



Statements by Supachai Panitchpakdi, Secretary-General of UNCTAD

**12th African Oil, Gas & Minerals Trade and Finance Conference**  
Malabo, Equatorial Guinea  
4 November 2008

Your Excellency, **Obiang Nguema Mbasogo**, President of the Republic of Equatorial Guinea,  
Your Excellency, **Fradique de Menezes**, President of the Republic of Sao Tome & Principe,  
Your Excellency, **Ignacio Milam Tang**, Prime Minister of the Republic of Equatorial Guinea,  
Hon. Minister **Marcelino Owono Edu**,

Excellencies,  
Members of Congress,  
Ministers,  
Distinguished Guests,  
Ladies and Gentlemen,

It is a great pleasure for me to be here in Malabo, and to open this [12th African Oil, Gas & Minerals, Trade and Finance Conference and Exhibition](#). UNCTAD would like to thank the Government of Equatorial Guinea for its strong support, especially through the Ministry of Mines, Industry and Energy, GEPetrol and Sonagas. I would also like to express my gratitude for the contribution of the other stakeholders in the oil and gas industry and the hard work of our logistics partner Cubic Globe. I thank you all for gathering here on this occasion and for making this event a resounding success for Equatorial Guinea and for Africa as a whole.

Ladies and Gentlemen,

We are meeting here at a time of considerable uncertainty in the world economy, including in the natural resources sector. The recent reversal of fortunes and return of volatility is a humbling reminder of the need for longer-term visions and sustainable strategies.

As you all know, until only a few months ago, the natural resources sector witnessed a price boom that even exceeded the levels of the 1970s. For example, the price of oil reached a historic peak of \$147 in July 2008. This translated into significant income gains for oil- and mineral-exporting countries, of the magnitude of 7 and 5 per cent, respectively, of gross domestic product between 2004 and 2006 alone. The boom, which was fuelled by growing demand in fast growing emerging economies, supply constraints, as well as a certain degree of speculation, also led to new investment in exploration, mining and infrastructure, and many saw it as a new source of hope for resource-based development in Africa.

Of course, oil-prices well beyond their peaks in the 1970s also posed major challenges for importing countries, especially low income developing countries, even in Africa. According to the International Energy Agency, the increase in the cost of oil in 13 non-producing countries, including South Africa, Senegal and Ghana has since 2004 been equivalent to 3 per cent of their combined gross domestic product. This is more than the debt relief and foreign aid received.

However, in only a few weeks, the fall-out of the global financial crisis and spreading fears of global recession have changed the prospects for a continuation of this boom significantly. Prices have returned to their levels of October 2007: about US \$60 per barrel of crude. What are the lessons we can draw from this? And what does it mean for the African oil and gas sector, and Africa's development ambitions more broadly?

In the middle of a crisis, it is difficult to make any short-term predictions. While prices are still well above their historical averages at the end of the 1990s, it is too early to tell whether the bearish mood of speculative investors and the slowdown in global demand will drive the prices further down. However, there can be little doubt that the financial crisis is likely to wreak havoc with global markets for some time to come. We will also see significant effects on the real economy. Indeed, it seems that we are seeing the return of the high volatility that has long governed prices of many natural resources. Those familiar with this pattern have observed that - in general - periods of high prices tend to be shorter than periods of low prices.

However, it is clear that we are still living in an oil-dependent world. A global switch to carbon-free, sustainable energy sources may ultimately reduce oil dependency and contribute to climate change prevention and environmental protection. Indeed, we must sow the seeds for that change now. But it will take time. In the meantime, oil prices are expected to remain higher than in the past, even if there is volatility around the trend.

Ladies and Gentlemen,

Africa is a continent of bountiful resources, including oil, minerals and metals. It is thus well placed to take advantage of windfall gains from commodity trade to relieve financing constraints and launch its economies on a sustained growth path of rising income and poverty reduction. According to the BP Statistical Energy Survey, Africa's proven oil reserves at the end of 2007 stood at more than 117 billion barrels, or 9.5 % of the world's total, while natural gas reserves were estimated at 4.6 trillion cubic metres, 8.2% of the world's total. In terms of daily production, Africa contributed an average of about 12.5% of the world's total crude oil, and about 6.5% of total gas production in 2007. At the same time, Africa accounted for only 3.5% of the world's total oil consumption.

Although a large part of the continent has not yet been properly surveyed, mineral deposits already discovered are highly significant. For example, Africa holds 42% of the world's reserves of bauxite and 38% of its uranium. The continent also contains dominant reserves of gold (42%), platinum (73%), and diamonds (88%). Its share in world ferrous metals such as chromite (44%), manganese (82%), vanadium (95%), and cobalt (55%), are also quite significant.

Ladies and Gentlemen,

Natural resources are non-renewable. From an economic point of view, they must therefore be treated more like a fleeting asset than a permanent source of income. Africa can make good use of this asset to launch a sustainable, broad-based growth path.

Having energy or mineral endowments is, of course, not enough to spur growth. Experience shows that, unless well managed, the expenditure of these resources as well as internal conflict over the distribution of the rents may actually impede development. There are thus some challenges associated with natural resource exploitation, which must be properly addressed if the sector is to become an engine for development and for achieving the United Nations Millennium Development Goals (MDGs). Let me briefly mention a few:

*First*, there are the well documented macroeconomic challenges that may arise, particularly the tendency for domestic inflation to increase and for the real exchange rate to appreciate - the well known "*Dutch disease*".

*Second*, a large part of the revenue often leaves the continent immediately, as foreign companies capture much of the rent.

*Third*, even in the countries that saw increased oil and mining revenue during the recent boom, benefits are unequally distributed. This is in part because few oil and mineral-producing countries have managed to build solid links between extractive sectors and the rest of the economy. Instead, they lose much of the value-added in production to foreign service providers and are thus forgoing the possible spin-off effects of production for local industrial development. Thus, it is important to explore how to build downstream linkages through value-adding activities, such as refining and other processes.

*Fourth*, while a number of African countries have benefited from high oil prices, most oil importers are struggling under the weight of increased import bills. The effects of high oil prices for oil-exporting countries and the effects on oil-importing countries are not symmetrical: what one group loses is not what the other gains.

*Fifth*, recent volatility of energy prices coupled with instability in financial markets may generate instability in investments. In the long-term, this could lead to supply constraints, affect corporate performance and hinder economic development of oil exporting countries.

Ladies and Gentlemen,

There are also a number of other emerging challenges that are likely to become more prominent. As we enter into a sustained period of energy scarcity, we should be mindful of the possible significant damage to the world's environment. The ecological footprints are huge and continue throughout the life span of the project. Often, this is due to the lack of government capacity to manage and control the adverse impacts of their activities. Indeed, many of extractive companies operate without proper monitoring. I am glad to note that a number of African oil producers, including Equatorial Guinea, are members of the World Bank Global Gas Flaring Reduction Initiative. This is a positive step towards balancing the effects of resource development with environmental sustainability.

Most oil-exporting countries rely on partnerships with foreign investors to transform their natural resource endowment into wealth. However, host countries' capacity constraints produce an imbalance in these partnerships. Inadequate expertise, asymmetric information and weak bargaining power are some of the constraints that prevent many African host countries from securing better terms. Also, some countries have suffered from a lack of transparency on information on how revenue from extractive activities is shared between corporations and governments, and on how governments spend this income. Transparency combined with clear corporate governance principles can lead to more revenue, less wasteful use of resources, less corruption, improved macroeconomic management and resource allocation, and access to additional finance for development. This requires a commitment - by host countries and foreign investors alike, as well as by home countries, civil society and international organizations. I am glad to note that a growing number of African mineral rich countries are embracing regional and international transparency initiatives, including the Extractive Industries Transparency Initiative (EITI), the Kimberley process, the African Peer Review Mechanism, and others.

Excellencies,  
Ladies and Gentlemen,

As the UN's focal point for the integrated treatment of trade and development and related issues in finance, technology, investment and sustainable development, UNCTAD has held this annual event in Africa for 11 years. Its aim is to provide a high level policy forum where all the above mentioned issues are debated and experience shared. This time around in Equatorial Guinea, I hope a renewed light will be shed by all the experts and policy makers gathered here.

I wish you all fruitful deliberations and a successful outcome. And I take this opportunity to already invite all of you to the next Conference, which will be held in Bamako, Mali, in 2009.

Thank you very much.