. According to Mr. Chalmin, this is a delusion, as commodities booms always end in busts.

During the interactive discussion, several participants reacted to Mr. Chalmin's comments about "institutionalised volatility." They viewed volatility as undermining the functioning of commodities markets, especially with respect to price formation, leading to negative consequences for producers in developing countries. Rather than Mr. Chalmin's argument that an institutional void contributed to increased volatility, the respondents attributed it to the increasing financialisation of commodities markets and specifically to "excessive" speculation.

Mr. Chalmin expressed his strong disagreement with this explanation of volatility, which he described as "demagoguery": a populist argument that incorrectly demonises speculators. He explained that the prices of commodities traded on derivatives markets - the site of speculative trading - display no more volatility than commodities without derivatives markets. He cited the example of the food price crisis of 2008, when the price spike for rice, which has no derivatives market, was more severe than for wheat, whose futures

contracts are traded on the Chicago Board of Trade.

Session 1: Prospects for transparency-themed governance reform in the Swiss commodity trading sector

In this session, representatives from industry, government and civil society resumed a discussion on a similar theme, begun at the 2014 Global Commodities Forum.

Last year, participants debated the prospects for transparency-themed reform in the trading sector with few concrete examples to anchor their discussions. The pace of this agenda appears to have quickened in the intervening year, as several concrete examples have appeared, such as: the Swiss government establishing a dialogue on transparency with trading companies and non-governmental organizations; Trafigura joining the Extractive Industries Transparency Initiative (EITI); and the Berne Declaration proposing a strong regulatory authority for the Swiss commodities sector.

As this session demonstrated, opinions about each of these individual initiatives vary considerably. Nonetheless, these concrete examples allowed for a more detailed discussion about the practical questions underlying a path forward, such as:

- Is regulation necessary to improve norms in the trading sector? If not, what other effective means are feasible?
- Is the multistakeholder dialogue in Switzerland sufficient to improve governance in the trading sector? If not, what additional purview and interlocutors are necessary to take action?
- What is the business case for companies to contribute to this reform?

To begin the session, participants heard brief descriptions of three recent initiatives related to advancing governance in the Swiss commodity trading sector:

- Olivier Bovet, Programme Manager at the Swiss State Secretariat for Economic Affairs (SECO), explained that the Swiss government convened its multistakeholder dialogue with industry and civil society as part of its implementation of the 17 recommendations contained in its 2013 Background Report on Commodities.
- Olivier Longchamp and Lyssandra Sears of the Berne Declaration introduced its proposed

Swiss Commodity Market Supervisory Authority (ROHMA from its German name), which is modelled on the existing Swiss Financial Market Supervisory Authority (FINMA).

- Andrew Gowers, Head of Corporate Affairs at Trafigura, explained that his company decided to become the first trading company to join the EITI, driven in part by a desire to be "at the table" in defining how the EITI Standard might be extended to apply to traders.

After the introduction of these three initiatives, the panel began its moderated debate. There was consensus that the advancing transparency norms in the trading sector were part of a more general trend to improve transparency in business practices, the functioning of markets and the flow of information. Moreover, panellists largely agreed that transparency is the reform theme that has gained traction in the trading sector, just as reform themes in other sectors may relate to health, safety or weights and measures. Reform being part of the business cycle, panellists agreed that traders must adapt to the transparency agenda.

Nonetheless, the private sector and the Swiss government representatives expressed their strong opposition to regulation as the way forward in Switzerland and to the Berne Declaration's ROHMA proposal. Both cited competitive risks associated with Switzerland regulating traders so long as other countries do not. The Swiss government worried that regulation would prompt companies to decamp to another jurisdiction: so-called regulatory arbitrage. To reinforce the Swiss government's argument, a participant from the floor provided an example of regulatory arbitrage within the commodity trading sector itself: approximately 30 years ago, increased regulation of the sector in France caused commodity trading companies to leave for other jurisdictions, including Switzerland.

As for the companies represented on the panel, they worried that they would be at a disadvantage to competitors exempt from Swiss regulation of

traders: either traders in other jurisdictions, or the trading arms of producers or processors.

The representatives from both the private sector and the Swiss government favoured voluntary initiatives as the way forward, aligned as much as possible with legislation in the USA and European Union, as well as with existing benchmark voluntary initiatives such as the EITI.

In proposing strict regulation of the Swiss commodities sector, the Berne Declaration rejected the counter-argument of the risk of regulatory arbitrage. They argued that regulation would change little for companies that already conform to norms and that laggards who choose to leave Switzerland would not be missed. Panellist Harrison Mitchell, Head of Due Diligence and Responsible Supply Chains at RCS Global, related the supporting example of the mining sector, where, when faced with stricter regulation, compliant companies stayed put, whereas only the laggards decamped to more lenient jurisdictions.

Although resistant to regulation, some trading companies have chosen to engage with the transparency agenda at a firm level. Each company may choose a different degree and form of engagement, but they all share the common process of relating the transparency theme to their business case. The business case for improved transparency can range from modest, compliance-based approaches, to more ambitious competitive ones. Transparency can also be adopted as the theme for non-core, CSR-type programmes.

As much as responding to external scrutiny, proactive companies are motivated to respond to the real or perceived expectation of their key stakeholders. Real expectations include a trader's all-important relationship with its banks, which are themselves under increased scrutiny and demand higher standards of transparency and accountability from their borrowers. Perceived expectations can come from employees, who are exposed to the scrutiny their employers receive and want to feel good about where they work.



Session 1, Panel

Debate in this session reinforced that even motivated trading companies, i.e. those that acknowledge the momentum of the transparency agenda and want to respond, are still in the early stages of agreeing internally on the business case that will guide their involvement.

Another panellist, Ramon Esteve, a Board Member at ECOM Agroindustrial, suggested that the proposals to date, involving either regulation or additional reporting requirements for trading companies, are clumsy, in that they simply add new rules and processes with little consideration for how these would duplicate traders' existing compliance activities. Whether or not these rules would help catch and punish transactions, they would certainly create extra work and costs for compliant companies. From this perspective, the current insistence on creating new rules and processes is poorly conceived, as it incites opposition from many compliant trading companies, which would otherwise be potential partners.

Mr. Esteve recommended devising more efficient methods, which create incentives for companies to participate and build on existing compliance activities. He cited a promising example from his company, in which a development bank extended ECOM a line of credit to finance its purchases from a specific country or region. In return, as part of its regular reporting to the bank, ECOM had to include several development-related indicators. This arrangement created incentives for ECOM to participate and embedded the additional reporting requirements within existing processes. This example seems transferable to transparency-related reporting and underlines that positive, efficient methods would generate more support for the transparency agenda among compliant companies.

More generally, Mr. Esteve identified several incongruities with the transparency agenda that has rounded on trading companies. For example, the focus on the transparency of payments from companies to governments applies to extractive commodities but less well to agricultural ones, for which government involvement in commercial activities is minimal and prices are often known throughout the value chain. These and other features of the agricultural value chain mean that the revenue transparency agenda is often inapplicable to traders of agricultural commodities.

Another incongruity involves the transparency agenda's disproportionate scrutiny of buy side of the transaction. Although some traders now acknowledge the need to put in order their side of the transaction, as buyers, too often transparency

discussions ignore the responsibility of sellers, such as governments and state-owned companies. The EITI is an exception that involves both parties. But even in this session of the Forum, the panel was composed entirely of stakeholders from the buy side of the transaction. To be effective, the transparency agenda must also demand reform from governments and state-owned companies from exporting countries.

After these debates about the proposed methods for improving transparency in the trading sector, several participants questioned what would be the value of adding new standards. They observed that the value chain of every commodity group is already subject to a plethora of standards programmes, even if few of those target revenue transparency specifically. Would adding a new set of standards succeed in transforming opacity into transparency? Would the gains justify the additional costs?

Time constraints prevented panellists and participants from debating these questions further. Nevertheless, they highlighted that transparency remains an important and dynamic topic in the commodities sector, prompting animated debate among stakeholders about the form and substance of governance reform.

Session 2: Policy space for resource-rich developing countries in the trade of raw materials

This session continued a discussion that began at a November 2014 OECD conference entitled "Trade in raw materials." Since 2009, the OECD has undertaken a research programme on the use of export restrictions on industrial raw materials. The programme has produced several publications, a database and the November conference.

In general, the OECD's research finds that countries employing restrictions on raw material exports have had mixed success in achieving their policy objectives, with some countries suffering net negative effects, especially over time. OECD analysis also shows that export restrictions have negative consequences for trading partners and international markets, resulting in a net reduction in global welfare. Nevertheless, governments in producing countries continue to employ export restrictions, prompting a wider examination of the role of export restrictions in producing countries' development strategies.

At the decision-making stage, panellists agreed that governments must first establish how the production and trade of raw materials contributes to wider development objectives. Are they best employed in support of maintaining strong trade relations, by ensuring an unbroken supply to global markets? Is their greatest potential value as a source of tax revenue? Or could they be most impactful as feedstock to support domestic industry in a restrictive policy environment? For countries that export more than one raw material, the objectives may differ by commodity group or sector. Clear answers to these questions can help government select the most suitable mix of trade policies, for example: free trade on some items and export taxes or quantitative restrictions on others.

For example, H. E. Mr. Alberto Pedro D'Alotto, Permanent Representative of Argentina in Geneva, explained that his country taxes exports of mineral raw materials as a source of hard currency revenue that it uses to repay its national debt and fund social and development expenditures. Among other advantages, export taxes are straightforward to collect and do not require sophisticated information systems, as do income taxes, for example. This relative ease of implementation makes export taxes a feasible tool for developing countries with limited capacity for tax collection to capture a share of elevated rents during boom periods. For example, Argentina's export taxes generated 10 per cent of government revenues during the 2003-2014 commodity price boom.

By contrast, Sujatmiko, the Director of Mineral and Coal Program Supervision for Indonesia's Ministry of Energy and Mineral Resources, related that his government has different objectives for its mineral raw materials. Instead of a tax, it implemented a ban on the export of raw mineral ores such as copper, nickel and bauxite. The objectives of the ban target the mineral sector itself: to progress up the value chain; to capture a greater share of the total value that is added to the ores in the chain; and to create higher skilled jobs. In practice, the ban is intended to force mining companies to invest in new smelters, which will enjoy a dedicated supply of ore.

The government intends for its mineral export ban to eventually prompt the construction of 70 smelters in the country, across the different types of mineral ore. Prior to the mineral export ban, there was only one smelter in Indonesia and the majority of raw mineral ores were exported. In the boom years 2009-2013, before the mineral export ban, Indonesia's mineral export value ranged from approximately 13.5 to 16.5 billion dollars per year. The government projects that, as the new smelters come online, mineral export value will surpass

17 billion dollars in 2016, up to approximately 22 billion dollars in 2017.

After implementing the export ban, the Indonesian government faced reticence from mining companies about investing in smelters, forcing the government to relax or push back certain provisions of the ban. But investment has since progressed and the government expects to have 11 new smelters operating by the end of 2016. Nevertheless, these are long-term projects, whose realisation is complicated by, among other constraints, a lack of power, water and transportation infrastructure in isolated mining areas. Therefore the success and ultimate impact of Indonesia's ambitious mineral sector development strategy depends on the government's commitment to resolve a variety of issues outside of the mineral export ban itself.

In her presentation, Jane Korinek, an Economist at the OECD, acknowledged the legitimate domestic policy objectives that motivate countries to employ trade policies, such as export restrictions. But, based on the OECD's extensive research in this area, Ms. Korinek suggested that export restrictions were less effective than other policies at achieving these objectives.

Beginning with its empirical research on export restrictions, the OECD found: a price effect, a regional "copycat" effect and a global welfare effect. Generally speaking, export restrictions serve to inflate international prices for a particular commodity. This effect can undermine domestic policy objectives, such as ensuring food security or a cost-effective supply of feedstock to domestic processors. Ms. Korinek cited the example of the food price crisis in 2008: the OECD estimated that 30 per cent of the spike in prices was due to the rush of export restrictions imposed by exporting countries.

As for the regional "copycat" effect, Ms. Korinek noted that China has used export restrictions on raw materials for many years, for example in the well-known case of its rare earths. Recently, Indonesia and the Philippines have adopted export restrictions as a principal trade policy instrument for their own raw materials sector.

As mentioned in the introduction to the session, OECD research also shows that export restrictions cause a net drop in global welfare.

To deepen its analysis, the OECD formulated a theoretical model to test some of its hypotheses about the effects of export restrictions. In one test, OECD economists looked at the effects of simultaneously removing all export restrictions on steel raw materials. The researchers were surprised

to find that the model predicted a benefit to downstream stakeholders, even in the countries that currently employ export restrictions. This suggests that domestic processors stand to gain more from liberalised price setting and supply competition, than from the dedicated supply of feedstock that export restrictions provide.

Ms. Korinek also cited an upcoming study of the effects of export restrictions on investment and output in the processing sectors of five different raw material markets in Africa. The study finds that no additional processing was undertaken as a result of export restrictions, neither in the form of building new capacity or increasing production within existing capacity.

The OECD's research on this subject also includes several detailed case studies of countries that employ domestic policies, instead of trade policies, to develop their raw material sectors. For example, Ms. Korinek described countries that succeeded in developing oilfield and mining services, alongside their extractive activities. This strategy can develop complementary skills in the resource sector and can create jobs and revenues throughout the life of the extractive projects. But it also offers potential to develop a competitive service to sell beyond the producing country's borders and after the depletion of its resource. Norway's is the classic example of this type of strategy, developing an internationally competitive oilfield services sector alongside its production of crude oil. Currently, Chile is pursuing a similar strategy in its copper mining sector.

These case studies also underlined the importance of host countries adopting a standardised regulatory framework for investments in the raw materials sector. By replacing secretive, one-on-one negotiations between foreign investors and host governments, a transparent, well-communicated regulatory framework, such as Chile's, can reduce rent-seeking behaviour and redress informational asymmetries, both elements of the so-called "resource curse."



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The next panellist, Ilaria Espa, the Marie Curie Senior Research Fellow at the World Trade Institute, examined the place of export restrictions

in WTO law, with a view to reforming their treatment in a way that preserves WTO Member States' policy space. No explicit mechanism exists in WTO law for scheduling and binding export duties. Instead, Ms. Espa identified expanding the existing GATT procedure for import tariff concessions to apply to export duty concessions. This could be done through the creation of a Section V of Members' GATT schedules covering export duties, similar to what the Russian Federation did in the context of its WTO accession. The inclusion of export duty commitments in Members' GATT schedules would introduce adjustment procedures and exceptions, by which Member States can balance their concessions with certain economic and sustainable development concerns.

The GATT framework is compulsory for import duties, but voluntary for export duties. As a result, WTO member states have no incentive to schedule binding export duty concessions. This is also due to the absence on the export side of certain GATT exceptions, such as the infant industry protection clause. WTO Members have therefore undertaken export duty commitments in the GATT framework only in isolated cases.

As a further complication, the GATT framework applies to original WTO members, but not to Members that have acceded more recently and whose accession protocols treat export restrictions differently.

Given these challenges, Ms. Espa recommended that a procedure akin to GATT Article II:1(b) be applied to all export duty commitments negotiated by WTO Members. Adding a section to Member's GATT schedules, devoted to export duties, could accomplish this, as in the Russian precedent. This solution would also allow existing export duty commitments negotiated as part of some Members' accession protocols to be included in the GATT framework.

Such a reform would re-establish a level playing field for WTO Members, with a more transparent and predictable use of export duties, while preserving individual members' flexibility in using GATT adjustment procedures and exceptions according to their national priorities.

During the interactive debate that followed panellists' presentations, panellists touched only briefly on the historical context of export restrictions and policy space. Many of the advanced economies that pursued export-led development strategies, such as Germany, Japan, South Korea and China, employed a variety of distortive trade policies, including export restrictions on raw materials, throughout their industrial development.

For example, the USA continues to ban the export of crude oil, a piece of legislation that dates from the 1973 oil embargo by Arab OPEC members. One of the objectives of the US ban was to reduce the country's dependence on foreign oil, a policy objective that continues to resonate in the USA.¹

Despite this established role of trade policy in the development of many advanced economies over the last two centuries, panellists and participants remarked the narrower policy space currently available to developing countries, in part due to the expansion of multilateral and regional trade agreements in recent decades. Several delegates remarked that developing countries are currently the main users of export restrictions and, thus, would have most to lose from any new WTO discipline on the issue. They also added that their governments employed export restrictions, not because they were an ideal choice, but rather that they were one of the few tools available after trade agreements removed other tools such as import controls and producer subsidies.

Session 3: New dynamics in international agricultural commodity trade policies

This session was introduced as an examination of new forces affecting international agricultural trade policy. But the discussion rounded back on the Doha Round of WTO negotiations, underlining their centrality in resolving the outstanding issues in agricultural trade.

Nicolas Imboden, the Executive Director of IDEAS Centre Geneva, began by highlighting the evolving reaction to the 2013 Bali Package. For example, developing countries were initially positive about the so-called "peace clause" for "stockholding for food security," which was hailed as a victory for the "right to food." But for food security in LDCs, the "peace clause" turned out to be redundant: these countries did not fully use their pre-Bali stockholding allowances, so that the Bali decision did not change their situation. In the end, the Bali Package's greatest contribution to food security may be discursive, in that it raised the profile of the issue in WTO negotiations.

As for the Trade Facilitation Agreement, developing countries were initially sceptical. They worried that commitments under the Agreement - to streamline their port and customs procedures, for example - would require them to divert budgets from other priorities. But after the subsequent legal review and

establishment of the Trade Facilitation Agreement Facility, which provides technical assistance in implementing the Agreement, many developing countries and LDCs now see the Agreement as a major opportunity to participate more in global value chains (GVCs).



Session 3, Isolda Agazzi, Nicolas Imboden, Samuel Gayi

The Trade Facilitation Agreement also reflects a changing approach to engaging LDCs in WTO negotiations. The old approach saw OECD governments set rules and grant exceptions to LDCs. Under this approach, LDCs were protected but marginalised: they did not participate in the rule-setting and were not expected to implement best practices. The Trade Facilitation Agreement demonstrates a new, more inclusive approach, which confers both agency and responsibility on LDCs. The provisions of the Agreement encourage LDCs to identify priorities and make commitments, providing them with technical assistance to meet commitments.

Mr. Imboden encouraged LDCs to capitalise on the Bali Package's focus on food security and its more inclusive approach. After all, food security is predominantly an LDC issue: food represents 17 per cent of imports in LDCs and famines occur disproportionately in these countries. Nevertheless, most LDCs do not have the capacity to produce and stockpile enough food to achieve self-sufficiency - they need trade to guarantee their food security.

With the increased agency afforded them by a more inclusive approach at the WTO, LDCs should propose achievable priorities and commitments, especially related to food security. An active role will inject their priorities into negotiations more generally, where until now their passive role marginalised them. After all, as Mr. Imboden said: "If you don't speak up in the WTO, you are forgotten, especially if you are not a big trading power."

Panellists emphasised that developing countries and LDCs need to use their increased post-Bali agency to oppose the perennial problem of

¹ As of 1 September 2015, the US ban on exports of crude oil remained in force, although there is mounting debate and activity on the issue that indicate the US government may soon relax or remove the ban.

agricultural export subsidies in developed countries and the growing problem of so-called "box shifting." LDCs should prepare proposals to eliminate these problems for the 10th WTO Ministerial Conference in Nairobi in December 2015, which would go a long way to completing the Doha Round of negotiations.

Regarding "box shifting," Rashmi Banga, the Head of Trade Competitiveness at the Commonwealth Secretariat, shared the findings of her research on the worrying trend of developed countries rerouting their domestic support from amber- and blue-box subsidies to green-box ones. This "box-shifting" allows countries to claim a reduction in trade-distorting subsidies at the WTO, without reducing the overall level of support they offer to domestic producers. Based on WTO notifications, the EU's Green Box subsidies rose from 20 billion euros in 1995 to approximately 70 billion euros in 2010. Over the same period, US Green Box subsidies rose from 50 to 120 billion dollars.

The scale of this "box shifting" is doubly problematic. The Green Box category of subsidies was initially conceived to allow governments to help their farmers adjust to structural agricultural reforms and to deliver public services. But the definitions of allowable Green Box subsidies were vague, so that the majority of payments, while "decoupled" from production levels, are now in the form of investment aids and income insurance: hardly in the spirit of "structural adjustment," which implies targeted, time-bound support.

Moreover, there is a growing body of empirical evidence that Green Box subsidies are likely trade distorting, after all. While the various direct payments to farmers may not be linked to production, they distort trade through other effects related to: risk reduction, increased land prices, access to credit, labour participation and expectations. By helping reduce a farmer's income risk and improving the productivity of his land, for example, studies have found that Green Box payments can increase his rents by approximately 40 to 60 per cent. In her original research, Ms. Banga finds that, from 1995 to 2010, Green Box subsidies alone contributed to increases in agricultural productivity of 60 per cent in the EU and 51 per cent in the USA.

From this perspective, Ms. Banga encouraged developing countries to push for stricter disciplines on the use of Green Box subsidies by developed countries. The following conditions should be pursued:

- Cap total Green Box expenditures;
- Cap or eliminate direct payments to farmers, except in the case of natural disasters;
- Establish time limits for structural adjustment programmes; and
- Strengthen the review mechanisms.

For example, in the US Agricultural Act of 2014, also known as the 2014 US Farm Bill, the provisions related to cotton include the Stacked Income Protection Plan (STAX), which is a new area-based revenue insurance scheme. STAX is a classic example of a box-shifting programme: its payments are decoupled from production and adhere to the strict definition of non-trade-distorting support. Nonetheless STAX represents a continuation of the significant support the US government has offered for decades, in various forms, to its cotton farmers. This support contributes to greater revenue and capital stock and reduced risk exposure for US cotton farmers, relative to unsupported cotton farmers in other countries. According to Ms. Banga, this cannot but affect, albeit indirectly, the production levels and prices US cotton farmers choose, with well documented effects on world cotton trade.

However STAX fits in the debate about box-shifting, Terry Townsend of Cotton Analytics explained that the cotton provisions in the 2014 US Farm Bill represent a significant and structural reduction in the total value of support that the US government will provide its cotton farmers. During a period of relatively low prices, the provisions in the 2002 Farm Bill provided cotton farmers with payments of approximately three billion dollars per year. The 2008 Bill contained no major structural changes to the formula, but high prices led to a reduction in payments to cotton farmers, to approximately one billion dollars per year. By contrast, the 2014 Bill contains structural changes to the formula, such that, when it is implemented in 2015, the US government estimates it will pay cotton farmers only 350 million dollars per year.



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If these estimates prove accurate, they represent a significant reduction in the overall level of support the US government will pay to its cotton farmers. For multilateral trade negotiations, this resolves neither the issue of box-shifting, nor the continued use of agricultural subsidy programmes in general. But Mr. Townsend expressed optimism that the reduced distortive effect of US government support to its cotton farmers may translate into reduced tension in the cotton-related negotiations at the WTO, as well as increasing competitive opportunities for cotton farmers in developing countries.

In his presentation, H.E. Guy-Alain Emmanuel Gauze, former Permanent Representative of Côte d'Ivoire in Geneva, described the liberalisation of the cocoa sector in West Africa, as an example of how trade policies have evolved amid the retreat of multilateral institutions. Beginning in 1973, economic policies related to the cocoa trade were included in the multilateral International Cocoa Agreements, negotiated by producing and consuming countries member to the International Cocoa Organization (ICCO). To date, member states have negotiated seven such Agreements. In the 1973 and 1975 Agreements, these economic policies included production quotas and buffer stocks. Due to the high cost of these programmes in the austerity context of the Washington Consensus, quotas were abandoned in the 1980 Agreement and economic clauses were abandoned altogether as of the 2001 Agreement.

As a result of this hollowing of the International Cocoa Agreement's economic role, producing countries in West Africa have attempted to fill the policy void. In general, these countries have pursued some degree of market liberalisation, without attempting to replace the abandoned price control mechanisms, such as quotas, buffer stocks

or the like. For example, Ghana has partially liberalised its cocoa sector and both Nigeria and Cameroon have pursued a full liberalisation. The Côte d'Ivoire also undertook a full liberalisation of its cocoa sector. But, confronted with the negative effects of market volatility on small producers and government revenues in 2010-2011, the government has since reintroduced some price stabilisation policies. At a national level, the reforms in the West African cocoa sector underline that, in the absence of a multilateral process to address economic issues, liberalisation can still advance, making trade more efficient at setting prices and transmitting demand and supply signals through the value chain. But this example also highlights the need for a trade liberalisation agenda that can be adapted to national priorities, as in the case of cocoa's strategic role in countries such as Côte d'Ivoire and Ghana.

At a regional level, the reform of the West African cocoa sector illustrates the shortcomings of a national approach with respect to coordination and collective action. While each national cocoa market in West Africa may be more open and efficient, standards, processes and systems remain uncoordinated, precluding opportunities for cooperation and efficiencies among the producing countries.

Session 4: The prospects for renewables in a lower carbon energy mix

Despite the contribution of carbon dioxide emissions to climate change and the resulting efforts to decarbonise the global energy mix, governments continue to spend more on subsidising fossil fuels than on investments in renewable energy technologies. As a result, carbon dioxide emissions are increasing even in countries

that are leading the way in low-carbon energy technologies, such as Germany. Other impediments to the increased adoption of renewable energy include: high capital costs; competition between food and biofuel uses for agricultural crops; and the storage of electricity generated by renewable technologies, such as solar and wind. In this session, four speakers from government and the private sector discussed potential solutions to these and other challenges to the further adoption of renewable energy technologies.

Until recently, a lack of unit cost competitiveness was a major impediment to the adoption of renewable technologies. But Roland Roesch, a Senior Programme Officer at the International Renewable Energy Agency (IRENA) explained that costs have fallen dramatically in recent years. For example, between 2010 and 2014, the cost of solar photovoltaic systems halved, allowing operators to generate electricity with these systems at a delivered cost of 5-6 cents (USD) per kilowatt hour (kWh), which is competitive with average utility rates. Onshore wind is another cost competitive source of electricity generation, with the most efficient projects delivering electricity at \$0.05/kWh, without financial support. These examples demonstrate that solar and wind technologies have become cost competitive with fossil fuel-based technologies. Due in part to these falling costs, many state utilities have started to introduce renewables into the energy mix at competitive rates. In 2013, 58 per cent of new additions to power generation were from renewable technologies.

Biofuels are another renewable energy source that have become more unit cost competitive and thus are unlikely to lose market share to lower priced oil products. Claudiu Covrig, Senior Agriculture Analyst at Platts, noted that subsidies still exist in the two main ethanol producing countries: the USA supports farmers of its corn-based ethanol and Brazil artificially controls prices for its sugarcane-based ethanol. By contrast, little support exists for European biofuel producers, due to concerns over the use of food crops for biofuels. Nevertheless, according to Mr. Covrig, the USA and Brazil have built sufficient economies of scale in ethanol production that, were government support removed, ethanol would remain cost competitive with fossil fuels.

Lower unit costs aside, there remain significant shortfalls in capital investment in renewable technologies. With respect to electricity, the large-scale integration of renewable generation technologies into existing electrical grids will be expensive. Off-grid and smart grid solutions can

serve to integrate electricity from renewable sources to up to approximately 30 per cent of supply, without significant technical difficulties. Above that level, the technical differences between renewable energy and fossil fuel-based technologies complicate the effective management of electrical grids, which were designed around fossil fuel-based technologies. For example, wind and solar technologies depend on variable weather patterns, which rarely correspond with more regular electricity consumption patterns, requiring storage infrastructure for renewable sources. In addition, climatic conditions dictate specific locations for wind and solar installations, which can be isolated from the grid. As a result of these and other technical incompatibilities, relying on renewable technologies for more than 30 per cent of electricity supply would require significant capital investments in storage and transmission infrastructure.

High replacement costs and long life cycles are another major challenge to replacing fossil fuel-based technologies with renewables. Power plants represent major investments and are built with one generation technology or another, with no possibility of substitution. Once built, coal- or diesel-fired plants will typically operate for their full 30-40-year life cycle before it is feasible to replace them. The current context of low oil prices therefore raises the risk that producers will build new diesel-fired plants, pushing forward by decades the possibility to replace that share of electricity supply with renewable sources.

As a general consequence of lower oil prices, governments in net oil and gas importing countries will have more available funds in their budgets. These countries may want to use the available funds to finance their decarbonisation efforts and reduce their dependence on oil and gas imports.

To illustrate the potential for such a transition, Benson Mwakina, Senior Principal Superintending Engineer in the Kenyan government's Directorate of Renewable Energy, presented Kenya's ambitious plan to shift from hydro power dependence towards thermal generation and other renewables in the country's energy mix. Currently, Kenya generates over 60 per cent of its electricity from renewable sources, a proportion that will grow in coming years. For example, in 2014, the country generated more than 280 MW of thermal energy from geothermal sources, with plans of increase this to 1,646 MW by the end of 2016. The use of geothermal sources has not only helped replace fossil fuel-based sources, but has also reduced the average cost of electricity. For wind energy, 300 MW of wind farms were recently installed, with another 630 MW planned.

To promote the use of renewables in power generation, the Kenyan government introduced attractive grid and off-grid feed-in tariffs for new geothermal, wind, biomass, biogas, solar projects. Furthermore, the government is working with international consultants to provide quality data on potential sites for wind, solar and hydroelectric developments. The main challenge facing the Kenyan government in realising its renewable energy plan is attracting investment capital.



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Mariá Almeida Aranha, a Consultant at the Brazilian Sugarcane Industry Association (UNICA), echoed that a shortage of capital investment is also a constraint in the Brazilian ethanol market. Brazil undertook its production of ethanol in response to the oil shock in the 1970s, to reduce its dependence imported petroleum products, especially gasoline. The government regulated prices so as to favour the production of ethanol, as well as setting production targets for ethanol.

In the 2000s, Brazil added environmental objectives to its ethanol-related policies, seeing it as a lighter carbon alternative to fossil fuels. These policies included preserving certain areas from cultivation with sugarcane. Government policies contributed to ethanol capturing as much as 55 per cent of the transportation fuel market in 2008 (its share has fallen to below 40 per cent since then), reducing its carbon dioxide emissions by 240 million tonnes and controlling deforestation linked to ethanol production.

In addition, Brazil has begun converting the waste from sugarcane processing into electricity on a large scale, a process that now generates approximately three per cent of Brazil's electricity consumption. In total, renewable energy sources now comprise 40 per cent of Brazil's total energy mix.

Nevertheless, price controls on petroleum products have dissuaded new investments in Brazil's ethanol sector, just as incoherent policies have dissuaded investment in renewable energy projects in general.

The impact of low oil prices on capital investment in renewable energy projects was further reinforced

by a project example presented by Frédéric Terrisse, Chef du pôle ENR et Grands projets at GDF-Suez. The project involves creating biogas through the bacterial decomposition of organic compounds. Once the process is complete, the solids are removed and the captured methane is suitable for blending into natural gas networks.

GDF-Suez's biogas process satisfies many of the principles of the energy transition currently underway in Europe. These principles are commonly called the "4 Ds": deregulation, digitisation, displacing consumption into daylight hours and decentralisation of production. GDF-Suez's biogas is particularly attractive as a "decentralised" source of energy: that is, it is generated near where it is consumed. By extension, it is suitable to supply "digitised," smart buildings whose supply and consumption of energy are optimised, i.e. "displaced."

Unfortunately, lower prices for conventional, fossil-fuel based energy sources drag down the prices for renewable solutions such as biogas, along with the projected profitability of renewable energy infrastructure projects, which dissuades new investment.

Session 5: End of the supercycle? Implications for development and terms of trade

Until mid-2014, commodity producers had enjoyed a decade of sustained high prices, a so-called "supercycle." But by January 2015, prices across most commodity groups had dropped by 10-50 per cent from their 10-year averages, and even more dramatically from their historic highs in 2010-2011. The retreat in commodity prices raises the question of whether the supercycle has ended: do current prices represent a return to the classic commodity boom-bust cycle, in which short, sharp booms are followed by long periods of low, stagnant prices? Or are prices still high in historic terms?

To open this session, UNCTAD briefed the Forum on its analysis of the commodities supercycle, beginning with its underlying fundamentals. On the demand side, global economic growth was strong from 2000 to 2013, even despite the financial crisis in 2008. For many commodity groups, China's share of this sustained demand for commodities was considerable. For example, in 2013, China's share of total world imports of major commodities included: 64 per cent of iron ore, 49 per cent of oil seeds, 47 per cent of nickel, 36 per cent of copper and 30 per cent of aluminium. China's demand for commodities was driven by GDP growth of

between 7.5 and 14 per cent per year from 2000 to 2013 and, in particular, growth of its industrial production by between 7 and 15 per cent over the same period. The supercycle was also fuelled by expansionary monetary policy in developed economies, especially after the 2008 crisis. Both of these demand factors - industrial production growth in China and expansionary monetary policy in developed economies - began to wane even before the drop in oil prices in mid-2014.

On the supply side, many investments undertaken early in the supercycle began production only in the last couple of years, often in a rush. For many commodity groups, the chronic shortages that led to higher prices early in the supercycle have given way to oversupply. Furthermore, lower prices and excess supply have prompted many countries to restock their strategic reserves of oil and staple foods.

Looking forward, analysts predict a prolonged slowdown in economic growth in China and in OECD economies, as well as a stronger US dollar. At a more nuanced level, the orientation of Chinese demand may also be shifting from industrial to consumption goods, creating further downward pressure on commodities prices.

Oversupply will remain for the immediate future, as owners of newly completed assets try to recoup some of their investments, thus keeping prices low and leaving demand and supply out of balance.

In the short-term, commodity-dependent developing countries (CDDCs) will likely continue to

feel the negative effects of lower commodity prices on their terms of trade and macroeconomic performance. Into the medium- and long-term, there is uncertainty about how global economic growth will progress without the motor of Chinese GDP growth rates in excess of 10 per cent per year. It is also uncertain how long it will take to rebalance demand and supply, given the current supply overhang.

After UNCTAD's brief on the supercycle, a panel of experts examined it from several perspectives. To begin, Mariangela Parra-Lancourt, Senior Economic Affairs Officer at the UN Department of Economic and Social Affairs, placed the recent supercycle in the historical context of long-term commodity price cycles. She showed that, when plotted over 150 years, commodity prices follow cycles of approximately 30-40 years in length, some of which contain sustained boom periods similar to the 2003-2014 "supercycle".

Plotting real commodity prices over 150 years also illustrates that even the height of the 2003-2014 supercycle was consistent within the standard variance of a steady decline in the terms of trade between commodities and manufactured goods over the last century.

For example, one paper estimated that the terms of trade between commodities and manufactures declined by an annual average of 1.3 per cent from 1862 to 1999, an effect that was only slightly attenuated by the 2003-2014 boom.



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Among non-oil commodity groups, metals prices have conformed the least to the overall terms of trade trend. Throughout most of the 20th century, real metals prices remained lower and steadier than those for other groups. But beginning in the 1980s, and especially during the recent supercycle, real metals prices began to surpass the others. Meanwhile, real tropical commodity prices proved most volatile over the 150-year period.

Perhaps the most telling feature of the long-term trend in real non-oil commodity prices is a feature that Ocampo and Parra termed a "stepwise decline." This is an observation that, although average real commodity prices are plotted as a downward linear curve over time, the trend is actually composed of a series of steps, roughly equivalent to the 30-40-year commodity price cycle. For each of these steps, real commodity prices vary around a relatively stable average price for 30-40 years, before falling dramatically, to then consolidate around a new, lower average price, or "step."

In the dataset presented, the outbreak of the First World War and the oil shock in 1973 appear to have provoked the most severe price busts between steps. These events correspond with major slowdowns in the long-term growth rates in industrialised economies. This phenomenon raises the question of whether the major slowdown in growth following the 2008 crisis will come to be seen as the trigger for another long-term, stepwise fall in average real commodity prices.

This 150-year view of commodities prices underlines the need for CDDCs to incorporate the 30-40-year price cycle into their policy planning, with counter-cyclical policies during the booms helping to mitigate the ill effects of the busts. Moreover, the analysis confirms the continued long-term decline in the terms of trade for raw commodities. Perhaps the most damaging effect of the recent 2003-2014 price boom was that it tempted some CDDCs to believe that the long-run trend in commodity terms of trade had changed, thus distracting them from the imperative of diversifying their economies toward higher value-added activities.

Michael Tost, Head of External Affairs for Europe and North America at Vale International, presented his company's perspective on the 2003-2014 price boom, that is: the supercycle of high prices is over for now. Iron ore is one of Vale's main products and iron ore prices have declined by almost 50 per cent from mid-2014, a drop only slightly less dramatic than the bust in oil prices. The company also produces nickel, copper and coal, but the recent price trends for these commodities have

been mixed and less dramatic than that of iron ore. As a consequence of the end of this price boom, Vale is increasingly focused in its core business. The company plans to complete the current expansion projects of an iron ore mine in Brazil and a coal mine and railway in Mozambique, but plans no new projects for the short term. Therefore, due to the cyclical nature of the industry and the current lower price scenario, expectations on new projects should be moderate.

Mr. Tost also explained that Vale does not yet view resource depletion as a strategic threat, given that its reserves of iron ore represent approximately 200 years of production at current rates. Of more concern to Vale is the growing competition for scarce land and water resources in the vicinity of its mines.

Ernesto Soto Chávez, a Senior Advisor in Peru's Ministry of Energy and Mines, presented a third perspective on the end of the supercycle: that of a developing country increasingly dependent on its extractive industry. Peru continues to develop its considerable mineral reserves and, in 2014, the mining sector generated 57 per cent of the country's export value, as well as 14 per cent of its GDP. Peru has become one of the world's top five producing countries for copper, zinc, tin, lead, platinum and molybdenum.

Peru's strategy to develop its mining sector is based on attracting foreign investment. To accomplish this, the government has implemented a number of key policies, including, for example:

- A clear and stable legal framework to govern the sector, on which investors can rely in their long-term planning.
- Liberalised capital and credit markets.
- A balanced tax regime that distributes the tax burden throughout the value chain and includes progressive rates for corporate income tax, royalties and other mining taxes.
- Free trade of mineral products.

In pursuing its commodity-based development strategy, Peru hopes to emulate the South Korean model of industrial development. From that perspective, Peru invests its mining revenues in infrastructure and human capital, with the expectation that these investments will enable the structural transformation of Peru's economy to progressively more advanced industrial activities. The specific investments include expanding road and energy transmission infrastructure, and upgrading and expanding health and education services. To ensure that local communities share in the benefits from the mining sector, Peru

distributes 10 per cent of royalties each to the local government and the communities in the vicinity of a mine. It also includes provisions in investment agreements that require mine operators to share profits with their workers. In addition to investment-oriented policies, the Peruvian government also seeks to combat informal and illegal mining in the country, which can undermine competition and drain resources from the sector, as well as generate a variety of social ills.

Conclusion

There was general consensus at the 2015 Global Commodities Forum that the 2003-2014 commodity price boom is over. Among the determinant factors, panellists agreed that demand growth from China, which drove the recent boom, has already begun to subside. They noted that China's recent growth pattern involved major investments in energy- and metal-intensive infrastructure projects, but that this growth pattern has already shifted, from investment to private consumption. Coupled with slowing economic growth, this suggests that, going forward, China's demand for consumption goods and soft commodities will rise, as its demand for energy, minerals and metals stagnates or declines.

There was also general consensus that policy makers in commodity-dependent developing countries (CDDCs) could have managed the boom better or, put otherwise, better prepared their economies for the inevitable bust. Indeed, counter-cyclical policies were lacking during the boom, with the general implication that policy makers did not sufficiently incorporate the inherent boom-bust cycle of commodity markets into their plans. From a longer-term perspective, panellists in every session echoed the need to counter the volatility and declining terms of trade inherent in commodity dependence by diversifying into higher value-added activities.

As an example of moving up the value chain, participants at the Forum referred several times to Malaysia's commodity-led development trajectory. With its timber resources, for example, Malaysia progressed from exporting raw logs to making furniture, which yields approximately seven times the value of a raw log. The Malaysian model emphasises a strategy of vertical integration, i.e. moving up the commodity value chain, instead of trying to shift their economic base to manufacturing.

Nevertheless, debates at the Forum highlighted that diversification and structural transformation at the national level is unlikely without changes to the status quo in the multilateral trading system. The

process of economic development implies a strong role for government, empowered by sufficient policy space to devise and implement a national development strategy. These development priorities must be better reflected in the multilateral trading system, with, for example, a greater range and flexibility of trade measures that commodity-dependent developing countries can employ as part of their strategy to move up the value chain for the commodities they produce.

Among the trade measures currently available to developing countries, the Forum debated the contentious use of export restrictions in the trade of raw materials. Panellists outlined several arguments for and against the use of export restrictions. The arguments served less to convince and reach consensus and more to identify, in detail, the competing advantages and disadvantages associated with the use of export restrictions in the trade of raw materials. An ironic outcome of this detailed analysis on both sides of the argument was to reinforce the minimum conditions necessary for trade policies such as export restrictions to have the chance of successfully contributing to a country's economic development. To meet these conditions, governments must: set clear, achievable objectives; engage the private sector in drafting and implementing the policy; provide for the training of necessary technical skills and expertise; and provide for the expansion of necessary infrastructure, such as roads, ports and power plants. The government must also commit to the policy at the highest levels if it is to coordinate across ministries its responses to the inevitable practical and political difficulties in implementation.

Going forward, the debate at the Forum underlined the need for more study of the role of trade policy in successful export-led development trajectories over time. Policy analysis in this area could inform the Doha Development Round of negotiations with the need for greater accommodation of export-led development priorities.

The Forum also examined the continued stasis of multilateral trade negotiations from the perspective of agricultural commodities. Panellists described some partial solutions, such as the Bali Package or the national reforms in West African cocoa-producing countries. But, taken together, these examples highlight the insufficiency of national and regional policies in addressing perennial global trade issues. A reinvigorated multilateral process, including the completion of the Doha Round of negotiations, is a necessary complement to national and regional policies for agricultural trade.

Participants agreed that a shift in approach at the WTO, visible, for example in the Trade Facilitation Agreement, opened an opportunity for developing countries, and in particular LDCs, to shed their traditional passive role in negotiations, in favour of a more active one. By proposing commitments in exchange for their demands, these countries can more effectively insert their national interests into trade agreements. At a collective level, their active involvement would enliven the development considerations in the negotiations - development being the theme of the Doha Round.

Within multilateral trade negotiations, the Forum also highlighted a growing problem with the Green Box category of subsidies. The growth and scale of Green Box use, as well as the types of subsidies being included therein, suggests that the original intent of the system may have been undermined. There appears to be sufficient cause for concern with regards to box shifting, to warrant a revision of the rules, to ensure that the intent of the Green Box is preserved and that box shifting is curtailed or eliminated.

The Forum also reached general consensus on the prospects for renewable energy. Panellists from a variety of backgrounds agreed that unit costs of renewable energy sources has have fallen sufficiently that lower oil prices represent less of a competitive threat than they might have done a few years go. Nevertheless, panellists agreed that the major impediment to expanding adoption of renewable energy sources is a shortfall in capital investment, both for infrastructure and commercial projects.



Closing Session, Joakim Reiter, Deputy Secretary-General of UNCTAD and Edward Harris.

Based on the growing cost competitiveness of renewable technologies, panellists encouraged governments to arrange a policy framework that

attracts private investment and contributes to attractive long-term returns on renewables projects. Meanwhile, governments should support these commercial projects with investments in enabling infrastructure, such as storage and transmission capacity. Furthermore, public-private partnerships are necessary to research bottleneck issues related to an eventual large-scale conversion from fossil fuel to renewable energy sources. These research challenges include, for example, new storage technologies necessary to overcome the asynchrony between when and where wind or solar power are generated and consumed.

For the second consecutive year, the Forum debated transparency in the commodities value chain, this year with a focus on the Swiss trading sector. The session was short on consensus, but confirmed that transparency is an issue with traction. Advocate groups have successfully raised the public visibility and political immediacy of this issue, and have informed it with research-based analysis and proposals. As a result, an increasing number of companies and governments involved in the commodities value chain have acknowledged the need to engage with the transparency agenda. As the Forum heard, individual governments and companies have implemented substantive standards or initiatives. But, as this session at the Forum demonstrated, companies and governments have yet to reach consensus on a collective response, although both are resistant to a Switzerland-only regulatory solution. There is need for more analysis and multistakeholder dialogue on these issues, using platforms such as UNCTAD's Working Group on Commodities Governance.

In conclusion, the 2015 Global Commodities Forum provided rich analysis of the effects of the end of the 2003-2014 commodity price boom on commodity-dependent developing countries. The Forum reached general consensus on recommendations related to development priorities in the ongoing multilateral trade negotiations and on increasing the adoption of renewable energy technologies. By contrast, consensus was elusive on the use of export restrictions in the trade of raw materials, and on collective efforts to improve transparency in the commodities sector. Much work remains to devise solutions to these and other complex problems, in the service of which UNCTAD looks forward to convening future sessions of the Global Commodities Forum.

Programme of the Global Commodities Forum 2015

13 April 2015

10 a.m. – 11 a.m. Opening Ceremony

Welcome remarks by H.E. Ms. Ana Maria Menéndez Pérez, Ambassador of Spain,

President of the Trade and Development Board

Opening statement by Dr. Mukhisa Kituyi, Secretary-General of UNCTAD

Statements from inaugural panel

Mr. René Bautz, Chairman, World Energy Council–Global Gas Centre; CEO, Gaznat

H.E. Mr. Triyono Wibowo, Ambassador, Permanent Mission of Indonesia in Geneva

Mr. Xiaozhun Yi, Deputy Director-General, WTO

11 a.m.–12.30 p.m. Keynote Speeches

Moderator: Mr. Martin Khor, Executive Director, South Centre

Mr. Yilmaz Akyuz, Chief Economist, South Centre: «Managing Boom-Bust Cycles in Commodity Dependent Economies»

Mr. Philippe Chalmin, President, Cyclope: «What is the new normal in commodity markets?»

12.30 p.m.–1 p.m. Moderated questions and answers

3 p.m.–4.30 p.m. Plenary Session 1

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

4.30 p.m.–6 p.m. Plenary Session 2

Policy space for resource-rich developing countries in the trade of raw materials

14 April 2015

10 a.m. – 11.30 a.m. Plenary Session 3

New dynamics in international agricultural commodity trade policies

11.30 a.m.–1 p.m. Plenary Session 4

The prospects for renewables in a lower-carbon energy mix

3 p.m.–5 p.m. Plenary Session 5

End of the supercycle? Implications for development and terms of trade

5 p.m.–5.05 p.m. Update On The Working Group On Commodities Governance

5.05 p.m.–5.30 p.m. Moderators' Panel

Summaries from moderators of key policy outcomes from their sessions

5.30 p.m.–6 p.m. Closing session

Closing statement by Mr. Joakim Reiter, Deputy Secretary-General of UNCTAD

Detailed programme, presentations and statements are available online at unctad.org/gcf2015.