THE PRESIDENT
OF THE
GENERAL ASSEMBLY

9 June 2016

Excellency,

It is my pleasure to enclose herewith the informal summary of the High-Level Dialogue on Commodities, which I organized on 16 May 2016. The summary, which I am pleased to share with the membership, contains conclusions and observations from an event dedicated to discuss scenarios and identify best practices and policy recommendations aimed at cushioning against the adverse impact of excessive commodity price volatility on global sustainable efforts.

I take this opportunity to again express my sincere gratitude to all who participated in the High-Level Dialogue.

Please accept, Excellency, the assurances of my highest consideration.

Mogens Lykketoft

To all Permanent Representatives and
Permanent Observers to the United Nations
New York

"Trends and Perspectives in Commodities Markets and their Implications in Commodity-Dependent Developing Countries – CDDCs"
New York, 16 May 2016

Informal Summary[1]

Pursuant to General Assembly Resolution 70/191, the President of the General Assembly (PGA), H.E. Mogens Lykketoft, convened an informal interactive dialogue at United Nations Headquarters on 16 May, with the purpose of reviewing world commodity trends and prospects, particularly in commodity-dependent countries. The event was divided into morning and evening segments.

Morning

At the opening of the informal dialogue, the PGA Mogens Lykketoft stressed that revenues from commodity production and exports remain critical for developing countries, especially as developing countries need to mobilise resources to achieve the Sustainable Development Goals (SDGs). Commodity prices have been decreasing, putting pressure on government budgets in emerging economies and Least Developed Countries (LDCs). Countries in special situations, such as LDCs, Landlocked Developing Countries (LLDCs) and Small Island Developing States (SIDS) face particular challenges as the lower commodity prices threatens sustainable growth and their respective debt position.

The PGA reminded that policy responses to these trends, as proposed in the Addis Ababa Action Agenda (AAAA), include: (1) encouraging investment in value-addition and processing of natural resources and diversification of products; (2) addressing excessive tax incentives related to investments in extractive industries; (3) reinforcing corporate transparency and accountability; (4) promoting capacity development, including sharing best practices and peer-learning; as well as (5) capacity building for contract negotiations for fair and transparent concessional revenue and royalty agreements and monitoring implementation of contracts; and (6) promoting international trade as an engine for inclusive growth and poverty reductions.

Segment 1 of the informal dialogue, entitled "Recent developments in commodities markets and the debt impact and long term structural constraints to diversify commodity economies", was moderated by the Permanent Representative of Indonesia, H.E. Amb. Dian Triansyah Djani. Two keynote speakers addressed the audience: Mr. Samuel K. Gayi, Director of the Special Unit on Commodities at the United Nations Conference on Trade and Development (UNCTAD) and Mr. Prakash Loungani, Chief of Development Macroeconomics in the Research Department at the International Monetary Fund (IMF).

Mr. Gayi's talk addressed global commodities market trends for agricultural, minerals, ores and metals (MOM), energy and renewable energy markets. Commodity dependence can be understood in the context of a country's ratio of primary commodity exports to total merchandise exports, noting that primary commodity exports include agricultural products, MOMs and oil. When a country is commodity dependent, the ratio of primary commodity exports to total merchandise exports exceeds 60%. Developing countries exceeding this ratio are viewed as CDDCs. Many CDDCs are LDCs, and the majority of CDDCs are located in Africa, Latin America and the Caribbean, and Asia.

[1] The summary does not necessarily express the views of the President of the General Assembly. It is a compilation of messages by participants in the Event, summarized in an informal format. It does not attempt to be exhaustive, nor does it reflect necessarily the views of all member States or other participants.

Prices in agriculture, oil and minerals have been declining since 2011. Key driving factors of the downward pressure on these commodities prices are attributed to oversupply, lacklustre global economic conditions, and a strong US dollar relative to other currencies (as there is an inverse relationship between commodity prices and the strength of US dollar). The "financialisation" of commodity markets has also increased the volatility of prices. Different primary commodity groups see variations in the driving factors for decreasing market prices. MOM markets, for example, were particularly affected by fragile economic recovery in developed economies such as Japan and the European Union, and slowing growth in China and other emerging economies. The outcome of these driving factors and falling commodity prices present a challenging environment for CDDCs. This is particularly damaging for countries where governments seem to have poorly anticipated the reversal of upward price trends after a decade-long boom. For CDDCs, the negative effects of commodity prices result in worsening fiscal positions, increasing debt vulnerability and sovereign risk, deteriorating current account balances and depletion of foreign reserves. As a partial result from commodity price decreases and decline in revenues, for instance, government budget deficits in Africa from 2010 to 2015 doubled on average to 6.9%.

Mr. Gayi also highlighted renewable energy (REN) markets, which accounted for almost 50% of the world's new power generation capacity in 2014. REN is now the second largest source of electricity after coal, although its share in the global energy mix remained small at less than 10%. In 2015, China surged past Germany to become the biggest producer of solar energy globally. It was noted that: (i) policy making capacity is needed to support REN, which remains critical for attaining sustainable and clean growth; (ii) considering the challenging environment for CDDCs stemming from the global commodity rout, these countries should improve their resource allocation, and be more cautious on the outlook of commodities prices when preparing their budgets; and (iii) international cooperation is critical in reducing the opacity associated with transit trade as it creates serious development challenges for CDDCs.

Mr. Loungani's presentation reviewed the impact of commodity markets on countries' growth and implications for the achievement of the Sustainable Development Goals (SDGs). The IMF assessed how commodity price decline have affected the growth of different country groups, including low-income developing countries, oil exporters, non-oil commodity exporters and diversified exporters. This assessment shows that while CDDCs have seen their growth performance drastically reduced as a result of falling commodities prices, the growth prospects of countries who are diversified exporters have not changed much. Additionally, when countries move towards diversified sources of growth, they achieve more equal societies. Equality is the basis for sustainability, and thus is at the core of the SDGs and key to their implementation.

The IMF predicts that countries with diversified economies will continue to see their GDP growth increase by 6%, while CDDCs will see growth prospects declining from 6% to 3%, thus making a strong case for economic diversification. Diversification, however, takes time and can be considered a "medium-term" economic goal. A common reaction for governments when fiscal situations deteriorate is to cut public spending. This, however, reduces public investment, which has a counterproductive effect on economic growth prospects. In the near-term, governments need to be careful about cutting government investments and mindful of the need to increase revenue mobilisation, such as through increasing the consumption tax rate. This would help stabilize the public debt to GDP ratio. To conclude, Mr. Loungani expressed that though countries will have to adjust, adjustment should balance modest public investment cuts with efforts for revenue mobilisation.

Questions and comments were received from the Group of 77 and China, as well as individually by a number of developing countries.

On behalf of the G77 and China, Thailand highlighted the importance of a dialogue on commodities for developing countries, especially LDCs, LLDCs, SIDS and African countries. Thailand emphasized that decreasing trends in commodity prices has profound effects on the net exports, trade and deficits of developing countries. These deficits could reignite a new foreign debt crisis, one that would hinder efforts of developing countries to pursue economic growth and achieve the SDGs. The G77 considered it necessary to integrate commodity policies into macroeconomic and development strategies at national, regional and international levels, calling for a holistic policy approach.

A developing country highlighted that its GDP growth has fallen from 17% in 2011 to 3% in 2016, citing its commodity dependency, where 80% of the exports come from the mining sector. As an LLDC, it faces additional challenges in supporting infrastructure such as energy and railways. In response, UNCTAD's Mr. Gayi highlighted the importance of regional as well as national infrastructure for LLDCs, and emphasized the need to consider diversification of markets through enhanced regional trade, in addition to the diversification of products.

Developing countries highlighted the need to effectively implement the AAAA and the 2030 Agenda in order to strengthen international cooperation, improve tax systems, mobilise resources and create international patterns to stabilise commodity prices. It was particularly appreciated the emphasis by Mr. Loungani regarding the counterproductive results public spending cuts have on economic growth.

Answering questions on the role of food commodities speculation, Mr. Gayi pointed out that speculation exacerbates price volatility and transparent trading is needed. Developing countries expressed that price volatility, particularly in food commodities, needs an organised response from the international community.

A developing country expressed the unique profiles of SIDS, which face additional challenges because of remoteness from markets and geographical isolation, stressing the need to facilitate an equitable international trading climate. In response, Mr. Loungani considered that SIDS need to respond to diversification efforts through developing the financial and services sectors.

Another country expressed concern regarding the growth of corporate debt, especially in Latin American countries and the Caribbean, as indebted countries cannot meet their local development plans. The need for regional development banks to play a role in times of downward sloping commodity prices was also emphasized. Panellists agreed that regional development banks should support both the private sector and infrastructure development.

Asked if something could be done at global and systemic levels to mitigate the ups and downs in commodity markets, Mr. Loungani mentioned IMF literature on the effects of carbon taxes. Mr. Gayi referred to an UNCTAD report on eco-friendly and pro-poor agricultural cultivation practices for smallholder farmers.

Afternoon

The afternoon session of the Commodities Forum, entitled "Segment 2: Integrating commodity policies into wider development and poverty eradication strategies at all levels", discussed three main points: 1) Implications on CDDCs export revenues, food security, job creation and macroeconomic stability, 2) Best practices, and 3) Policy recommendations. Chantal Line Carpentier, Chief of

UNCTAD New York, moderated the panel. Two panellists addressed the audience: Professor Ellen Houston, Adjunct Professor in the Department of International Studies at Marymount Manhattan College; and Vinicius Pinheiro, ILO Special Representative to the United Nations in New York.

Professor Houston discussed integrated commodity policies to address food security and assessed the efficacy of commodity exchange policies in the context of agricultural development policies in CDDCs. Mrs. Houston first highlighted the positive trends that have occurred since the initiation of the Millennium Development Goals (MDGs). For example, in developing countries, hunger was reduced from 23.3% in 1990 to 12.9% in 2015, and 72 developing countries achieved MDG 1 on hunger reduction. This achievement was primarily due to the success of national governments in sustaining food security policies and adequate food for people in rural areas. This progress has been uneven, however, as witnessed by those groups most vulnerable to food insecurity in Southern Asia and Sub-Saharan Africa. Mrs. Houston also pointed to the importance of factoring gender into discussions and policy-making decisions as regard food insecurity and commodity markets.

Though falling food prices may be initially positive for food consumers in developing countries, similar decreases in the prices of metal and oil markets affect commodity exporter countries' capacity to properly manage balanced budgets and fund agricultural development policies. This is seen through the exchange rate mechanism in particular: as exports fall off, the bill on importing food increases. As export revenue declines and import costs rise, developing countries must deplete reserves, go into debt, or reduce spending. These reactions impact internal development spending, and development outcomes. Implications and ramifications of such market movements tend to vary significantly for each country and its food security.

Agricultural development models attempt to create mixed economies, and integrate small-scale farmers into larger, more formalised markets. Mrs. Houston argued that the key to food security lies in agricultural development policies that expand the access of small-scale farmers to supply chains and market access in general. This does not imply that small-scale farmer products are set up to be necessarily exported, but rather that rural products profit enormously from being sold nationally or regionally in urban markets. Urbanization and domestic/regional market growth are thus enabling forces of economies of scale and income generation for smallholder farming. This inclusion is particularly important for women. It was also highlighted that when markets formalise, women get left out, partly because female traders bring female-farmed food to market, and female traders tend to fall out of market relationships when they are formalised.

Mrs. Houston discussed commodity exchanges, a market-based program set up to get main commodities onto an exchange for development export, which benefits primarily large-scale exports such as soy, oil and coffee. To function well, commodity exchanges require a financial platform with secondary derivative markets often absent in developing countries. These economies are also often made up of informal businesses. In developing countries, the focus therefore lies in formalising informal markets into lasting institutions, noting that this is no easy feat.

Mrs. Houston underscored the importance of agriculture ministries take the political leadership, rather than finance or interior ministries, in supporting agricultural-led development, as agriculture ministries have the knowledge base to implement more appropriate policy. As case studies, India and China have succeeded in reducing food insecurity by 50%.

Through its centralised government, China focused on strengthening existing institutions, namely local food cooperatives, so as to educate and build the capacity of small farmers and make formalised markets work in local contexts. China also addressed agricultural productivity and only then engaged in liberalisation, moving from rural to urban centres and then to exports to global markets, making food security sustainable.

India took a different approach. India has historically engaged in agricultural development policy, through green revolution initiatives and food stockpiles as reserves against poor weather conditions or external shocks. India demonstrates substantial progress, but has not advanced as far as China facing difficulties moving to higher value exportable crops. In part this is due to the lack of trust that arises when markets move from informal to formal structures. In that context, Professor Houston highlighted the importance of institutions to provide financing and support to farmers during transitions.

Malaysia and Ethiopia were also mentioned as examples. As Malaysia used a strong government-based approach to develop palm oil and rubber markets, there was a clear provision of public services from the outset that enabled small scale farmers into large scale trade routes. There was also an expansion of the types of activities in rural sectors, seen in non-farm agricultural products such as vegetable oil and cleaning soaps. This strategy of non-farm agricultural activities provided jobs while allowing rural populations to stay in rural areas, further locally enabling income generation, job creation and food security.

Referring to Ethiopia's sesame exchange, Professor Houston described what occurs to social capital and trust-based relationships when markets move from informal to more formal frameworks. When farmer-buyer relationships evolve into formalised structures, the market tends to become an overriding guiding reference for buyers and sellers, without paying attention to the social externalities of previous informal relationships. This can have particularly harmful effects to female farmers, as mentioned when female-farmed products are no longer taken to market. One could conclude that commodity exchanges require sophisticated institutions and accompanying flanking policies, given the lack of well-developed secondary markets in developing countries.

Following Professor Houston, Vinicius Pinero spoke to Member States on social protection and job growth. Mr. Pinheiro highlighted that inclusive and sustained economic growth cannot be achieved without job creation. Sustainability requires the promotion of not just any type of growth, but inclusive growth, and not just any form of new jobs, but decent job creation. Given the current population growth, the world economy will need to create 600 million new jobs by 2020. Recent economic growth, however, has been jobless in absolute numbers, despite sizeable economic growth in some developing countries. This phenomenon particularly affects youth.

Mr. Pinheiro argued that when commodity markets demonstrate volatility, the gains of consolidating commodity prices are concentrated in a small part of the economy, while the larger economic and population base suffer with prices fall. The challenge, therefore, is to create mechanisms to distribute gains and mitigate the suffering from losses. Mr. Pinheiro argued that when CDDCs have weak national markets and they diversify, it can create a positive relationship between commodity export and social protection. This can be achieved through taxation of national resources exploitation, and allocation of these resources for social protection.

Citing Norway, Bolivia, Peru and Mongolia, Mr. Pinheiro explained that by taxing natural resources revenues, countries are capable of setting up effective mechanisms to finance their social protection. Governments can mobilise resources directly by retaining revenues from state-owned exploitation or by taxing resources from private sector exploitation/royalties.

As an example, Bolivia funds social protection by taxing its hydrocarbon market, creating a "dignity rent," an old age pension for Bolivians over the age of 58, and a cash transfer for children. This occurs even as Bolivia does not have one of the highest GDP per capita in the Americas. Peru, on its part, taps into mining to invest in health. Peruvian government is aware that the amount of proceeds from the mining sector can change every year, and therefore crafts policies that prevent volatilities from affecting social protection funds. Similarly, Mongolia has policies to create child benefits from copper industry earnings, though it is pressured to lower these benefits and is attempting to find additional funding for child benefits.

Citing stabilisation (sovereign) funds, which accumulate funds to bail out countries during periods of economic downturn, Mr. Pinheiro cited Chile as a key example with its Copper Stabilisation Fund. When private entities exert control over natural resource extraction, countries such as Zambia have increased taxes on extraction, allowing for the expansion of fiscal space.

In the ensuing discussion, a developing country asked what policies should be put in place to stimulate demand for commodities, and bolster their prices. In response, Mr. Gayi stressed the need to translate diversification of commodities to the development of new markets, particularly at the regional level through regional trade agreements. Greater regional markets generate more and better paid jobs and increased demand, which means policies must look at both supply and demand sides. Trade becomes a powerful engine of inclusive and sustainable growth when countries build and strengthen their regional networks.

Echoing Professor Houston's previous statement, a delegation reiterated that developing countries rarely have developed financial markets with advanced secondary markets, which hinders their capacity to benefit from commodity exchanges. Mr. Pinheiro recognised that developing such markets domestically and regionally remains a challenge and mentioned that royalty taxes are still effective as a policy option. Increasing mineral royalty taxes leads though to not a few number of challenges. Empowering developing countries to negotiate better development contracts with corporations and to break away from past contracts that do not support small-scale farmers and social protection enables policies far more aligned with sustainability in its three dimensions and the achievement of the SDGs.

Alongside commodities exploration, countries should expand other sectors such as tourism and enhanced industrialisation, which requires adequate capacity development of the State and the private sector, especially in governing industries such as mining and agriculture. It was also stressed the importance of increasing the participation of local communities and empowering local businesses and entrepreneurs, as a further and effective support to economic diversification. Finally, it was mentioned the importance of environmental protection and rehabilitation for countries with natural resource extraction-based economies.

Mr. Gayi of UNCTAD responded to questions related to price instability by providing examples from UNCTAD's work with developing countries. It was stressed furthermore that market mechanisms alone will not solve commodity price instability, and that an institutional response may be needed. Mr. Gayi welcomed the idea to continue the discussion at the 14th Session of UNCTAD to be held in Nairobi, Kenya from 17-22 July 2016 (starting with the Global Commodities Forum, 15-16 July).

Representatives of civil society highlighted the need to focus on biodiversity and environmental impacts of commodity markets and natural resource extraction.

Finally, developing countries requested that the result of this informal discussion on commodities be integrated into the 14th Session of UNCTAD, as well as encouraged the Organization to further support Member States to achieve the Sustainable Development Goals. UNCTAD representatives duly noted in this regard that the this year's theme of the Conference is "Translating the 2030 Agenda for Sustainable Development into Action".

The moderator summarised the day's discussion, highlighting that: (1) commodity dependence affects mostly and most developing countries; (2) as prices will continue to fluctuate, countries must save during commodity boom and spend during down side, as well as diversify into high value services, while also expanding demand through regional trade agreements; (3) hedging is good for price risk management, but it requires expertise and institutions to be present and appropriately used; (4) economists disagree on the extent of speculation in commodities markets and impact on price movement, but UNCTAD's extensive research throughout the years finds that it does exacerbate price volatility. Excessive price volatility requires globally coordinated actions for the benefit of developing countries, which exhibit structural constraints. Solutions proposed included a call for more price transparency along the lines of the Agricultural Markets Information System (AMIS) and the Joint Organizations Data Initiative for oil and gas data transparency (JODI), as well as in transit trade; (5) regional food reserves, increased regional trade, and regional infrastructure banks to support infrastructure development play an important role in increasing food security; (6) new agricultural development strategies that diversify into non-farm activities, and better integrate small, medium, and large farmers into rural-urban, regional and global supply chains are also needed; and (7) commodity exchanges require active and well-thought-of policies combined with access to extension services, finance, farm support, and attention to the gender impact.

Countries were strongly encouraged during the event: (1) to integrate commodity policies into overall national development policies, particularly through UNCTAD's "commodities policies review" (specifically designed to help countries attain this integration); (2) to aim at long term flows of capital, as unfettered flow of short term capital can be economically destabilizing. Countries can also rely on the IMF Tool Kit to assess their diversification status and on the OECD Policy Dialogue on Natural Resources-Based Development, to which UNCTAD contributes to through two of its four work streams, namely: promoting shared value creation; and detecting corruption risks in extractives, through the development of a pricing module that helps developing countries set correct prices for extractive exports.