The Dawn of a New Era

**LATEST DEVELOPMENTS**
A closer look at key commodity classes

**NEW BUSINESS MODELS**
Building streamlined supply chains

**THE RISE OF COMMOTECH**
How technology is transforming trading

**RESEARCH & INNOVATION**
Actionable thinking to serve the hub
DISCOVER WHY TRAFEC HAS THE TRUST OF THE TRADING COMMUNITY!

“A user-friendly tool that has simplified daily communication with the banks, to an extent that it has become an integral part of our operations.”
George Fotioglou – CFO – Indagro SA

“The TRAFEC platform ensures a more efficient follow-up of our documentary credits. The creation and transmission of instructions to our financing banks is facilitated and more structured.”
Damien Maréchal – Operations Coordinator – Transamine Trading SA

“TRAFEC is not only a good product bringing value to our clients but also a pillar of our digital strategy.”
Christophe Cantala – Head of STS Clients, Marketing & Risks – BNP Paribas (Suisse) SA

“TRAFEC is the efficient Digital Solution used by my teams to deliver a high quality of service to my customers.”
Isabelle Aubrun – Head of Commodity and Trade Finance Back Office – Paris & London – Société Générale

Efficient & secured multi-banking communication platform
The dawn of a new era

Global trade volumes are on the rise. According to the WTO and despite moderate global GDP growth over the period, “world merchandise exports have increased in value by about 32 per cent since 2006”. Over those ten years, the value of manufactured goods exported has increased by 37% and that of agricultural products by a whopping 67%. With a 10% lower value to the level achieved in 2006, fuels and mining products were the only exceptions to the trend, due to a tumble in the price of crude oil. 2017 turned out to be a remarkably good year for world trade with a 4.5% year-on-year growth reported by the CPB World Trade Monitor whilst global GDP growth reached 3.6%. The latest World Trade Outlook Indicator points to a sustained trade growth in the first quarter of 2018 – with the throughput of container ports showing a clear upward trend –, and the IMF is forecasting global GDP growth of 3.7% for 2018. Significantly, we are observing the dwindling of the once much discussed “secular stagnation”. The period when economic predictions were regularly revised downward seems to be over. At least for the time being.

Trade wars and protectionism make great headlines but US import taxes on steel and aluminum are hardly news. George W. Bush and Barack Obama both applied similar measures (although more discretionarily) and the EU has both accommodated and introduced comparable trade distortions in the past. Commodity traders cannot dismiss political noise but the outlook seems more favourable than it has in years. To quote a recent paper by Kenneth Rogoff, former chief economist of the IMF, “the best bet is that AI and other new technologies will eventually come to have a much larger impact on growth than they have up to now”. The progress of productivity has declined drastically since the mid-90s (in particular in the US) but according to some, we may well have been on the outset of a J-curve. In other words, we may by now be at the beginning of a very steep rise in productivity and economic expansion.

Innovation and opportunities are impacting the entire commodities industry. Blockchain and other technologies are streamlining transaction workflows, creating efficiency gains and better resilience. There are countless initiatives in agriculture and the food industry, from algorithmic models for precision farming to new proteins. Perhaps more importantly, technology may reshape the potential of traceability which has moved at the forefront of consumer concerns. Business models are also evolving and competition changes shape as new players emerge.

The Swiss commodity hub is at the forefront of transformation everywhere. Amongst the first to adopt new technologies and new business models, it also wants to lead the way on human rights. STSA was the first umbrella organisation in Switzerland to support the United Nations’ Guiding Principles for Business and Human Rights (UNGPs) and to invite all its members to do so.

Nicolette de Joncaire
Editor in chief Commodities & allnews.ch
**A sector looking to the future**

Change is accelerating across the commodities sector, from commercial context to technology and regulation, the sector faces an unprecedented pace and scope of change.

**A CHALLENGING OUTLOOK FOR THE COMMODITY SECTOR**

It has been an interesting time for commodity markets. Prices have generally risen over the past year making producers and exporters’ lives easier, encouraging investment and production. Economic growth, coupled with a weaker dollar, is still strong enough to withstand higher prices, and demand continues to grow. As the world becomes wealthier, more commodities will benefit and international trade, assuming a benign economic environment, will continue to increase. Energy and notably oil, faces a different long-term future. Development in renewable energies and battery technology will continue and we anticipate that they will begin impacting the demand for transport fuels in just over a decade. In the near term, however, the outlook for demand continues to look positive.

**TECHNOLOGY – AN ESSENTIAL TOOL, BUT NO PANACEA**

Personal relationships have always been at the heart of our business and remain critical today. Perhaps for this reason, compared with other sectors, the commodities sector has been slow to fully accept the full benefits of automation and technology to save time and costs. That said, a number of factors are likely to accelerate the uptake of technology in commodities. Competitive pressures and shrinking margins are highlighting the importance of efficiency. At that same time, regulation and increasingly rigorous compliance requirements necessitate an ever increasing complexity of back office and incentivising the implementation of technology. Thus, just as electronic platforms have replaced open outcry for the futures markets, the physical markets will slowly start to change.

At present, there is much discussion about one particular solution, Blockchain, and how it can help our sector. Doubtless, there is scope to streamline the letter of credit and contracts processes, but the complexity defies a simple, or even a single, solution. 

**STSA, a key actor at the forefront of the Swiss trading hub challenges**

As the industry moves forward working collectively will prove to be key.

**STRAIGHT TALK WITH...**

**STÉPHANE GRAEBER**

**Secretary General, Swiss Trading and Shipping Association (STSA)**

More than ever, in today’s challenging and fast moving environment STSA has proven to be of great value to its members. STSA continuously helps its members to foresee future industry challenges from a holistic point of view. As the commodity trading sector faces unprecedented rate and scope of change, companies need to adapt their business models to a new reality. Pushing for more streamlined supply chains and competing with new entrants, like GAFAM or Tesla, will become the norm. These new players who benefit from cutting-edge marketing skills and have privileged access to consumers are looking to use their competitive advantage to master the supply chain challenges. Some examples that were recently in the headlines were Apple announcing its ambition to source cobalt directly from the miners, Tesla significantly expanding its energy storage capabilities in Australia and the purchase of Whole Foods, one of the largest groceries suppliers in the US, by Amazon.

In the face of such challenges, STSA provides a platform, which allows its members to leverage individual resources and address common issues faced by the industry by following the old adage “Strength in unity”. A perfect example of this is the tremendous success of TRAFEC, an STSA developed platform that offers a secure communication channel between trade finance banks and trading companies. TRAFEC has managed to sit everyone around the same table and provide the industry tools designed to tackle current and future challenges. As technology moves forward and becomes more decentralised, associations like the STSA can bring the most benefit by offering a collective approach rather than individual one.

As Switzerland finds itself at a regulatory crossroad, confronted with pressure from different fronts, a collective approach might also prove beneficial for the industry when it comes to Swiss regulation. New regulation, tax compliance, human rights and sustainable supply chains threaten to severely impact the industry. Therefore, we need to move forward with caution on how new and ongoing developments like TP17, MiFID II, FinfraG are implemented. STSA has been closely involved in the debate and actively contributing to technical discussions. Moving away from an international “level playing field” could severely hurt Switzerland’s position as a trading hub, forcing companies to move abroad. When it comes to traceability and transparency an increasing demand from consumers and NGOs has put pressure on regulators. STSA has worked during the last three years to build positive relationships with the authorities and related stakeholders to find fair and fit for purpose way to implement the UNGPs to the commodity trading sector.

As new technology is developed, new regulation introduced, and pressure regarding CSR increases, most commodity trading companies will need to adapt quickly in order to remain competitive. As we move forward it will become increasingly necessary to get over differences linked to the diversity of actors, and work together as an industry. As we look to 2018, we are optimistic about the opportunities we see for the industry. STSA will have a busy year as we try to bring the commodity trading companies together and strengthen Switzerland as a trading hub. The goal for STSA is to work with its members and the industry in general to navigate through these new developments as efficient as possible. New regulations and tax compliance procedures are changing, new threats are emerging, there is an ever increasing pressure from stakeholders to do the right thing and protect the environment. We are sure that once again during 2018 the industry will prove to be resilient, adaptive, and innovative. STSA, with its quarterly magazine offers a look into the wide spectrum of subjects currently impacting our industry and in the scope of STSA’s focus. We hope you will enjoy the read.
Your ideas created your wealth.
Our ideas ensure you keep it.
Finding new trading opportunities in the oncoming electric-car revolution

The wide range of food choices demanded by today's consumers also put greater demands on the supply chain. And when foods go in and out of favor—whether based on new health data or simply the latest fad—production and global value chains must be prepared to adapt. The supply chain will need to continue to innovate, embrace new technologies, and implement a diverse array of models to meet the world’s growing demand for food—and to attract new farmers to satisfy that demand for future generations.

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After re-balancing, what's next for oil?

David Fivet
Head of Oil, Gas and Metals Research and Analysis, Geneva Group

STUBBORN MARKET SURPLUS, BUT REBALANCING WELL UNDERWAY
A sizeable inventory overhang from OPEC's 2014-2016 market share grab is gradually diminishing. OPEC and Russia, amid collapsing revenues, spent a remorseful 2017, cutting oil supply by 1.8 mb/d, with reductions on to run through 2018. From $55 in autumn, Brent crude hit $70 in January, though prices may soften in H118, amid seasonally weaker demand and refinery maintenance. There is more OECD stock to be drawn on, too, before the word "surplus" is erased from the short-term narrative. So, after short-term rebalancing, then what? Here opinions diverge: some predict an immediate peak and abundant US oil supply will anchor prices nearer $50 than $100. Or do three years of upstream spending cuts and robust emerging market demand tighten spare capacity, cyclically inflate costs and again see geopolitics raise prices?

PEAK OIL DEMAND WILL HAPPEN, JUST NOT ANYTIME SOON
Mid-2000s talk of peak oil supply has morphed into an obsession with peak demand. The Paris agreement, electric cars and de-carbonization, are in vogue. The energy transformation is real enough, but equally, the "commentariat" is sometimes guilty of trumping a developed world model of declining oil intensity straight onto the emerging markets. There, access to energy industrialization and infrastructure build-out remain valid aspirations. In energy policy, many want one size, not one pace, fits all. Oil demand will peak eventually, but not in the next 10-15 years. Short of revolutionary battery technology, electric cars may displace 2-4 mb/d of oil by 2030. That's a fraction of what's achievable by shifting to smaller vehicles (electric or unmanned combustion) and continued efficiency gains. Freight and air transport will rely on oil for decades. Reducing wasteful plastic packaging is laudable, but it will not prescribe low-consumption lifestyles to an aspiring middle class in emerging markets.

Oil demand and growth will more likely taper than collapse, trending from 1.5 mb/d today to below 1 mb/d in the decade to come. The job of conventional crude oil, not a global trading system that connects producers, consumers, grades, qualities and refiners, is done quite yet.

UPSTREAM COSTS CAN'T REMAIN "LOWER-FOR-EVER" The bearish "new paradigm" combines peak demand with abundant supply, assuming that a 40% reduction in upstream costs since 2014 is entirely structural. True, oil majors have cut costs, and further equipment standardization and process excellence is happening already for US shale. Labour, materials and infrastructure constraints are pushing up break-even oil costs, especially in remote areas. Add rising interest rates, and lenders' insistence that "shalers" finally generate free cash flow, and a prior focus solely on volume growth looks sub-optimal. This is happening already for US shale. Labour, materials and infrastructure constraints are pushing up break-even oil costs, especially in remote areas. Add rising interest rates, and lenders' insistence that "shalers" finally generate free cash flow, and a prior focus solely on volume growth looks sub-optimal. Sharp 2017/2018 US production gains represent recovery from 2015/2016 lows, but may not be renewable longer. US shale is transformative, but will grow for years to come, but annual +500 kb/d growth may prove more realistic than +1 mb/d.

How trade finance banks are reacting to impending Basel IV

Paul-Emmanuel Aerts
Equity Head, FG

Even though many aspects of the "Basel IV reforms" and their consequences on the profitability of European banks still remain to be clarified, there is a new paradigm that bankers have already got used to work with in the past few years: their business going forward is most likely going to be very different than what they used to do. As an illustration, French banks have already doubled their capital base since the crisis. So, what can the trade finance banks do to adapt to the new regulatory environment they are likely to be confronted with? There are fundamentally 2 main alternatives that banks have started to explore:

1. The "tactical solutions": An easy answer to the anticipated changes is to focus on those clients and deals that are already profitable and to compensate for a material uptick in the cost of capital allocated in the future. Mid-size trading companies, which are generally in a position to benefit even more than just borrow funds from them. "Cross selling" of products is part of the tactical solution for banks to extend their revenues base on their clients while still allocating the same amount of capital, and if most of them are already well advanced in organizing their digital activities, they need to prepare to cope with a 40% reduction in upstream costs since 2014.

2. The "structural solutions": The increasing costs of capital for traditional banks is likely to accelerate the implementation by the European actors of a common Anglo-Saxon way of running their business through arranging and selling down most of the risks they originate. It may be a bit of a paradox that a reform like Basel III, initially triggered by the financial crisis that came from the US and notably an excessive use of sophisticated techniques to off-load risks from the balance sheet of banks, turns out to impose to traditional banks to adopt a more aggressive management of their own balance sheets. This is however probably one of the only structural options to continue to operate at a sufficient level of profitability and with the same amounts of economic capital allocated. Of course, the above options could change substantially depending on the final outcome of the Basel IV reforms. There still remains some time for the different stakeholders, including the Basel Committee and the ICC, to understand in details the impact of the envisaged reforms and adjust. Same goes for the banks which should prepare themselves for the worst and hope for the best. As one can imagine, a common consequence of the different reforms, many of them, will implement to adapt a changing regulatory environment is that the cost of financial services in the corporate and trade finance context is likely to increase going forward. This inflation will probably stimulate further the emergence of new ways of exchanging trade flows on digital platforms, as is already starting to be experienced in the industry through Blockchain initiatives. It is not the least of all paradoxes: the likely consequence of impending regulations may be that large part of the commodity trading flows are eventually re-routed to platforms that are cheaper and easier to operate, ultimately even less (not to say not at all) regulated.

THE INTRODUCTION OF "OUTPUT FLOORS" IS EXPECTED TO RESULT IN ADDITIONAL CAPITAL REQUIREMENTS FOR TRADE FINANCE BANKS BY A FACTOR OF 2 TO 3.

ARE SHALE AND SHORT-CYCLE PROJECTS ENOUGH?
"Surplus-supply" adherents also contend that price and demand uncertainty imply IOCs will henceforward prioritize short-payback vs. long lead-time investment. Research suggests 2017 upstream investment capacity and capacity cuts to 2.5 to 3 mb/d each year. So the upstream industry needs to generate fully 4 mb/d of new capacity annually to stand still. US supply growth may ease post-2018, amid sector consolidation, increased financial discipline and rising costs. If shale grows at half this year's expected +1 mb/d, and geopolitical risk impedes OPEC capacity gains, short-cycle projects alone will not fill the eventual gap, even as demand growth slows. There's plenty new oil in the pipeline for 2018/2019. Thereafter, meeting demand growth and counteracting decline needs new big-ticket investment. With tighter drilling, labour and materials markets, some of the new oil needs cyclically higher prices. And even so, it also needs a flexible and robust trade sector, to store, refine and ship these barrels to evolving markets worldwide.
Are you ready to report for FinfraG?
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A review of the introduction of FinfraG

Fabian Klar
Business Development Manager
REGO-TR S.A.

The reporting obligation under the Financial Market Infrastructure Act (FMIA), also known as FinfraG reporting, started on the 1st of October 2017. Unlike EMIR, the Swiss Financial regulator (FINMA) decided to phase-in the reporting obligation in phases, rather than adopting the “big bang” approach we saw ESMA take for MiFIR. More than five months after the introduction of the first phase, and nearly three months after the second, this is proving to be a wise decision by FINMA. From a Trade Repository (TR) perspective, and in contrast to EMIR in February 2014, the introduction went very smoothly and the different market participants seemed to be well prepared. Perhaps the fact that only two TRs were authorised helped with standardisation and clarity of the process. At the time of writing this article, the phases have not yet finished and there remain certain further steps to come. In addition to the phased-in approach based on counterparty classification, FINMA also decided to first introduce the reporting obligation for Over The Counter (OTC) transactions and to delay the ETD (Exchange Traded Derivatives) reporting by six months. Whilst here OTC instruments are inherently more complex, and thus more complex to report, ETD instruments are normally shorter in duration and traded in much bigger volumes.

With regards to the reporting itself, large financial counterparties (FC+) need to start reporting their ETD flows from the 1st of July 2018. Non-Financial Financial counterparties (NCF-), as well as the large Non-Financial counterparties (NFC-), will have to report their ETD flows from the 1st of July 2018. Public data, which is a mandatory requirement for TRs to publish, will therefore show an increase in volume of FinfraG reporting from July onwards, though the true picture will only be evident once small non-financial counterparties (NFC) are required to report. OTC instruments from 1st January 2019 and ETD instruments from 1st July 2019. Again, perhaps drawing on lessons learned from the implementation of EMIR, and recognizing the need to carefully balance between the technical and the regulatory framework, FINMA took the decision to postpone the reporting start date for NFC- in October 2017. According to FINMA: “Some NFC- had mistakenly held out the hope that they could structure derivative transactions with foreign counterparties in such a way that they would avoid having to report such transactions” The above quote highlights that still today the concept of “substituted compliance” is not in place and NFC- entities trading with non-Swiss counterparties will still need to fulfill their reporting obligations under FinfraG. Looking back again at the implementation of EMIR for NFC- entities, there was a widespread expectation that the reporting obligation would be repealed before February 2014. It was not, and many NFC- market participants found themselves underprepared for the reporting obligation. Having given NFC- entities more time to comply in this instance, it is unlikely that FINMA will reverse or further postpone the obligation. Whilst the reporting obligation adds a layer of cost to derivatives trading, one must remember that regulatory bodies frequently promise that the cost of compliance will always be exceeded by the cost of non-compliance! Even though the scope is limited to those transactions which NFC- conduct with non-Swiss counterparts, with nine months to go we recommend that, if you are impacted, you start planning now. Speak with your software providers and the TRs in order to get answers to your questions. TRs have been tasked with benchmarking the services of one TR versus another. Whilst TR services are broadly dictated by the regulatory framework, they are not necessarily as homogenous as you might think and variance exists between service support and pricing.

IMPLEMENTING FINFRAG

What are the main lessons learned with FinfraG implementation from a TR perspective over the past 12 months?

Reflecting on the implementation to-date, the diversity of implementation approaches and options for institutions to fulfill their reporting obligations has been broad. We observed that FINMA initially started with the project early and greatly benefited from having sufficient buffer for optimization while low-volume institutions had a tendency to approach implementation more gradually.

Feedback from our community can be summarized under the following recommendations:

a) A key initial decision for firms is whether to opt for in-house development of the reporting interface to a trade repository or to avail of third-party technical solutions. Although large institutions due to their geographical and technical complexity develop own solutions, there is still a valid argument for keeping the reporting flows as simple as possible which reduces operational maintenance.

b) As is often the case, while the main reporting scenarios are the primary focus, one should not forget about secondary use cases such as how to deal with transactions incorrectly reported as terminated. This demonstrates the need for an active dialogue between the technical regulators and the main reporting parties to ensure alignment between derivative trading practices and regulatory requirements.

c) In contrast to EMIR, regulatory reporting for FinfraG is more flexible and aims to reduce the burden for the Swiss community. This however introduces additional complexity on categorizing OTC derivatives, trading counterparty classifications and calculating exposure.

d) The evolution of the single-sided FinfraG regime aims to reduce the reporting burden on the Swiss community. However, this introduces additional complexity on categorising OTC derivatives resulting in a process to maintain this data. Bilateral agreements with same-category firms can alleviate this complexity somewhat.

In conclusion the main lessons learned are to plan in enough time for dealing with complexity such as counterparty classification, technical implementation and testing and to strive for a reporting mechanism that is well aligned with how trades are booked in firms’ back-office systems.

Looking forward, what should companies trading in derivatives expect over the coming months?

The next months from a transaction reporting perspective will focus on the go-live of ETD reporting for FC+s in April 2018 and for FC-/NFC+s in July 2018. This work in principle builds on the existing reporting mechanisms already put in place for OTCs, but often with different static data considerations. The current best practice being employed by Swiss institutions for populating ETD information where static data is not publicly available is, specifically for interest rate swaps and options, to use default values. For more details please contact our support desk.

Since the FINMA guidance 05/2017 mandated an extended transition period from April 2018 to January 2019, NFC- institutions have additional time for the technical implementation. In this context we recommend ECM- institutions which were required to report within a shorter time frame to start considering their strategic response in order to be able to comply in January 2019.

Monitoring regulatory developments becomes even more important when considering the wider range of regulatory landscape the regulators have continuously expanded. The past 12 months have seen developments in the implementation of EMIR, and recognising the need for a continued dialogue between the technical regulators and the main reporting parties to ensure alignment between derivative trading practices and regulatory requirements.

Another consideration, which applies regardless of whether a firm is MiFID II regulated or not, is the potential impact new market and liquidity conditions for specific commodity classes, brought by changes to the market structure, availability of instruments and cost of trading as a result of new regulations. For example, recent changes included the ICE exchange moving some oil contracts to the US in January 2018, while brokers also observed drastic moves in regional ex-tradable liquidity, for example in positions on European exchanges and opening equivalent ones on US exchanges.

Looking forward, what should commodity trading companies look out for over the coming months?

Commodity trading parties are a diverse range of firms that include commodity trading houses, asset-backed traders (such as utilities and oil producers), commodity traders, business buyers and sellers, banks or hedge funds. The size and complexity of these organisations can range from small regional players to large global organisations trading across multiple legal and regulatory jurisdictions. The extent to which such firms are experienced in dealing with large, complex regulations such as MiFID II is undoubtedly a key factor in terms of the ability to successfully identify, assess and implement these regulations while minimalising impact to their business.

Managing regulatory developments becomes even more important when considering the wider range of regulatory changes, which are increasingly becoming an important part of the strategic response in order to be able to comply in January 2019. NFC- institutions which were originally mandated to report within a shorter time frame, were given an extended transition period, in this context we recommend ECM- institutions which were originally mandated to report within a shorter time frame to start considering their strategic response in order to be able to comply in January 2019.

Final, similarly to what has occurred in the EU, further evolution of the reporting logic and needed guidance from regulators will undoubtedly follow in the coming months. • John Cummins, SIX Group

MiFID II compliance: no-one-size model

Jean-Noël Ardouin, Senior Manager, Ernst & Young

What are the main lessons learned with regards to the implementation of cross-border financial rules over the past 12 months?

With commodity market risk management tools and techniques advancing, the evolving convergence globalization and dependency between physical and financial markets has become ever more apparent. In this context, Swiss commodity trading firms have been and continue to be facing with different static data considerations. The current best practice being employed by Swiss institutions for populating ETD information where static data is not publicly available is, specifically for interest rate swaps and options, to use default values. For more details please contact our support desk.

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THERE HAS BEEN A NUMBER OF EXTRA-TERITORIAL EFFECTS FOR FIRMS WHO TRADE IN-SCOPE COMMODITY INSTRUMENTS.

Many NFC-market participants found themselves underprepared for the reporting obligation.

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More specifically, the rules around precisely which firms fall into scope of MiFID II can be complex and require close compliance monitoring.

MiFID II is designed to broaden the scope of financial instruments to include a number of Extra-Territorial Effects for firms who trade in-scope commodity instruments.

Jean-Noël Ardouin, Senior Manager, Ernst & Young
Structural oversupply in shipping means only fittest will survive

chip Owners, Managers and Brokers have some interesting times ahead. Shipping is probably the purest example of supply and demand economics where supply is highly inelastic while demand is incredibly volatile. And, for the majority of the past 20 years, it has been in an over supplied situation. As one would expect in an over supplied market, freight rates/charter hire are low. The problem with shipping is that as demand increases supply cannot react quickly enough, since it takes about 2 years to build a ship, making rates rapidly increase. On the other hand, this lag of supply keeps new ships coming even after demand falls off a cliff! This makes the supply and demand of the shipping industry extremely complicated. If we add the effects of super cycle caused by China joining the 21st century, lack of discipline and “easy money” were the norm, we get to where we are today, in a market which is exceptionally over supplied, by as much as 300% in certain sectors.

Looking forward, there are many things that will affect supply, demand and market prices for years to come but I would like to focus on 4 of them:

FIRST, THE SWITCH OF ENERGY PRODUCTION AWAY FROM FOSSIL FUELS TO GREENER ENERGY. If we look at what is happening in Europe, we can see that this will have a huge impact. Roughly 15% of all the new cars sold have some form of electric propulsion, Denmark is currently producing 150% of their electricity by wind power, UK’s largest power plant switched to 100% biomass, and various countries plan to be fossil fuel free over the next 7 to 30 years. Combine this with the increase of regionalised energy production, developments in storage capabilities and a diminishing reliance on a national grid and we end up with a dramatic shift in the demand for shipping.

SECOND, TECHNOLOGY will replace things that are simple yet expensive to do. This is the reason why there is so much focus on driverless anything at the moment. Things like 3-D printing will seriously affect the consumer and Artificial Intelligence will decimate employment in sectors like factorying, analytical studies, transportation, and trading. These will all affect the demand for shipping, forcing it to evolve into a more integrated part of the supply chain, meaning that being just part of the solution, would not be the solution itself.

THIRD, LEGISLATIVE CHANGES like the new International Maritime Organization (IMO) rules for bunker fuel capping sulphur content at 0.5% starting in 2020 or the implementation of European Union Directive 2016/1164 in March 2019 will significantly increase shipping costs as fuel prices will increase and taxes will directly impact the freight rates. Rates are going up to pay for these changes as there is a supply chain effect, meaning that being just part of the solution, would not be the solution itself.

Finally, finance. Banks in general are abandoning the shipping sector making it the end of “cheap money”. The way we have financed shipping, as we’ve understood it for a generation, is now no more. Therefore, we need to find different ways to finance our ships so that our whole global trading models become financially viable. This is going to be multifaceted and not one solution will be the blueprint for them all. It will involve more integration both up and down the supply chains with larger industrial players owning/leasing ships in the way we’ve seen already in the courier business or aviation. Except for a few crazy years due to abnormal disturbances i.e conflict or irrational market behaviour, shipping is a lower return stable business.

Many people will have to accept huge losses in certain cases/countries. It would mean writing-off the industry.

In conclusion, the future of shipping will see a lot of changes both in the short term and over the longer term evolution in the industry. Only those who are able and willing to embrace these changes will get through this. Should we fear this? No, we should embrace it. After all as Darwin teaches us, you either adapt or die.
FOCUSING ON THE POLICIES THAT MATTER

The shipping industry has been going through significant upheavals since the sharp drop in freight rates nearly a decade ago. Now the sector is poised for another major watershed moment, as new rules adopted by the International Maritime Organisation are set to drastically impact the very lifeblood of the maritime industry, i.e. the bunker fuels that rely on to power its vessels. This will impact ship owners and the bunker fuel suppliers alike and will require intense preparation to be fully run-up to the 1 January 2020 deadline. Besides SOx emissions regulations and fuel quality, ballast water management, as well as energy efficiency of vessels and upcoming CO2 emissions rules are all under discussion at the international level.

STSA has been closely monitoring the discussions, sending representatives to the key IMO’s Marine Environmental Protection Committee meetings held in London in 2016 and 2017. It has also organized exchanges with experts to help inform the members, notably with the Trident Alliance in November 2017.

At the Swiss level, STSA has been actively working with the shipping working group on two main topics. One work stream focuses on the assessment of the size and structure of the shipping industry in order to inform the public about the importance of the sector for the Swiss economy and its central role in the commodity trading cluster. The second work stream concentrates on the introduction of a tonnage tax in Switzerland by informing about the positive effects that such an internationally recognized standard will have on the Swiss maritime sector that is facing unprecedented challenges.

LATEST DEVELOPMENTS

INTERVIEW

ROGER STEVENS
TRIDENT ALLIANCE
Robust implementation of IMO sulphur cap key for entire industry

Can you give us some background on the Trident Alliance?

The Trident Alliance was founded in 2014 as a group of shipping companies who share a belief in the robust and effective enforcement of sulphur regulations. Members believe that effective enforcement ensures high levels of compliance, which is in the aligned interests of the environment, human health and fair competition.

Sulphur regulations, and the forthcoming 2020 global cap change in particular, represent a level of compliance cost that is without precedent. At the same time, the questions remain on how effectively the regulations will be enforced.

There are positive indications that another significant change – a carriage ban for non-compliant fuel – will also come into being. The question now is really whether port states, who are on the front lines of enforcement, make good use of these new regulatory developments.

Many policy makers mix up greenhouse gas and pollutant emissions. Which does Trident focus on?

CO2 is the most significant GHG for most types of ship; however, it is not the only significant emission to air. NOx and SOx, which are nitrogen and sulphur oxide emissions respectively, are subject to intense regulatory attention too. Nitrogen emissions arise from the combustion process of bunker fuel, have a long-term impact on health and they are normally mitigated through engine design changes. On the other hand, the most common approach to reducing SOx emissions is to switch to a fuel with a lower sulphurcontent.

Sulphur regulations are the sole focus of the Trident Alliance. Single issue organisations have natural alignment among members on that single issue, which helps them speak with one clear and strong voice.

Before we address the issues around implementation, and drawing here on your experience as Global Head of Sustainability for Wallenius Wilhelmsen, do you believe there will be sufficient availability of low sulphur marine fuels?

We believe that there will be sufficient quantities of compliant fuels for our ships. There are three main reasons for this. First, we do all our replenishment at major bunkering hubs, if there’s anywhere that will have compliant product available come 2020 it will be at those hubs. Secondly we operate a liner fleet which means that we know where the vessels are going months in advance. That makes planning fuel replenishment much easier. Thirdly, because we can plan bunkering far ahead we can establish long term supply agreements with bunker providers with whom we have close and long standing relationships.

Where can we expect difficulties and what solutions will have vessels then?

There can be difficulties in technical, operational, economic and regulatory areas. Assuming the question is intended to refer to the former: one key challenge for the industry to come to terms with comes from applying the new class of 0.5% fuels. These new fuels can be made from several different refinery processes, which is one of the reasons that they cannot be mixed. Maintaining segregated fuel systems becomes increasingly difficult the more different 0.5% fuels are carried onboard. Adding to the complexity is the fact that some fuels require fuels while others don’t. The risk of severe fuel system problems can be diminished through effective crew training and follow up.

So are the new rules going to change the shipping industry?

There’s no question about it: they absolutely will. Fuel is the lifeblood of shipping, nothing moves without it. If that fuel is changed then we can expect there to be far-reaching operational, technical and economic consequences.

The 2020 global sulphur cap change is for many reasons the most significant environmental regulation to date. A large part of that comes down to the cost of compliance – how well a company can mitigate that cost can have a significant bearing on its future success.

If we go back to IMO Global Sulphur Cap implementation questions on the, do you expect a high level of compliance and a level playing field?

The fact is that nobody knows what the level of compliance will be. There is a huge incentive to cut corners and there are opportunities for those who want to worsen a compliant vehicle. In order to mitigate a general global regulation. That amounts to a potential for competitor advantage. In that context it is vital for a company to have a strong competitive strategy.

Detection will be a key aspect how do you see this taking place, using which technology?

The most effective means of detection and the only one that will definitely stand up in court is onboard inspection by a port state official, possibly combined with a sample analysis performed in an approved laboratory. I believe the role of remote detection technologies will be mainly to help anything out where we have to focus our onboard inspection resources and to serve as a form of deterrent.

Can we expect material sanctions as from 1st January 2020?

Anybody that’s ever been to a dentist has heard that ‘prevention is better than cure’. Something similar applies with sulphur regulation – it is important to have dissuasive sanctions for deliberate (gross) non-compliance because they serve as effective deterrents. A few states have the possibility to levy fines that would re move any financial benefit arising from non-compliance, however there are still too many states that either have pitifully mild sanctions or have failed to make their position public and clear.

What are the key steps for an orderly and effective implementation?

Whether it’s the crew of the ship or the port state inspection officials, one thing that’s vital for all concerned is comprehensive and effective training on the subject. At its most fundamental it is still an industry that’s built around people. Even the most brilliant compliance or enforcement systems and technologies are useless without them.

Apart from the training aspect, it is also important for authorities to make a clear distinction between deliberate and gross non-compliance and marginal inadvertent non-compliance. In the former case a vessel chooses a cheap, high sulphur non-compliant fuel and tries to get away with it. In the latter case a ship owner or bunker supplier chooses a fuel that’s expensive and deserves to be dealt with harshly, but the latter, while it is the worst nightmare for a responsible operator it is insignificant in environmental and health terms and will re-occur in the market. A responsible authority should focus efforts on finding and sanctioning the deliberate non-compliant cases.

Is SOx only the beginning for the Trident Alliance?

No, it’s also the only issue for Trident Alliance. It draws on the unified voices of its members. Those voices are unified because of the natural alignment that comes with being a single issue. The pressure is on how to get a strong enforcement regime in place. Without that, sulphur regulation is unlikely any other environmental regulation in that most vessels will comply through their ongoing decision to consume compliant fuel, rather than by installing a piece of equipment.

Interview Elsa Floret

The Trident Alliance was founded in November 2017 – Present

2012 - 2015

2000 -

2012 - 2016

2015 - 2017

Environmental Protection Committee meetings held in London in 2016 and 2017.

TRIDENT CHAIRMAN & GLOBAL HEAD OF SUSTAINABILITY FOR WALLENUIS WILHELMSEN

Engineering degree from the University of Dublin, Trinity College.

Vice Global Head of Key and Liner Accounts at Wallenius Wilhelmsen Logistics (WWL)

Vice, Global Head of Environment at Wallenius Wilhelmsen Logistics (WWL)

Wallenius Wilhelmsen & Chair of the Trident Alliance

of which he is the founder)
Keeping trust in a changed world of trade

DECK TAYLOR
Oil Gas and Chemicals Global Data Services, Manager, SGS

As we are all aware, technology is increasingly impacting not only our daily lives, but the way we work as well. The growing influence of new technologies, such as Machine Learning, Artificial Intelligence, sensor technology, and perhaps most of all the combination of all these usually referred to using the portmanteau of "Big Data" is perhaps the most fundamental change to business in decades. Using the modern terminology, SGS, as well as its peers in the TIC space, has always been a pure data generating corporation, either sitting in the space between the primary actors in trade, or acting as the verifying body in terms of both goods and processes etc. The evolution of the data presentation – initially in a hard copy from (paper, telex messages to faxes followed then by digitalized carriages) – also drove very strongly the evolution of how we dealt with the data itself – from discretely itemized pieces of it to the streams of digitalized data that could be seamlessly processed and analysed. However, we should all remain aware of some basic guidance to apply the data that we can now access:

a) Not all data, particularly historic data, is of the same quality. Whilst a great amount of data is of excellent quality, as far as the user can discern, it may have been gathered using a flawed methodology or may have been gathered within a limited field which special characteristics and it is hence skewed to some degree. b) Not all data was generated or gathered on the same basis. For instance, with laboratory data, methods used to analyse oils, as an example, have become more sophisticated and more accurate with the advances in technology. Using old data, which is valid in general terms, may require some filtering or else false conclusions may be drawn. c) Some data is more than partial. Often, even with new data, the organisation gathering that data only has a specific end use in mind, and so limits collection to only the data they require. Whilst there is absolutely nothing wrong with this, any subsequent use should be aware that the data set was never intended to be comprehensive.

Applying this knowledge as guidance one can still make tremendous use of existing data within modern analytics. Trade flows in oil, gas and petrochemicals, and the evolution of quality in the composition of road fuels are two specific areas that SGS has been involved in for many years where our use of data analytics has provided a new dimension to existent data.

With the growth of both interest by civil society and the consequent legislation, the composition of road fuels delivered at the point of sale has been an ongoing long term project for SGS for over thirty years. Within that time, we have moved from simple spreadsheet analysis to databases and now, in the beginning phases of the concept of virtual power plants (VPP) combining a multitude of small-scale generation facilities such as rooftop PV modules and battery storage. The benefit goes beyond the core energy storage system, offering the backbone infrastructure to make electric mobility and decentralised renewable-power based systems a reality.

The promise of artificial intelligence is that combined properly with big data and is now set to challenge the business models of market incumbents, and for of all large-scale thermal power plants providing ancillary grid services.

In order to realise their potential and create value however, distributed generation assets will rely on big data management systems, cutting edge forecasting tools that can draw on machine learning capabilities and VPP operations optimization software. The promise of artificial intelligence is that combined properly with big data and is now set to challenge the market incumbents and create new business models that can leverage their technical capability to unblock the value derived from power flexibility.

New entrants harnessing innovation and new business models to revolutionise power sector

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NEW ENTRANTS CAN LEVERAGE THEIR TECHNICAL CAPABILITY TO UNBLOCK THE VALUE DERIVED FROM POWER FLEXIBILITY.

From 0 to 100 MW in 140 milliseconds to provide grid relatability and peak power means that Tesla can now rewrite the grid code, potentially challenging pre-existing capacity reserve technologies.

The project is proving so successful that the South Australia labour government is planning to build a 250 MW virtual power plant based on household rooftop PV modules and battery storage. In California meanwhile, GE announced as recently as 7 March 2018 that it was launched its own grid-scale energy storage system called Reservoir.

A sign that the pace of evolution is frantic, blockchain technology is increasingly viewed as offering the backbone infrastructure to make electric mobility and decentralised renewable-power based systems a reality.

Increasingly used in new business models, it is now used to power new business models to revolutionise power sector.
In 2017 the AgTech sector showed robust growth with capital continuing to flow into the sector at ever increasing rates giving rise to more companies targeting more points in the value chain. A record total of ~$1.5B was deployed helping sustain and increase the momentum of the last five years. A key shift in the market has been a rapid increase in participation by new entrants with large checks and targeting growth investment. As a result, 2018 will see the consolidation of the first batch of AgTech unicorns.

Over $800M, across 35 deals, were invested in companies in the microbials segment making it the single largest investment area for agtech last year across 35 deals. Bayer's joint venture with Gingko Bioworks closed a $100M round to re-program the genome of microbes. Gingko joined Indigo as the latest agtech unicorn having raised over $400M to date. Competitors include Zymergen which raised $160M in a round with SoftBank, in a superheated segment.

Notwithstanding, the companies making input products for traditional Agriculture, two emerging segments that are heating up are supply chain and marketplace platforms. In 2017 Plenty, a Finistere portfolio company, raised a $200M investment round led by SoftBank to re-engineer the fresh fruit and produce value chain. Farmers Business Network also closed a $200M round to sell inputs online to farmers, making a play at disrupting the current physical channels to market for Ag Inputs.

Beyond the enthusiasm for investment returns in a marketplace that contributes ~$3 Trillion of global GDP the understanding that the whole supply chain by venture investors has increased and traditional Silicon Valley entrepreneurs are finding more tractable markets for innovative company building. In particular company building muscle is being flexed to disrupt risk across the commodity value chain such as reducing transactional cost and complexity. Fintech will be a new area of rapid development in our view, with internal research at Finistere demonstrating that the segment is growing at rates ten times relative to mainstream Fintech. The latter captured $60B in VC money over the last decade while Fintech directed at commodities is closer to $2B in gross margins. Companies such as Full Harvest are re-imagining how the farmer is more digitally advanced than the consumer. In time and hands that touch produce logistics while creating new value for visually blemished but edible food. Similarly startups like Trade Traders, with Silicon Valley DNA, are attempting to digitize the global movement of commodity goods by overcoming regulatory segments. Compliance and quality issues are being addressed by innovation on connected devices, tracking and software technologies such as public and private blockchains. Telensense, a Sunnyvale, California-based company, is attempting to create a Greater FICO score for trading and profitability for large grain traders using IoT sensing and predictive software insights across grain elevator assets on a global basis. Finally insurTech companies such as Crop Pro and Insurance company, are disrupting the private insurance markets on-farm and through the supply chain by enabling farmers to underwrite yield and profit outcomes from the use of bundled technologies, such as seed, crop protection or digital agronomy. The resulting new large data sets in turn novel actuarial tables to underwrite discrete on-farm or supply chain risks. Together, all of these solutions are reducing the friction points implicit in traditional supply chains where poor information flows naturally create inefficiency. The next five years will see technology playing an increasingly transformative role in global commodity supply chains driving more dynamic pricing and decreasing information asymmetry even further.

This is a revolution for the supply chain but it also puts current incumbents at risk of being left behind. As technology changes so do trading companies' cost structure and the likelihood for consolidation of the market, similar to the mega-mergers over 2015-2017 across chemicals and energy. Seen is a rush to re-engineer (some players like Corvetta, Syngenta-Chem China, Monsanto-Bayer). As ADM approaches the purchase of BUNGE there is clearly a reach for growth within the commodity sector by the largest groups. This is a strong signal that not just change is here but that in-trinsic growth is harder to find and price-like risk is lower. Similarly startups like Trade Traders, with Silicon Valley DNA, are attempting to digitize the global movement of commodity goods by overcoming regulatory segments. Compliance and quality issues are being addressed by innovation on connected devices, tracking and software technologies such as public and private blockchains. Telensense, a Sunnyvale, California-based company, is attempting to create a Greater FICO score for trading and profitability for large grain traders using IoT sensing and predictive software insights across grain elevator assets on a global basis. Finally insurTech companies such as Crop Pro and Insurance company, are disrupting the private insurance markets on-farm and through the supply chain by enabling farmers to underwrite yield and profit outcomes from the use of bundled technologies, such as seed, crop protection or digital agronomy. The resulting new large data sets in turn novel actuarial tables to underwrite discrete on-farm or supply chain risks. Together, all of these solutions are reducing the friction points implicit in traditional supply chains where poor information flows naturally create inefficiency. The next five years will see technology playing an increasingly transformative role in global commodity supply chains driving more dynamic pricing and decreasing information asymmetry even further.

The endgame for commodity traders begins...
Big data unlocking farmer’s potential

The future of farming is in big data, but how do you harness its power in a way that makes it actionable? SMS Integrity (SMSi) by ECOM is a perfect example of how to give farmers back their agency by developing an electronic platform that enables the Sustainable Management Services (SMS) team to answer the many questions growers have, from the optimal timing for harvesting to plant stressors and soil conditions. SMS teams, located in 23 countries in Asia, Central and South America, and East and West Africa, embody how a trading company can act as a local processor. By participating locally and buying from producers at the origin, companies like ours understand the importance of investing in the long-term success of its farmers and their networks. Sustainability is more and more at the core of decision-making capabilities to optimise the productivity of farmers and their livelihoods. Above all, SMSi is a collaborative system that is transparent and incorruptible data on the origins and journey of our products.

“SMSi has given our company remarkable decision-making capabilities to optimise the productivity of farmers. Everyone — from clients to partners and investors — can learn more about the infrastructure and environment required to sustain farmers and their livelihoods. SMSi collects actionable data so its agronomists and field technicians can access real-time information to enhance overall farm productivity. The platform is capable of analysing inputs and outputs, providing farm practice recommendations and analysing a farmer’s income. SMS delivers customised products and services — including various types of training and financial products — to its 700,000 registered farmers. A highly experienced field team is equipped to deal with the most rural circumstances. A typical week for the SMS team involves mapping and surveying approximately 3000 farmers. The team provides coaching assistance, training and assessment and enters the information directly into their tablets, thereby decreasing the number of errors. And roaming audit teams conduct blind checks that are reviewed by the head office to verify that the surveyors have submitted correct data.

SMS currently contains information on 320,000 coffee and cocoa farmers from 16 of the 23 countries in which it operates. It will eventually house information from all of ECOM’s commodities, including edible nuts, spices and cotton. SMS has given our company remarkable decision-making capabilities to optimise the productivity of farmers. Everyone — from clients to partners and investors — can learn more about the quality, traceability and sustainability of the supply chain. We continue to develop partnerships that will provide macro-level data to complement the micro-level data of SMSi, allowing SMS to adjust its advisory business accordingly. Drone technology is another source of data that might help explore the impact of climate change on its farmers. “We are only now beginning to unleash the power of big data to increase the prosperity of our farmers, clients and investors” said Emmanuel Toureille, Chief Sustainability Officer, ECOM. “We are leveraging blockchain technology by pulling information from various systems to provide one common ledger. By deconstructing links within the supply chain, we are able to provide transparent and incorruptible data on the origins and journey of our products.”

Above all, SMSi is a collaborative system that is leading its farmers and stakeholders to greener pastures. By extracting and analysing big data from the most information-poor regions, it is possible to leverage data to increase farmers’ well-being and livelihoods, while reducing environmental impact and costs.
STSA ACTIVE IN TRANSPARENCY DEBATE

F or many years STSA has been actively engaged with authorities, civil society, academia, and member companies in order to address transparency, sustainability and human rights challenges. Approaches for these issues need to be fit for purpose and meet the level playing field expectations. On payment transparency STSA has been monitoring proposed changes to the Swiss corporate law. This revision, to align with international standards and in particular European regulation, would require disclosures of payments to governments by Swiss-based firms for extractive activities. STSA supports such a provision and the Swiss Federal Council’s position, but extending this to commercial trading activities would require a more complex approach given the activity’s very different nature. As of today, no international regulation exists, what constitutes a government’s first sale is hard to define and normal confidentiality clauses applicable to any commercial contract apply. Transparency STSA and its members are active in the Extractive Industries Transparency Initiative Working Group on commodity trading transparency that works on how state owned enterprises in producing countries could disclose oil first sales. A solution is only possible through a concerted initiative between national regulatory and producer States at international level. On human rights STSA supports the UN Guiding Principles for Business and Human Rights. STSA has worked closely with Swiss authorities, NGO’s and the IHRB on the elaboration of a sector-specific guidance document. Expected to be published this year, it should help companies in implementing those principles by providing some best practices.

In the upcoming years do you see CSR as a powerful driver reshaping the business models of companies involved in international trade?

The Coca-Cola Company has committed to more sustainably sourcing of our priority agricultural ingredients by 2020. Our Sustainable Agriculture Guiding Principles (SAGP) help define what more “sustainable sourcing” means to us and outline our expectations for the agricultural suppliers in the areas of human and workplace rights, environmental stewardship and responsible farm management. Many other companies are on the same journey to drive transparency, accountability and sustainability throughout their value chain. This trend to sustainable sourcing will not go away, in fact, it will increase in the future.

Modern supply chains can contain thousands of diverse & dynamic suppliers, making it extremely hard for a company to conduct effective due diligence across their entirety. How do fast-moving consumer goods (FMCG) companies approach this?

We expect our suppliers and bottling partners to embrace responsible workplace practices and uphold principles of our Human Rights Policy. We communicate these expectations through our Supplier Guiding Principles (SGP). The SGP which are aligned with our Human Rights Policy are part of all contractual agreements between The Coca-Cola Company and our direct suppliers. We closely monitor the implementation of the SGP.

Our agricultural supply chain is very complex, and every commodity is different. Just to give you an idea of the complexity, we rely on over 5 million farmers in regions around the world to help educate stakeholders across our agricultural supply chains to drive implementation against our 2020 sustainable agriculture goal. In order to better understand the risks within our agricultural supply chain, we have conducted third party due diligence studies focused on child and forced labor, and land rights. Our studies have focused on sugar because it is one of the biggest commodities we source, and we have made these studies publicly available on our website.

In which supply chain elements do you see CSR issues for FMCG companies such as yours? How can companies like Coca-Cola address these issues?

Can you provide a good example?

Through a global exercise, and with the participation of external stakeholders, we have identified our salient human rights risks. These are 13 risks that have the most severe actual and potential human rights impacts associated with our activities and business relationships. These risks include, for instance, child and forced labor, land rights, access to water and environmental impacts. Our Human Rights Report provides details on our efforts to address these risks but let me give you one example. Recruitment fees, which many migrant workers have to pay, are a key indicator for forced labor. Recognizing this, we adopted and rolled out a “no fees” position. Since then, we have had mixed success in recruiting migrant farm workers, many of whom refuse to pay recruitment fees or intermediaries.

How can FMCG companies ensure that communities where they source raw materials from feel the benefit of their presence?

Engagement with the people and communities where we operate is key in this regard. Our social license to operate is grounded in our ability to understand and mitigate social and environmental risks for these communities. Our approach to stakeholder engagement is not event-driven, but rather a continuous dialogue that enables us to identify and address potential issues proactively and collaboratively.

Do you believe new technologies like AI, blockchain, IoT, among others can help improve CSR issues?

New technologies surely can support our work to ensure that rights are respected and that workers throughout the supply chain have a voice. We are currently looking into the question, how can we harness the potential of technology in this regard. However, we need to be careful to limit expectations. New technologies alone won’t be the panacea to solve human rights risks in the supply chains, it needs to be embedded in a robust system to identify and address the actual and potential impacts, and technology can be one of the resources that we use.

Commodity trading can be viewed in substance as the sourcing of the procurement activity of a FMCG company. Do you see CSR issues specifically for FMCG companies to achieve their goals with regards to sustainable material sourcing, we must work with our commodity traders so that they, too, take an active stance on these issues. Collaborative action is key to achieve the necessary scale and momentum to address some of the systemic issues. Together we can have a more sustainable and more sustainable impact than by working alone.

How do you see new regulation (ex. CSR reporting obligations, phytosanitary standards, UN Guiding Principles) impacting the development of more efficient supply chains; to what extent do you see these regulations making the relationship between FMCG companies and commodity traders?

The Coca-Cola Company has publicly supported the UN Guiding Principles from their inception and has worked to implement them. The UNGP apply to all companies — commodity traders, FMCG companies and suppliers alike They are the common denominator with which companies should align their policies and business practice. One of our priorities is to cascade the UNGP further down the supply chain. We aim for suppliers to embrace the UNGP, engage in their own due diligence, be transparent about their salient human rights risks, and take action to address them.

Is regulation a key driver for companies to improve their CSR programs, or are consumer demand expectations a more important one?

All companies need to maintain their social license to operate, and that is a key driver for us. We recognize that in order for our business to be sustainable, we need to work to help ensure the sustainability of the communities where we operate. That work requires collaboration between businesses, governments and other interested stakeholders. At the end of the day, legislation may be part of the equation, but it is not the sole solution.

What are some strategies Coca-Cola uses to raise awareness among its consumer base and business partners when it comes to promoting more sustainable practices?

We believe that consistent and open communication with a diverse range of stakeholders, including consumers and our business partners, leads to continuous improvement as we work to respect human rights across the Coca-Cola system and strive towards our 2020 agricultural sustainability goal.

Interview Nina Eggert
Nowadays, people are expecting more transparency, repetitive and labor-intensive thus making it difficult to run annually, thus increasing operational risks. Tasks are often redundant and reconciliations mostly performed manually, leading to very long processes. Data captures are time consuming. Information is shared sequentially by all parties, given the large number of parties involved, rapidly where paper is everywhere. Bills of lading are physical documents by banks, is one example of such available products.

Beyond buzzwords

Process digitalization is already happening in the banks with a paperless objective shared by most actors. Several projects have emerged and are now being deployed. Supported by internal or external incubators, solutions can be implemented in only a few months thanks to innovative ways of working such as agile methodologies, design thinking and clients co-design. Those can apply to internal processes but the value still remains for customers benefitting from quicker processing times.

With Blockchain, trade finance banks are investing massively. Blockchain technologies have the potential to be disruptive all players. Quicker processing of transactions, increased security and transparency and paper/reductions are some of the identified gains from this innovation. 2016 has seen several proofs of concept being delivered. Trial payments executed successfully, consortiums put in place. In 2017, we’ve observed some further developments on these initiatives. For example, R3 has developed its own Corda platform and IBM has delivered Hypersledger Fabric framework. However, the standards have not fully emerged and legal uncertainties remain. Will 2018 provide some answers? On top of these long standing projects, practical solutions are being deployed, aiming to address specific pain points. MyCollat, a solution enabling real-time monitoring of goods used as collateral by banks, is one example of such available products. It has been developed in co-design with several clients, a bank and a warehouse network.

Using Big Data, banks also have the possibility to better understand their clients’ ecosystem and develop further their expertise in the value chain. The concept is, notably, to evaluate links between clients and suppliers. The challenge of data confidentiality, however, needs to be addressed carefully in order to preserve the confidentiality of client information and comply with the most stringent regulations.

Another angle of innovation explored is with Artificial Intelligence (AI) and Robotics. Dedicated AI labs are being established by banks to foster innovation and provide pools of expertise available to their own network. For trade finance operations processing, we can already see some solutions being deployed to automate and accelerate compliance checks and bank controls. By automating some parts of the processes, the operating costs and processing times can be further reduced. Artificial Intelligence is a lever that is massively developed and other dedicated solutions for commodity players are being identified. Taking into consideration the unused already in place in the retail business, it has brought a lot of comfort and relevancy to clients. For instance, chatbots may bring answers to simple and recurring clients’ questions, 24/7. The stake is to feed the AI engines with relevant and valuable data for better results and trade finance banks are well positioned to achieve this.

Transforming customer journey

These initiatives illustrate trade finance banks’ ambitions to provide distinctive experiences for clients thanks to digital technologies. The banks are committed to transform customers’ journey and meet their precise needs, with a clear focus on the global experience. In the digital age, the question is not “What to offer” to clients but “How to offer it”. Offering a similar level of satisfaction that clients are receiving in their private life from the likes of Google, Amazon, Facebook and Apple is a must. The journey continues...

The world of Commodity Trading is constantly hungry for new talent

For more information: www.stsa.swiss
Potential benefits for the use of blockchain in commodities trading

Blockchain is a buzz word that gets everybody excited, take the example of the drinks company that added ‘blockchain’ into its company name and the share price immediately spiked 500%, and is encouraging this archaic industry to push its boundaries and consider change. In reality there are many different technologies which are advancing, which have the potential to transform our industry, change the ways we manage our businesses, the way that we confirm transactions, how efficiently and accurately we monitor and track our products and supply chains, and how we communicate with and between all market participants.

We are keen to be at the forefront of any change and we believe that technology can allow for optimisation of business, better traceability of products, more secure inventory, changes to current funding models and overall improvement of the efficiency of current market environment, where commodity trading alone cannot replace most of the aspects in which we, as commodity traders, add value.

Blockchain technology is secure, allows companies to retain complete control and most importantly creates a record which cannot be reversed. Automating, securing and standardising processes will reduce and streamline security and financing requirements. Due to the enhanced technology and workflow processes, all of which could potentially save big money in high turnover businesses.

At Mercuria, we are not underestimating the effort involved in effecting this change, however, we do believe that it is possible and that the potential benefits make it worth the effort on everyone’s part. Technological advances are the future and disruptive technology space could be monumental and if pushed far enough, new technologies will be revolutionary and disruptive.
Arresting entropy in commodities trading: towards a single platform model

The days of dealing with a clutch of standard contracts traded across a handful of exchanges with defined trading hours are gone. Commodities firms are now 24/7 global operations, firing orders around the world, trading in different currencies, using different trading platforms often made up of a mishmash of software cobbled together. The technology estate is fragmented and consequently, so is the firm’s view of risk and its own trading activity. That comes at a cost. Until now, it’s a cost firms have largely resigned themselves to bearing, either because there wasn’t an alternative, or the benefits of change were deemed worth the difficulty that view is fading.

The Cost of Disorder

Consider the scenario in Chicago, a trader enters a position on the CME for wheat, traded in dollars and measured in bushels. His Parisian colleague does the same, but his contract is traded in Euros and measured in metric tonnes. Each trader hedges their position. The wheat is grown in different places and will have slightly different characteristics, but both are affected by the same fundamental market factors. The two positions affect each other, and without a consolidated view, the head of trading can’t confidently understand overall exposure. At the same time, two traders have made hedge trades, incurring broker commissions and exchange fees, when a single combined hedge trade would have sufficed. This is a pattern repeated globally by hour, day after day. Wheat is just one example, but Brent versus WTI is another. It may sound simple to consolidate positions, but when relying on a sprawl of trading platforms and spreadsheets around the world, it’s anything but. When traded contracts differ for similar underlying commodities, firms must also find a common approach to pricing risk and planning hedges. However, most firms could match a considerable percentage of their flow internally.

While most firms traded in different electronic markets and have sufficed.

The Art of the Possible

The goal then, is a single, state-of-the-art consolidated platform. One that brings together all global execution management, order management, and risk management. There are two inter-related evolutions that make this possible. First, the global communication network is fragmented and consequently, so is the firm’s view of risk and its own trading activity. That comes at a cost. Until now, it’s a cost firms have largely resigned themselves to bearing, either because there wasn’t an alternative, or the benefits of change were deemed worth the difficulty that view is fading.

Growing Complexity

There are three compelling reasons to think again of the general regulations and factors. The consequence that we currently see is fragmented and consequently, so is the firm’s view of risk and its own trading activity. That comes at a cost. Until now, it’s a cost firms have largely resigned themselves to bearing, either because there wasn’t an alternative, or the benefits of change were deemed worth the difficulty that view is fading.

On the many promises of AI

The promises of modern Artificial Intelligence create a race but its true benefits may not be as simple to access as it seems.

Saying that Artificial Intelligence (AI) has the potential to impact all aspects of our society has become a commonplace. On paper, one could equally argue that AI has been among us since computerised systems started supporting our daily activities. From smartly organizing data into databases to predicting the weather or helping our driving, AI already hides under multiple forms and all levels we are so familiar with that we would not imagine how to do otherwise. So what is so new about the current times?

There are two inter-related evolutions that make AI enter a new era. First, the global communication context within which current AI works on enabling its operation to be at a global scale based on the capture of globalised data. For example, from communities of clients and their actions, recommendation systems can profile users, make accurate suggestions, predict purchases and optimally manage stocks. Second, the power of the infrastructure (computing and storage) over which AI runs has dramatically increased. More powerful machines are crunching more data, more rapidly. Whereas 30 years ago one of the main challenges of AI was to capture human knowledge for inference, this operation is now crowdsourced via the recording and mining of the traces of our daily activities (so-called Big Data, boosted by the Internet of Things) feeding Machine Learning algorithms, possibly driving various types of effects.

The consequence that we currently see is fragmented and consequently, so is the firm’s view of risk and its own trading activity. That comes at a cost. Until now, it’s a cost firms have largely resigned themselves to bearing, either because there wasn’t an alternative, or the benefits of change were deemed worth the difficulty that view is fading.

The promises of modern Artificial Intelligence create a race but its true benefits may not be as simple to access as it seems.
The pace of innovation in the commodity trading industry over the past year has been relentless. STSA recognised the transformative potential of new technologies applied to the industry. This has led to the development of the TRAFEC, a secure communication platform between banks and trading companies. The fast rise of commotech across all commodity classes makes technology an essential commodity class. When part of STSA’s activities, technology is an essential commodity class. Geospatial data from mobile apps used to determine aggregate vehicular usage by country; traders now have unprecedented digital access to the world around us.

There is a common statistic that ninety percent of the data in the world has been generated in the previous two years alone, which is unsurprising if you consider that internet-connected devices now significantly outnumber people on earth. This trend holds true at CME Group too; our price feed alone now generates over five terabytes of data each day, yet our customers continue to seek access to new data sources which offer greater insight into our markets.

All of this data creates a huge opportunity to derive insights which can better inform trading and risk management decisions, but it also presents a threat to those firms who fail to embrace the emerging technologies necessary to unlock its potential.

The promise of “commotech” and how emerging data is reshaping commodity trading

New technological developments including AI, IoT, big data, deep learning and kft, are taking hold in the commodity trading industry. What new opportunities do they present to commodity traders?

All such emerging technologies have one thing in common, which is that they are powered by huge and exponentially increasing amounts of data. From the use of satellite imagery and AI to calculate daily oil storage levels, geospatial data from mobile apps used to determine aggregate vehicular usage by country; traders now have unprecedented digital access to the world around us.

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How easy will it be for new technologies and emerging data sets to penetrate a predominantly paper-based industry?

One of the biggest challenges in harnessing such data is that it is typically unstructured, disparate, and difficult to unify. Technologies such as Cloud and AI can help with this process, but data science expertise is often a prerequisite. Sourcing reliable data in the first instance can also be problematic. This is especially true in physical commodity markets where data science resources are limited and high value datasets are often held as proprietary assets rather than being commercialised.

It is important to note that we will see a growing number of new third-party platforms emerge which attempt to democratised access to such data and technologies. Consequently, as the barrier to entry lowers and the necessary technologies become widely available, more and more trading firms may start to embed these ‘digital insights’ into their standard trading processes.

How does this compare with the trading technology of 20 years ago?

In addition to democratising access to emerging content, we will also make it easier for commodity traders to connect directly to our electronic markets to manage their risk in real-time. This will be facilitated through the release of new web-based APIs and widgets, which will support both market data and order entry.

Final question: how essential will the adoption of new technology (and the supportive framework conditions to allow this to happen) be in asserting commodity trading hubs in the future?

In an efficient market, traders look to react as soon as new and relevant information comes to light. In the past, this was facilitated via a network of ‘contacts on the ground,’ tasked with manually counting trucks, observing crop quality, monitoring shipments, and passing notes back to the trading desks. In the future, this will gradually be replaced with ubiquitous ‘eyes in the sky,’ powered by Artificial Intelligence and delivered in near real-time via APIs. Through necessity, this form of on-top digital ‘intel’ may drive increased demand for algorithmic-based trading strategies which can react automatically to changing signals, together with access to marketplaces where risk can be managed electronically.

How do you see the different players along the commodity trading supply chain coming together? Can a company like the CME help with this process?

Affecting change in any industry requires a degree of disruptive market forces. Whilst technology may be the catalyst for disruption within the commodity markets, it is less clear whether large incumbents will be the instigators of change, or new entrants to the marketplace.

My suspicion is that we will see a mixture, with new technology startups providing managed services into the larger less agile incumbents. As the world’s most diverse marketplace, CME Group constantly strives to help our clients leverage new technologies and ways of trading. We are excited to be rolling out a portfolio of new alternative data sources which have been carefully curated and back-tested to ensure correlation with our commodity markets. These datasets will be made available electronically via our cloud-based DataMine portal alongside our traditional market data, and will provide new insights into the supply and demand for the underlying products traded at CME Group.

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Are you supporting tomorrow’s deals with yesterday’s operations?

Digital technologies challenge commodity markets and force you to transform your business model. We can help you evolve your trading operations and provide new approaches to work toward boosting your success.

[ey.com/ch/commoditytrading](https://ey.com/ch/commoditytrading)  #BetterQuestions
Tenth Trading Forum: bringing the industry together

On February 27, 2018, the Trading Forum organized by the Swiss Research Institute on Commodities (SRIC) Foundation took place in Geneva and celebrated its 10th edition. The forum hosted a wide range of speakers including commodity traders, politicians, professors, and NGO representatives. Through the years the mission of the Trading Forum has been to start dialog on the industry’s trending issues, exchange thoughts on the industry environment and anticipate upcoming changes. This year more than 120 professionals came together to share perspectives on business model disruptions and the impact of technology on a sector that represents just under 4% of Switzerland’s GDP.

Professionals from various commodity areas and different parts of the supply chain discussed the latest developments in their respective sectors. The overarching theme of the conference was how the industry is becoming more and more interconnected. A change in geographical demand in one commodity no longer impacts that commodity only; on the contrary it’s effects will ripple through the industry, potentially completely changing its dynamics. Technology has made this integration across the industry spread much faster, forcing players like trade finance banks and shipping companies to completely reinvent their business models in order to survive.

A highlight of the morning session was Geneva State Councillor Pierre Maudet’s speech on the Swiss and Geneva trading environment. He stressed the policy makers’ lack of understanding of the commodity trading industry and how despite strong efforts made by the industry there is still need for more dialog and transparency. Mr Maudet followed by mentioning that the State has an important role to play in supporting the industry by establishing a transparent regulatory framework, avoiding any “Swiss finish”, anticipating challenges and driving action to overcome these. By doing this the State can help and improve its economic appeal to trading companies.

Now more than ever streamlined supply chains are improving traceability, sustainability and overall trade in niche markets. Today, consumers have strong expectations about the origin of the goods they consume and fair trade has become an important trend that transcends all sectors. Achieving this level of transparency will more than certainly increase pressure on prices. In this context, traders are well positioned to meet the supply chain streamlining challenge. They will be able to better support producers and better meet the needs of consumers increasingly focusing on niche products.

On the other hand, the development of advanced technologies such as low-altitude satellite imagery, blockchain, artificial intelligence (AI) and an ever increasing amount of data are completely changing how trading houses, banks and exchanges do business. Although blockchain has been taking over the headlines lately it was strongly emphasised that it is far from full implementation and that it is not the only technology that will impact the industry. On the other hand, AI and big data, which are much more developed, are currently changing how many things are done. Some of the main concerns brought up by the speakers were around implementation, regulation, costs, and getting everyone to work together. Also, although technology might solve many problems it might create new ones. For example, where is all the electricity for electric cars going to come from? How are the batteries going to be recycled? How will the required metals be sourced? These are questions that will keep regulators busy and traders anticipating future market trends for many years to come.

Nowadays, given how fast information moves, discussing ideas once a year at the Trading Forum is not nearly enough. Ideas and concerns need to be addressed daily. The SRIC Foundation aims to frequently convene its members around the same table and provide a bridging platform to build actionable thinking, bring creativity and reinforce the Swiss trading ecosystem.

WHAT IS THE SRIC FOUNDATION?

The SRIC Foundation was created in Geneva in 2015 with the mission of being the progressive engine, bridge builder and reference platform that makes academic knowledge of the commodity sector desirable, accessible and purposeful. SRIC represents all stakeholders of the commodities ecosystem. Its members include academia, commodity trading companies, multinationals, civil society, and national and international public authorities.

The SRIC works collectively with its members to advance academic knowledge in the industry. This collaborative approach increases awareness and builds stronger engagement with the public in general. It facilitates interactions that spark innovations, solutions and new opportunities. With time and as technology develops, the SRIC realised the need for an easy-to-access platform where academic know-how and information is shared continuously. Therefore, the SRIC decided to powers Academicity™ - a digital physical platform where the worlds of academia, civil society and commodity trading can meet on an uninterrupted basis. Open to everyone, the platform will be the leading academic knowledge resource and thought leadership platform in the commodities world.

Using the label Academicity in the commodity sector for the benefit of everyone, the SRIC Foundation aims to become the driving force in commodity trading research, providing a solid basis for decision making in both the public and private sectors for the years to come.
How creating a deep talent pool has helped structure the hub

G rowing a trading firm in a fast-paced and constantly changing world requires adaptability, patience, sound management practices, but also the ability to tap into a deep talent pool. If we look back 10 years ago, the staffing challenge was immense for the entire industry. Not only were there very few competent people available but there were also few people with the required background. Operators often came from banks or from haulage companies; traders doubled up as support staff and new recruits often knew very little about the ins and outs of physical commodity trading.

Needless to say, things look quite different today. Switzerland and more particularly Geneva can now boast of an unparalleled talent pool when it comes to commodity trading. All of the key functions that are required to run and manage a successful trading house can be found here, a key strength of the hub.

As a result, there is no longer a need to scout talent in naval academies or abroad. Moreover, the commodity trading industry has all the tools at hand to further train and hence help retain its staff. This has proved fundamental as whatever the role, profiles have become ever more specialised while staff needs to be flexible; a trend that continues to this day and that requires a different mindset from back in 2000. This, however, did not happen overnight.

CREATE EDUCATION & TRAINING PROGRAMMES THAT MEET INDUSTRY NEEDS

STSA, with the commodity trading industry, has developed a full-suite of specialised education and training programmes locally, becoming the reference for commodity trading education. STSA was key in the launch of two academic programmes, starting from 2008, and developed with the University of Geneva.

The recently rebranded Master of Science in Commodity Trading, offers a multidisciplinary programme combining an academic curriculum with workplace experience for students with a Bachelor degree. The Diploma of Advanced Studies in Commodity Trading meanwhile is best suited to professionals already working in the industry and looking to strengthen their professional skills with the best of academic knowledge.

Most recently the programme was adapted for overseas professionals and exists now in a format combining online courses. Those academic education programmes ensure that graduates are well-rounded and can think critically and act efficiently once in employment, having followed a course designed to equip them for managerial roles.

Through strong cooperation and constant exchanges with STSA, the curriculum of all these programmes are frequently revisited ensuring that both staff and company stay abreast of developments, changes of law and regulations and retain their industry leadership.

BUSINESS

Litasco figures on employees involved in industry programmes since 2008

<table>
<thead>
<tr>
<th>Programme</th>
<th>Number</th>
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</thead>
<tbody>
<tr>
<td>Master of Science</td>
<td>15</td>
</tr>
<tr>
<td>Diploma of Advanced Studies</td>
<td>14</td>
</tr>
<tr>
<td>STSA Operator’s Certificate</td>
<td>5</td>
</tr>
<tr>
<td>STSA Commodities Trading Fundamentals</td>
<td>12</td>
</tr>
<tr>
<td>Total number of students</td>
<td>45</td>
</tr>
<tr>
<td>Of which Swiss nationals</td>
<td>18</td>
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</table>

Litasco has been present along the shores of Lake Geneva since 2000 when the office opened with about 40 staff, half of which were traders. It has grown over the years to open about 250 employees today representing over 30 different nationalities.

Since its opening, the company has encouraged all employees to make use of various trainings for the completion of their work duties and to improve their performance, covering the areas of soft and hard skills, professional development and specialised courses applicable to their speciality. This commitment is reflected locally by the creation of an educational partnership with STSA and key Geneva institutions to develop specialised industry education programmes.

15 years ago, most of the profiles and employees were found abroad and hired from foreign companies. Specialised Operations training was at that time mainly available in London. As a founding member of STSA, and together with the Association and the University of Geneva, we have thoroughly supported the local development of a specialised higher education offering both academic programmes and professional trainings. Our management has since the origin of this new and unique type of learning been directly involved as speakers or lecturers to a number of courses, which has contributed to prepare the students and employees for real industry life situations. We believe that our commitment has locally supported the growth of the commodities trading industry and its key regional support businesses.

Advancing knowledge in the commodity sector for the benefit of everyone.

the catalyst for the commodities world.
How the SRIC’s activities can have an impact on commodities trading

Commodity trading plays a central role in almost all sectors of the physical economy’s value chain. In your view, what is the state of academic research on commodity trading? What are its main challenges?

Dorothee Baumann-Pauly: Academic research on aspects of commodity trading cuts across several academic disciplines and assessing the state of research generally is hardly possible. Most existing research focuses on optimising the trade and finance in my area of business and human rights, there is no specific research yet on the role of the commodity trading sector. I think the main reason for this is the fact that commodity trading is a B2B business and not consumer facing. The industry has experienced less pressure than other sectors and therefore is part of the broader green movement. Denis Ruysschaert: DR) I focus on the social and environmental impacts of agricultural commodities and mining extraction. In those sectors, the research has focused on both ends of the supply chain, either the producer of the commodity or the end producer of goods and retailers. Trading has been overlooked, even though this is the core of the supply chain. Traders are quite reluctant to participate in improving the supply chain and try to hide themselves behind the role of broker, even though their activity needs to be incorporated. Otherwise their responsibility cannot be called. However, things are moving in the right direction, thanks to the financial sector, which is trying to deliver some guidelines for a better interaction and some governmental policies that force due diligence.

The Swiss Research Institute on Commodities (SRIC Foundation) brings together commodity trading firms (business, academia, government, civil society) concerned with commodity trading. How can the SRIC become the catalyst to high quality and respected research and new interaction with the other way around? (DBP): The SRIC platform can be useful under two conditions: on the one hand, the industry must be open to communicate its real business challenges to enable academics to work on practically-relevant topics. On the other hand, academic research results must also be actionable and not only publishable (which is the key requirement in the academic world).

What avenues are there to build bridges between industry stakeholders at this time? (DR): The NGO world is growing and becoming more diverse, with a trend to go from public awareness to scientifically sound facts supporting advocacy. I observe the will of the University to be much closer to society. (DBP): I think commodity trading can and needs to play a more proactive role than merely mirroring consumer demands, particularly since the industry is not consumer facing. The SRIC platform creates an opportunity for industry to contribute to business practice, reflect on these and adapt them to what is considered socially acceptable. (DR) I agree. In the fundamental flow, production drives the market and turns the other way around. The commodity trader that should not ask too much on the customers’ side. This industry must be more proactive instead of being responsive.

The Business and Human Rights agenda and more specifically the consideration of corporate responsibility and accountability have emerged as an area where commodity firms are looking to take a proactive stance. How can academic research help raise the profile of matters in Business and Human Rights in commodity trading? (DBP) Research could independently assess the business practices of the industry and highlight how they affect human rights. (DR) Again, commodity traders really need to get to a more proactive approach in terms of research, not necessary the other way around. Do you want to be part of the game? The pace of innovation is frantic and commodity trading is looking to harness new technologies to increase efficiency and traceability, to lower costs and deliver better service. Do you see technology as a game changer for the industry? Where do you see academic research progressing in parallel to advancements in innovation and technology? (DBP) I am not a tech expert. However, I believe that technology can help to increase transparency. The data that technical tools generate, however, still needs to be analysed by human who ask the right questions. (DR) Technology is changing the game. On the production side, with accurate information through satellite images and swift dissemination. On the financial side with all the links. On the retail side, with applications around the product quality. In summary, technologies are having a huge impact on supply chain transparency and accountability, including on commodity trading. However, commodity traders may also be used to go towards even more standardised production systems.

Which competencies do you expect to be required in the academic world (teaching, collaborating and researching) in order to address the needs of a constantly changing industry? How should the SRIC be positioned to be at the leading edge of knowledge and insights that set the transformation agenda for the industry? (DBP) The SRIC could be a platform to formulate the key questions that will shape the future of the industry. It could become a focal point for academic research and multistakeholder engagement on these questions. (DR) I guess academics need to have a broad understanding of the political trends, a good knowledge of the supply systems, and be versatile in bridging research with commodity hard reality. It is about having legitimacy, getting the trust and networking in good faith with all in a rather secretive field.

Interview Elsa Floret
This special edition has been produced with contributions from STSA, industry professionals and the support of the following organisations