The Price of Responsibility

In his keynote address Tuesday at the FT Commodities Summit in Switzerland, Cargill CEO Greg Page delivered a plain message: “Price is one of the most powerful signals on earth, and to be a communicator or disseminator of that price means we must accept huge responsibility.” Page urged the commodity trading world to be accountable for the social, environmental and economic consequences of business decisions. With technology making communication both global and nearly instantaneous, he said, there is nowhere for companies to hide. Nor should they seek to hide. Pointing to recent government action in the banking industry, Page called for good policy frameworks that don’t hinder the essential work of getting crops and other raw materials to where they’re needed: “We can either earn and embrace the governance and regulation we want and need, or ignore our ethical, behavioral and societal obligations and then accept the governance that all others may impose upon us.”

These are Page’s prepared remarks. His speech may have varied slightly.

It’s a pleasure to be here and to have the opportunity to address such an esteemed audience. As I look around the room I can see pretty much a “who’s who” of the commodities world – and I think it’s a real statement of how important our sector is, and how much interest it generates, that the FT successfully launched this event last year, and this, only the second year, has attracted such a high level of attention and engagement. We live in a fast moving world, and it’s a testament to Lionel, Javier and the team that they have lined up a programme that makes it worthwhile for all of us to spend a couple of days here – so congratulations, and thank you for inviting me to share some opening thoughts.

This gathering is timely. At the end of last month we saw the publication of the Swiss Federal Administration’s Report on Commodities, and if you are familiar with the report you will recognise some common themes in my remarks. The need for appropriate, not disproportionate, regulation, the need for responsible conduct, the recognition of the real value commodity trading brings to the world and above all the need for transparency.

We all know that over the last few years the commodities sector has increasingly been in the headlines. Weather events, price events, , policy changes – in fact pretty much every aspect of our industries are all gaining a greater public prominence than perhaps ever before. And not always positively. So today I am going to talk about the world we all operate in today; the role trading holds in that world, and its critical purpose. I will talk about why transparency and responsibility are so important, and finally reflect on the role of price.

When I started pulling my thoughts together for this morning, I thought I could start by comparing and contrasting some key commodity prices from when Javier first approached me, back in March 2012, to now. I mean it has been a roller coaster of a ride over the last year. So we looked at the numbers, and a year ago prices of basic commodities were 250 – 300% of long term averages. And guess what? They still are – even if it does feel like we are in two very different worlds. We always say that as traders we like volatility, but what we saw last year wasn’t just volatility – it was turbulence. I recently asked one of our trading leaders the difference between volatility and turbulence. His response? “One can make you money. The other can make you air-sick”! I think we can all recognise that feeling.

So having tried the numbers, I looked to the politics. We were all watching the tension across North Africa and the Middle East, as the understandable ambition and personal tragedies of the Arab Spring continued on through the autumn and into 2012. In the US, it was early days of electioneering, with the Primaries in full swing, and the big question was would President Obama’s Healthcare reforms bring him down, or would he see a second term for the Democrats. In Europe some national governments were teetering on the brink of financial crisis as the Eurozone continued to struggle with the aftermath of 08/09. Could the single currency survive? Would the dominant northern European economies come to the rescue of the more economically fragile southern countries?

And while traditional economies were struggling, growth in the emerging regions of Latin America and Asia was still relatively strong – although slowing from previous peaks. Even China's much vaunted 10 % plus growth rate was beginning to show signs of strain.

So 13 months on, what's changed?

Just like the prices – not a great deal, though there are some new headlines added into the mix :

Continued instability across some parts of the Arab world still causes political concern. President Obama did win his second term, but immediately needed to navigate a torturous path with Congress to avoid the worst elements of the Fiscal Cliff. Individual European economies are still in fire fighting mode. Long term sustainable coherent recovery plans remain elusive, especially following the Cyprus bailout which continues to dent consumer confidence and trust. Asia's growth, while still stronger than North America and Western Europe, has slowed. The world is holding its breath over North Korea's intentions, and all of us are watching Xi Jin Ping with keen interest since he became President a couple of months ago.

The world is clearly in transition, *and always will be*, but it is not certain whether this phase of transition is marking the beginning of a new era. I think not. What is certain is that change will continue to bring new challenges and uncertainties for governments, economies, global industries and individuals.

So what does it look like and feel like for us in Cargill? What are we seeing? As you may know, we have about 140,000 employees operating in 65 countries across the food, feed, energy, metals, transportation and financial sectors. Our people are on the ground at many points within the supply chains in which we operate - from origination to end user.

We see :

- an OECD world burdened by immense debt, in some cases acknowledged, in others not, and still on a trajectory to dig deeper with demographics that exasberate the challenge
- an emerging world that despite the OECD problems is growing, liberating its economies, innovating and investing in its future that often with incomplete rule of law
- a telecommunications led level of networking and interaction driving change as never seen before and diminishing the value of data
- finally, a thirst for trade connections of new and old markets between nations – an unprecedented level of connectedness and interdependence
- in short some very positive macro trends.

But equally we see levels of uncertainty and instability as economies stutter, as political and social unrest continues, as unemployment figures continue to rise, as do food prices. Stability is increasingly hard to see or find. The elasticity of market responses is outside versus the past. We are seeing exaggerated movements to the same degree as stimuli.

One thing that is clear and relevant for all of us, is that our role in trading commodities, whether operating in "creation" commodities – those that the planet naturally provides, renews and restores through the power of photosynthesis every day - or "extraction" commodities – that is those which the planet naturally created, and then hoards – is ever more crucial to support stability in the world today.

Stability through access to safe, affordable food. Stability through access to essential metals, minerals and energy. Stability through mitigating financial risk in an increasingly volatile global environment.

And stability, perhaps predictability, accelerates growth.

That's a big role and a big responsibility we share, and not one any of us can afford to take lightly.

So how did trading get to where it is today?

Trading has long been a fundamental of life. To quote Libanius, from his "Orations III, written in the 4th Century:

"God did not bestow all products on all parts of the earth, but distributed his gifts over the different regions, to the end that men might cultivate a social relationship because one would have need of the help of another. And so he called commerce in to being, that all men might be able to have common enjoyment of the fruits of earth, no matter where produced"

I am not sure that markets are necessarily divine, but I am convinced Libanius was on the right path.

Now we've not been in business quite that long, but in 2015 we will be celebrating 150 years of our company's role in this ancient practice – and, despite my boyish looks next year it will be 40 years since I started in the business.

And in my experience, Libanius was right. Trading, or exchanging goods, has long underpinned human progress, and the interdependence that comes from trading creates the real capacity to raise living standards.

Trading across national boundaries is a necessity, not a luxury, if the world wants to better serve the needs of its citizens. And as we face into a global population perhaps reaching 9 billion by mid century, an even greater proportion of the world's food will need to move across oceans to feed the people. National self-sufficiency in food or in each individual food stuff will not suffice.

So trading has always been important, and will always continue to be so.

But something has happened in recent years – perceptions of trading have changed, and not for the better.

The term "Trading" has become wrapped up and confused in the public perception with speculation, hoarding, market fixing, monopolies, cartels and bad practices. There is increasingly little differentiation in perception between trading and the worst excesses of banking – the massive points of difference being misunderstood or ignored.

We should not be afraid to point out the difference. We should not ignore or underestimate the significant value we bring to people's lives every day through moving food and crops from places of surplus to areas of deficit, or providing safe and efficient storage, minimising waste, maximising productivity, or supporting farmers with crop inputs, pre-financing or access to markets, managing risks or trading coal, electricity, natural gas, petroleum, iron ore and basic metals.

A feature of today's world is the increasingly inter-related nature of these fundamental commodities. Some of these connections are brought about through regulation - agriculture and energy via ethanol for instance. But many are simply revealing the underlying basic relationships between commodities at a fundamental level as seen for example by the convergence of multiple forms of energy.

All these connected, basic commodities are fundamental to life and essential contributors to the global economy.

So fundamental are they that we should question whether the term "trading" is even the correct descriptor for those of us dealing with physical products rather than purely abstract financial transactions. Because as the term becomes discredited and confused, so abuses by a minority of "traders" at any extreme of the "trading" spectrum impact negatively on the broader industry. And we all become tarred with the same brush – and suffer from the erroneous perception that trading is somehow "bad".

Just looking at our own businesses - we trade with more than two million smallholders around the world, giving access to markets, paying them promptly in cash so they can invest in planting, support their families, improve their livelihoods and invest in their futures. Is that “bad”?

Is providing training to tens of thousands of cocoa farmers, helping them improve their yields, raise the quality of their crop and increase their income “bad”?

Is ploughing more than 13 Billion dollars into physical infrastructure, transportation and logistics in the developing world alone to allow raw materials to be gathered, stored, moved and shipped safely “bad”?

Is championing the need for open and free markets to allow true price discovery “bad”?

Is improving shipping standards on all freight charters “bad”?

Does innovation in improved efficiency and cost reduction in moving oil, metals, or energy, allowing billions to have power, phones and jobs because they have become affordable at ever diminishing real prices describe a ‘’bad ‘’ profession?

Is conserving finite materials, valued for their scarcity, a “bad” thing?

We do not think so.

So when does it go bad?

When trading becomes divorced from the management of the supply chain and becomes driven by a short term horizon. When the management of risk and the seizing of opportunity becomes detached from its consequences. When it moves to become a purely abstract point of speculation and an outcome in its own right.

That is when it ceases to have a noble purpose.

Cargill has ever believed in a noble purpose – our vision “to be the global leader in nourishing people” speaks to our belief. We have long been at the forefront of such behaviour: storing crops and minimising spoilage; painting the bottom of ships to reduce energy use in propulsion; championing the use of green technologies to harness the wind in ocean transportation; sourcing responsibly; developing supply chains that respect people and human rights; using and promoting the most responsible practices across all our businesses; demanding and expecting the highest behavioural standards from our people. Constantly being innovative, and working to meet the existing, evolving and often unspoken needs of customers and consumers around the world with physical products and tangible solutions.

“Commodity merchandising” was the term we all used to use to describe what we do – and perhaps we should again. It speaks more to the relationships inherent in our world – we are a service industry first and foremost, providing essential lubrication for the global system with liquidity, mitigating risk, meeting the needs of our customers and our suppliers, helping them, and the world at large, thrive.

They are lofty words, and highbrow principles, all of which are fine, but let me bring it down into some detail.

Fundamental to the “system” working is the supply chain. That’s not something that can be left to chance. Companies like Cargill, Glencore, ADM, Shell, Exxon and many others have long ago moved down, through and into the detail of the supply chain. Investments made on the ground in physical infrastructure for the long term both create and underpin the trading relationships that Libanius referred to all those years ago.

As an example when we, Cargill, invest in vehicles and roads in Indonesia which allow smallholder farmers to have their palm fruit carefully and safely transited from their plots, and when we support and encourage the development of community cooperatives, and they, in turn, create and develop local cooperative banks, who in their turn support the cooperatives' long term reinvestment plans for the commercial smallholders, while we continue to provide access to not just market knowledge, but transportation to markets, and full and fair market price. Those interdependent elements are what we believe are important – and what I think Libanius was talking about.

In the global economy, the connections across the food, agriculture, energy, minerals and metals space are increasingly apparent. As science progresses, the interdisciplinary nature of everything is coming to the fore. Interdependent and interconnected value chains either happen naturally, or become uneasy bedfellows because of government policy actions. Like hedging of commodity price risk being linked to banking regulations, or fertiliser subsidies hindering farmer education. These forced connections occur because of often unintended policy actions where the linkages have simply not been thought through – as in the case of biofuels. Dangerous situations are created that put the natural symbiosis of the value chains out of balance.

There's an inherent conflict between government frameworks and global trading value chains. Governments are, naturally, based on nation states, and legislate and tax on this basis. The value chains are, on the other hand, naturally, cross border, cross region, cross continent, truly global. The work of the WTO tries to bridge these gaps, but with variable success. Trade is global, and needs to be recognised as such. It deserves to be supported by coherent legislation and coordinated policy frameworks which support and encourage good, ethical practice, and truly transparent operations.

There is a belief that the trading houses are secretive, totally opaque, manipulating markets and fixing prices in the same way a small number of bankers fixed Libor. A belief that there is no transparency – the buzz word of the forthcoming G8 in the UK.

That could not be further from the truth. Back in 1974 when I started, things arguably were opaque. There was no internet, no cellular phones, no instant communication or flash commentary or opinion – and of course no email. (Sometimes I yearn for those days). The information was available on the ground and competitive advantage came from how quickly you could gather it and do something with it. Cargill was the first company in the world with its own private worldwide wire system, introduced to try and give us the edge on the one thing that mattered – speed.

Today every one of us has enormous amounts of information available and at our fingertips, instantaneously. There is no time and date advantage. Everything is totally transparent - and the skill today is in the analysis, interpretation and the insight derived from that openly available mountain of knowledge.

So far from being opaque, the reality of today's technology, instant information, and with public opinion shaping global acceptability, it means there is nowhere to hide– and neither should there be.

A 'Noble Purpose" needs nowhere to hide.

I called this talk today "the price of responsibility" – and I believe that we all have a responsibility to ensure that market prices are allowed to do their jobs. Continuous, open price discovery is crucial. It is arguably one of the most important mechanisms to avoid a repeat of the great excesses of 08 which almost collapsed major economies. Open price discovery serves to reveal errors and mistakes – it exposes the problems that can be created by other collective decision making within the public sectors. While that can be a cause for embarrassment and make it a target for criticism, it should not and must not be stifled. Price is like the canary in the coal mine. Should we kill the canary when it shows us something bad or dangerous is happening? Or should we recognise its role, and listen to what it is telling us?

Price is one of the most powerful signals on earth and the best fertilizer. To be a communicator or disseminator of that price means we must accept the huge responsibility which that entails. We must ensure that price signals are heard and are listened to – not just by the people in this room – but by the millions of producers and consumers around the world. This is not something abstract –in the world of commodity merchandising it is about real, tangible products and services that impact real decisions of real people, every day of their lives. It focuses their lives and drives their choices and actions.

But beyond that, we must be responsible for our own actions - and be aware of the social, environmental and economic consequences of what we do. Because in today's world, it is going to be obvious to anyone who cares to look – and many do As an industry, we should speak out for good policy frameworks that help the market to work to everyone's benefit while filling in the gaps the market cannot fill. We also need to have the confidence to explain what we do and how it works to people's benefit – how efficient, transparent markets give both producers and consumers the best prices.

It is not for us to take on the roles of governments, although we should seek to inform their deliberations, but it is essential that we are a force for bettering people's lives.

The industry, as a whole, must accept its responsibility to behave appropriately, properly and ethically. There are lessons to be learned from the banking sector, and the forced legislation it prompted and is still prompting.

As commodity merchants we have a choice. We can either earn and embrace the governance and regulation we want and need, or ignore our ethical, behavioural and societal obligations, and then accept the governance that others may impose upon us.

The world needs what we do, and what we bring, today more than ever. We should all recognise the huge behavioural responsibility the industry carries, and we must all hold ourselves, and each other, accountable.