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Fourth session
Geneva, 25–26 January 2012

**Report of the Multi-year Expert Meeting on
Commodities and Development on its fourth
session**

Held at the Palais des Nations, Geneva, on 25 and 26 January 2012

I. Chair's summary

A. Opening statements

1. The fourth session of the Multi-year Expert Meeting on Commodities and Development, mandated by UNCTAD XII in April 2008, was held at the Palais des Nations in Geneva on 25–26 January 2012.

2. In his opening statement, the Deputy Secretary-General of UNCTAD, Mr. Petko Draganov, highlighted the main objectives of the multi-year expert meeting, namely to help commodity-dependent developing countries to realize development gains from booms in commodity prices, to overcome trade and development challenges related to commodity dependence, to increase benefits from the globalization of markets, and to meet internationally agreed development goals including the Millennium Development Goals. Mr. Draganov stressed that the increases in commodity prices since 2002 had drawn the attention of governments, private actors and consumer countries to the commodities sector. However, in spite of increased revenues from commodity exports, many commodity-dependent developing countries had not been able to implement structural changes, or the economic policies necessary to diversify their economies, redistribute the new gains and deliver an improved quality of life to the poorest populations. Concern was expressed about the effects of highly volatile prices for agricultural commodities, and about the possibility that short supply could worsen the food security situation in poor food-importing countries, which remained vulnerable to a future crisis.

3. Mr. Draganov noted that since 2008 the international community had responded to the increase in volatility in commodities markets. He stressed the importance of converting those efforts into tangible initiatives and of encouraging governments to carry out the reforms required. He highlighted UNCTAD's work on encouraging regulatory reforms to limit the flows of speculative capital into commodity markets. He also drew the attention of participants to some of the main issues discussed recently at UNCTAD's second Global Commodities Forum, especially the theme of food reserves, which was gaining momentum and was appearing in the policy agenda of governments. Additionally, Mr. Draganov expressed the need for UNCTAD XIII to provide a strong mandate to continue the secretariat's work on commodity analysis.

B. Developments and challenges in commodity markets: current situation and outlook

(Agenda item 3)

4. The Multi-year Expert Meeting on Commodities and Development analysed recent developments in commodities markets and the challenges facing commodity-dependent developing countries.

5. Experts emphasized that the commodity price trends during 2011 were due to fundamental issues of supply and demand – in particular, the strong increase in demand from Asian countries, as well as the financial intervention in markets – which were affecting the nature and duration of price cycles.

6. Regarding market fundamentals, experts agreed that prices were expected to stay at historically high levels, as there was growing demand from emerging economies (particularly China) coupled with a low supply response, since higher prices had not led to increased investment. From the supply side, the limitations stemmed from a lack of

infrastructure, insufficient access to technology and financing for producers, and the transmission of market volatilities. In order to solve production constraints, policy interventions would be necessary – for example, to bring about an enabling environment for investments that would include improved governance and macroeconomic stability.

7. Experts expressed concern about excessive volatility in commodity prices. They noted that price dynamics were affected by financial liquidity cycles, and by the way in which financial investors managed their portfolios. Futures markets did affect spot prices, through market expectations and sentiments, which at times conflicted with market fundamentals. As a consequence, prices chased short-term returns and did not give signals conducive to productive investments in the commodities sector, affecting security of supply for the future.

C. Oil and gas, minerals and metals, and agricultural commodities (Agenda item 3)

8. In this section of the meeting, discussion focused on recent trends in the commodities markets and analysis of the main issues that countries must address in order to retain more value from the exploitation of their natural resources.

9. With regard to recent trends in the commodities markets, experts stated that demand in 2011 had been driven by developing countries and that China had played a major role. Demand was expected to continue growing. Possible shortages on the supply side could cause further rises in commodity prices. Participants stressed the need to devote more attention to the food crisis, and to improve the international response to that issue.

10. Experts' analysis of the energy and minerals sectors indicated that fossil fuels remained the principal sources of energy. A rise in the proportion of gas used in power generation had led to a reduction in the proportion of oil used for that purpose. Among the main challenges facing the oil sector, the panellists mentioned (a) tighter fundamentals; (b) the emerging market demand and concerns over the pace at which new supply could be added; (c) geopolitical risks; and (d) market expectations for economic growth. In the minerals sector, the challenges were driven by (a) a high level of dependence on Chinese demand for minerals; (b) tighter fundamentals; (c) the need to address environmental impacts; and (d) the need for local communities to derive greater benefit from mining activities.

11. Experts stated that higher commodity prices needed to be reflected in better returns for producers and farmers, allowing them to improve their living conditions and increase their levels of production and investment. In the coffee industry, for example, producing countries still faced a number of challenges, such as price fluctuations, poor infrastructure, increasing costs (mainly resulting from oil price increases), a lack of access to financing, a lack of research and training, and the poor organizational capacity of small-scale producers. Redistributed commodity revenues could help to address these challenges.

12. An important issue with regard to price fluctuations was the role that the financialization of commodities was playing in amplifying price volatilities, as this was affecting producers, importing and exporting countries, and investment decisions in the industry. In particular, the impact of speculation on price volatility in commodity markets was discussed. Some experts stated that, even if some empirical studies sometimes suggested no causal linkages between speculative positions and spot prices, speculation was very often associated with volatility in commodity prices. Experts agreed that good regulations and better transparency were required, as both were essential to removing distortions in financial markets.

13. Experts then addressed the question of how commodity-dependent developing countries could obtain the most value from their commodities. It was noted that, in some cases, impressive growth rates had not brought proportional results in poverty reduction or income redistribution. This was partly due to the fact that the fracturing of the value chain did not allow for significant local retention of value added. To address this problem, experts insisted on the role of linkages to draw the maximum benefit from resource rents, and on the need to design appropriate industrialization policies. On the one hand, industrial linkages (forward, backward and horizontal) must be promoted in order to ensure that key skills are available to the commodity industries, which can then also be transferred to other sectors of the economy. On the other hand, government's role in designing a clear industrial policy was essential. Policies must be consistent within the development strategy, to allow for the interaction of all stakeholders along the value chain (i.e. both private and public actors). In addition, policies must include clear incentives and sanctions, focus on real capabilities, and remain dynamic over time.

D. A review of UNCTAD activities to assist commodity-dependent developing countries, including small commodity producers, in their efforts to address commodity challenges and promote development gains from commodity production and trade

(Agenda item 4)

14. The second day of the multi-year expert meeting was devoted to a review of UNCTAD's activities in assisting commodity-dependent developing countries. UNCTAD had designed its activities in response to specific issues affecting commodity-dependent developing countries. These ranged from issues of global concern, such as conformity with international standards, to issues affecting a single country or a single commodity sector. It was stressed that, whatever their scope, UNCTAD activities fell within three thematic clusters, namely (a) research and analysis; (b) technical assistance; and (c) intergovernmental cooperation and consensus-building.

15. The meeting reviewed a Guarantee Fund initiative for the cotton sector in Côte d'Ivoire designed to address risk-management problems experienced by producers in that sector. These included:

- (a) The absence of a road map to implement existing regulatory and legislative frameworks at national, regional and continental levels; and
- (b) The lack of a harmonized price-setting system, which aggravated price risks for producers.

16. The main outcomes of the project were that (a) harvest pre-financing was necessary in order to ensure access by farmers to income-smoothing via insurance schemes; (b) there was a need to have transparent prices, possibly using modern information and communications technologies; and (c) one condition for the success of any pre-financing system would be for a minimum level of trust to be built up among stakeholders, in order to avoid moral hazard whereby farmers may fail to deliver on pre-financed contracts, as this would have negative consequences on the sector's creditworthiness with banks.

17. Experts generally agreed that the way forward was to study a financing option that would be sustainable. One option proposed was the use of a collateral management company (e.g. based on the cooperative model in the United States and Europe) which would guarantee delivery against storage of harvest in warehouses.

18. Experts also reviewed the activities that had been carried out under the Iron Ore Trust Fund. This project included three annual publications on iron ore markets and statistics, produced in cooperation with the Raw Materials Group.
19. The work carried out with the Intergovernmental Forum on Mining, Minerals, Metals and Sustainable Development (IGF) was widely acknowledged. The IGF aims at enhancing and promoting the contribution of the mining sector to sustainable development.
20. Experts recognized that the recent projects developed by UNCTAD over the last three years were evidence of its effectiveness in delivering solutions for data management, as in the case of the Natural Resources Information Exchange (NRIE). It was noted that this project could promote major synergies between all stakeholders and pave the way for increased efficiency in the natural resources sector, in particular by (a) reducing costs and risks for potential investors; (b) highlighting the social, economic and environmental impacts in real time; (c) boosting regional integration; (d) improving the preservation of scientific heritage; (e) facilitating access to information on the entire mineral value chain; and (f) pointing out potential niche activities to local entrepreneurs.
21. With regard to work on local content policies, UNCTAD's annual Africa Oil, Gas and Minerals Trade and Finance Conference, which began in 1996, was highly commended by the meeting participants for bringing together the private sector and governments and highlighting the need to develop production linkages and enhance local content from Africa's energy sector.
22. Concerning the review of UNCTAD's activities in support of commodity-dependent developing countries, experts noted that, considering the interconnectedness and complications of global commodities markets, it would be useful to adopt a multi-stakeholder approach that would take into account the needs of all the players, large and small, and that would be capable of delivering long-term and sustainable solutions. In that regard, participants urged further action on the NRIE programme.
23. For its part, the International Telecommunication Union (ITU) expressed its satisfaction at having signed a Memorandum of Understanding with UNCTAD in October 2010 to work together to set up the NRIE. Given its mandate and considerable expertise in the areas of information access and knowledge management, ITU had been providing guidance on technology strategies for the setting-up of the NRIE.
24. Experts encouraged member States to mobilize resources to assist UNCTAD in fulfilling its mandate with regard to development and management of the natural resource sector. They emphasized the importance of coordinating efforts to engage the government of the country concerned, donor institutions, and the local and international private sector in the implementation of the NRIE. They also stressed the need for building the capacities of commodity-dependent countries in order for them to better manage their natural resources.
25. Experts noted that it was important for UNCTAD to continue providing a platform for high-level policy dialogue on issues of natural resource development and management, such as the Multi-year Expert Meeting on Commodities and Development, the Global Commodities Forum, the Africa Oil, Gas and Minerals Trade and Finance Conference and the IGF.
26. Experts proposed that UNCTAD's commodities-related mandate for the next four years include, inter alia, initiatives to increase the number and capacity of farmers' organizations, as a basis for increasing the number and the accessibility of insurance and risk-management products and services available to farmers and small-scale commodity producers. It was emphasized that in order for beneficial lessons to continue to be drawn from the various donor-supported UNCTAD initiatives in the areas of commodity finance, standards, and information and commodity exchange systems, continued donor support was

essential. UNCTAD was encouraged to continue coordinating its efforts with those of other organizations, particularly within the One UN framework.

27. In sum, the meeting stressed the need for actions that would ensure long-term sustainability for the production, distribution and use of commodities, and the need to seek new ways of overcoming market volatility. It was emphasized that timely and accurate collection and management of commodity data was key to achieving these objectives.

II. Organizational matters

A. Election of officers

(Agenda item 1)

28. At its opening plenary, on 25 January 2012, the multi-year expert meeting elected Mr. Adani Illo, Ambassador, Permanent Representative (Niger) as its Chair, and Mr. Hugo Rodríguez Nicolat, Counsellor (Mexico) as its Vice-Chair-cum-Rapporteur.

B. Adoption of the agenda and organization of work

(Agenda item 2)

29. Also at its opening plenary, the multi-year expert meeting adopted the provisional agenda for the session (contained in document TD/B/C.I/MEM.2/17). The agenda was thus as follows:

1. Election of officers
2. Adoption of the agenda and organization of work
3. Developments and challenges in commodity markets: current situation and outlook
4. A review of UNCTAD activities to assist commodity-dependent developing countries, including small commodity producers, in their efforts to address commodity challenges and promote development gains from commodity production and trade
5. Adoption of the report of the meeting

C. Outcome of the session

30. At its closing plenary, on 26 January 2012, the multi-year expert meeting agreed that the Chair should summarize the discussions (see chapter I).

D. Adoption of the report of the meeting

(Agenda item 5)

31. Also at its closing plenary, the multi-year expert meeting authorized the Vice-Chair-cum-Rapporteur, under the authority of the Chair, to finalize the report after the conclusion of the meeting.

Annex

Attendance¹

1. Representatives of the following States members of UNCTAD attended the expert meeting:

Angola	Mexico
Austria	Namibia
Azerbaijan	Netherlands
Belarus	Niger
Belgium	Oman
Benin	Peru
Botswana	Philippines
Côte d'Ivoire	Poland
Dominican Republic	Qatar
Ecuador	Saudi Arabia
France	Spain
Guinea	Sri Lanka
Hungary	Sudan
Italy	Togo
Japan	Turkey
Jordan	Uganda
Kazakhstan	United Arab Emirates
Libya	United States of America
Malaysia	Zambia

2. The following intergovernmental organizations were represented at the session:

African Union
European Union
Organization of Islamic Cooperation
West African Economic and Monetary Union

3. The following United Nations specialized agency was represented at the session:

Food and Agriculture Organization of the United Nations

4. The following non-governmental organization was represented at the session:

General category

Consumer Unity and Trust Society (CUTS International)

5. The following panellists were invited to the expert meeting:

Wednesday, 25 January 2012

Mr. David **Hallam**, Director, Trade and Markets Division, Food and Agriculture Organization of the United Nations, Rome

Ms. Machiko **Nissanke**, Professor of Economics, Faculty of Law and Social Sciences, School of Oriental and African Studies, University of London

¹ For the list of participants, see TD/B/C.I/MEM.2/INF.4.

Mr. Etsuo **Kitahara**, Executive Director, International Grains Council, London
Mr. Christopher **Stevens**, Consultant, Overseas Development Institute, London
Mr. Denis **Seudieu**, Chief Economist, International Coffee Organization
Mr. Bahattin **Buyuksahin**, International Energy Agency, France
Mr. Raphael **Kaplinsky**, Professor of International Development, The Open
University, United Kingdom

Thursday, 26 January 2012

Mr. Jean-François **Casanova**, Chief Executive Officer, Strategic Risk Management,
France
Mr. Robert **Piller**, Auprès Consulting, Geneva
Mr. Fadilou **Moutairou**, Counsellor, Permanent Mission of Benin, Geneva
Mr. Preetam **Maloor**, Corporate Strategy Division, International Telecommunication
Union, Geneva
Mr. Jonathan **Green**, Information Manager, Addax Petroleum, Geneva
