

**Geneva Trade & Development Forum: Inclusive Globalization**

Group on commodities: summary of issue

The agreed view goes that commodity exporting countries are caught between a rock and a hard surface: either deteriorating terms of a trade over the long run, or brusque booming prices which paradoxically prove difficult to translate in effective development. With regard to the latter, the Dutch disease effect as well as the rent-seeking behaviors which breed corruption, tax fraud and political strife, account for the so-called scourge of oil.

Since 2000 though, oil and mineral commodity prices have been undergoing a strong and steady rise, mainly due to the fast increasing demand from China and from the rest of Asia. Will the rise go on and for how long? There is no possible answer to that question although it is commonly agreed that the depletion of known oil reserves might keep the oil price rising further. It is likely though that part of the rise will become permanent as Asia is moving further down the road of heavy industrialization and manufacturing and as a consequence will maintain a high level of demand for basic products. Nevertheless, what is remarkable is that, as commodity prices go up, net capital flows from South to North are on the rise as well. This either bears witness of exporting countries' limited absorption capacity or reflects unbalanced deals between foreign companies and the government or sheer corruption and tax avoidance and tax evasion. So there are reasons to look further into the possibility for those countries to harvest more benefits for their development from the present commodity and oil trends.

Four main routes could be explored: renegotiation of contracts; private reinvestment on the spot, both domestic and foreign; tax revenues collection; international financial flows' discipline.

The first possibility is the fair deal approach : it comes down to adjust the terms of the deal in order to get higher benefits for the host country taking advantage of the better energy or mining sector outlook over the long term, while not killing the goose that lays golden eggs. The second route is reinvestment: it consists for concerned countries, in enhancing the reinvestment of mining and oil revenues in the domestic economy either through downwards transformation or through diversification from the main commodity<sup>1</sup>, possibly by the state-owned companies or the transnational corporations (TNCs) in charge of the exploitation. One has to consider here two aspects: first how to encourage sustainable investment in exploration activities and production facilities in the primary sector by ensuring a fair treatment of the firm by the country and of the country by the firm so as to guarantee the stability of the country's basic non agricultural sector. Multilateral

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<sup>1</sup>The success of such policies also depends on the access to advanced countries' markets, i.e. the end of tariffs escalation such as it is under negotiation in the Doha Round.

rules and bilateral trade and investment treaties can contribute to secure a fair symmetry between firms' and governments' rights and obligations. Second how to push for upstream and downstream activities, in particular with regard to first transformation and further diversification, including in other sectors. The delocalization of the transformation sector towards the geographical sources of commodities can also be justified today on the ground of two environmental considerations: the higher price of CO2 emissions certificates in the North and the rising cost of bulk commodity sea transportation. For achieving reinvestment<sup>2</sup> in the country, several factors must be considered: the availability in infrastructure facilities, the level of education and the quality of the business environment – financial, legal, and administrative and fiscal- are crucial. But one can also think of specific mechanisms which would channel profits into industrial projects either through public-private partnerships, or through Corporate Social Responsibility-driven initiatives from TNCs or through industrial policy instruments with some backing-up from multilateral institutions.

The third one is the good domestic governance deal : how to ensure that the State gets its fair share of revenues and taxes and that they are not captured by corrupt rent-seeking intermediaries, foreign or local, or by national officials? The fairness of the contract, the limits put to the discretionary power of officials and the transparency of financial flows are here decisive whereas cutting tax planning and tax avoidance, both legal common practices, calls for enhanced capacity of the national tax services.

The fourth route is about global good governance. It is high time to take into account the need to discipline international financial flows in two respects: on the one hand setting up fair rules with regard to the financial strategy of sovereign funds whose role is increasing in the mining and oil sector; on the other hand toughening multilateral rules and making monitoring and surveillance more effective with regard to financial flows channeled through under-regulated and under-taxed offshore financial centers which have been multiplying over the last two decades. Without such toughening, domestic policies will remain subject to tax competition among host countries with severe tax leakages stemming from tax planning, tax avoidance and tax fraud.

What we therefore need to do at this stage is to identify interesting case studies as well as actors involved in the most promising success stories covering the four topics: private sector operators, NGO actors, experts and officials from both advanced and developing countries, but all with an actual field experience.

1) With regard to the **renegotiation of contracts**, we have identified two possible cases: Ecuador and Zambia. Which is the most interesting ? We need to know more about Ecuador where the delegation took a rather reluctant view while such deal reviews were seen as more forthcoming in Africa, Botswana though having rather opted for incorporating an automatic change formula in the deal. We have identified Claude Kabemba (director of SARW<sup>3</sup>) as an expert. But we would need to know more about the state of play of contracts renegotiation in RDC and about the recent Mittal-Liberia deal .

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<sup>2</sup> The quality of the fundamentals and the subsequent stability of the currency matter also a lot.

<sup>3</sup> SARW stands for Southern Africa Resource Watch

2) With respect to **reinvestment in the country**, one still has to identify a single genuine success story since, even in Botswana which in many respects is performing rather well, the prospects for establishing a downstream diamond activity look pretty bleak. Unctad could provide us with examples and names. One could also look into China's experience in Africa, including through sovereign funds' investment provided such case exists.

3) As far as the **good domestic governance** is concerned, EITI (Eddie Rich) has suggested two names: Stan Rerri, EITI coordinator for Nigeria, could identify actors in this country whereas UNDP representative in China, Kirstin Leitner could provide us with right names in China.

4) With reference to **global governance** issue (tax heavens), both Unctad and mr moers (**please jerôme check out spelling**) of dg taxsud could help us further by naming an expert, perhaps from the OECD who has been involved in the the negotiations about the non-cooperative financial places.

We have to mobilize again DG taxsud, Unctad and above all EC geographical desks and delegations (including Ecuador and China) in order to complete our files, including first and foremost names of potential multistakeholders (with a word of explanation about their involvement and their email address).

We have to insist again that what we are looking for is progress on the ground disregarding the orthodoxy of the solution or even the objections which we could raise as trade partners ( e.g export taxes on commodities) provided it works in terms of sustainable long term development. The general mindset of the whole exercise is to learn from the poor countries and not to lecture them, so being analytical before being prescriptive.

Stakeholders would help us to produce from their experience on the ground an action plan as well as policy recommendations (from micro- to macro-measures) by April 30<sup>th</sup>, country<sup>4</sup>. Both the action plan and the policy recommendations will be discussed by a panel at the final Conference (3-5 July 2008 in Crans-Montana). Stakeholders will be invited ( at least one from the country concerned) .

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<sup>4</sup> Stakeholders are officials, ngo's , opponents and international experts (UNCTAD)