The Dawn of a New Era

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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 discriminatorily) and the EU has both accommodating 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 be 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 protein. 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.

Nicollete 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, and having made 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, many more benefits will be enjoyed, and 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 nearer term, however, the outlook for demand continues to look positive.

TECHNOLOGY – AN ESSENTIAL TOOL, BUT NO PANACEA

The issue of transparency is the focus of both the authorities and related stakeholders to find fair and fit for purpose way to implement the UN Guiding Principles to the commodity trading sector. As new technology is developed, new regulations 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.
Your ideas created your wealth.
Our ideas ensure you keep it.
Finding new trading opportunities in the oncoming electric-car revolution

The broad 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 same applies to economic-based shifts in consumption, such as the increased demand for plant-based products.

Many innovations are being applied or are under development to address consumers’ growing desire to know the source of their food, to support farmers and to improve productivity, as well as responsibly and sustainably manage and use natural resources. Last year, for example, Cargill launched a pilot project that uses blockchain technology to allow consumers to trace turkeys back to the family farm. Another example is the London Metal Exchange initiative in the launch of a lithium contract, which will bring more transparency and liquidity to the market. It is important to realize that the EVs’ transition is still a big unknown. There is strong interest, but not yet a need. And today’s growing demand is mainly supported by subsidies provided in the major EVs consuming areas like China. A government that relies heavily on revenue from fossil-fuel taxation will have to find a balance with the true cost of EVs. Technologies still need to be test proved, and the standard one has not been found so far. Battery size, and cathode / anode chemistry are the topic of significant scientific debate. The final outcome of that debate will determine the actual commodity demand.

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S UP TO US$ 25,000 A YEAR LATER. THESE ATTRACTION

SIMPLY PUT, OPEN TRADE FEEDS THE WORLD. IT GENERATES

vying the reduction in the percentage of the world’s population with insufficient food supply over the past 50 years. There has also occurred a free trade—res-

F IN TODAY’S ENVIRONMENT

Reshaping agriculture trade

Edward has proven that free trade—responsible trade that takes place on a level playing field—is the most powerful engine of economic

prosperity. Guided by that rules-based system, world trade increased more than 150 percent between 2000 and 2014 alone, growing from US$4.8 trillion to US$12.2 trillion.

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

David Fyfe
Head of Energy Research and Analysis
Gardner Group

STUBBORN MARKET SURPLUS, BUT REBALANCING WELL UNDERWAY

A sizeable inventory overhang from OPECs 2014-2016 market share “grab” is gradually diminishing. OPEC and Russia, amid collapsing revenues, spent a remesorable 2017, cutting oil supply by 1.8 mb/d, with reductions continuing to run through 2018. From $55 in autumn, Brent crude hit $73 in January, though prices may soften in H118, amid seasonally weaker demand and refinery maintenance. There is more OPEC stock to be drawn too, before the word “surplus” is erased from the short-term narrative. So, after short-term rebalancing, then what? Here opinions diverge, but lower production costs are the key. “imminent” peak demand and abundant US oil supply 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 accord, electric cars and de-carbonization, are in vogue. The energy transformation is real enough, but equally the “commentariat” is sometimes guilty of trumpsweeping 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, nothing is one size, nor one pace, fit 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 internal combustion) and continued efficiency gains. Freight and air transport will rely on oil for decades. Reducing wasteful plastics is laudable, but can we prescribe low consumption lifestyles to an aspiring middle class in emerging markets?

Annual oil demand growth will more likely taper than collapse, trending from 1.5 mb/d today to below 1 mb/d in the decades to come. The job of non-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 improvements will likely remain valid aspirations. But remember, crude oil prices are bloated by US shale.

Recent frontier projects were sanctioned with break-evens below $55/bbl, largely thanks to good timing. Investing through the down-cycle, locking in low contractor and materials costs, naturally reduces project break-evens. Here today, reductions are also partly cyclical, so next-tier projects will be prone to cost inflation once activity levels increase.

This is happening already for US shale. Labour, materials and infrastructure constraints are pushing US break-evens higher. 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. With tighter drilling, labour and materials markets, some of the new oil needs cyclically higher prices.

Sharp 2017/2018 US production gains represent recovery from 2015/2016 lows, but may not be re-created. Without a significant US shale is transformative, and will grow for years to come, but annual +500 kb/d growth may prove more realistic than +1 mb/d.

The “perpetual surplus” view also overlooks something more long cycle oil will need higher prices. The “perpetual surplus” view also overlooks something more.

How trade finance banks are reacting to impending Basel IV

Paul-Damien Aerts
Country Head
FG

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

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the number of actors to those who can attract funding at a competitive costs, e.g. through the debt capital markets directly, as is the norm in disintermediated financial systems, notably in the US.

Second, it might simply prove difficult for many banks to increase their capital base further especially after the huge efforts put after the 2008 crisis, among others to comply with Basel III principles. 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 on the classic model to compensate for a material uptick in the cost of capital allocated in the future. Mid-size trading companies, which have always been more profitable than just borrow funds from them. “Cross selling” of products is part of the tactical solution for banks to extend their reach on each client as well as also allocating the same amount of capital, and if most of them are already well advanced in organis-

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 perhaps 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 orientations 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.

As one can imagine, a common consequence of the different reforms that trade banks will implement to adapt to a changing regulatory environment is that the cost of financial services in the commodity trading world will tend 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: a likely consequence of imposing these 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.

ARE SHALE AND SHORT-CYCLE PROJECTS ENOUGH?

“Surplus-supply” adherents also contend that peak oil is one of the main paradoxes that 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.

are immediately at stake in the commodity trading industry is likely to increase exponentially. 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.

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of course, the above orientations 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. Some 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 that trade banks will implement to adapt to a changing regulatory environment is that the cost of financial services in the commodity trading world will tend 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: a likely consequence of imposing these 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.
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A review of the introduction of FinfraG

FABIAN KLAAR
Business Development Manager
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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 EMIR. 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 change for the market.

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 (FCs) need to start reporting their ETD flows from the 1st of July 2018 and the small financial counterparties (FCs), as well as the large Non-Financial Counterparties (NFCs), will have to report their ETD flows from the 1st of July 2019.

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 (NFCs) are required to report, OTC instruments from 1st January 2019 and ETD instruments from 1st July 2019.

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 some institutions initially started with the project early and greatly benefited by having sufficient buffer for optimization while low-volume institutions generally started with the project late and greatly benefited by having the single-sided FinfraG reporting logic and needed guidance from regulators will undoubtedly follow in the coming months.

Jean-Noël Aragon, Senior Manager, Ernst & Young

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

Important changes which NFCs need to look out for over the coming months include the ICE exchange moving some oil contracts to the US in January 2019, bringing changes specifically for non-financials which allows clients to fully delegate their reporting to a corresponding TR.

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 faced a number of challenges in trading and reporting after the introduction in April 2018 of the single-sided FinfraG.

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

1. A key initial decision many firms have to make 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.

2. Smaller institutions wishing to select one of the solutions should carefully consider the total cost of ownership and the flexibility to be able to influence the reporting logic which can be often specific to the products traded.

MiFID II compliance: no one-size-model

Jean-Noël Aragon, Senior Manager, Ernst & Young

Regis-TR has issued a generic FinfraG RfI response which can help market participants make an informed decision.

Firms have 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 new reporting obligations.

4. Having given NFC entities more time to comply, 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 NFCs conduct with non-Swiss counterparties, with nine months to go we recommend that, if you are impacted, you start planning now.

Firms trading with non-Swiss counterparties 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 new reporting obligations. 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 NFCs conduct with non-Swiss counterparts, with nine months to go we recommend that, if you are impacted, you start planning now.

Speakers with us for the new reporting obligations are not always as homogenous as you might think and variance exists between service support and pricing.
Structural oversupply in shipping means only fittest will survive

Ship 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, in the mid-2000s, where market exuberance, 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 100% in certain sectors.

So what can we do about this over supply? Not build anymore ships sure would help but that’s not always possible and it doesn’t address the supply of vessels that we already have. The only way to rapidly reduce over supply is an accelerated scrapping program and this is not happening for two main reasons: first, charter rates for old ships are roughly the same as new ships, so why scrap an asset that was paid off years ago. Second, many people will have to accept huge losses, and they are not motivated to do this. In certain cases/countries it would mean writing-off the industry. These reasons have led the industry to have a younger and, at the same time, a much longer lived fleet, creating the massive oversupply situation we are currently in. If we, for example, take the bulker market over the past 20 years, in 1999 the average age of the bulker fleet was 14 years old, however, today the average is only 9 years old. On top of that, bulkers in 1999 had an average scraping age of 25 years; by 2009 this had increased to 31.5 years old. 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 logistics, analytical studies, transportation, and trading. These will all affect the demand for shipping, forcing it to evolve to 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 lag which is exceptionally over supplied, by as much as 300% in certain sectors.

Fourth, the switch to cleaner or alternative fuels will be a huge challenge. We are currently stuck 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.

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 it relies on to power its vessels. This will impact ship owners and bunker fuel suppliers alike and will require intense preparation to figure 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 due 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.

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**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.

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**LATEST DEVELOPMENTS**

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 issues 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 concerns about how exactly an officialdom is preparing for enforcing a global regulation. That amounts to a potential major watershed moment, one that Trident Alliance should be prepared to take the initiative to mitigate.

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 authorities to figure out where to focus their onboard inspection resources and to serve as a form of deterrence.

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 remove 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 officials, one thing that’s vital for all concerned is comprehensive and effective training on the subject. At its most fundamental it is 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 gain a competitive advantage 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 is the need for a transition to 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 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

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Can you tell us something about your experience as Global Head of Sustainability for Wallenius Wilhelmsen, do you believe there will be sufficient availability of low sulfur 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 replenishing at major bunkering hubs; if there’s anywhere that had taken every precaution to be compliant, the vessel has bought full price low sulphur fuel and taken every precaution to be compliant. 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 more straightforward. 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.

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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 sulfur marine fuels?

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**Biography**

**Roger Stevens**

Chairman & Global Head of Sustainability for Wallenius Wilhelmsen

2000 – 2017: Engineering degree from the University of Dublin, Trinity College

2012 – 2016: VP, Global Head of Environment at Wallenius Wilhelmsen Logistics (WLL)

2015 – 2017: VP, Global Head of Key and Liner Accounts at Wallenius Wilhelmsen Logistics (WLL)

2017 – Present: Global Head of Sustainability at Wallenius Wilhelmsen & Chair of the Trident Alliance (of which he is the founder)

Interview Elsa Floret
Keeping trust in a changed world of trade

**Dick Taylor**
GS Oil and Chemicals Global Data Services Manager, SGS

As we all are 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 of 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 digitalised carrier) – 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 that data that we can now access the data it is, of the same quality. Whil...
in 2017 the AgTech sector showed robust growth with capacity 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 consumption 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 committed $100M to reprogramming the genome of microbes. Gingko joined Indigo as the latest agtech unicorn having raised over $400M to date. Competitors include Zymeron 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 companies. 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 underwriting of the weakest links in the 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 offers of up to $10bn of incremental opportunity.

While the acceleration of technology adoption was a step beyond digitisation and drawing on new digital e-commerce giants like Alibaba and Amazon is being flexed to disrupt risk across the commodity sector by the largest groups. This is a revolution for the supply chain but it also puts current incumbents at risk of being left behind. As dynamic growth at companies is doomed to 4% as the likelihood for consolidation of the market, similar to the mega-mergers over 2015-2017 across chemical and soft good (reborns as Corteva, 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 it presents a large opportunity to others given the growing maturation of VC-backed technology companies that could offer an edge for both smaller co-ops, farmers and the major commodity traders. 

The fintech segment will also become very important as financial services from lending to insurance companies are reinventing how the farmer is more directly linked to data in their portfolios and supply chains. Indeed, some leaders are pioneering new business practices and setting new trading standards nonexistent as recently as a year ago. For example, top players are now building proprietary platforms with machine-learning algorithms to analyse data from radar, thermal, and optical scientific imagery supplied by lower orbit satellites. By analysing patterns through algorithms, innovators can anticipate demand and supply and their impact on pricing, fulfilling trades more efficiently in real time with less risk.

In the end, traders with larger financial reserves are more able to invest in the kind of advanced technologies that, in turn, help the company continue to cut costs and take even more market share. Without the same resources, traders not in the top tier will have to figure out how to compete through partnerships or reducing costs and process complexity. Ultimately, as the endgame plays out, only the biggest and most digitally advanced players will thrive.

TRADERS NOT IN THE TOP TIER WILL HAVE TO FIGURE OUT HOW TO COMPETE THROUGH PARTNERSHIPS OR REDUCING COSTS AND PROCESS COMPLEXITY.

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 trading companies’ business strategy as evidenced by the continued growth of SMS since 2004. As a processors and services provider for rural populations, it helps farmers at the grassroots level by creating the infrastructure and environment required to sustain farmers and their livelihoods. SMSi has given our company remarkable decision-making capabilities to optimise the productivity of its 700,000 registered farmers. It will eventually house coffee and cocoa farmers from 16 of the 23 countries in which it operates. It will eventually house data for all of ECOM’s commodities, including edible nuts, spices and cotton.

SMSi currently contains information on 320,000 growers, of whom 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.

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.

SMSi currently contains information on 320,000 coffee and cocoa farmers from 16 of the 23 countries in which it operates. It will eventually house data for all of ECOM’s commodities, including edible nuts, spices and cotton. SMSi has given our company remarkable decision-making capabilities to optimise the productivity of its farmers. Everyone — from clients to partners and investors — can learn more about the infrastructure and environment required to sustain farmers and their livelihoods.

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.

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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 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 governments, 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, NGOs 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 which supply chain elements do you see CSR issues for FMCG companies such as years? How can companies like Coca-Cola address these issues?

Supporting the UN Guiding Principles from their inception and having supported the UN Guiding Principles from their inception and has implemented 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 in 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. This is a long journey, and one we will continue on for years to come.

How do you see new regulation (ex. CSR reporting obligations, other regulations) impacting the development of more efficient supply chains; to what extent do you see their impact and the relative challenges faced between FMCG companies and commodity traders?

The Coca-Cola Company has publicly committed to more sustainably sourcing raw materials, 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 greater and more sustainable impact than by working alone.

How do you see new regulation (ex. CSR reporting obligations, other regulations) impacting the development of more efficient supply chains? To what extent do you see their impact and the relative challenges faced between FMCG companies and commodity traders? How do you see new regulation (ex. CSR reporting obligations, other regulations) impacting the development of more efficient supply chains? To what extent do you see their impact and the relative challenges faced between FMCG companies and commodity traders?
Commodity trade finance in the digital age
Reinventing trade finance customers’ journeys

Beyond Buzzwords
Process digitalisation 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 benefiting 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 paperwork reduction 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 in these initiatives. For example, R3 has developed its own Corda platform and IBM has delivered Hyperledger 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.

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 usages 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 client’s 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 already receiving in their private life from the likes of Google, Amazon, Facebook and Apple is a must. The journey continues!

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Potential benefits for the use of blockchain in commodities trading

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 financing requirements. Due to the enhanced speed and transaction performance into the dozen non-traditional commodity financiers and financing models, of which would not be possible to save big money in high turnover businesses.

At Mercuria, we are not underestimating the effort involved in this process. However, we do believe that it is possible and that the potential benefits make it worth the effort on everyone’s part.

Blockchain is a buzz word that gets everybody talking. There are many different technologies which are advancing, which have the potential to transform our industry. The days of physically stamping a bill of lading have to soon be over.

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 frantic industry to push its boundaries and consider change. In reality there are many different technologies which are advancing which have the potential to transform financial instruments and the way 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.

The first computers to be ever introduced were complicated game. The program had no previous human input, meaning the program taught itself how to play the game. As trading evolves, it will require nurturing with human skills such as emotional intelligence. As trading becomes more automated, there is a huge focus on corporate costs and getting expenses down. Additionally, a number of high profile frauds and an increase in attempted fraudulent activity has market participants, financiers, and insurance companies focused on security. There are many internal and external factors which are driving change in the commodity markets and their participants and technology has the potential to satisfy many of them.

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Arresting entropy in commodities trading: towards a single platform model

The days of dealing with a clout 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 clock, without any segmentation of contracts. Change driven by market trends, regulations and local idiosyncrasies has seen commodities trading platforms often made up of a mishmash of software cobbling together. The technology estate is fragmented and consequently, so is the firm’s view of risk and its overall trading activity. That comes at a cost. Until recently, 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 viewing is facing.

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 factors: weather, price, supply and demand. 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 hour 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. The power of the internet enables its operation to be at a global scale based on an understanding of risk and its own trading activity. That is fragmented and consequently, so is the firm’s view of risk and its overall trading activity. That comes at a cost. Until recently, 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 viewing is facing.

The 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 common place to start. 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 at 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 enables its operation to be at a global scale based on the capture of globalized data. For example, from communities of clients and their actions, recommendation systems can profile users, make accurate predictions, predict purchases and optimize manage stocks. Second, the power of the infrastructures (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 that AI is no longer confined within specialised domains where carefully encoded domain-knowledge is required. By virtue of learning from massive amount of data, AI can easily propagate to all places where some intelligence is required and is even foreseen to surpass human ability in many domains, a rapidly changing shape as we are seeing it today.

The goal then, is a single, state-of-the-art consolidated platform. One that brings together global execution management, order management and risk management, providing an alternative to the general regulatory push for centralised platforms. Today, AI may function as a black-box that just crunches more data, more rapidly. Such a promise, associated with a seemingly low price to pay for feeding the AI black-box has started a race where every company is looking at integrating AI so as not being made prehistoric. However, AI models such as the popularised Deep Neural Networks are still far from being mature enough to be released in the wild. Their simplicity of use is still hiding a lot of magic for fine parameter-tuning and such models are yet to be proven robust to the world as it appears. Benefiting from AI may not be as simple as using AI, and AI expert advice will still be needed for the times to come, before AI blends naturally and profitably into human operations.

As a highly collaborative activity, trading seems like an adequate playground for AI. By capturing, analysing and mining communication data that is exchanged at all trading stages, AI may grasp the global operational landscape of risk management in a few unprecendented insights for policy, regulation and tax system design. Conversely, trading actors may benefit from AI by letting it digest the large volume of complex regulatory and constraints to optimise processes, protocols and procedures. Not only may AI optimise for financial costs but it may also be the perfect partner to embark environment-protective criteria for making efficient all aspects of exchanges such as the transport or storage of goods. Autonomous AI-based driving systems may collaborate with AI optimized logistic managers and increasingly prevent the volume of toxic fumes or complex parts of the process, while diminishing the costs over environment-optimized operations.

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

Firms can gain greater understanding of risk and reduce the cost of hedge trading

Giant IT Players

Giant IT players propose ever-easier-to-use off-the-shelf solutions with the promise of AI benefits. These benefits are essentially prediction and optimisation.

On the many promises of AI

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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 recognises 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 commodtech across all commodity classes makes it essential that STSA continues to work towards the dissemination of this and other technologies, As new consortiums arise these ‘digital insights’ into their standard trading processes.

Julie Armstrong, Executive Director, Market Technology Services, CME Group

Interview Thomas Esaillé-Bouquet

Interviewer, CAS Commodity Professional
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.

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The better the question. The better the answer. The better the world works.
Tenth Trading Forum: bringing the industry together

O n Tuesday February 27, 2018 the Trading Forum organized by the Swiss Research Institute on Commodity Trading (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 the sector that represents just under 4% of Switzerland’s GDP.

Professionals from the 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 its effects will ripple through the industry, potentially completely changing its dynamics. Technology has made this integration across the industry spread much faster, forcing players to rethink business models in order to survive.

A highlight of the morning session was Geneva’s State Councillor Pierre Maudet’s speech on the Swiss and Geneva trading environment. He stressed the efforts made by the industry to combat the policy makers’ lack of understanding of the commodity trading industry and how despite strong commodity trading research, providing a solid understanding of the commodity sector for the benefit of everyone, the SRIC Foundation aims to become the driving force behind the advancement of knowledge and developing a supportive regulatory framework, avoiding any “Swiss finish”, anticipating challenges and driving action to overcome these. By doing this they are better positioned to meet the supply chain’s challenges.

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’s changing 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 remarkable and developing a supportive regulatory framework, avoiding any “Swiss finish”, anticipating challenges and driving action to overcome these. By doing this they are better positioned to meet the supply chain’s challenges. 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’s changing challenge. They will be able to better support producers and better meet the needs of consumers increasingly focusing on niche products.

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The last four chapters dwell with more innovative topics, namely: (i) the dynamic management of price risk by options, (ii) the analysis of term price structures, inclusive markets and counterparties required for hedging transactions; iv) besides hedging Country Head Pierre-Emmanuel Aerts. Geneva State Councillor Pierre Maudet. Gunvor Chief Economist David Fyfe.


This 420-page book is a “bible” dedicated to commodity derivatives markets. The first 5 chapters cover: i) the specifications of futures contracts, options, swaps and options products, ii) the management of price risk by future contracts, financial transactions (arbitrage and speculation) initiated on derivative markets and counterparties required for hedging transactions; iii) financial transactions (arbitrage and speculation) initiated on derivative markets and counterparties required for hedging transactions; iv) besides hedging.


Crafting a journey from the gushing Pennsylvania oil fields to today’s fractious Middle East, Crude Volatility explains how past periods of stability and volatility in oil prices help us understand the new boom-bust era.

Oil’s volatility has always had an impact not only the oil industry but also the broader economy and development. Oil price volatility has prompted industry leaders to undertake extraordinary efforts to stabilize oil prices. McNally explains the consequences of the ebbing of OPEC’s power, debunking myths and offering recommendations as we confront the unwelcome return of boom and bust oil prices.
How creating a deep talent pool has helped structure the hub

As a result, there is no longer a need to scout talent. Today, Switzerland and more particularly Geneva can 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.

 need 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.

Creating 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.

STSA also trains a number of junior staff entering the industry every year through the STSA Operator’s Certificate programme that has been running for over 5 years and complements the academic offering with a more tailored education.

This specialised training course is practical minded, focusing on the consecutive steps that make up a physical commodity transaction and includes a field study trip. After all nothing beats first-hand exposure to trading activities. The programme is in very high demand by companies recruiting their juniors from the pool of alumni.

Adapting to the new needs of the hub, STSA launched recently a risk analyst certificate with middle office positions in mind. The course offers access to the experience of high-skilled professionals. When it comes to support staff, trading companies seek to hire great professionals with a mastery of their functional area, whether HR, legal or accounting, just to name a few. But they still need to gain sector knowledge and this is where tailored courses such as the STSA Commodity Trading Fundamentals course make a huge difference.

STSA’s training offering is revisited constantly, ensuring that both staff and company stay abreast of developments and retain their industry leadership.

By leading the commodity trading education and training offer in Switzerland, STSA contributes to reinforce the local hub and ensure the competitiveness of Swiss commodity trading houses in their daily activities. Indeed, talent management is key to a smooth transition to the next generation.

EDUCATION AND TRAINING: THE FOUNDATIONS FOR SUCCESSFUL BUSINESS

A vibrant testimonial from one of the largest Swiss based companies

Litacco has been present along the shores of Lake Geneva since 2000 when the office opened with about 25 employees. 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.

Litacco figures on employees involved in industry programmes since 2008

<table>
<thead>
<tr>
<th>Training Programme</th>
<th>Since</th>
<th>Number of participants</th>
</tr>
</thead>
<tbody>
<tr>
<td>Master of Science</td>
<td>2008</td>
<td>15</td>
</tr>
<tr>
<td>Diploma of Advanced Studies</td>
<td>2008</td>
<td>14</td>
</tr>
<tr>
<td>STSA Operator’s Certificate</td>
<td>2013</td>
<td>5</td>
</tr>
<tr>
<td>STSA Commodities Trading Fundamentals</td>
<td>2014</td>
<td>12</td>
</tr>
<tr>
<td>Total number of students</td>
<td></td>
<td>45</td>
</tr>
<tr>
<td>Of which Swiss nationals</td>
<td></td>
<td>18</td>
</tr>
</tbody>
</table>

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, an increasing interest in knowing where these goods come from and under what conditions they have been produced. Often brands’ sourcing practices need to be revised to reduce pressures on the producers. Academic research could help to identify best practice examples for supply chain transparency. (DBP)

DENIS RUYSSCHAERT
1997:
• PhD in Economics from the University of Zurich
2001:
• UN diplomat, published:
Engineer, Suez environment
2013 – Present:
• Director of Research at the NYU Stern Center for Business and Human Rights

DOROTHEE BAUMANN-PAULY
2010:
• PhD in Economics from the University of Zurich
2013 – Present:
• Director of Research at the NYU Stern Center for Business and Human Rights

The SRIC platform can be useful under two conditions. On the one hand, the SRIC should be open to communicate its real business challenges to enable academics to work on practical-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.

Commodity trading, given its essential and central connecting role along the supply chain, touches a great many ancillary sectors, from extraction to manufacturing and distribution, and therefore their associated issues. From your perspective which areas are ripe for more in-depth research in the coming years? (DBP): As I said earlier, there is no human rights research in commodity trading as of yet. However, the centrality of flow of goods is unique and as such bears a unique responsibility. In the manufacturing industry, brands have started addressing human rights issues decades ago, but the commodity trading sector is part of these systems. These systems are highly relevant for the study of commodity trading.

Interview Elsa Floret

DOROTHEE BAUMANN-PAULY & DENIS RUYSSCHAERT
NYU STERN & SWISSAID GENEVA

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?

Dorothée Baumann-Pauly (DBP): 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 of the market, but part of this is changing now.

Denis Ruysschaert (DR): I focus on the social and environmental impacts of agricultural commodities and mining extraction. In those sectors specifically, 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 largest part 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 can never 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 and engages multiple stakeholders (business, academia, government, civil society) concerned with commodity trading.

How can the SRIC become the catalyst to high quality and respected academic research and action-oriented policies? (DR): Such a research should have at least three characteristics: first, it should tackle the key hard issues that commodity trading is facing; second, it should be undertaken in an independent manner; this includes an open participatory process to select the topics, team, and to manage it. And third, an inclusive and open process to review the draft results.

(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).

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What can commodity traders do to improve transparency? (DR): I agree. In the fundamental flow, production drives the consumption and not the other way round. The main actor is really the 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 trading 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.

In your view, what is the state of academic research on commodity trading? (DBP): In the food industry, as well as fashion, consumers show an increasing interest in knowing where these goods come from and under what conditions they have been produced. Often brands’ sourcing practices need to be revised to reduce pressures on the producers. Academic research could help to identify best practice examples for supply chain transparency. (DBP)

In order to see a positive change occur, there ought to be end-to-end incentives across the value chain – commodity trading is merely most often a conduit or mirror of consumer demands and/or production mechanisms.

How can academic research and its popularized translations shed light to issues that need to be addressed in a transversal way? Do you think academic research and the SRIC’s platform of initiatives can help reinforce the commodity trading ecosystem and its competitiveness? (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 to engage commodity trading in business practices, reflect on these and adapt them to what is considered socially acceptable. (DR): I agree. In the fundamental flow, production drives the consumption and not the other way round. The main actor is really the trader that should not ask too much on the customers’ side. This industry must be more proactive instead of being responsive.

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 services. 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 humans 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 apps that allow consumers to see the product quality. In many industries, technologies are having a huge impact on supply chain transparency and accountability, including on commodity trading. However, new technologies 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 adapting industry? (DBP): I think commodity traders need to get to a more proactive approach in terms of research, not necessary the other way around.

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