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'AGEFI | FINANZ und WIRTSCHAFT

COMMODITIES

THE UNTOLD STORY OF EVERYDAY COMMODITIES

L'AGEFI

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EDITORIAL

THE HUMAN FACTOR

After skyrocketing in 2021 and 2022, prices of most raw materials came hurtling back to Earth last year. The CyclOpe index, which summarizes the most important commodities, fell by 14%. Some, such as lithium or palm oil, lost up to 80% or 50% of their value, respectively.

To explain this turnaround, we need only look at the economic situation across the globe. Economic slowdown and inflation have dampened consumer enthusiasm for electric cars in developed countries. Weak economic conditions in China have also weighed on global demand for raw materials.

At the same time, international trade routes adapted to war and geopolitical tensions. Ukraine finally managed to export its cereals. China, for its part, buys cheap Russian oil. All these adjustments have contributed to the fall in prices.

This year could bring more upheaval. It's impossible to predict how Moscow's aggression against Kyiv will turn out and what impact it will have on the global economy.

In the United States, Donald Trump's return to the White House can't be ruled out. The former president has already said if he wins, his program could include a 60% tax on Chinese imports. If this were to happen the international economic order would be turned on its head and it's hard to imagine commodity prices not reacting.

These global events are reminders, if any were needed, of just how central a role commodity traders play in feeding the planet and enabling it to decarbonize its economy.

This is why the new issue of *Focus Commodities* takes a deep dive look at four raw materials that are indispensable to our daily lives: wheat, coffee, LNG, and copper. As we will discuss, these are materials that we must continue to harness, despite the challenges posed by global warming and geopolitical constraints.

It's also an opportunity to talk about the ecosystem that surrounds these four resources. In particular, the importance of human capital, as no sector can avoid the shortage of qualified personnel. Because, in the end, what the story of commodities in 2023 shows us, is that it's also about the human factor. ■

Frédéric Lelièvre
CEO and Editor-in-Chief, L'Agefi

Jan Schwalbe
Editor-in-Chief, Finanz und Wirtschaft

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SWITZERLAND AND ITS COMMODITY MERCHANTS, A PARTNERSHIP FOR THE LONG HAUL

Multiple geopolitical and geoeconomic crisis in recent years have considerably impacted our societies. Supply chains were suddenly disrupted and access to essential commodities became jeopardized. But amidst all this chaos a positive aspect emerged: the growing awareness that supply chains remain, also in modern times, very fragile.

This new consciousness ultimately uncovers the importance of commodity merchants and their sophisticated craft. Indeed, they are always the ones providing solutions for securing the supply and bridging the gap between demand and supply. Switzerland has hosted international trading companies for centuries. But it somehow appears as if the Swiss are only now discovering the unique character of the Swiss commodity trading industry. Our economic sector reveals itself rightfully as being at the heart of global economic activities and linked to the forefront of global challenges and developments, be it supply security, sustainable and ecological value chains, decarbonization and energy transition as well as economic cooperation and development around the world.

This is also the reason Suissenégoce is pursuing the establishment and consolidation of a public-private partnership (PPP) with relevant Swiss interlocutors. Three central pillars constitute the building blocks of this “Swiss PPP”:

1. Strategy: current global supply chains require a profound assessment of risks and dependencies. Vital commodities and resources are unevenly distributed across the globe. Switzerland and its commodity merchants must therefore jointly define regulatory and technical strategies that secure the global trading operations from Switzerland. Only a coordinated economic and political strategy between public and private actors can guarantee that the necessary regulatory conditions as well as infrastructures and technologies are and remain in place in Switzerland.

2. Transparency: fundamental scientific knowledge and evidence-based exposures are essential when engaging in public debate around commodities supply. Basic economic trade-offs and global value chains should be described more simply, transparently, and actively by the industry to official and public stakeholders. Meanwhile, Swiss authorities should similarly deploy qualitative communication with the objective of bringing back a well-founded economy to the center of the society.

3. Commitment: the Swiss commodity trading industry should commit even more intensely to its Swiss identity. While trading operations are globally oriented, they are rooted and deploy out of Switzerland. Undoubtedly, the trading industry benefits in Switzerland of one of the most competitive political, economic, and regulatory frameworks in the world. Switzerland, on the other hand, should commit to the Swiss commodity hub as a true economic and political asset. It is only a mindset of mutual recognition that will ensure that Switzerland and its commodity merchants unite for a strong partnership, and this for the long haul. ■

Roman Heck
Regulatory and Public Affairs Manager, Suissenégoce

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"OUR WORK IS ESSENTIALLY BRINGING ESSENTIAL GOODS TO PEOPLE'S DOORSTEPS"

The title "The Untold Story of Everyday Commodities" is intriguing. Can you elaborate?
This title reflects a need to demystify the commodities trading sector. Many people don't realize how present commodities are in everyday life. We want to raise public awareness about our work, which is essentially bringing essential goods to people's doorsteps.

In the magazine, the focus is on coffee, wheat, copper, and LNG. These are all very different commodities. Why did you choose these commodities?
These four commodities represent a range of essential goods that we all use in our daily lives, whether knowingly or unknowingly. For instance, did you know that gas is needed to produce fertilizers?

Director-General Ngozi Okonjo-Iweala of the World Trade Organization stated, "Commodities traders are indeed the actors of development in Africa. They play a crucial role in facilitating trade, connecting producers to global markets, and contributing to economic growth and prosperity on the continent." Can you elaborate on your perspective regarding this quote?
This statement by Director-General Okonjo-Iweala accurately highlights the significance of commodities traders in Africa's development. Our role goes beyond simply buying and selling goods. We act as facilitators of trade, connecting African producers with international markets. This creates economic opportunities for African countries and fosters their growth. However, our impact often extends beyond just trade, we also play a role in promoting education, and sustainable practices within the industry.

It is important to acknowledge that ethical practices and responsible sourcing are crucial. While commodities trading plays a positive role, we must ensure it benefits all stakeholders involved, including producers and local communities.

As you embark on your two-year term as Suissenégoce president, what is your vision for the association and the commodities trading sector as a whole?
I will build upon the foundation laid by my predecessor, Ramon Esteve in strengthening communication with Swiss authorities and the public. Our industry is frequently misrepresented in the media, while many member companies quietly achieve amazing things. We cannot afford to let the loudest voices be the only ones shaping public perception.

We will also continue to engage with authorities, advocating for policies that ensure Switzerland remains a competitive hub for commodity trading houses of all sizes.

At Suissenégoce, we bring together a diverse membership of both large multinational corporations and smaller, independent businesses (SMEs). We strongly believe that SMEs play a vital role in keeping our industry healthy and flourishing. However, SMEs often face challenges with regulatory intricacies, complex administrative reporting, and difficulties to keep up with the latest developments. By encouraging collaboration between our members, we can create knowledge-sharing initiatives. Larger companies can share their experience on navigating ESG factors and technological advancements, helping SMEs overcome these hurdles. Ultimately, when all our members, regardless of the size, can thrive, the entire industry benefits.

Finally, I support the excellent work of the Suissenégoce Academy, its program directors and its teachers. We are grateful for the fruitful collaboration with the University of Geneva which offers a Master of Commodity Trading program and trains the next generation of traders. While Switzerland is not rich in commodities, we have a wealth of brains. Investing in education and innovation is crucial for nurturing the skilled workforce our industry relies on. ■

Sébastien Landerretche President, Suissenégoce
Florence Schurch Secretary General, Suissenégoce

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"COMMODITY TRADERS CONTRIBUTE SIGNIFICANTLY TO THE ADDED VALUE AND TAXATION OF MANY CANTONS"

Helene Budliger Artieda has been Director of the State Secretariat for Economic Affairs (Seco) since August 1st, 2022, and is a former Swiss Ambassador to Thailand and South Africa. The Zurich-born diplomat has also been active in the field of export promotion. Last February, the Secretary of State led the Swiss delegation to the World Trade Organization (WTO) Ministerial Meeting in Dubai. She answered our questions in writing.

Among the objectives of SECO's foreign economic policy is "legally secure and as extensive access as possible to international markets." However, trade tensions are escalating due to sanctions imposed by the West against Russia and disputes between the United States and China. Where do you think globalization is headed?

Switzerland operates in an environment increasingly influenced by geopolitics. The efforts of major powers to shape commercial flows in specific economic activities or sectors are part of this landscape. The extent to which these efforts will succeed remains to be seen. Notably, analyses indicate that the reduction of U.S. dependence on China has been replaced by indirect dependencies. For an open economy with a relatively modest domestic market like Switzerland's, maintaining an internationally rules-based trading system is crucial. Switzerland continues to advocate for multilateral solutions and actively expands and renews its network of free trade agreements. Additionally, Switzerland collaborates with its closest trading partners in new international initiatives, such as the Joint Statement on Cooperation on Global Supply Chains, to promote secure supply chains.

For Switzerland, does this reinforce the importance of bilateral agreements An agreement on free trade has just been signed between EFTA (European Free Trade Association) and India, you could also reach a deal with Vietnam this year. Furthermore, Switzerland has initiated negotiations to update its agreement with China.

In these times of increasing geopolitical tensions and global economic growth slowdown, free trade agreements (FTAs) continue to gain significance. They open up new markets and allow for diversification of value chains, thereby enhancing our economy's resilience. Currently, we are highly active in negotiating new FTAs and modernizing existing ones. The process with India has kept us very busy recently. An agreement with the world's most populated country will create significant new opportunities for our economy and serve as a milestone in our foreign economic policy. Furthermore, negotiations are underway within the framework of AELE with Kosovo, Malaysia, Mercosur, Thailand, and Vietnam. Efforts are also being made to revise agreements with Mexico and the Southern African Customs Union (SACU). The successful completion of the agreement's modernization with Chile is another recent achievement. Additionally, Switzerland is engaged in modernization negotiations for a comprehensive free trade agreement with the United Kingdom, and preparatory work is ongoing for updating the agreement with China.

Does Switzerland remain attractive enough to retain these actors within its territory?
Switzerland offers an appealing economic environment and actively strives for optimal framework conditions across all sectors. In addition to the multi- and bilateral measures mentioned earlier (as per question 1), Switzerland is diligently working to further strengthen its integration into global value chains. For instance, the recent elimination of customs duties on all industrial goods as of January 1, 2024, and the ongoing digitization of customs procedures exemplify these efforts. Moreover, the overall quality of life and the favourable living conditions in our country serve as significant assets in attracting economic players. The international rankings by Mercer, which place Zurich and Geneva at the 2nd and 5th positions, respectively, underscore Switzerland's enduring appeal.

"Switzerland continues to advocate for multilateral solutions and for the expansion and renewal of its network of free trade agreements."

In the context of globalization, what importance do commodity traders, who are highly present in Switzerland, hold?
Switzerland hosts one of the key hubs for international commodity trading. According to a 2018 study[1], Swiss-based commodity traders controlled approximately one-third of global crude oil trade, around two-thirds of metal trade revenues in various Swiss cantons, and between 35% and 60% of agricultural commodities trade. Recent political uncertainties, such as sanctions against Russia, may have slightly impacted these figures. This sector, which bridges the gap between production, handling, and consumption of raw materials, plays a critical role in global supply chains for both the economy and industry. It is in Switzerland's interest to provide this sector with the most favourable framework conditions. The strong presence of commodity traders in Switzerland indicates that, for now, this is indeed the case. These traders rank among the largest companies in our country, significantly contributing to value-added and tax revenues in various Swiss cantons, including Geneva, Zürich, Zug and Ticino, for which we owe them our gratitude.

How do you take their interests into account in trade discussions?
When negotiating free trade agreements, we consider the interests of all sectors in Switzerland and maintain regular exchanges with businesses. An essential function of free trade agreements is to enhance legal certainty overall and increase predictability for our companies. All economic sectors benefit from this, including those that do not directly import or export goods to or from Switzerland.

Does the peasant movement in Europe, and to a lesser extent in Switzerland, have valid reasons to complain about the burden of regulations on their operations? If so, how can this burden be alleviated? Additionally, all businesses seem to grapple with the increasing weight of norms...
Surveys conducted among businesses, such as the bureaucracy barometer reveal that the administrative burden of regulations is one of the main concerns of companies. The latest survey indicates that the administrative burden in Switzerland is perceived as high, although it has fallen slightly compared to the previous survey. To further reduce the burden on businesses, the Swiss Parliament enacted the Federal Act on Regulatory Cost Reduction for Enterprises (LACRE) on September 29, 2023. The LACRE includes measures aimed at reducing the regulatory burden for both new and existing regulations. Additionally, it is worth noting that the Swiss Confederation offers an online digital platform for businesses called EasyGov.swiss. EasyGov streamlines administrative processes, making them straightforward, swift, and efficient. ■

Interview by **Frédéric Lelièvre**

1) Jungbluth N. and Meili C. (2018) "Pilot-study for the analysis of the environmental impacts of commodities traded in Switzerland", ESU-services Ltd.

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"Trade and transport allow us to reconcile geographical differences and temporal variations between markets"
Jean-Marie Paugam

TRADING AND GOVERNING

The Covid crisis, the war in the Black Sea, tensions in the Red Sea, the Panama Canal running dry... Ships are slowing down, the price of containers is skyrocketing, insurers are bidding up premiums, bankers are hesitant: food, fuel, and precious minerals are no longer being delivered. With these crises, the world is rediscovering the role of trading activities in global trade. The WTO too!

It is not enough to reduce customs duties, streamline procedures, and reduce non-tariff barriers. Someone still must negotiate, buy, remove, store, transport, finance, and deliver to distributors the raw materials that feed trade and industry. The irony of capitalism: Karl Marx would have smiled at this find without infrastructure, the superstructure cannot function!

The WTO and trade are two pillars of indispensable trade. Indispensable?

The trade in raw materials and maritime transport, which accounts for 80% of its movement, connects producers and consumers, or their processing industries. Because these materials cannot be relocated. According to the IMF, the top three producers account for nearly 65% of agricultural production, 50% of energy production, and 70% of mineral extraction, out of a total estimated at around $10 trillion. Their purchases are vital for many countries: those that are net importers of their food, those that cannot achieve energy self-sufficiency.

The flow of supplies also irrigates the value chains that structure the international economy based on processing know-how. For example, did you know that Swiss coffee exports are almost equal to those of Colombia?

Trade and transport allow us to reconcile geographical differences and temporal variations between markets: Europeans consume more gas in winter, they produce more fruit in summer. Trade also helps to cushion shocks: with the war in Ukraine, several African countries have had to look for their grains far from the Black Sea; strikes in the mines of Zambia have disrupted the copper market; the drop in Chinese demand linked to COVID has forced us to find other outlets.

The multilateral trading system is also indispensable, as it guarantees a certain predictability in the integration of global markets. Trade and international transport are governed as service activities, covered by the market opening commitments of each country within the WTO. The spectrum is very broad: logistics (transport, storage, distribution), storage (essential for managing seasonal variations), transformation (refining, industrial processes), finance (risk management, trade finance, insurance).

Other WTO agreements have a direct influence on the conditions under which traders operate. In agriculture, commitments on tariffs, subsidies and sanitary regulations influence the prices and terms of trade of "commodities". More technical provisions govern the behaviour of States in the control and passage of goods at borders: customs valuation, pre-shipment inspections, documentary and transit procedures covered by the "trade facilitation" agreement.

What future are traders and the international system that governs them preparing for?

There are a few underlying trends.

More international political uncertainty. For example, in the first half of January 2024, the Houthi threat in the Red Sea reduced the number of wheat cargoes transiting the Suez Canal by 40%, generating new fears among importing countries. The trend towards geopolitical fragmentation of trade flows is beginning to be seen in the statistics.

More sustainability. Consumer preferences, technological and industrial transformations, the climate strategies of companies and governments, and the demands of citizens are pointing towards a new trade. Copper, nickel, cobalt, and lithium already play an essential role in the ecological transition of industries. Fair prices, gender equality, inclusion of marginalized populations, and respect for human rights are becoming new market challenges for multinational companies in their operations abroad.

More digitization. Traceability of flows and product origin, environmental accounting and certification, efficiency of finance and payment systems, new interfaces for exchange with government administrations will shape the backbone of tomorrow's trade.

On all these fronts, the WTO is already providing crucial answers and will also need to adapt.

By its very existence, the organization provides a framework for helping to manage the economic consequences of political tensions. Its role in transparency and monitoring of trade policies helps to build trust and a spirit of cooperation. The commitments of its members to keep markets open have had an undeniable impact, as seen in the reaction to recent crises, in maintaining the flow of essential health and food products to populations.

The development of international rules adapted to the digital age has been undertaken by some members. Negotiations on e-commerce have advanced on topics such as electronic signatures and contracts, paperless trade, online consumer protection, cybersecurity and access to government data. Slower is the maturation of discussions on environmental sustainability and the fight against climate change, to which the WTO could nevertheless contribute a lot: transparency of trade in critical minerals, regulation of subsidies to green industry, opening of markets to pro-environmental innovations, dissemination and transfer of technology, pollution control tools and services, etc...

Trading and international rules are thus two sides of the same coin: the one that enables the old commercial exchange linking human communities to continue, today and tomorrow, on a global scale. ■

Jean-Marie Paugam
Deputy Director, World Trade Organization (WTO)

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COMMODITIES INNOVATION AWARDS 2024

In an era marked by numerous economic, geopolitical and energy transition challenges, the Commodities industry plays a central role. Despite the significant impact of traders in metals & ores, agriculture or energy, their work and added value are underestimated by the public. To address this, Ampersand World will organize this fall the first "Commodities Innovations Awards". The aim of the awards is to highlight the excellence of trading companies in the Swiss ecosystem, their innovations and the solutions developed to tackle the many challenges facing the global economy.

Celebrating innovation

The Commodities Innovation Awards will honor the commodities trading and shipping industry's achievements in innovation and sustainability. From technological breakthroughs to innovative business models and forward-thinking management strategies, the awards will spotlight initiatives reshaping the industry's future.

Spreading the word

A jury comprising personalities from diverse backgrounds will present the prizes, serving a dual purpose: to share the sector's positive developments to as wide an audience as possible, promoting the dissemination of top achievements and practices; and to inform the general public about the Swiss trading sector's expertise, innovations, and impact on both local and global economies.

Strengthening the ecosystem

The awards aim to create a distinctive forum for industry players, regulatory bodies, NGOs, and the general public to convene and exchange ideas. It will underscore the diversity of the Swiss trading ecosystem and its contribution to enhancing supply chains, as well as fostering connections among local entities. ■

Ampersand World Genève

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Commodities INNOVATION AWARDS

Kovacs Mate, Unsplash

IMPORTANCE OF GRAIN AND FEED TRADE ASSOCIATION

Gafta is an international trade association representing the agricultural commodities trade such as grains and feed. It aims to encourage trading on the principle of "my word is my bond" and to promote free trade by encouraging governments to remove tariffs and non-tariff barriers to international trade.

Gafta's mission is to promote free and open trade and has over 2000 member companies in 100 countries around the world. 80% of world trade in grain is carried out on Gafta contracts.

Gafta contracts

Gafta provides over 80 standard form "Contracts" for use in the trade and issues "Rules". The latter forms part of the Contracts via the English law of contractual incorporation. The Rules include Arbitration, Domicile, Insurance and Testing. The Contracts and Rules have been used extensively within the sector for many years. Parties do not need to negotiate their contracts from the beginning and, instead, can confidently rely on clauses which have been "tried and tested" within the trade and before the courts. English law applies and English courts have exclusive jurisdiction.

Gafta arbitration

Gafta is also an international arbitral body. In 2023 it received 337 new cases and awarded damages of $US 162,522,377. The number of cases often reflects geo-political events (such as the Russian war in Ukraine and the impact on shipping routes in the Red Sea), which can have an impact on the market. Where markets are volatile, more breaches of contract tend to occur and Gafta can receive up to 1000 new cases a year. In 2023, when Russia pulled out of safe corridor's agreement in Black Sea for ships carrying cereals, prices increased. Some traders viewed their contracts as less profitable and defaulted (breached) them.

A key feature of a Gafta arbitration hearing is the exclusion of private practice lawyers. However, representation by a party's in-house counsel is permitted. The intention here is to maintain the principle of trade arbitration – arbitration for the trade by the trade.

Once considered by the Tribunal, an Award will be issued which is strictly confidential. A party who fails to abide by an Award is liable to being placed on the Gafta "Defaulter List". The List is only available to members and can be an effective risk management and due diligence tool, often used by members, seeking to trade with a new counterparty. If a defaulter is a Gafta member, the association has the right to take disciplinary action against them – including suspension and/or termination of membership.

Gafta has a pool of 80 arbitrators, drawn from different countries and trade sectors. To pass the arbitration examination they need to attend and pass courses and have at least 10 years trade experience. Gafta arbitrators understand the way in which the trade operates in practice, and this gives arbitration "users" the confidence that Tribunal understands both the law and the context in which their dispute has arisen. Gafta arbitration is considerably quicker and cheaper than "traditional" court litigation. ■

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Jonathan Waters
General Counsel, Gafta

GEOPOLITICS OF WHEAT

The geopolitics of wheat has become increasingly strategic, and international trade in this essential commodity must be considered in terms of both geo-economics and diplomacy.

Firstly, wheat production is highly unevenly distributed across the planet. Major wheat production areas are found in North America, India, China, Europe, along the shores of the Black Sea, Siberia, Australia, and Argentina. Although wheat is cultivated in nearly 120 countries, 80% of its production comes from just 15 of them.

Moreover, many countries are heavily dependent on imports to feed their populations. This is particularly true for North African and Middle Eastern countries, where water scarcity and limited arable land, combined with rapid population growth, create extreme vulnerability. When wheat becomes scarce, it can destabilize economies and societies in these nations.

Globally, 800 million tons of wheat are produced, but only 200 million tons are traded on the international market, with 30% of that trade being handled by Russia and Ukraine. In less than two decades, Russia has surpassed all other exporters, significantly altering the geopolitics of wheat. Indeed, raw materials and agricultural development have played a crucial role in Russia's recovery, as envisioned by Vladimir Putin since the early 2000s.

Russian wheat production from 2000 to 2021 has surpassed that of the United States, and the country exports 30% of its harvest.

This position in the grains market has allowed Moscow to forge new alliances worldwide and penetrate new markets. Ten African countries now depend on Russia for over 50% of their wheat imports. When we combine Russian and Ukrainian wheat exports, 16 countries rely on these nations for more than 50% of their imports and thus their food security. One of the most concerning cases is Lebanon, which has only one month's worth of wheat reserves.

After the start of the war in Ukraine, wheat prices reached €400 per ton in March 2022, an unsustainable historical record for many importing countries, with severe repercussions on their food security.

Feeding a growing population in a context of scarce resources and shifting economic power dynamics is one of the most complex challenges of the 21st century. Wheat exemplifies how a food commodity influences geopolitics and power relations among states. Faced with socio-demographic dynamics and territorial disparities, the strategies of major importing and exporting countries assert the strategic nature of agriculture.

Laura Demurtas
Projects and External Relations Manager, Club DEMETER

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THE OCEAN TRANSPORTATION OF WHEAT

As one of the world most critical cereals grown on the planet, wheat carries complex characteristics through the diversity of its varieties, origins, destinations, and shipping requirements. The largest producers (China, Russia, Ukraine, EU, Canada, USA, Australia, India, Pakistan and Turkey), representing 600 million tons, are also the largest consumers.

About 200 million tons of wheat are exported each year, 170 million tons of which being pure seaborne trade. Many countries import more than 1 million tons each year and only 13 countries led by China, Egypt, Indonesia, Turkey, Algeria account for more than 100 million tons of imports relying on ocean transportation.

The global wheat market presents a complex puzzle necessitating affordable, versatile, reliable, and accessible transportation solutions.

However, certain trade routes face challenges amid disruptions in various regions worldwide.
1/ The Panama Canal
Wheat exports originating from the US Gulf and exported to West Coast Americas and Asia are impacted by the disruptions experienced in Panama, triggered by the drought affecting the water available to run the lock system at full capacity. About 6 million tons of exports are therefore subject to transit delays and higher freight. Substitute supply is available in Canada, West Coast US and Australia at a premium price. The increase in the landed price is ultimately borne by farmers upstream and/or millers downstream.

2/ The Red Sea Situation
The attacks on commercial shipping since the end of 2023 have repercussions on the world commercial fleet routing across all segments.
The Suez Canal and Red Sea are critical waypoints to the global wheat trade. The latest figures from USDA show that the wheat exports from Europe, Black Sea, (Romania, Russia & Ukraine) to Asia and East Africa have drastically increased over the last 10 years, steadily rising from 10 million tons to 30 million tons, representing today 17% of the wheat global seaborne trade.

The Bulk trade shows resilience towards the maritime safety issues in the Red Sea. Year to date, more than 5 million tons of wheat have already transited the Suez Canal and Bab-al-Mandeb strait.

Should the situation deteriorate, countries in East Africa and Asia could see a critical supply of wheat potentially affected by a remote geopolitical conflict.

The continuity of the trade route relies entirely on the capacity of ship owners and crew to operate with uncertain insurability, risk profile and volatile cost.

Maritime bottlenecks historically shaped the accessibility and affordability of Ocean Freight.
The current situation emphasizes the critical role shipping actors, including but not limited to shipowners, operators, traders, PandI clubs, Cargo Underwriters, surveyors, agents, brokers, play in ensuring wheat, a basic yet critical alimentary staple, reaches consumers around the world.

Sources: Commodity Data: USDA. Shipping Data Compilation and Processing: URSA Shipbrokers & AxsMarine Tradeflows

Alex Haubert

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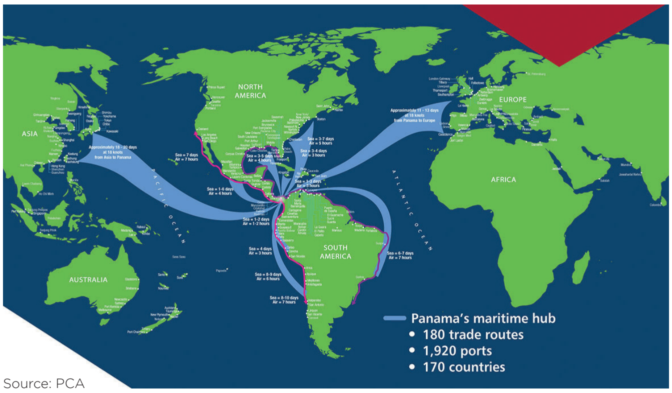
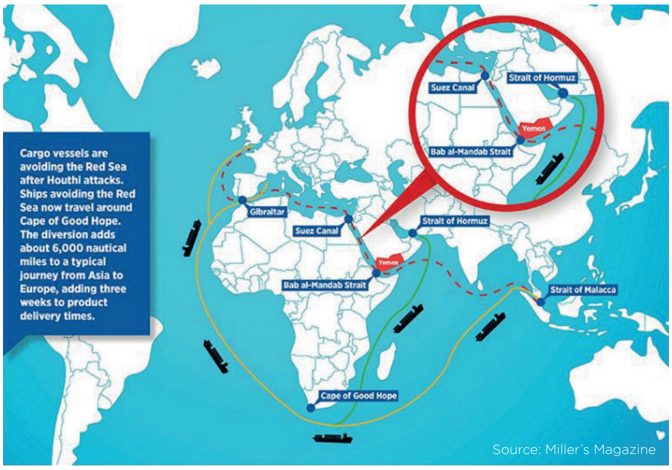
The Panama Canal Shipping Footprint



Source: PCA

The Choke Point in the Red Sea



Source: Miller's Magazine

FOOD SECURITY IN A CHANGING WORLD

With the UN projecting the world's population to reach nearly 10 billion by 2050, sustainably feeding an increasing number of people is the priority of all participants in the global food supply chain.

As the world's leader in oilseed processing, and a leading originator and handler of oilseeds and grains, Bunge plays an important role connecting farmers to consumers to deliver essential food, feed and fuel to the world.

Linking the food supply chain has become increasingly challenging in recent years. Extreme weather, the pandemic, and geopolitical events – particularly in key producing regions – has shifted supplies and disrupted usual trade routes. As a result, companies have had to explore alternative flows, distribution, and logistics to help ensure the world has access to the food it needs.

Wheat is one of the most widely cultivated cereals in the world and helps feed billions of people each day. Traditionally, a large proportion of the wheat is purchased in Ukraine, Europe, US, Canada, Argentina, and Australia. The war in Ukraine suddenly disrupted the orderly supply of wheat to the world market. Bunge's global reach and more than 200 years of experience helped us react quickly and adapt supply chains to continue to serve our customers. Our planned combination with Viterra should further enhance our ability to provide more solutions and alternatives to deliver food more efficiently from where it is grown to where it is needed.

In addition to access and affordability, food security also means a production system that is sustainable and safe. Addressing food security sustainably requires multilateral global action and sustainability must become the industry north star. It is key to decarbonize the value chains, from origin to destination, throughout the production process, transportation, and distribution. We must continue to invest in clean energy sources and partner with farmers to implement regenerative agriculture practices, including developing cover crops and smart farming solutions, and fight against deforestation.

The industry must also have the right market conditions to enable the flexibility and resilience to quickly respond to disruptions. Free and open markets are needed to best address dislocations, governments and regulators play a crucial role in contributing to an open trade environment. Protectionism may help a country in the short term, but distorting the market can send signals that have long term impact on supply and demand. It can undermine the development of sustainable, affordable supply in the regions that have the best suited geography and ecosystems.

The industry takes pride in its contributions and is committed to increasing productivity levels sustainably. Companies like Bunge will continue to work at both ends of the value chain – farmer and end consumers – to provide food, feed and fuel safely and efficiently.

Christos Dimopoulos
Co-President, Agribusiness, Bunge

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THE ADVANTAGES OF A FAMILY-RUN COMPANY

Charles Quenardel
Ifaco Grain Company

Probably among the oldest professions, the merchant facilitated exchanges by leveraging their expertise to meet demand. Indeed, the very definition of our trading profession lies in the merchant's ability to offer a product that meets the required specifications, within the set timeframe, at the right price, amidst a complex environment. The peace and global economic stability of recent years have likely made us overlook these core aspects of our activity.

The health crisis and the conflict in Ukraine have harshly reminded us of the grain trader's central role. Within just a few weeks, we had to diversify our clients' supplies with new origins without compromising the quality of the flours delivered. Millers traditionally resist changing wheat origins because a new source requires teams to adjust their mill settings to maintain stable quality. Our added value here is assisting them in this transition, for example, by offering external technical support.

At the same time, it was necessary to restructure the banking finance of the activity without weakening our ability to support our millers in the face of severe price increases. The reluctance of our Swiss banks to finance Russian wheat combined with the hesitations of our clients' banks made financing our operations more complicated. Having a dedicated execution team and a financial manager fully committed to these issues allow us to react immediately and find solutions as needed.

In such a context, the relationship with our buyers, established over several decades, is remarkable. It is crucial for navigating this particularly volatile market. In the heart of our grain market, instability in the Black Sea generates unpredictable reactions on the futures markets. Quickly seizing opportunities is absolutely fundamental for successful purchasing. It is in this particularly tense context that we measure the importance of a trust relationship built up over several years. We then have the capacity to develop a partnership far removed from a traditional commercial relationship.

The cornerstone of a family-run trading business, the stability of our teams, is also paramount in building a long-term relationship. Keeping the same contact person for each counterpart, quickly finding a collaborator to solve a problem, are details that celebrate our taste and effort for fine craftsmanship and tailor-made service.

Faced with such unpredictability, a modestly-sized trading company shows great agility to pivot quickly and continue serving its clients regularly. Our shared history with our clients and this dearly acquired trust are tokens of resilience for our business model in such an unstable environment. Even though logistical challenges remain numerous, the daily commercial adversity, the personal, and familial character of our action continue to make our mission exciting and rewarding.

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A VITAL HUB FOR THE GREEN COFFEE TRADE

Krisztina Szalai
Secretary General, SCTA

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As Secretary General of SCTA (Swiss Coffee and Trading Association), my role includes a diverse set of responsibilities that blends advocacy, coordination, and innovation. SCTA is the representative body and a collective voice of the green coffee trade in Switzerland and beyond, facilitating dialogue, addressing regulatory questions, and championing shared sustainability standards. With over 40 active members representing more than 50% of global coffee exports, SCTA serves as a vital hub for industry dialogue and collaboration with the authorities and all stakeholders. My role as SG is to lead the association into an era of strategic growth and collaboration, while also strengthening our commitment to sustainability and responsible business practices.

The challenges facing the global coffee trade from deforestation to sustainability and child labour issues, underscore the critical need for organizations like SCTA. By bringing together diverse voices and fostering dialogue with legislators, governmental and non-governmental organizations, and other trade associations, SCTA plays a vital role in ensuring that our members are well-informed and prepared to navigate the ever-changing landscape of global coffee trade.

Perceptions of the coffee trade industry among the general public often vary, from romanticized visions of bustling markets to concerns about fair trade and sustainability. It is our responsibility, as industry leaders, to bridge the gap between perception and reality, fostering transparency and accountability at every step of the supply chain.

Switzerland's prominence as the largest hub for green coffee trading companies is not merely a testament to its geopolitical neutrality but also to its robust financial infrastructure and unparalleled talent pool. It is this convergence of factors that has made Switzerland a source of innovation and excellence in the global coffee trade landscape.

As Secretary General, my focus is clear: to continue building on SCTA's reputation as a trusted source of industry knowledge. The biggest challenge lies in navigating the complex interplay of commercial priorities and sector-wide sustainability challenges within an ever-evolving landscape of global trade dynamics. Together we will continue to drive forward the mission of SCTA, shaping a future where coffee trade is not just a business but a force for good in the world. ■

THE DISCRETE ROLE OF INSURANCE IN YOUR CUP OF COFFEE

As for many other commodities, the coffee you drink every morning may well have been insured against credit and political risk at some stage. Not that many people would know that, as whilst this type of insurance is a niche market, it plays an important role in the trading and financing of commodities.

Coffee merchants face various risks when sourcing beans in producing countries. Risks include the performance of the producer, a political risk in the producer's country that could prevent the merchant accessing the goods or being unable to export them and also non delivery of the goods while a prepayment has been made. In addition, merchants also face credit risk arising from the sale of coffee to end buyers, either via open account sales or where the end buyer opens a Letter of Credit with a local bank.

Both performance and credit risk can be mitigated by a comprehensive insurance contract underwritten by Credit and Political Risk insurers. Such insurance cover is key for merchants to manage their own risks and also provides an additional comfort (sometimes a must have) for the banks that finance the underlying transactions. The credit and political risk insurance market can also help merchants and traders manage the payment of their margin calls and the potential loss under a hedge agreement if there is no physical delivery of the goods when due.

Banks are also big buyers of credit and political risk insurance (not only for their commodity finance desks but an ever-increasing number of other asset classes) as it enables them to optimise their balance sheet, resulting in higher credit lines being extended to traders.

The relationship between the commodity trading and financing industries and the credit and political risk insurance market started in the early 80s. Commodities have historically been the single sector where BPL receives most of its enquiries from clients. In 2023, this sector represented 44% of the total 2491 enquiries received and nearly 20% of the policies placed by BPL. Using our data as a proxy for the wider market, BPL estimate that in 2023, credit and political risk insurance policies covered north of USD 76 bn of commodities related transactions.

Insurers see commodity business as a good fit for their appetite because they have a deep understanding of the underlying markets, the premiums on offer are often highly attractive compared to other more general classes of insurance; and perhaps most important point is insurers' proven positive experience of workout situations leading to high levels of recovery. It is not just your coffee that may have been protected by credit and political risk insurance as it also plays a discrete role with the other commodities featuring in this magazine: the gas in your car, the bread on your plate and the copper in your phone. This part of the insurance market may be unfamiliar to some, but it plays a disproportionately critical role in greasing the wheels of international trade. ■

Philippine de Villèle
Director, BPL Global

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"IT IS IMPERATIVE TO PRESERVE THE VALUES THAT MAKE UP OUR DNA"

Can you tell us what is the SME Walter Matter?
We are a green coffee and cocoa trader established in Geneva in 1920. For three generations, we have remained a human-scale organization, acting as a partner rather than a customer or supplier.

What inspired you to continue the family legacy and take over Walter Matter?
Passion. I was born and raised in the heart of coffee and cocoa. They've always been part of my life, not least through the fascinating people they've given me the opportunity to meet. Taking over was an obvious choice.

How does being a family-owned business set Walter Matter apart from other companies in the industry?
Most trading companies are family-owned. Some of the biggest are still owned by heirs. In this respect, I don't think Walter Matter stands out. But we're still an SME. The transmission of values, culture and knowledge is fluid, and we have great agility in decision-making.

Were there specific educational experiences or training that prepared you for your role as CEO?
When I was studying, there was no specific training, as is the case today at Suissenégoce. I'd say that my father's passing on of knowledge, my studies in International Affairs and my military career in the Swiss army were complementary and invaluable.

What are the biggest challenges you've faced in leading a family business?
As an heir, although some doors are already open, you must demonstrate twice as much that you are capable, as an individual and not as a son.

What advantages do family-owned businesses have over their corporate counterparts?
Agility. Of course, I always seek the opinion and advice of those around me, but in the absence of a Board, decisions remain my prerogative.

Was there ever a fear of not living up to the achievements of previous generations? How did you overcome it?
They say the 3rd generation is the one that fails. It seems I've been defying the prophecy for the past 20 years! On a more serious note, taking over was a choice, not an obligation. Instead of being guided by pressure and fear of failure, I organized the structure to prevent it. To do this, I surrounded myself with brilliant people, and always acted in the best interests of Walter Matter.

How do you put your own imprint on Walter Matter's story while respecting its history?
It is imperative to preserve the values that make up Walter Matter's DNA. At the same time, it is essential to be open to modernity and change, which are essential to the company's long-term future. That's probably where the footprint lies.

What are the current challenges faced by family-owned businesses in today's competitive landscape?
The challenge is not so much the family character as the notion of size. We work alongside very large groups with incomparable resources. We often must be more than agile to achieve the same goals, whether commercial or regulatory.

What advice would you give to the next generation of family business leaders? What do you see as the key challenges that the next generations will need to tackle in the cocoa and coffee sector?
The world brings its own challenges. We must always strive for progress. Environmental, social, and economic considerations are key, and we need to improve our practices while ensuring the company's viability. The next generations will have to carry on the legacy without fear of shaking things up. They must have confidence in themselves, always be learning and aware of their limits so as to push them intelligently, and above all stay close to the field and to people. Nothing is perfect or binary, but everything can become better. The coffee and cocoa sectors are no exception, and we need to constantly re-evaluate ourselves in order to supply sustainable, fair-trade products.

Is the next generation showing interest in the business? How do you prepare the next generation to continue the legacy?
My daughter is 8 years old, and she still has many happy childhood years ahead of her. I'd be happy for her to be the 4th generation, but the choice is hers and she'll decide when the time comes. ■

Interview by **Suissenégoce**

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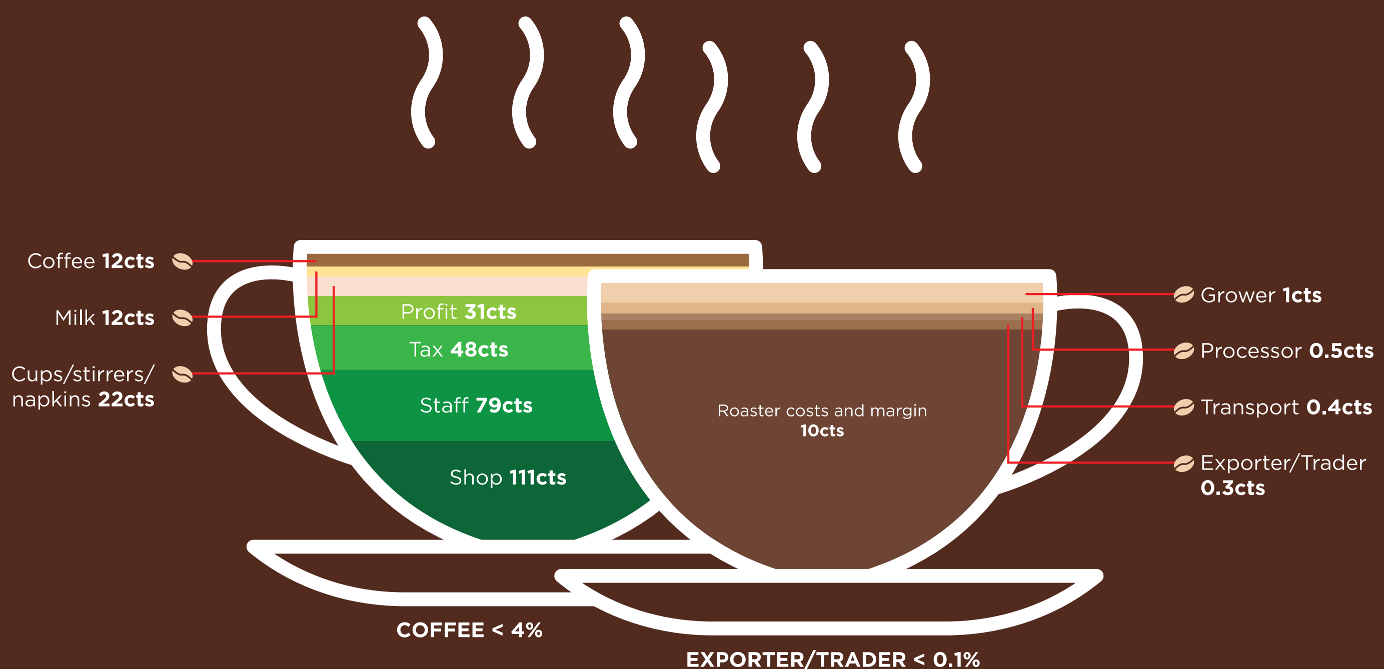
Nicolas Matter
Chief Executive Officer

COST BREAKDOWN FOR A 3.15CHF CUP*



*May not add up due to rounding
Sources: Allegra Strategies; International Trade Centre; FT calculations

FINANCING GREEN COFFEE, A LONG JOURNEY

Coffee is one of the main tropical commodities traded in Switzerland, but not all trade finance bank engage actively in the financing of this industry. This is due to some specificities of the commodity and its logistics.

First of all, the two main varieties of green coffee (i.e. the non-roasted coffee bean), arabica and robusta, can be hedged and delivered respectively on the New-York and London futures markets. Financing banks need to be familiar and to accept to finance margin calls related to hedging price risk for the coffee they finance. A good understanding by the bank of coffee price dynamics (price volatility is high) is required, as traders and more generally the industry (incl. other financing banks) rely on the financing bank's commitment to the sector even during market turbulences.

Secondly, green coffee is sold mainly in 60 kg bags and these are transported in containers rather than in larger bulk vessel. Therefore, the value of each shipment and therefore the size of each individual financing, ranges from US$ 100'000 to US$ 500'000, while financing of a shipment of grains or sugar amounts to US$ 2 million to US$ 20 million. Hence, financing of coffee is a time-consuming enterprise compared to the financing of other commodities, especially when considering the next particularity.

Thirdly, green coffee is sourced in producing countries, where some processing takes place (wet or dry milling, drying, sorting, blending, bagging...). Our financing may start up-country at the coffee mill or at any later stage, as for example during inland transit (mainly by trucks) from the mill to the load port. Coffee is also often stored at the load port until it is shipped by container to anyplace around the world. Then the coffee may be directly delivered to a buyer (usually a roaster or local trader-distributor) or may be stored, pending final sale. The financing bank needs to monitor each inland or port inventory, truck load and then each shipment of coffee it finances, as well as any further temporary inventory until a sale is realized which repays the financing.

Hence banks financing coffee merchants need to staff their front, middle and back-office teams in order to be able to monitor their risks and to be able to provide timely financing and related services (LC issuance, import/export bank collections) to the coffee trading companies they partner with.

The range of potential client includes major multinational players, medium sized and niche coffee merchants which require support from coffee origination in Africa, South and Central America and Asia up to the coffee beans reaching the roasters, through all its logistical phases. Typically, trade finance banks have to adapt the financing structure provided to each client's needs and also to its credit profile. In doing so, BIC-BRED (Suisse) SA, for its part, always aim to adhere to the Recommended Best Practices for Commodity Finance Banks in Switzerland, that had been shared via the Suissenégoce platform in November 2021. ■

Michael Jackisch
Head of Soft Commodities Desk,
BIC-BRED (Suisse)

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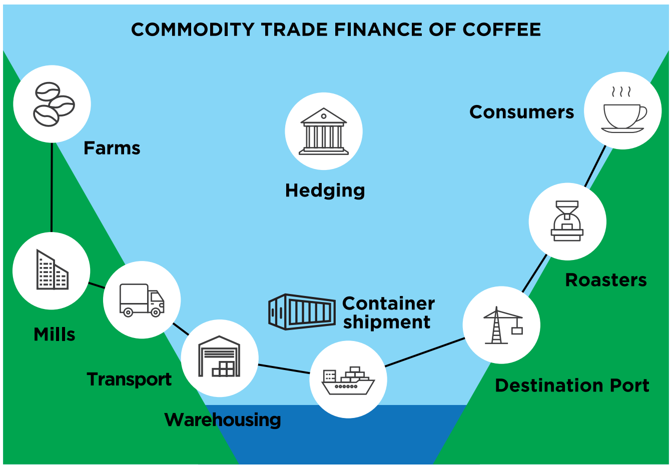

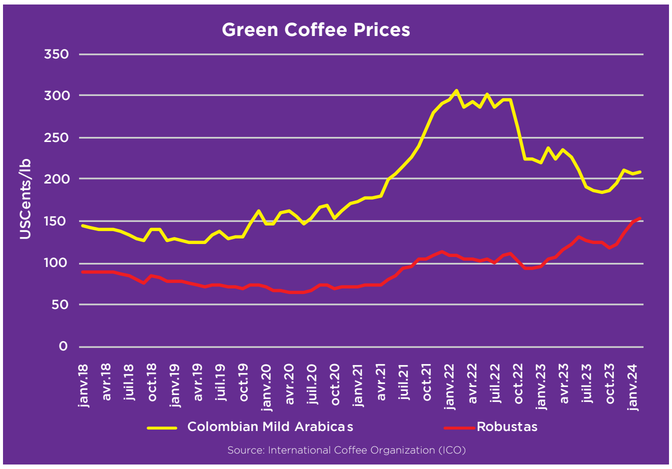

VIETNAMESE COFFEE

Over the last 30 years, Vietnam has become the second largest producer of coffee, after Brazil. Vietnamese coffee is found everywhere around the world in products consumed daily. A local favorite is the unique cà phê sùa đá, an iced coffee made with condensed milk.

Vietnam's potential has long been recognized by most trading houses who compete with development schemes to differentiate and add value to their products. ECOM for example, entered in 2001 as Foreign Direct Investment company to set up a dry mill, which now operates fully on solar energy. This investment was accompanied locally by programs funded by roasters, NGOs and development banks, supporting farmers with certification premiums. Not only does this create a more agile value chain for coffee, but it is how renowned coffee trademarks such as Smiling Tiger and Blue Dragon came to life: a fascinating a fascinating culture of innovation aiming to create solutions for our customers and farmers.

The World Bank recognizes trading companies as very effective vectors for rural development; traders do a lot more than just bring you your morning coffee. Enabling producers to develop more sustainable farming practices is part of the different ongoing projects supported by traders and roasters. This is achieved by providing subsidized agricultural inputs to farmers, not using herbicides, lowering carbon emissions, and creating bio-diversity friendly habitats.

In 2023, IDH the Sustainable trade initiative assisted in funding a financing program to subsidize smallholder coffee farmers, allowing for an increase in farm productivity and yields thereby improving income while reducing production costs. Farmers receive access to high quality fertilizers and seedlings, helping diversify sources of income and climate resilience.

Another example, Arabica varieties developed by CIRAD* in 2000 and tested in Vietnam since 2017 are widely distributed locally: these varieties have proven to be more productive, resilient to climatic stress and disease, as well as having exceptional cup quality. Over 100 million new coffee trees have been distributed to farmers in the past 10 years from their various plant nurseries. The implementation of these tailored programs supports smallholder farmers by purchasing coffee directly from them, creating a unique supply chain.

This contribute to increase their income while developing traceability within the supply chain and reduce pressures from highland forests.
Additionally, in light of the European Deforestation Regulation, Vietnam has been selected to to develop technologies with blockchain and innovative data management resources to reinforce the first mile data collection and reporting solutions.
Whether it is finding new ways to grow coffee, collecting better data for farmers and customers, or supporting communities, Vietnam is definitely the place where we take coffee forward and help secure its future. ■

**CIRAD is the French agricultural research and cooperation organization working for the sustainable development of tropical and Mediterranean regions. (https://www.cirad.fr/en)*

Ramon Esteve III
Board Member, Ecom Agroindustrial

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DEMAND VS SUPPLY: LNG'S EVOLVING ROLE IN EUROPEAN ENERGY SECURITY

European energy supply has been under scrutiny since February 2022 when Russia invaded Ukraine. Traditionally a big importer of Russian gas, Europe has had to look elsewhere to fulfil its projected energy needs. Fortunately, LNG was waiting in the wings, ready to change Europe's energy landscape.

Whereas in 2021, LNG accounted for only 19% of European Union (EU) energy imports, in 2023 it accounted for 41%, revealed Kpler data as reported by the Institute for Energy Economics and Financial Analysis (IEEFA). This uptick was spurred in part by an EU campaign announced in May 2022, known as the REPowerEU Plan, to help the region diversity energy supply chains, save energy and drive renewable energy creation.

According to an IEEFA report, six new LNG terminals have been introduced since the beginning of 2022, along with one expansion. Projected figures reveal that there may be more capacity than required, with Europe's annual import capacity projected to reach 406 bcm by 2030, while gas demand is expected to fall to around 400 bcm over the same period.

Meanwhile, demand for regasification and floating storage units (FRSUs) has increased, with Europe having secured up to 12 vessels in 2022, reported S&P Global in December 2023. Often converted from LNG vessels, these units can be commissioned more cheaply and quickly than land-based infrastructure and offer a responsive solution to shoring up supply chain security.

Germany has been especially active commissioning three units since 2022, in addition to an existing three. The Independent Commodities Intelligent Services reveals Estonia, Finland, France and the Netherlands have FRSU plans in the pipeline. Meanwhile, Greece recently received an FRSU in Alexandroupoli that will feed into the broader Vertical Corridor initiative – an LNG supply chain linking Greece, as the importing nation with Bulgaria, Romania, Hungary, Slovakia, Moldova and Ukraine. Cyprus is awaiting delivery of a partly EU-funded LNG-to-FRSU conversion project which will supply natural gas to Cyprus' Vasilikos Power Plant. The LR-classed unit will reduce the cost of electricity and carbon emissions, improve air quality and provide energy security to the island for the next more than two decades. These activities combined have readied the EU for a future where LNG plays a significant role in the region's supply chains for the next two decades.

Meanwhile, announcements from Joe Biden's administration in January 2024 to indefinitely pause additional LNG export capacity does not cause great concern, as its impact could only be felt towards the end of this decade. It is noted that the US was the largest exporter in 2023 and is a key exporter to European countries, significantly to France, the UK and Spain. In any case however, salient suppliers in the Middle East will continue to deliver and will likely meet any shortfalls if ever required.

LNG will continue to be a major component of Europe's energy landscape as it diversifies its infrastructure and increasingly moves to low- or zero-emissions landscape. ■

Panos Mitrou
Gas Segment Director, Lloyd's Register

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A CRITICAL ROLE FOR THE EUROPEAN ENERGY SECURITY

2022 was a year of extraordinary turbulence in global energy. Russia, until that point Europe's largest single supplier of natural gas, slashed pipeline supplies to the EU by 80%. As a result, wholesale prices for natural gas, the main fuel used for power generation and home heating across Europe, surged to a high of 300 EUR/MWh. Since then, natural gas prices in Europe have retreated sharply and are now down to just below 30 EUR/MWh, a price that should allow the continent's economy more breathing space. Lower prices are due to several factors; two consecutive mild winters; energy conservation–European households are consuming c11% less gas to heat their homes and reduced industrial activity-by shuttering factories in high energy consuming sectors such as chemicals and base metals. Notwithstanding that drop in demand, it would have been impossible for markets to adapt to such a severe loss of supply without Liquefied natural gas ("LNG").

A decade ago, LNG's contribution to the global energy mix was limited and LNG markets underdeveloped. Two Asian countries (Japan and Korea) dominated the market with a 52% share. LNG was bought and sold on fixed destination contracts for terms of 20 years, and spot market trading was minimal. Since then, the market has evolved. Energy traders have become more active participants, securing flexible supply volumes where the destination of the LNG is no longer fixed and chartering fleets of LNG carriers that enable them to move those cargoes freely around the world. In 2022, this was critical in enabling Europe to attract more LNG, at short notice, to fill its supply shortfall. Other markets in Asia and Latin America were better placed to switch away from gas to other fuels. Europe was able to draw upon a much bigger pool of LNG as Asian buyers' demand dropped more quickly and traders moved to divert their cargoes from Asia to Europe. Traders tripled their LNG supplies to Europe in 2022 whilst overall LNG supply to the EU & UK rose some 71%.

Accessing more LNG required energy companies and governments to act fast to construct new terminals as LNG import capacities were limited in 2022. But the future role of LNG will be positive. Global supplies are set to expand by some 50% over the next five years, investments that were partly secured through supply commitments by energy traders. Europe is well placed to benefit from this supply surge through cheaper energy prices. And access to LNG spot markets can further advantage Europe in future. Since LNG is now freely traded it can respond flexibly as the energy transition progresses. As Europe ramps up low-emissions energy sources, energy traders will be able respond by diverting cargoes back towards growth markets in Asia where gas can replace highly-polluting coal stations. Thus, LNG spot markets can provide both energy security in times of shortage and flexibility to reduce supply in times of surplus, efficiently responding to demand without burdening Europe consumers with costly fixed term contracts that may not be needed in the decades to come. ■

Chris Wright, Head of European gas and LNG research, Vitol

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Kwon Juhno, Unsplash

HOW LNG SAVED EUROPE FROM FREEZING: A TALE OF ENERGY INNOVATION

In the face of geopolitical tensions and disruptions in gas supplies, Europe's energy landscape has undergone significant changes over the past few decades. A move from the reliance on oil in the aftermath of the 1970s energy crisis prompted diverse strategies among European Union countries to secure their energy future. This article delves into the historical context and recent events that highlight the pivotal role of Liquefied Natural Gas (LNG) in safeguarding Europe from potential energy shortages and the consequences of extreme winter conditions.

Historical Energy Paths

United Kingdom (UK): The UK initially moved towards indigenous coal and gas, later transitioning to imported LNG to ensure energy security. Diversification across countries supplying LNG became a key strategy for the UK.

France: With no indigenous energy resources, France adopted a nuclear energy policy.

Germany: Germany aimed to replace oil with natural gas from Russia, later diversifying its sources with gas from Norway's Troll field during the Cold War.

Netherlands: Relying on the Groningen gas field, the Netherlands faced challenges as the field reached the end of its life due to earthquake issues.

Japan and South Korea: Both countries lacking indigenous resources, built a mix of coal, gas, and nuclear energy. LNG imports played a crucial role in their energy mix.

China: Experiencing exponential energy growth, China shifted towards gas to reduce coal emissions, making it the second-largest LNG importer globally.

Challenges and Russia's Actions

Prior to the situation in Ukraine, Russia strategically cut gas flows to Europe for nearly a year, depleting gas storages owned by Gazprom. Pipeline flows to Europe were further reduced by approximately 120bcm.

LNG - Europe's Savior

Without LNG, Europe would have faced severe gas shortages during the subsequent winters. The global LNG market provided a solution, allowing Europe to tap into alternative gas sources and avoid gas rationing through either exorbitant prices or government intervention.

Market Dynamics and Innovation

Supply and Demand: The global LNG market responded to Europe's crisis through supply and demand mechanisms. China's drastic reduction in LNG imports freed up supplies for Europe.

Floating Storage and Regasification Units (FSRU): A recent innovation in the LNG market, FSRUs, played a crucial role in delivering LNG to Europe quickly. The flexibility and shorter construction time compared to land-based regasification units enabled a swift response to the crisis.

Unregulated Market: The relatively unregulated nature of the LNG market allowed for a market-driven solution, minimizing costs and maximizing efficiency.

The LNG market's resilience and adaptability proved instrumental in averting an energy crisis in Europe over the last two winters. As the global energy landscape continues to evolve, the innovative spirit within the LNG market, exemplified by advancements like FSRUs, ensures that solutions to future challenges will be met with flexibility and efficiency. ■

Mark Hives
Senior Financial Gas Trader & LNG Analyst,
SOCAR Trading, London

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FERTILIZERS FEED THE WORLD

Until the Russian invasion of Ukraine people have not heard much about fertilizers. After the sudden rise of fertilizer prices everyone's attention rose tremendously as the public has finally discovered the importance of this essential input for food production. 50% of the global population has food on their table thanks to fertilizers.

Nitrogen, Phosphate and Potash are the three nutrients the plants need to grow and maintain a healthy cultivation process. Nitrogen is the most essential fertilizer and farmers will almost never skip its application. Early 20th century Haber-Bosch process which allowed industrial production of ammonia was the "savor of the world" by providing nitrogen fertilizers in large quantities. Ammonia based nitrogen fertilizers are applied in the form of urea and nitrates. The most efficient and competitive raw material for ammonia production is natural gas. There is also large-scale coal-based urea production, mostly in China.

The largest competitive nitrogen fertilizer producers are in countries which have natural gas. Broadly, one can say that the most important producers are in USA, Nigeria, North Africa, Arabian Gulf, Southeast Asia and Russia.

Russia's role is twofold. On one hand they have been supplying natural gas to the European nitrogen industry and on the other hand as a large nitrogen producer they have been supplying fertilizers to global markets. Once sanctions on Russia were declared the impact of reduced natural gas supplies to Europe and constrained deliveries of fertilizers to the global markets were substantial and devastating in Africa.

Following these Russian sanctions and losing Nordstream pipeline capacity to sabotage, the European nitrogen industry lost its competitive position due to extremely high natural gas prices. The nitrogen producers had to partly shutdown production. This led to extremely high fertilizer prices which had a very negative impact on agriculture demand and hence on food production. This resulted in food inflation everywhere and threatened Africa and South Asia with famine.

Europe was lucky during last two winters in a row with mild weather. This led to reduced consumption of natural gas for heating purposes and industrial demand went down considerably. The natural gas storges were filled with LNG (liquified natural gas) imports shipped by sea from Qatar, USA, Egypt and Russia. With full storage and reduced demand the prices have come off considerably. These lower prices helped European nitrogen industry to increase production again. However, the LNG market is tight until well into 2025 when new capacities come online. There is no guarantee that next winter will be warm again. A colder winter can increase the natural gas demand for heating and LNG alone may not be able to meet this demand. Needless to say, the production of nitrogen fertilizers in Europe will be again very difficult.

"It is most important to make sure that availability of competitive natural gas is safeguarded to feed the world"

As one can see the relationship between natural gas, fertilizers and food production is very close. It is most important to make sure that availability of competitive natural gas is safeguarded to feed the world. ■

Melih Keyman CEO, Keytrade

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FROM HYDROCARBONS TO ELECTRONS, THE EVOLVING ENERGY LANDSCAPE

At the COP28 climate conference in Dubai more than 120 countries signed a pledge to triple global renewable energy capacity and double the average annual rate of energy efficiency improvements by the end of the decade.

Arguably this was the most consequential commitment to emerge from the conference with analysts calculating the two measures could deliver close to three quarters of the emissions reductions needed by 2030 under the International Energy Agency's net zero pathway[1].

The good news from a climate perspective is that the target is attainable. Led by China, renewable energy capacity additions grew by 64% over the past year to almost 515 gigawatts and further growth is expected.

We estimate renewable energy generation capacity will surpass thermal generation capacity for the first time this year, with renewables set to account for 45% of global power output by 2030 and 69% by 2050.

But what does this shift from an energy system dominated by hydrocarbons to one dominated by electrons mean for commodity markets and our industry?

Some of the answers are more obvious than others, but all of them are important in shaping the future direction of our business and how we connect the resources needed to power, build and decarbonise the world.

Estimating future energy demand is, of course, challenging and there is significant uncertainty about future trends during a time of rapid technological change.

Take artificial intelligence – or AI. Training AI models, in particular those used in natural language processing or image recognition, requires significant amounts of energy to cool servers and hardware. According to a recent study, AI could consume as much energy as a country the size of the Netherlands by 2027[2].

At the same time, the realignment of supply chains because of an increasingly complex geopolitical backdrop, and the trend toward 'nearshoring' is changing where energy is needed and consumed.

In terms of the changing power mix, the rapid build out of renewables will drive strong demand for metals, in particular copper and aluminium, which are critical for grid development due to their high electrical conductivity. It will also benefit zinc and steel.

For example, to meet the projected growth in electricity demand the length of power lines globally will need to increase from 81 million kilometres in 2020 to 109 million kilometres by 2030, an increase of 35%.

Currently 3 million to 4 million tonnes of copper and aluminium are consumed each year in grid expansion. According to our research Trafigura Research, this will need to rise to 10 million tonnes by 2030 and 14 million tonnes in 2040.

More renewable power also means less stability on the grid because of the intermittent nature of wind and solar energy. To balance the fluctuations in supply and demand caused by different weather patterns, we see a growing role for gas as a source of base load power – at least until multi-hour energy storage and other scalable solutions can address the challenge of intermittency.

It also important to note that what we think of gas today could be very different in the future. "Gas" could also include renewable hydrogen, biomethane or natural gas. But the wider point is that we see natural gas supporting the next phase of the energy transition.

We forecast gas demand will increase over the course of this decade and beyond. Gas also benefits from replacing coal in power generation because it generates significantly less carbon dioxide per unit of energy produced.

In anticipation of these changes, we have invested significant time and resources in building our gas, power and renewables business into a strong third pillar for Trafigura, sitting alongside the more established oil and petroleum products and metals, minerals and bulk divisions.

In 2022 we signed an agreement to provide significant volumes of natural gas to Germany for four years, sourcing molecules from our global network of suppliers. This includes the long-term contracts we have secured with major US producers of liquified natural gas (LNG).

We like to think of LNG as a virtual gas pipeline linking producers in one part of the world with consumers in another part of the world, providing a flexible and secure source of energy, which we can manage along the entire supply chain.

For example, using our network work of leased pipelines, we are able to carry natural gas from fields in Texas and New Mexico to liquefaction plants on the US Gulf Coast.

From here the gas is shipped across the Atlantic to regasification plants in Europe and then put into storage or delivered to customers such as big utility companies where the molecules are used to generate electricity.

Through our power business we can sell that electricity to large consumers on terms matched to their needs. In fact, we see our power business playing a broader role in helping to balance supply and demand across Europe and to that end we have established a 24/7 power trading hub in Copenhagen, alongside our existing teams in Singapore, Switzerland and the US.

Understanding power markets is no easy task, as it requires the ability to process and analyse huge volumes of data. At Trafigura we now have a team of data scientists and a strong research capability that allows us to crunch billions of data points every day and make sense of this information.

Of course, we realise that not every industry can be electrified. There are some hard-to-abate industries like steel-making, chemicals and cement where different solutions will be required.

It is here that we see hydrogen produced using renewable energy as having a role to play. That's why we are developing one of Europe's largest green hydrogen production projects in Denmark.

These are just some of the ways our business is evolving in response to the major shifts that are underway in the global energy system.

The transition to a low carbon future cannot happen instantly and we will need multiple fuels, technologies and solutions (such as carbon dioxide removals) to achieve a net zero future. But one thing is clear; we will not get there without the services, solutions and expertise that our commodity industry provides. ■

1) https://www.carbonbrief.org/qa-why-deals-at-cop28-to-triple-renewables-and-double-efficiency-are-crucial-for-1-5c/
2) https://research.vu.nl/en/publications/the-growing-energy-footprint-of-artificial-intelligence

Richard Holtum
Global Head Gas, Power and Renewables, Trafigura

GERMAN VERSION ←

FRENCH VERSION →

Keystone

THE LME COPPER MARKET

The London Metal Exchange (LME) is the world centre for the trading of industrial metals – the majority of all non-ferrous metal futures business is transacted on our platforms. In 2023, 149 million lots were traded, equating to $15 trillion notional or 3.5 billion tonnes, with market open interest as high as 1.9 million lots.

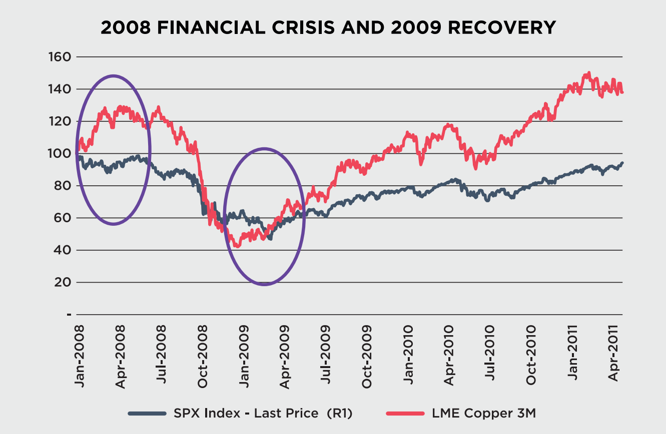
First traded on the LME in 1877, copper is the flagship contract of the LME and boasts daily trading volume of over 3.5 million tonnes, with open interest today at 11.2 million tonnes. The LME remains by far the biggest derivatives market in the world for copper, in terms of recorded volume and open interest. Two thirds of the world's copper futures contracts are traded on the LME, with holding more than 3.5x the open interest of other exchanges combined.

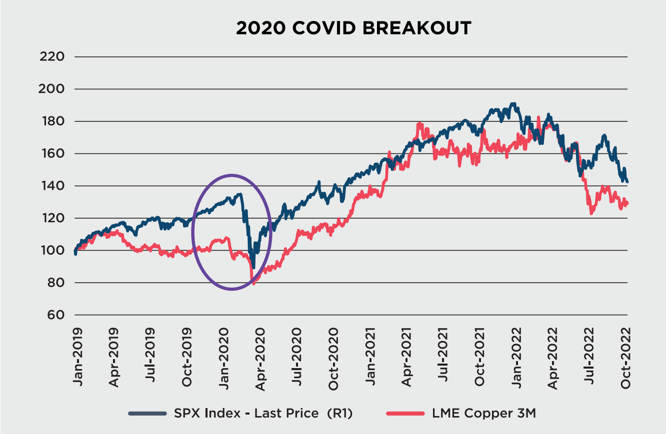
Price discovery is one of the most important functions of the LME. Our strong link to the physical market, high levels of liquidity, world-wide customer base and global warehouse network ensure that the LME is the de facto price formation venue for world copper. Market participants buy and sell copper futures and options on the Exchange to hedge and invest in price activity.

The LME price is also the basis for the majority of bilaterally negotiated physical supply contracts between producers and consumers of metal globally. The underlying basis for these contracts is indexed to the LME price and parties to these contracts then agree premiums based on variables such as location and purity of metal. This has established LME Copper as the global reference price.

Copper is used in all aspects of life, from the construction of our homes to the electronics in our cars, it is even a key mineral for our daily diet. Copper is a highly efficient conductor and is key in the transmission of power for many existing and new renewable energy sources. For that reason, copper will play a critical in achieving global climate goals and moving towards a more sustainable economy.

The term "Doctor Copper" is often used, as it is a useful indicator to the overall health of the economy. Due to its sensitivity to economic trends, financial participants often trade copper on the LME to express their views on the global economy. When demand for copper increases, it typically indicates a growing economy, while a decrease in copper demand can signal a slowdown.





Keystone

As illustrated by the chart below, copper acted as a lead indicator of financial market sentiment in 2008- 2009, when compared to the S&P 500. Indeed, "Dr Copper" once again was a leading indicator of the economic impact of covid and lockdowns, with the LME Copper price falling ahead of a corresponding fall in the S&P 500 .

Copper prices are not solely dictated by purely economic factors, of course. Political and social risk factors must also be considered, such as supply disruptions or country stability. While solely relying on copper an economic indicator is not advisable, combined with other economic indicators it can help investors better understand trends in financial markets. ■

Yang Liu
Senior vice president, Market Development,
London Metal Exchange

GERMAN VERSION ←

FRENCH VERSION →

SECURING ACCESS TO CRITICAL MINERALS FOR THE ENERGY TRANSITION

Copper, alongside other critical minerals, is key to a greener future. Electricity networks, solar panels, wind farms, and electric vehicles require more critical minerals than their fossil-fuelled predecessors.

The entire energy network needs to be overhauled and expanded in order to carry this clean energy to our homes, offices, cars and electronics. Building this new energy system depends on securing raw materials including copper, as well as cobalt, aluminium and steel.

As the government seeks to meet its Net Zero commitments, and consumers turn to greener options such as electric cars, demand for copper and other critical minerals is increasing. This demand will double by 2030 according to the International Energy Agency, presenting a major supply challenge that could endanger the energy transition, and the urgent quest for Net Zero.

Our research indicates there could be an annual deficit of up to 1.5 terawatts of renewable energy because of the copper shortage. Yet there are enough reserves in the ground from mines operating today to produce 28 years' worth of copper, 36 years' of lithium and 24 years' of cobalt. The bottleneck is the capacity of mines and refineries to extract and refine the critical minerals. Urgent investments are critical to address this shortage, however private investment is deterred by price uncertainty and geopolitical risk.

At present, critical minerals production is highly concentrated in four countries with very different risk profiles: Chili produces 25% of copper globally, the Democratic Republic of Congo produces 70% of cobalt and Australia produces 47% of lithium. And China controls between 42%-76% of global refining capacity for these minerals. Every day in Switzerland, commodity traders are taking supply positions and delivering copper and other critical minerals numerous clients and industries. Concluding contracts with a range of mines, refiners, and clients, they can take on, and mitigate some of these risks, but the overall shortage will still persist without further investment.

Commodity traders need the support of investors and financiers to increase the rate of extraction and refining of critical minerals. This, if done well, will also benefit some of the poorer nations of the world who hold the vast majority of these minerals, and secure access to the critical minerals needed to achieve Net Zero on time. ■

Olena Isaieva, & Andy Churr
Baringa Partners Switzerland

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ENGLISH VERSION →

COPPER CONCENTRATES TRADING

With approximately 20 million tons of copper per year produced from mines around the globe and 5 million tons from scrap as copper is one of the most recycled of all metals

Copper is a very versatile metal essential for power cables used in electric vehicles, in home appliances, construction and industry. The need for infrastructures in power distribution is making copper the strategic metal of our energy transition which will create a boom in demand to secure volumes and a higher competition to exploration companies with the addition of new players in new mining projects like car manufacturers and even governments.

Mining companies are working to produce copper concentrates that is then smelted and refined to produce copper for the industry. Specific to price mechanism, the copper concentrates trade price between mining companies and smelters around the world during the last quarter of each calendar year is used to define a benchmark price for the following year which will be then the settlement price for 70 to 80% of the activity, the balance is called spot contracts.

The main functions of merchants are to absorb the market price differences between countries or continents, to bring and distribute the right quality and to deliver in a precise timing and minimize the smelters' cash flows needed and associated costs. In addition, merchants must consistently secure sourcing as well as manage risks, optimize revenues and reduce costs related to operations. Merchants would organize financing to allow medium size mining company to buy additional equipment to enhance production which in turn will be delivered to them.

Blending is critical. Blending various copper qualities to satisfy the limit of impurities imposed by the smelters is essential. As an example, a copper concentrates containing too much lead and zinc will be blended with another quality containing no lead, the then resulting acceptable product will be shipped to most copper smelters.

Specific to financing, traders could also finance copper thanks to the London Metal Exchange who has a Cash and 3 Months quotation market, when price structure is in contango, the financing of the cargo is reduced by the amount of the contango premium.

Trading activity in copper is not speculative with most of the traders hedging every possible element to reduce risks even if not possible to fully eliminate all of them and must be always reactive to adapt and anticipate the challenges of a fast-moving environment.

Geopolitics have always been an important factor, but it is getting more and more important, operating on a global basis, merchants must adapt and find solutions.

One example is the recent freight disruptions due to Red Sea attacks and Panama Canal congestion forcing many flows reshuffling; a cargo from the far East initially destined to a European client will be delivered in the middle East or India avoiding the Red Sea and simultaneously replaced by another cargo of similar quality coming from Africa. Doing so, merchants can avoid the incremental time and financing of 45 days implied by a re-routing through the Cape of Good Hope. ■

Jean-Pierre Adamian
Transamine

GERMAN VERSION ←

FRENCH VERSION →

COPPER SMELTING AND THE ROLE OF TRADERS

Copper is first produced by mining copper-bearing ores. Secondary copper from scrap recycling plays an increasingly important role, as copper is infinitely reusable.

Today the global average copper ore grade is just ~0.6% and continues to decline, resulting in higher costs for miners and smelters who must process more waste to maintain refined metal production levels.

Most copper-bearing ore is mined using the open-pit method, although it is also mined underground. There are two types of copper-bearing ores, sulphide and oxide ores, which lend themselves to different processing methods described below.

Sulphide

Ores are crushed into a fine powder and mixed with chemicals making the copper particles water-repellent. The mixture undergoes froth flotation, causing copper particles to float to the surface of a water bath and waste to sink to the bottom. The resulting froth, copper concentrates, contains ~25% copper content and is sufficiently valuable to be economically transported internationally.

Pyrometallurgical smelting converts copper concentrates into copper metal over several phases. Concentrates are roasted to remove sulphide, creating calcine –which is melted with fluxes at over 1200C to remove other impurities, resulting in an iron-containing mixture called matte (~60% copper). Matte is oxidised to remove iron, resulting in copper blister (~99% copper). Blister is then melted and poured into moulds producing anodes (~99.2%) ready for electrolytic refining. Anodes are placed in an electrolyte solution together with cathodes, and an electric current is passed through the solution dissolving anodes into soluble copper ions. Copper ions from the anodes attach to cathodes as pure copper, and remaining impurities collect at the bottom of the solution. The resulting copper cathodes are 99.99% pure copper.

Oxide

Crushed oxide ores are placed into a leak-proof lining before sulfuric acid is sprayed over the ores. The resulting copper sulphate solution is pumped to a solvent extraction plant which ultimately again uses electrolysis to collect copper onto cathodes (electrowinning).

Comparison

Pyrometallurgy accounts for some >80% of copper cathode production. Hydrometallurgy is a more recent technology, with increasing prominence since the 1960's. The choice between these methods depends on ore characteristics, environmental considerations, and economic feasibility.

Role of merchants

Traders play a pivotal role in the copper supply chain by tailoring specific concentrate qualities for different smelting technologies. For example, they provide blending services, catering to smelters capable of handling cheaper, complex materials. This strategic role reduces raw material costs for smelters while helping producers of complex and clean concentrates achieve the best price for their material. Additionally, traders offer capital support for purchasing raw materials globally, providing stability and flexibility to miners in their production process and smelters in their procurement process. ■

GERMAN VERSION ←

FRENCH VERSION →

Markus Nunnenmacher
CEO, MRI Trading

Nikola Miskov
Head of Legal Affairs & Structured Finance, MRI Trading

Keystone

HOW BANKS SUPPORT BATTERY VALUE CHAIN FOR A GREENER FUTURE

The majority of banks active in commodity trade finance (CTF) in Switzerland are committed towards global decarbonization efforts by financing the physical trade of critical raw materials required for the energy transition. Copper is a pillar of the global infrastructure and industry with 25 million tons consumed every year. Its availability is vital to develop low carbon economies as a raw material in electricity grids, electric vehicles, and the fabrication of renewable technologies.

The physical trade of copper requires access to liquidity. ING's trade finance network offers over $2.5bn-$3.0bn in uncommitted transactional facilities to metal concentrate traders, besides structured prepayments, borrowing bases or supporting capital market activity. The lifecycle of a transaction starts with financing goods at the mine, followed by a transit phase to the export terminal and to smelters in Europe or China. The bank's primary role is to facilitate an undisrupted trade flow across all logistic phases up to the end buyer. This entails strict due diligence across the supply chain, collaborating with transportation, storage, inspection companies, anticipating risks and advising clients on underlying documentation and operational challenges.

The complexity of the copper supply chain gives rise to a plurality of risks: Non-Financial Risks (NFR), Environmental Social Responsibility (ESR), market and credit risk pockets. Site visits and full visibility over transactional flows and players in the chain allow us to continue financing copper responsibly. The bank specialized in commodity trade finance connects the dots between production regions and destination markets. Its role is to adopt a value chain approach by linking local experts on the Metal & Mining side with trade and distribution specialists across the CTF franchise.

As many key market players involved in the trading of metals - such as merchants, banks, insurers, agents, brokers, shipping groups, legal firms, inspection companies- are based in Switzerland, the country is recognized as a global center of expertise for trade and structured commodity finance. Banks are fully integrated in the Swiss global trading hub, engaged with multiple counterparts in the ecosystem, notably across the copper value chain. Next to providing liquidity to facilitate the physical flow of commodities, the role of a CTF bank encompasses hedging solutions for price volatility including hedging the future market value of the material before its actual production by the mine. And to ease the associated liquidity burden, it is important to finance the margin call requirements.

CTF banks play a critical role in the path to net zero, and in the electrification of the economy, by actively participating in the copper value chain as well as other battery metals. A recent example is the $5.0bn expansion financing transaction for Northvolt (one of the largest battery manufacturers in Europe), which includes a working capital facility that pre-finances battery (raw) materials. ■

Gregory Lambillon
CEO & Country Manager,
ING Switzerland

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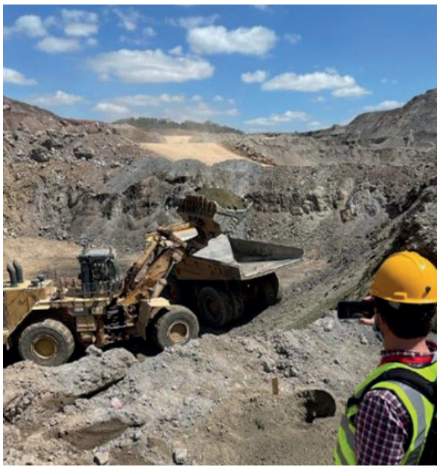

"OUT OF AFRICA"

"Seems easy enough – you just pick it up from the producer and deliver it to the customer" – something we often hear when we try to explain our company's activities to persons not familiar with commodity trading.

If only it was that simple. Moving product from point of origin to point of consumption can be a complex, multi-modal process and the path a product takes to market can alter frequently over time. Any commercially minded entity will seek to optimise the flow of goods to reduce logistical and financial costs whilst still getting the product safely and responsibly to its end home.

The more remote the goods' origin the more variables need to be considered, 1) the cost of inland transportation from the mine to port, 2) the cost of handling goods onto vessel, 3) the time goods take to reach the port, 4) vessel availability, 5) the cost of ocean freight and marine voyage time and 6) the presence of reliable inspection companies.

Much of what we source comes from Southern Africa - Zambia, DRC and Zimbabwe and there are several potential paths goods can take to market. Over the last years we have exported through Walvis Bay, Durban, Richard's Bay, Beira, Maputo and Dar es Salaam. Our decision on which way to go is determined by evaluating the above factors.

Dealing with smaller scale producers adds another degree of complexity. These guys have unpredictable production volume and are easily impacted by the availability of raw materials, electricity and fuel required for beneficiation. And since we aggregate materials from several small plants into single, larger parcels to meet international market norms we further increase the complexity.

What worked yesterday may not work tomorrow as new shocks to the system are inevitable. We have seen floods, country borders closing, container lines skipping ports, blockages in the Suez, rockets in the Red Sea and seasonal agricultural flows tying up capacity to name just a few.

We are just one of many moving goods along similar routes, and the optimisation made by our peers can ripple through our decision process. Not that metals traders are sheep and follow each other blindly, but we often have the same 'bright idea' at the same time, shifting goods through different ports and these shifts can create their own bottlenecks. The influence of other traders' flows also needs to be considered.

The prices for many metals are high, interest rates remain elevated, so time is increasingly a key factor. There is little point to save a handful of dollars on a logistical flow if it adds several weeks to the journey. Any profit from a trade can be preserved or lost depending on how well we optimise.

There are several ways to get it wrong but only a few to get it right. We feel a tremendous sense of accomplishment when we execute a delivery successfully, safely and responsibly. In so doing we navigate the multiple challenges the region offers, and along the way have helped fuel the local economies from which the goods originate. ■

Tristan Busch
Managing director, Zopco

GERMAN VERSION ←

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ADAPTING AND THRIVING IN A CHANGING JOB MARKET

The economic and job market landscapes are undergoing a rapid transformation. What taxis experienced with Uber is becoming a reality for more and more professions. Terms like “digitalization,” “disruption,” and “uberization” paint a clear picture: the labor market is in the midst of a revolution. While artificial intelligence and robotics will inevitably render some jobs obsolete, new opportunities are constantly emerging.

Employability: The Crucial Challenge

At first glance, “employability” might seem like an abstract concept. However, the International Labour Organization defines it as "the ability of each individual to find and keep a job, to progress at work, and to adapt to change throughout their working life.” This ability translates into continuous learning, whether it's acquiring new skills, mastering the latest technologies, or simply expanding your professional horizons. Continuous learning is an investment in your future, regardless of whether you're a seasoned professional or just starting your career. In today's dynamic job market, staying competitive demands continuous learning.

Gone are the days of employees staying with the same company for their entire careers. Companies, too, recognize the importance of their employees' employability, as it ensures they possess the skills necessary to execute their strategies.

Thrive in a Competitive Landscape

The Swiss job market is known for its competitiveness and highly skilled workforce. Individuals who can adapt and develop specialized skills are more likely to find success. By prioritizing their employees' employability, companies strengthen their “employer brand,” which is a powerful tool for attracting and retaining top talent.

Suissenégoce: Empowering Employability

For professionals in the commodities trading sector, SUISSENÉGOCE offers targeted, short-term training courses designed to equip them with the practical skills needed for career advancement. These courses also serve as a valuable pathway for adults to enter the commodities trading and shipping industry. Options include EduQua-certified adult education programs and academic training through the University of Geneva's Master's degree in Commodity Trading, which incorporates a one-year internship with a company.

Learning that Makes a Difference

Suissenégoce leverages technology, interactive teaching methods, and experienced industry professionals to create a dynamic and inclusive learning experience for all participants, whether they choose in-person or online learning formats. ■

Serge Claus, Head of Training, Suissenégoce

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The Commodity Merchants Association

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For all employees new to the industry (HR, accountants, IT, legal or auditors)
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Online Commodity Trading Fundamentals
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June 11th, 13th, 18th & 20th

Commodity Sustainability Fundamentals (ESG)
For management, front office, middle office, legal and compliance
May 28th & 30th
October 1st & 30th

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