



# GLOBAL COMMODITY FORUM

## Concept note

### 1. Background:

World commodity markets are undergoing profound changes. During the current decade virtually all of them were experiencing quite long boom phase of the price cycle with some of them, and especially crude oil, seeing one of the longest and steepest price booms ever. This situation represented the commodity markets' response to the sustained high growth of the world economy during the last five years and resulting increase in demand for commodities, which has not been matched by a corresponding expansion in supply. Major and abrupt terms-of-trade swings resulting from the commodity price boom had a destabilizing effect on the world economy and contributed to the following steep economic downturn. The end of the boom coincided with the beginning of global financial and economic crisis and the abrupt credit freeze, which strongly contributed to the dramatic falls in commodity prices, commodity production and demand. As a result many investment projects have been cancelled and commodity companies are cutting costs and improving efficiency and use of technology to preserve working capital. While prices have fallen across the board, they started to recover in 2009 and are still above pre-boom levels. Uncertainties surround future prices and their volatility as well as the prospects for investments to increase supply side capacities. Under such uncertain conditions, producers reluctant to take the risk of committing capital to new ventures, even if they were able to find the necessary finance.

In the present climate of uncertainty about the path of the development of the world economy and the future of commodity markets, governments, companies that produce, process or trade commodities as well as employees in commodity sectors are all understandably concerned about their future economic prospects. For developing and transition economies that depend on commodity exports for necessary investment in social and economic development, the concerns are particularly serious. It is becoming increasingly clear that due to such volatile economic environment many developing countries, including both commodity exporters and commodity importers, will probably not be able to achieve the Millennium Development Goals by 2015.

### 2. Concept:

It is against this background and pursuant to UNCTAD XII decisions the UNCTAD Secretariat proposes to launch a Global Commodity Forum (GCF) - an initiative which will permit to discuss comprehensively the key issues of commodity economy, including commodity trade, finance and logistics, and their role in international trade and development.

The unprecedented nature of the present situation in the global commodity economy means that no institution or group of interests holds all the keys to a solution. While some lessons can be drawn from previous commodity price boom and bust cycles and their repercussions on the world economy, the present problems are to a large extent unique. It is therefore important to involve as many interested parties as possible in the process of identifying trends and evolving problems and define the outlines of actions that can be taken to find appropriate solutions.

This makes imperative to establish an authoritative and neutral platform that will bring together the main stakeholders in the commodity economy, helping them to identify better solutions for commodity producers, intermediaries and consumers, and to develop smooth exit strategies when critical situations arise.

It is expected that GCF participants, including exporting and importing countries as well as important commodity producers, traders and financiers will launch an in-depth discussion which may produce better solutions for the commodity economy and a basis for different multi-stakeholder partnerships and initiatives. GCF thus may become an important platform proposing a comprehensive approach to the modern global commodity economy.

Being a UN focal point on commodities, UNCTAD is uniquely positioned to lead the launch of such a forum. Since its creation UNCTAD is permanently engaged in studies of commodity market developments and the role of the developing countries in those markets. The organization has been focused on the commodity trade issues - especially on the trade of key raw materials. In addition UNCTAD has a long-term experience in initiating and facilitating high-level inter-governmental negotiations on commodities, and in creation of frameworks for public/private partnerships. Common Fund on Commodities and overwhelming majority of international commodity bodies has been created by UNCTAD.

At the ministerial UNCTAD XII conference in Ghana in April 2008, the member countries gave to the UNCTAD Secretariat a mandate to “contribute to building effective multi-stakeholder partnerships with a view to identifying innovative approaches to resolving commodity-related problems” (Accra Accord Para. 93c, UNCTAD TD/L.414, 25 April 2008).

It is suggested that the future GCF will address at each annual forum one of two main groups of commodities: minerals and agricultural commodities. The first annual forum will be devoted to the minerals, mainly energy and metals, while the next one will be concentrating on agriculture, forestry and fishery.

The First Meeting of GCF is planned to take place 2 days and comprise both plenary and parallel sessions. It will start with high-level plenary, involving policy makers. At the First Meeting of GCF devoted to extractive industries, ministers and other high level policy makers dealing with energy and mining will be invited. Invitees will also include corporate leaders, academics and representative of non governmental organizations. The plenary session will start with an overview of global commodity economy and markets related to extractive industries. The technical presentations by UNCTAD Secretariat and other specialized on commodities international organizations will be followed by a panel of distinguished speakers brainstorming on the key issues of commodity economy. Alongside the plenary, parallel sessions will be held on various cross cutting issues such as commodities and sustainable development, commodity finance and risk management, commodities and logistics.

GCF is an initiative of UNCTAD, which is going to launch it with the support of partner international organizations including the United Nations Development Programme (UNDP), the Common Fund for Commodities (CFC) and the Secretariat of the African, Caribbean and Pacific Group of States (ACP). GCF could become one of the main instruments of achieving the goals of the Global Initiative on Commodities (GIC, Brasilia, May 2007) initiated by UNCTAD and above mentioned international organizations.

UNCTAD discusses the launch of the GCF project with donors and is pleased to inform that the State Secretariat for Economic Affairs (SECO) of the Swiss Federal Department of Economic Affairs (DFA), has already committed funds to support. Further contacts and discussions with other potential donors, including other developed countries as well as China, Russia and Qatar are under way.

Industry associations, such as Geneva Trading and Shipping Association (GTSA), International Energy Forum (IEF) and International Council of Mining and Metals (ICMM) also expressed their interest to endorse this initiative. Other stakeholders including key commodity producers, traders and financiers have equally expressed their strong interest to participate.

### **3. Objectives and aims:**

The main objective of the GCF would be to create a neutral platform for high-level and extensive multi-stakeholder discussions in the framework of a dialogue between governments, private sector, academia and civil society, supported and catalyzed by UNCTAD in cooperation with other international organizations.

GCF may, in particular, be instrumental in identifying problems and suggesting solution by:

- Developing through comparative and cross-sectoral analysis presented in the background papers commissioned by UNCTAD for GCF, a holistic view on the functioning of the global commodity economy and its key commodities. Improve understanding of emerging commodity market trends through better analytical tools and information on markets and make proposals for their improvements.
- Looking at cross-sectoral issues such as commodity trade and finance arrangements including trading and commodity exchanges, commodity trade and structured finance, commodities and logistics etc.
- Proposing measures to improve governance in commodity dependant economies, through better regulatory and legislative frameworks; balanced and more transparent rent sharing and taxation systems; better commodity information gathering and analysis, better functioning of public-private partnerships;
- Seeking means of overcoming information asymmetries between sellers and buyers, producers and consumers;
- Identifying best business practices and solutions for commodity producers and exporters, commodity traders and financiers, commodity importers and users;

- Reviewing best practices in commodity trade finance and improve commodity producers and traders access to finance;
- Reviewing the performance of commodity exchanges and the OTC operations in commodity derivatives, with a view to address the information asymmetry and transparency issues in commodity trading and related speculation activities ;
- Improving efficiencies in logistics and other business support services in commodities supply chains
- Improving arrangements for public-private partnerships permitting swift responses to crisis situations in markets and better support measures for poor commodity producers and users;
- Upgrading strategies and coordination frameworks to address specific commodity related topics such as energy and food security.

#### **4. Preliminary program:**

*During the first day of the plenary the participants would discuss the commodity price boom and bust of the current decade and its main determinants, the global financial and economic crises and their impact on commodity exporters and importers, the investment cycles in energy and mining etc, the new and dynamic areas in commodity trade, etc.*

##### **Day 1: Plenary Session 1 : Opening Inaugural Session (AM):**

Secretary-General of UNCTAD, Swiss Minister of Economic Affairs, Director General of WTO, Managing Director of CFC, other key policy makers and heads of international organizations and associations.

##### **Day 1: Plenary Session 2 (AM): *Energy economy: the boom the bust and partial recovery of oil, gas and other energy markets.***

The issues for discussion in Plenary Session 1 would, in particular, include:

- Recent development in oil, gas and other energy markets
- International trading arrangements in oil and gas
- Long term secular trends in supply and demand for hydrocarbons
- How fundamentals and non fundamental factors affect energy prices
- Investments in oil, gas and other energy sectors
- Terms of trade changes for energy exporters and importers

##### **Day 1: Plenary Session 3 (PM): *Extractive industries: current state and prospects for mining and metals.***

The issues for discussion in Plenary Session 2 would, in particular, include:

- Recent development in the main minerals market: iron ore, steel, non ferrous metals
- International trading arrangements in metals

- Changing supply and demand patterns in mining
- How fundamentals and non fundamental factors affect metals prices
- Investments in mining sector
- Changes in terms of trade for metals exporters and importers

**Day 1: Plenary Session 4 (PM): *Better environment and incentives for long term investments in productive capacities in extractive industries.***

- Do investments in commodity as financial asset class encourage or crowd out investments in productive capacities
- Main sources of funding real investments in productive capacities: retained profits, debt, new equity and others.
- Project finance in extractive industries and its limits under the prevailing conditions of the world financial system.

**Day 2: Plenary Session 5 (AM): *Commodity price volatility: fundamentals, speculation and other factors***

The issues for discussion may include:

- Increased price volatility of last two years: a new trend or an episode?
- Relationship between commodity trading and financing arrangements and prices
- The role of commodity exchanges in price formation and trading arrangements, commodities as asset classes, the role of speculation;
- Revisiting options for commodity market stabilization: better rules for functioning of commodity exchanges and OTC markets

**Day 2: Plenary Session 6 (AM): *Addressing the volatility of commodity markets: options for optimal regulatory and market mechanisms mix.***

- What next for major commodity exchanges
- Prospects for commodity exchanges in developing and transition economies
- Complementing better commodity trading rules with better regulatory oversight.

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**Day 2: Plenary Sessions 7 (PM): *The commodity policy challenges for energy and minerals exporting countries.***

The issues for discussion may include:

- The policy challenges and options for various groups of minerals, metals and energy producers
- Problems of symmetric relations with foreign investors and distribution of rents from extractive industries
- Good governance including transparency and accountability issues
- Policy options in cases of large or small scale mining
- Dealing with competition issues in supply/value chains
- Investment needs in extractive industries to build adequate supply capacity
- Diversification within and beyond commodity sector
- Establishing better linkages-upstream, downstream and in ancillary services (e.g local procurement) -between extractive industries and the rest of the economy

**Day 2: Plenary Sessions 8 (PM): *Towards better policy and institutional frameworks and international cooperation in the area of extractive industries***

The issues for discussion may include:

- The opportunities for better dialogue between hydrocarbon exporting and importing countries for better market and regulatory frameworks and improved pricing mechanisms.
- The international dialogue for better and more efficient and environmentally sustainable energy matrix for the future world economy
- The international policy challenges and options for various groups of minerals, metals and energy producers

**Day 2: Plenary Sessions 9 (PM): *The Concluding Session***

The chairperson of the Forum will present to the participants of the Forum the main approaches expressed at the Forum and will explore on the possibilities on improving the policy and institutional frameworks both nationally and internationally to meet the future challenges of developing extractive industries and maintaining good rules and practices in production and distribution of oil, gas and metals including better multilateral trade rules and improved principles for the financing of extractive industries:

Participants of GCF will also have an opportunity to attend the following parallel sessions:

**Parallel Session 1 (Day1 PM & Day 2 AM and PM): *Commodity Trade and Supply Chain Finance: local, regional and global dimensions***

- The current state of commodity trade finance and the impact of demand destruction and credit crunch on relationships between banks, commodity producers, traders and buyers;
- The G20 initiative to increase the supply of international trade finance and the importance of maintaining a fair share for commodities in such increase
- Aid for Trade as a possibility to build up commodity finance infrastructure
- Structured trade finance and its capacity to mitigate risk and provide a source of finance in a situation of financial stress.
- The role of credit and political risk insurance in commodity finance
- The role of securitization of commodity trade finance
- The use information technologies and new techniques to better manage the risks and augment the supply of commodity trade finance
- Financing local commodity producers in mining sector.

At the Day 2, PM the participants of the commodity finance parallel event and other key commodity finance players might gather at the first inaugural session of a future international commodity finance association.

**Parallel Session 3 (Day 1 PM & Day 2 AM): *Supporting commodity supply chain: logistics and other business support services***

- Improving the local logistics for commodities and integrating it with global logistics
- Improving the organization of other business support elements of local supply chains of commodities and linking them with international ones.
- The international shipping for crude oil and oil products
- The international shipping for liquefied gas
- The international shipping for metals

**Parallel Session 3 (Day 2 PM): *Biofuels and food and energy security***

- The increasing share of renewable energy sources and the role of biofuels.
- The emerging trends in bio-fuels production
- Bio-fuels of crop and non crop agricultural products
- The impact of bio-fuels on food production
- Bio-fuels and energy poverty and security.

The topics proposed for plenary and parallel sessions might be subject to discussion and hence changes.

**For further questions please contact:**

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