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'AGEFI | FINANZ und WIRTSCHAFT

COMMODITIES
AT THE HEART OF CHANGE

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Industry In Transition

20 – 22 March 2023
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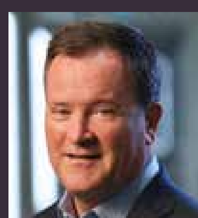

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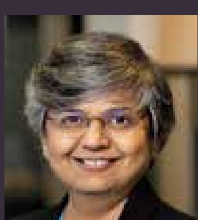

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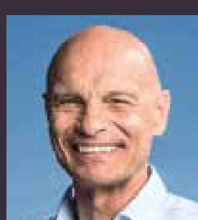

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EDITORIAL

A SECTOR THAT IS INCREASINGLY IMPORTANT FOR SWITZERLAND

2022 is a year that trading houses are unlikely to forget. In just 12 months the commodity trading sector faced tectonic changes which happened at an unusual and rapid pace. Here are five key reasons why. First there was the end of Covid restrictions in developed economies. This triggered strong demand for commodities at a time when China was still locked down. Thankfully, Beijing eventually put an end to its zero-Covid policy, but that was not the end of global supply chain disruptions.

Second was the Russian aggression against Ukraine, which sparked a major energy crisis in Europe and food security tensions in many parts of the world.

Third, combined with the war, was the rising antagonism between the US and China. This prompted strongly worded discussions and statements – rather than concrete actions – about "deglobalization" or so-called "friendshoring" of production capacities.

Fourth, higher than expected inflation pushed most central banks to sharply increase their interest rates, ending an era of free money. That also pushed some financial institutions to reduce their exposure to commodity trade finance.

Fifth the energy transition accelerated, increasing demand for all sorts of raw materials needed to decarbonize the economy. Geopolitics also played a key role with both the US and the EU introducing new "green" policies, competing with each other and challenging China in supplying key minerals such as rare earths.

Commodity traders played a crucial role in all these five key areas. Sometimes proactively when they anticipated demand, but often under new and unforeseen constraints, such as the sanctions against Russia. However, these new risks did not prevent several trading houses from delivering record profits, particularly in the first half of 2022, thanks to high prices for oil, gas and wheat. This was also good news for Switzerland because it hosts so many world class players, especially in Geneva and Zug.

Overall, such resilience from the commodity trading sector benefits the Swiss economy as a whole, and more and more so. Data from the Swiss National Bank shows that in the early 2000s, chemicals and pharmaceuticals accounted for 20% of Swiss exports of goods and services, compared with 45% for other goods and 35% for services. Merchanting, of which a large part is commodity trading, then played a minor role. Today, chemicals and pharmaceuticals alone account for just under 30% of exports, just like that of other goods and services. Meanwhile trading has also increased and now contributes 15% of the total.

At the same time, the share of commodity trading in the Swiss gross domestic product doubled in a few years to reach almost 8% in 2021. That is close to the contribution of the financial sector. This is another major change to keep in mind. ■

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

Jan Schwalbe
Editor-in-Chief, Finanz und Wirtschaft

GERMAN VERSION
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FRENCH VERSION
→

TRADERS AT THE HEART OF CHANGE

It is no exaggeration to say that over the past three years, the world has been changing significantly. The scope of the issues we have encountered has been wide. Starting from the COVID-19 pandemic and the disruption in supply chains caused by the lockdowns in China, to the maritime accident in the Suez Canal that made us realize the fragility of our circuits. Without forgetting the war in Ukraine and the sanctions imposed on Russia, each solution to the different crises demanded merchants to reinvent themselves relentlessly, such as by modifying their supply channels to continue supplying their customers and the benefiting populations.

However, in this process of perpetual reinvention, the unvarnished role of the merchant has always, and necessarily so, remained the same. To put things into a more linear perspective, their essential role is that of a logistician: they seek commodities in countries with a variety of political systems and regulations, and then supply these to where they are needed.

These commodities are sourced from producers in Africa, Asia, or Europe, who are rarely able to sell their goods directly to the end-consumer. They all need merchants, who are willing to assume the responsibility for the commodities in the intricate process of buying, financing, transporting, insuring, packaging, and finally selling to a buyer.

Whilst engaged in this process, merchants are likewise needed to mediate the opposing interests of farmers and importers. They are the buffer that maintains price stability by assuming market risks all along, from production to consumption.

But their expertise is not limited to being intermediaries, as they must also undeniably be rapid problem-solvers. After the pipeline rupture in the North Sea, traders found new solutions with importing liquefied natural gas (LNG) from principally the U.S. and Qatar, building new terminals in Europe to receive LNG tankers, and they thusly ensured the energy supply to Europe. Likewise, they worked through opening a safe corridor in international waters in the Black Sea to continue exporting Ukrainian and Russian cereals and grains.

For political expediency, governments have made ambitious commitments to a transition towards renewable energy supplies without considering the effective environmental impact of metal mining and processing. The result has been price instability on top of the inflationary surge we are currently experiencing.

Ramon Esteve
President, STSA

Florence Schurch
Secretary General, STSA

Yet again, merchants are stepping in as pioneers in energy transition and in solar, wind, water, and soil conditioning by, for example, training small-scale producers in Africa, Asia, and South America and are also concurrently continuing their great efforts to improve agricultural practices.

In this magazine, you will hear from different writers, coming from different backgrounds, that over the last three years, as always, commodity traders have been at the heart of change. Traders are certainly one of the constants found in the solutions to seemingly ever-appearing crises. The world of tomorrow will not be the same as the world of today. We will need their knowledge, experience, and practice to supply the world by answering the trilemma: how to supply in a more secure, more affordable, and more sustainable way? ■

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GLOBAL SHARE OF TRADING HANDLED BY SWISS-BASED COMMODITY TRADING FIRMS

35% COCOA

55% COFFEE

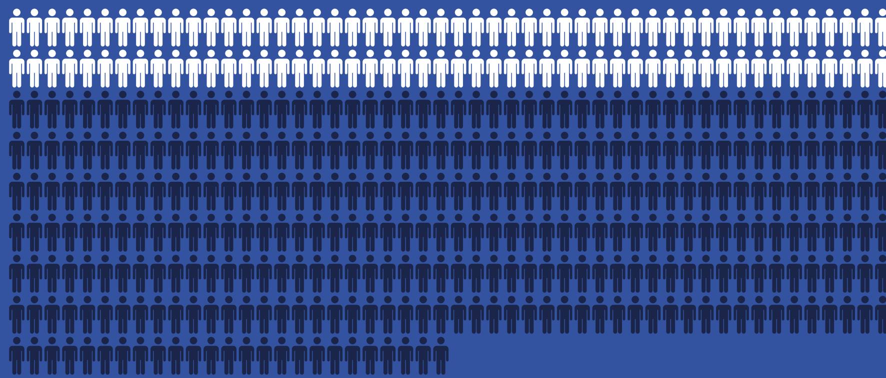
60% WHEAT

60% METALS

40% OIL

65% COTTON

DIRECT EMPLOYEES & INDIRECT EMPLOYEES IN SWITZERLAND

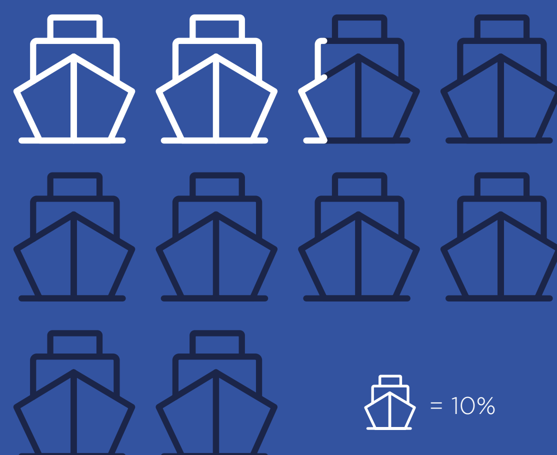


Direct employees Indirect employees = 100 people

COMMODITY TRADING

3.8% OF SWISS **GDP**

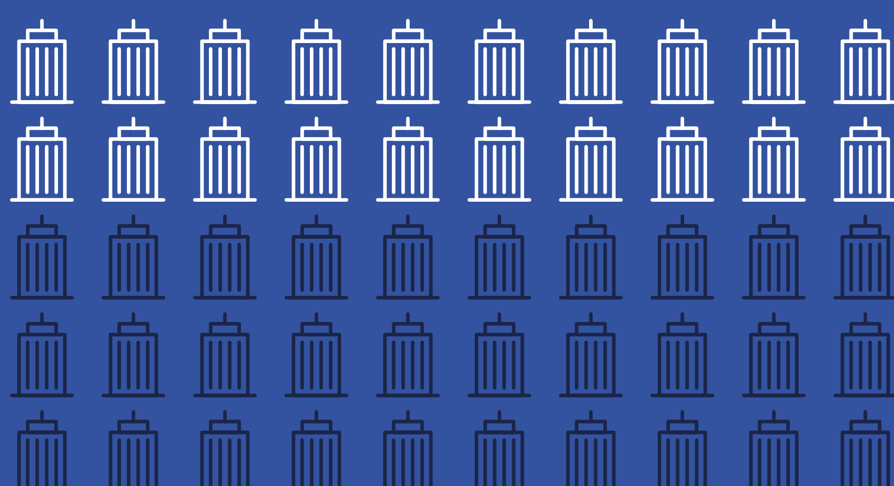
22% OF WORLDWIDE VESSELS ON SEA OPERATED BY COMPANIES LOCATED IN SWITZERLAND



= 10%

500 COMPANIES ACTIVE IN COMMODITY TRADING IN SWITZERLAND

(actually SECO gave the number 900 companies, however 400 are letter boxes in Zug!)



= 10 Companies Members of STSA

14 BANKS SPECIALIZED IN COMMODITY TRADE FINANCE IN SWITZERLAND

ABOUT 1'000 EMPLOYEES ARE SPECIALIZED IN COMMODITY TRADE FINANCE (CTF) IN THE 14 BANKS

= 100 people

TAX

20% COMMODITY TRADING COMPANIES REPRESENT 20% OF CANTON GENEVA'S TAX INCOME

SWITZERLAND

5th

EUROPEAN COUNTRY AS TONNAGE CARRIED IS CONCERNED

SWITZERLAND

9th

COUNTRY WORLDWIDE AS TONNAGE CARRIED IS CONCERNED

400'000 OVER 2 MILLIONS SEAFARERS IN THE WORLD, ABOUT 400'000 SEAFARERS ARE EMPLOYED BY SWISS TRADING COMPANIES

= 5000 seafarers

seafarers in the world

seafarers employed by Swiss companies

© Unsplash, Chuttersnap

IS GLOBALIZATION IN DANGER?

Globalization is changing, potentially for the better.

Today, two countervailing currents are meeting head on, making the world appear at once both more and less integrated. On one side, longstanding benefits of globalization are speaking to the need for continued cooperation and mounting challenges are demanding closer collaboration. On the other end, protectionist forces are pulling parties away from what had once been a deeply integrated global system. If managed correctly, the collision of these opposing forces can reshape the future of globalization in a way that advances not just prosperity, but equity and resilience as well.

The last 15 years have seen a retreat from globalization, as measured by the ratio of global trade to world GDP. This pullback followed an approximately three-decade long period after the end of the Cold War of "hyper-globalization" – an expansion and liberalization of trade that resulted in a highly interconnected global economy. The increase in trade during this period helped lift incomes, with the number of people living in extreme poverty having been cut in half since 1990, according to the World Bank.

But the 2008 Global Financial Crisis caused leaders to change course, with the following decade seeing a rise in protectionist measures. The COVID-19 pandemic and Russia's invasion of Ukraine further incentivized leaders to onshore supply chains and put in place trade restrictions to "protect" their economies from turbulent and disruptive global forces.

This year, the World Trade Organization expects trade levels to increase just 1.0%, down markedly from the previous estimate of 3.4%. The concern – particularly at a time when a fragile economy and a warming planet demand collective attention – is that a fragmented geopolitical landscape will hamper much-needed recoveries.

On the economy, growth for 2023, though better than previously projected, is expected to decelerate to 2.9% this year. Trade fragmentation could hamper growth and cause a loss of as much as 7.0% of global GDP over the long term. On climate change, the UN warned last year it is "now or never" to limit warming to 1.5°C. Implementing net-zero commitments is easier to scale in a globalized world because trade increases the availability and affordability of green goods and technologies.

But focusing only on the benefits of globalization tells part of the story, as made clear by the case of the COVID-19 vaccines. The BioNTech/Pfizer vaccine is a marvel of cooperation and trade, made up of 280 components from 19 different countries. Yet, within the first year of distribution of the vaccines, competition over supply led to great inequities. High-income countries were able to achieve vaccination rates of 75% to 80%, whereas low-income countries vaccinated less than 10% of their populations.

Delivering true global prosperity and achieving greater resilience requires globalization to look different than it did in the past.

A number of global agreements are looking to advance greater equity by accounting for the interests of diverse stakeholders. The African Continental Free Trade Area agreement, for instance, includes gender equality as an objective. The 2022 UN Climate Conference, COP27, reached an agreement on a new "loss and damage" fund for low-income economies facing risks from climate change. And, in assuming the G20 presidency, India has stated a primary focus will be to advance an inclusive agenda, particularly around closing the digital divide.

These are all encouraging steps, but more must be done, particularly at the national level. Governments can take steps to advance inclusive policies, such as strengthening safety nets and mechanisms that advance their communities' competitiveness. Some of the most globalized economies in the world, such as those in Scandinavia, also have low rates of inequality because of government policies.

The globalization of yesterday is under pressure because it did not always serve the interests of all stakeholders. It is now up to leaders to use the moment to shape not just a more integrated world, but a more equitable one as well. ■

Børge Brende
President, World Economic Forum

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"Sudden bans of informal mining from global value chains put the livelihood of countless vulnerable households in jeopardy"

Gilles Carbonnier
Professor of Development Economics,
Graduate Institute of International
and Development Studies

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ENERGY TRANSITION: AVERTING ANOTHER RESOURCE CURSE

Cobalt, nickel and lithium range among critical inputs to sustain the energy transition and digital transformation. Many of the largest commodity producers are developing countries, which display mixed economic and governance outcomes when looking at previous commodity booms.

Take the case of the world's largest cobalt producer – the Democratic Republic of the Congo – often cited to illustrate a phenomenon known as the resource curse. While the country has extracted vast quantities of valuable resources over the past decades, it has suffered from a lack of economic diversification, endemic poverty, protracted armed conflict, weak institutions and environment degradation.

Gilles Carbonnier
Professor of Development Economics,
Graduate Institute of International and Development Studies

Today, investors and civil society expect the energy transitions to be part of the solution, not of the problem. How can the looming commodity boom then benefit resource-rich developing countries, including their citizens, without harming the environment? What have we learnt and what can be done differently?

Since the 1990s, development economists have studied the paradox of abundance: resource-rich countries tend to display weaker development outcomes than resource-scarce ones. Research findings highlight adverse economic, political, and environmental dynamics:

1. Foreign currency earnings associated with commodity booms tend to appreciate the domestic currency. Imports become cheaper and compete with domestic production. In parallel, exports of agricultural and manufactured goods become less competitive on international markets. This results in a lack of economic diversification. This renders commodity-dependent economies highly vulnerable to price volatility.

2. Besides, tax optimization and illicit financial outflows accruing from trade mispricing and abusive transfer pricing erode their tax base and their ability to reinvest the extractive rent in sustainable development.

3. To the extent that producer States derive most of their revenues from the commodity sector, they tend to feel less accountable to their own people and engage in patronage politics, rewarding supporters and repressing opponents. We also witness protracted armed conflict associated with violent rent-seeking to control extraction sites and trading routes.

4. Mining activities are known to have a serious impact on the environment when toxic chemicals are used in the extraction process without appropriate safety and remedial measures. Contaminated rivers and aquifers hurt public health and the agricultural sector. This is often compounded by the dramatic social and environmental impact of informal and artisanal mining.

While these dynamics cannot be all averted, there are many examples of producer countries able to tackle them, be it Chile regarding copper price volatility or Norway with its sovereign wealth fund. But today, the starting point must be a mindset change from annual flows to long-term stocks, i.e. from GDP growth to notions of weak and strong sustainability used in environmental accounting: when a country extracts non-renewable resources, it depletes its natural capital. To maintain overall wealth, the producer country has to reinvest a similar amount in its physical and human capital. Four issues stand out in this context:

Fiscal capacity: states must thus be able to mobilize sufficient financial resources to invest in health, education, infrastructure, etc. The OECD-led reform of the global tax system is a step in the right direction, for example regarding minimum corporate tax rate, but it is not suited for highly commodity-dependent countries. Alternative prescriptive pricing methods may be more suited to enable states with weak fiscal and taxation capacities to mobilize the resources required to invest in human and physical capital.

Value chain: the energy transition offers opportunities for commodity producers to add value locally by engaging in the production of intermediate products (eg. cathodes for batteries), which is key to help diversify the economy. And while low-income countries provide materials for solar and wind power to the global North, these technologies shall be deployed in commodity producer States to reduce energy poverty and power development.

Revenue management: sovereign wealth funds can play a role in overcoming currency appreciation by sterilizing capital inflows during commodity booms. Managing such funds requires effective oversight and checks that take time to develop and nurture in fragile institutional settings. In this context, multistakeholder governance initiative such as the Extractive Industry Transparency Initiative can contribute to checks and balances as well as control over the allocation of the resource rent according to development priorities. Transparency can also reduce potential grievances of those who feel discriminated against and would benefit from greater traceability over commodity trade. Technological advances involving blockchain technology, smart containers, geo-referenced data and the likes offer some potential in this regard.

Environment: reducing the ecological footprint of a commodity boom associated with a 'greener economy' is of the essence. Next to industrial mining, millions of artisanal miners make a living in dire social and environmental conditions. Informal gold and coltan mining are just two cases in point, notwithstanding the fact that miners' activities tend to be de facto regulated and taxed by formal and informal authorities. Sudden bans of informal mining from global value chains put the livelihood of countless vulnerable households in jeopardy. Progressive and context-specific policies are essential to offer them ecologically sounder and dignified livelihood alternatives.

In sum, there are a range of avenues to counter resource-curse risks associated with the energy transition and digital transformation. But business as usual won't work. It is urgent that States, companies, civil society and academia challenge common wisdom, learn from the past and invest in novel approaches to tame the resource curse. ■

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THE SPRING WIND FROM CHINA SHOULD WARM THE WORLD

China benefits to a large extent from the globalization of the economy and at the same time is the source of it. Since joining the WTO in 2001, the Chinese economy has grown impressively. China has contributed to 36% of the world's economic growth in the last ten years. Therefore, it has become essential to seize the opportunities of China's development to overcome the various challenges of economic globalization.

We must seize the "development opportunities" of China's economic growth to enable global economic recovery in the post-COVID period. Since the beginning of the pandemic, the Chinese government has largely coordinated COVID measures with economic activities to best protect the lives and health of the people. With the development of the health situation and the optimization of the COVID policy, it can be expected that China's economic growth will resume significantly. A number of international organizations, financial institutions and thinktanks have recently raised their forecasts for China's economic growth to over 5.2% for the year 2023.

"We must seize the development opportunities"

We must seize the "political opportunities" of China's opening up to promote mutually beneficial cooperation in the world. The report of the 20th National Congress of the Chinese Communist Party states that China will open up to the outside world on a larger scale, more broadly and at all levels. Vice Premier LIU He recently emphasized at the WEF annual meeting that China's founding principles presuppose that the country is opening up to the outside world. Thus, China's door will be increasingly open, bringing more and more opportunities for international cooperation.

We must seize the "governance opportunities" offered by China's participation in the improvement of the international economic order, so that the whole of humanity can benefit from globalization. Only if the global governance system meets the new requirements of the international economic structure can each country sustainably exercise its rights and fulfill its obligations in the context of globalization. China is committed to genuine multilateralism and supports the inclusive development of the WTO multilateral trading system as a cornerstone.

It is also expected that the cooperation between China and Switzerland will intensify in the near future in areas such as trade, science, technology, and culture. From February of this year, China has resumed the organization of group tours for Chinese citizens as a pilot project, with Switzerland being among the first 20 recipient countries.

Just as it is written on the dome of the Federal Palace: "One for all, all for one", humanity should unite to face the future global challenges. Facing the headwind of globalization, China is ready to work with other countries to actively support the globalization process towards a more inclusive and sustainable path so that the spring wind of "Chinese opportunities" can warm every corner of the world!

Wang Shihting
Ambassador of China in Switzerland

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IMPROVED TRACEABILITY OF METALS OPENS UP OPPORTUNITIES FOR GROWTH

Daniele La Porta
Global Head of Sustainability and ESG, Gerald Group

For 6 decades, commodities trader, Gerald Group, has sourced and supplied industrial customers with metals that are poised to play an ever more important role in a decarbonised world. Besides adhering to OECD Due Diligence Guidance, the company is member of industry associations including the International Tin Supply Chain Initiative, the Responsible Minerals Initiative and the Aluminium Stewardship Initiative, monitoring technological developments that advance traceability from 'mine-to-end-use'.

Pursuing higher traceability standards helps create a competitive advantage in the marketplace, as downstream users of materials are mandating proof of responsible production, and being able to evidence it is key. For example, this year, the Global Battery Alliance launched the world's first electric vehicle (EV) 'Battery Passport' proof of concept aiming to set a global sustainability standard for EV batteries, including traceability and circularity - a major milestone for battery minerals such as cobalt, manganese and lithium.

Gerald Group has implemented an enhanced new ESG Due Diligence and Clearance Protocol that aims to ensure its trading activities support supply chain transparency and integrity allowing the company to better identify and manage risk. The Group's 100% screening rate for new and renewing accounts as part of the KYC process, allows it to better understand production and trade practices of counterparties, and to closely monitor and track trade originating from Conflict Affected and High-Risk Areas (CAHRA) on aspects such as human rights. Once ESG screening is complete, suppliers get a clearance status and risk rating, enabling insightful and better business decisions around potential trade and ESG risks.

Traceability in both upstream and downstream supply chains is also equally important. Application of new technologies such as blockchain, combined with multi-stakeholder initiatives are enabling companies to understand end-to-end movement of trade flows for greater transparency and accountability. Collaboration for data sharing and transparency is vital for the success of this process. As global mining activity grows, using the best sustainability practices in production is pivotal to maintain healthy economies and societies.

"Greater traceability will also help the low-carbon metals market to mature"

Greater traceability will also help the low-carbon metals market to mature. Possessing an end-to-end view of the value chain will help to certify low-carbon production processes as genuinely low-carbon. Ultimately, many expect both markets to merge into a prime market and a subprime one. In this scenario, enhanced traceability will incentivise the mining and metals industry to greatly reduce carbon emissions and uphold higher ESG standards along the whole value chain - a win-win for all. ■

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THE ENERGY TRANSITION AND THE ROLE OF TRADERS

Guillaume de Dardel | Head of Energy Transition Metals, Mercuria

Human history is defined in terms of metallurgy: the Stone-age, rocks to make tools, the Bronze-age, an alloy of copper and tin, and the Iron-Age, a metal harder to extract because it requires higher temperatures. The demand for raw materials has driven most innovations and conflicts. Philip of Macedon conquered the mines of the Pangaion hills from Athens to control gold supply. Gorgos, a geologist, followed Alexander the Great in his conquests. The industrial revolution coincides with the emergence of coal as the key feedstock to generate energy. Coal is then largely surpassed by oil, famously illustrated by Churchill converting the Navy (oil has double the thermal content so ships could be smaller and travel further). The main opposition to this transition at the time came from the fear that Britain would lose its strategic advantage: it was rich in coal but had no oil.

Today we need to transition to a low carbon economy. It will require renewable power at its heart to generate electrons, cables as arteries moving them from where they are produced to where they are in demand, and batteries to warehouse them from when they are received to when they are required. The marginal cost of production of renewable energy may trend lower and support what Jeremy Rifkin calls the third industrial revolution and a zero-marginal cost society. Yet, at the core of this transition are minerals.

The appetite for these metals is creating a structural dislocation. The demand equation is growing exponentially (driven mostly by demand for mobility), supply however is hard to scale (mineral resources must be sought, discovered, proven, then pulled out of the earth and refined). Another layer of complexity comes from the dominance of China in (often both) the extraction and processing of these minerals. Over the last 30 years, Western economies have outsourced their production to externalize the environmental impact. We now need to solve the trilemma of scaling supply in lockstep with demand, in the context of increasing political rivalries with a low environmental and social footprint.

The role of traders in the movement of metals is not new, Phoenician outposts gathered tin, copper, iron, gold and silver to ship back to Tyr. To facilitate the switch to oil Churchill supported the investment in Anglo-Persian (now BP), acquiring 51% and negotiating a 20-year supply contract for the Admiralty. Today the West is exposed: it did not develop the tools to control access to raw materials, or dismantled them early believing in the "End of History". However, History is reminding us that we are bound by a fragile ecology exposed to viruses, climate disruptions and struggles between nations for access to resources. Traders have a special position in this unstable balance, facilitating the movement of its fundamental molecules. Civilizations progressed with the ability to extract new metals. The transition to a low carbon economy, built on a skeleton of metals, will be no different. Traders have a privileged position to accelerate it, and a duty to enable it. ■

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"As the competitive landscape evolves, so too will our role as a supply chain manager"

Jeremy Weir
Executive Chairman and CEO,
Trafigura

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NOTHING IS PERMANENT EXCEPT CHANGE

Change is one of the few constants in commodity trading and the past three years have tested the industry's ability to adapt like never before. Successive shocks – COVID-19, Europe's energy crisis and the war in Ukraine – have disrupted traditional trade flows, adding to the cost and complexity of moving goods around the world, from producer to consumer.

We have also seen increased government intervention in markets, regionalisation and wild fluctuations in commodity prices.

All of which has made the business of supplying vital natural resources, needed to power and to build the world, significantly more complex but also more needed than ever before. From Trafigura's perspective, we have been able to successfully tackle these challenges and provide our customers with security of supply throughout a period of extreme volatility. We achieved this by drawing on the global network, expertise and capabilities we have steadily built up over the past three decades - and the company will need to draw on these strengths again.

To thrive in fast-changing environments requires many things. One is ready access to capital to meet significantly increased collateral requirements, as well as risk management capabilities, a dynamic organisation and highly skilled people who can quickly adapt to new market realities. On top of that, companies in our industry must have the ability to process vast amounts of data to understand increasingly complex markets and maintain a competitive edge.

These requirements and others – such as the need for global compliance teams to keep pace with new rules and regulations – present formidable barriers to entry. As the competitive landscape evolves, so too will our role as a supply chain manager.

The war in Ukraine and the sanctions introduced as a result, have already caused a rewiring of global trade flows, most notably in oil. Russian oil, traditionally shipped to Europe, is now heading to other markets such as India and China, often on older vessels operating outside western sanctions regimes. Meanwhile, oil from the Arabian Gulf and US is being sent to Europe to fill the gap. This has resulted in average distances for shipments of crude and oil products increasing materially, placing a significant strain on the freight market. It is also driving up the carbon intensity and environmental risks associated with global energy trade.

There have been seismic shifts in gas markets too, as Russian flows to Europe have all but ceased. To compensate, Europe has been forced to temporarily restart its fleet of coal fired power plants and compete aggressively for cargoes of liquified natural gas (LNG). Security of supply has taken on heightened importance with large industrial companies increasing the inventory they keep on hand and entering into longer term contracts.

Governments, especially in Europe, are securing supply of vital commodities through instruments such as loan guarantee programmes. As an example, Trafigura recently signed a four-year deal to deliver substantial volumes of gas into Europe's gas grid, and ultimately into Germany.

Many countries are also looking to strengthen energy security by increasing domestic production of renewable power, effectively accelerating the pace of the energy transition. This, in turn, is driving increased demand for the metals and minerals needed to build the clean energy infrastructure of a low carbon economy.

Indeed, we are already seeing structural change in demand for industrial metals including copper, battery-grade nickel and zinc.

Infrastructure investments linked to the energy transition and the emergence of electric vehicles is creating a new wave of demand on top of the traditional drivers of industrialisation and urbanisation. This is driving significant demand increases for these key metals as well as the requirement for greater transparency.

Before the pandemic, our customers' main focus was on cost, timing and quality. Today, they also want to know: where commodities come from, that they were produced and sourced responsibly, and the lifecycle carbon footprint.

Jeremy Weir
Executive Chairman and CEO, Trafigura

As a leading supplier, we are well placed to benefit from these trends but we also recognise the need for increased investment in new supply. We are using our deep experience of commodities to develop new markets for renewable hydrogen and ammonia, and invest in others such as carbon dioxide removals projects.

Oil and gas will also be required for many years to come too, to support ongoing urbanisation in Africa and Asia, and to fuel the infrastructure build-out needed to transition to a low-carbon world.

It is for these reasons that we expect demand for our services – managing complex supply chains, supporting investment in new supply and helping to develop new markets to facilitate the energy transition – to remain high. Or to quote a recent report on commodity trading by consultancy group McKinsey: "While all industries go through multiyear cycles of peaks and troughs, the industry's prospects look excellent for the years ahead." ■

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CONSTRUCTION AND THE VOLATILITY OF COMMODITY PRICES

Eric Biesel
Director, Swiss Entrepreneurs Association SSE Geneva

Two years of the pandemic, followed by the conflict in Ukraine, have put the global economy and the commodity trading market under severe pressure. Interruptions in the supply chain, commodities shortages, crisis of ocean freight, and, without forgetting, rising energy costs, have all caused a surge in the prices of certain materials essential to the construction industry.

From January 2020 to March 2022, the price of bitumen (70/100) has more than doubled! As for the price of reinforcing steel, it increased by 150% between January 2020 and May 2022. Finally, during 2022 stone wool sheets (for isolation) prices peaked at an increase of +30%. As a result, the already low margins of companies in the construction sector have been further reduced, insofar as such increases could not impact the end customer in most cases, as contracts had already been concluded at locked-in prices.

> **"The responsibility of the commodity trading sector in finding new supply chains"**

The industry's umbrella organizations, like the SSE Genève, have relentlessly interfered with public and private contractors so that these unseen price increases on materials are considered in tenders and company contracts.

Moreover, in this context of unprecedented volatility of commodity prices, construction companies have also been confronted with the practice of suppliers no longer guaranteeing the price of certain products beyond 24 hours. Companies have thus had to assume financial risks that are completely unrelated to the very nature of their business activity which is the construction industry.

They have also suffered from being at the end of an often-chaotic supply chain, making them dependent on various players acting upstream. While it is true that many of these players have strategies that are often supra-regional, construction companies are very local.

It should be remembered that the construction sector contributes to around 10% of Switzerland's GDP. It employs more than 8% of the workforce in Switzerland and is an essential player in the local economy. However, the sector is, due to its nature, subject to numerous constraints linked in particular with the need to recruit local workforce and to have a stable supply chain to bring materials and commodities on site.

In conclusion, the exceptional circumstances we have been experiencing for the past three years highlight our dependence in regard to various traditional supply chains. They also highlight the importance of the role and the responsibility of the commodity trading sector in finding new supply chains at competitive prices, notably when the doors of traditional markets are closing. ■

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AGRICULTURE AND MINING FACING WATER SCARCITY

Franck Galland | Associate Researcher, the Foundation for Strategic Research

In the context of resource scarcity, it is becoming imperative for operators in the agricultural and mining commodity sector to continue reducing the water footprint of their activities. Producing agricultural goods consumes a lot of water. It takes 1.22 m3 to grow 1 kg of corn and a single banana requires 160 liters to grow[1]. The critical materials of the energy transition are also very consuming: lithium, cobalt, nickel, used in the lithium-ion batteries of electric vehicules, as well as copper.

As yet, the lack of water has become a collective security issue. It presents itself in a large area starting from the North of Morocco, crossing North Africa, including the Sahel, then arriving in the Near and Middle East, before reaching the Indian peninsula and ending its course in the northern part of China. This is without forgetting the situations of water stress which Australia and the Americas are experiencing. All these geographical areas are regions of agricultural production and mining, which are increasingly impacted by the lack of available surface water and groundwater. This is particularly the case in Chile, Peru, Australia and China, as these countries are strategic for their extraction of critical metals.

Under these conditions, it seems essential that mining companies and agricultural cooperatives increase their efforts of water withdrawal and consumption. Too few declare a policy on reducing their water footprint in the CDP Global Water Report.

To achieve this, it would seem appropriate to systematize reuse modules, which can recycle wastewater generated by the companies themselves or the community. The recovery of rainwater by means of adapted hydraulic reservoirs for winter storage is also a solution to be favored, as is the use of fixed or mobile desalination stations in coastal areas.

It is likewise necessary to act on the demand for water through an extreme policy of reducing leaks. These are still too numerous in volume, ranging from 20% to 50% of losses. Only a proactive policy of repairing buried assets and digitizing networks, with the installation of detection sensors, will make it possible to achieve better yields.

To conclude, the agricultural and mining commodity sector has a key role to play in responding to a less visible crisis: that of pollution generated by industrial activities, but also by climate change, as a decrease in river flow multiplies the pollution of raw water intended to produce water for human consumption, irrigation and livestock. ■

1) https://waterfootprint.org/en/resources/interactive-tools/product-gallery/

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FIVE CONSIDERATIONS ON PERFORMING DUE DILIGENCE IN SUPPLY CHAINS

(IN COOPERATION WITH FOCUSRIGHT AND STSA)

Switzerland, like many other nations, has recently implemented new due diligence requirements for companies to better protect workers and the environment. Areas of the legislation include new reporting requirements on 'nonfinancial matters', including environment, social responsibility, and human rights, which are based on EU Directive 2014/95/EU, and new reporting obligations with respect to conflict minerals and to prevent child labour.

As organizations prepare to follow these regulations many are facing significant challenges in understanding the effect on their operations. The complex structure of suppliers further down the chain can lead to brands and buyers having an unclear view of what those vendors are doing to ensure human rights, fair wages, responsible environmental practices and more. With the implementation of new requirements, companies are confronted with addressing the full spectrum of their own operations and upstream supply chain, and can be held accountable for the inaction of their suppliers.

As more due diligence-driven legislation is implemented, companies are faced with challenges in mapping supply chain risks. While the process can be intimidating, there are many things to consider making the process more manageable. Intertek's five step process was adapted to specifically address these needs in a joint project with the Swiss Trading and Shipping Association (STSA) and Focusright.

1. A company should self-assess its current implementation of the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights (UNGPs) and map any gaps between the company's current practices and the Swiss due diligence requirements.

2. Following the self-assessment, companies in the scope of the Swiss law are required to create transparency by publishing an annual report on their due diligence process, including the identified risks and measures to manage them.

3. Not only is the self-assessment necessary, but also the management of human rights-related risks in the upstream supply chain, prioritizing governance according to geographical location, sector, and then having it verified by experts, or even audited on site if necessary.

4. In case of heightened risks of non-compliance, the merchant provides support to suppliers and implements training and awareness-raising actions.

5. This overview-to-detail approach - based on an action-oriented approach - examines risks, opportunities and trends to focus efforts.

These five steps are the starting point for supporting companies facing new regulations on human rights and environmental due diligence. ■

Jérémy Gaspard
Vice President, Government and Trade Services, Intertek

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THE POWER OF REGENERATION

Interest in regenerative agriculture is driven by an understanding that our global food system has created both challenges and opportunities related to climate, environment, and social justice. Improving soil health is at the heart of it, and the global trade in commodity crops is a critical factor. How? Soil health is promoted by the cycling of carbon and nutrients which feeds a biological system, stores carbon, and makes nutrients available for new plants. With most commodity crops much of the biomass, the basic ingredient of soil health, is not cycled but instead flows from a production field to somewhere where it is consumed by animals or people, sometimes across the globe. The nutrients can be replenished through synthetic fertilizer, but the carbon and overall soil health becomes depleted. On the other end of the grain trade chain this creates problems with excesses, like nutrient pollution, soil carbon saturation, etc.

Grain and oil crops are grown extensively in specialized regions and traded around the world. The Americas have a large agricultural land base, with the U.S., Brazil, and Argentina accounting for almost 90% of the soybean and 75% of the global corn exports. Wheat trade is more regionally balanced among countries with Russia, Canada, U.S., France, Australia, and Ukraine being top exporters. The import of these commodity crops is driven by rising living standards and diversifying diets in regions that have insufficient crop production capacity, especially East Asia and Europe (high population and animal densities) and the Middle East (dry). China is by far the largest grain importer, especially soybean (it raises about half the world's pigs). North American grain areas have been fairly stable, but South American countries have met the higher global demand by recently converting extensive grasslands into crop production. We found that the largest challenge may be with soybean. It is a low biomass crop to start with and about 40% is removed as grain, therefore cycling little carbon back to the soil.

What then are pathways towards more sustainable commodity crop production? The first step is to recognize the problem: the limited cycling of carbon and nutrients. Soil health can be enhanced by better integrating producers and consumers of crops. Major crop production areas could become somewhat more "organic", increase animal production and cycle carbon and nutrients locally. Importing countries could reduce animal densities more in line with the supporting land area. Exports and imports would shift towards more animal protein and less grains. Second, agronomic practices need to increase soil health by reducing carbon losses (reduced tillage), and enhancing biomass cycling (manure, cover and perennial crops). In all, the current structure of the global food system feeds a growing global population, but has created imbalances of carbon and nutrients. We can evolve policies and on-farm regenerative practices to gain a more sustainable food system. ■

Harold van Es
Professor of Soil Science, Cornell University, USA

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STIMULATING AGRI ENTREPRENEURSHIP AT FARM LEVEL

Pamela Schreier
Senior Global Sustainability Manager - Cocoa
ECOM Agroindustrial

Benjamin Rimaud
Sustainability Global Manager - Coffee
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Ana Nicod
Head of Climate Change Strategy
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Agri entrepreneurship is a concept marked by the efforts of farmers and agricultural industries to improve means of production through innovation and behavioral change. It was seen in the mid-20th century in the Green Revolution, with the introduction of chemical fertilizers and improved irrigation methods, enabling countries to meet the demands of their rising populations. The most recent efforts in agri entrepreneurship are focused on sustainably increasing production through efficient methods that limit social and environmental impact.

As smallholders comprise 90% of the world's farmers, it is essential to provide them with the necessary tools to support their wellbeing while growing sustainable commodities. Innovation at farm-level is key to meeting the demands of a growing population, while managing the complications of an ever-changing climate, and ensuring human rights are respected. Optimizing yields via sustainable intensification is one of the important routes towards higher farmer incomes and sustainable production. In West Africa, we have established MICROMEC solutions to deliver efficient equipment for smallholder producers, modernizing farming, enhancing productivity, minimizing post-harvest losses, and increasing farmer incomes. Agri entrepreneurship is also about empowering farmers to see their activities as a sustainable business, and managing these plots of lands with the tools available for businesses to thrive. In Vietnam, we implemented the Coffee Climate Protection Insurance pilot scheme to enhance farmers' understanding and awareness of insurance as a risk management tool, allowing businesses to develop innovative and more affordable solutions. A partnership of stakeholders developed insurance products for excess rainfall and drought, tailored for Vietnam's Robusta coffee producers.

Whilst technological and digital advancements are key to achieving sustainability across value chains, it is equally important to address persisting social issues in agriculture. Gender inequality contributes to lower productivity levels, food insecurity, and poverty. We worked with Equal Origins and other coffee and cocoa industry members to develop the Gender Equity Index (GEI). The tool assesses our performance in gender as agriculture extension service providers to identify precise areas for improvement in gender inclusion, allowing for the creation of opportunities for women and our entire supply chains to prosper.

There is an increased demand for sustainable products, and the ability of businesses to react to these changes is precisely what sustainability is about. Innovation at farm level is the first step, and enables the introduction of new technologies, creation of mechanisms to de-risk farming activities, and positive social change. These are just some examples of how supply chain management can stimulate agri entrepreneurship at farm level to meet the demands of consumers and create sustainable supply chains. ■

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AN INNOVATIVE APPROACH TO AGRICULTURE VALUE CHAIN TRANSFORMATION, LED BY AGRIBUSINESS

The agri-commodities sector sits at the intersection of global targets and supply chain transformation for positive climate outcomes. From this vantage point, agribusinesses have a key role to play in connecting upstream and downstream value chain participants to implement biodiversity and native ecosystem protection as well as to meet carbon emissions targets. Climate targets can only be met through high levels of innovation, sectoral collaboration, and ambition for transformation.

The work of the Soft Commodities Forum (SCF) presents a novel approach to supply chain transformation.

Soft Commodities Forum: Designing a Role for Agribusiness
In 2018, the World Business Council for Sustainable Development (WBCSD) established the Soft Commodities Forum to implement sustainability solutions, bridging global goals with local realities. The SCF's members – ADM, Bunge, Cargill, COFCO International, Louis Dreyfus Company and Viterra – collaborate pre-competitively on their commitment to build deforestation and conversion-free (DCF) supply chains in the Brazilian Cerrado.

This has led to shared standards for traceability and performance disclosure through public progress reporting as well as the design, structure, and launch of the Farmer First Clusters landscape intervention strategy.

Addressing Climate Challenges through Innovative Agribusiness
The Cerrado is the most biodiverse savannah in the world, housing 5% of the planet's biodiversity. The Farmer First Clusters (FFC) – the SCF's novel on-the-ground intervention strategy – engages local stakeholders and communities to implement context-specific solutions, shifting incentives toward protecting biodiversity through nature conservation and transitions to more sustainable soy.

The FFC land use transformation solutions include: compensation for surplus legal reserve, restoration of degraded land, sustainable production & Forest Code compliance, integrated farming, expansion over pastureland, and green finance. These solutions build on the potential of agribusinesses to leverage investment from global stakeholders and cross-sector partners to reduce deforestation.

Transition finance for farmers is key to halt deforestation and conversion, especially in high-risk landscapes like the Cerrado in Brazil. By funneling innovative new financing into these producer landscapes, SCF members are supporting the complex transformations needed to tackle the nature and climate crises. For example, payments for ecosystem services directly fund nature conservation.

Soft Commodities Forum members' investments of $7.2 million are driving the first phase of Farmer First Clusters implementation in 2023, which will take place first in 8 municipalities before scaling toward engaging all 61 SCF focus municipalities. Looking ahead, the project's potential impact relies on further collaboration across sectors and value chains. The SCF invites partners to join the work of FFC, recognizing that collaboration is key to success. ■

Lucie Smith
Senior Manager, World Business Council for Sustainable Development (WBCSD)

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THE UNLIMITED POTENTIAL OF AGRICULTURE AS A SOLUTION TO CLIMATE CHANGE

The consensus among climate experts around the globe is clear: we are now at a critical point where we need to remove as much as 14 billion tons of carbon dioxide from the atmosphere by 2030 to keep temperatures likely below 2˚C.

Agriculture is an immediate, scalable and affordable solution that can remove four to six billion tons of emissions from the atmosphere per year. The soil underneath the farmer's feet is an enormous carbon sink. By adopting sustainable practices, farmers can use their fields to draw down and store atmospheric carbon and generate high quality carbon credits as an additional revenue stream. The ability to accurately quantify and verify the amount of carbon removed has been a key obstacle preventing agriculture from scaling up this natural carbon sink.

"Farmers can use their fields to draw down and store atmospheric carbon"

Globally, 22%[1] of global emissions are estimated to come from the agriculture sector, yet it has produced less than 1% of voluntary carbon credits[2]. In collaboration with countless third-party collaborators, we have spent years developing a patented and proven model that combines science, technology and data, to establish implementation of on-farm sustainable practices as a new, durable revenue stream for farmers and a credible, nature-based climate solution for businesses.

A farmer generates carbon credits by adopting practices that build soil organic matter and by providing supporting data on any major activity that happens in the field — like planting and tillage dates, nitrogen applications and harvest yields. We measure and report the impact of the farmer's efforts, and once they have been independently verified by the carbon registry, sell those credits to companies seeking to meet the sustainability pledges they've made to reduce their emissions. Experts predict the voluntary carbon credit market will reach $50 billion by 2030[3].

As many companies face increased pressure to meet their publicly stated climate commitments, the demand for high quality carbon credits is rapidly outpacing the supply. Indigo has more than 6 million acres in our Carbon by Indigo program – doubled from the prior year and more than any other program. Thousands of farmers are enrolled, but more are needed to scale up this climate solution.

Strong corporate demand for high quality, verified carbon credits will drive up the price of carbon credits, making it a more viable 'crop' for growers to produce. Carbon farming should always complement the existing system for producing the food, feed, fuel, and fiber we all need, but a $100 credit price will make it a viable source of income and attract the attention of more farmers. Given the urgency of the climate imperative, we must tap the almost unlimited potential of agriculture as a climate solution, sooner rather than later. ■

1) IPCC's Sixth Assessment Report
2) Agriculture has produced just 1% of issued carbon credits (agfundernews.com)
3) Carbon credits: Scaling voluntary markets | McKinsey

Ron Hovsepian | President and CEO, Indigo Ag

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RENEWABLES AND ENERGY SECURITY: OVERCOMING CHALLENGES

The undisputed impact of climate change, coupled with the catalyzing effect of Russia's invasion of Ukraine, means nations are increasingly looking beyond hydrocarbons to more reliable, cleaner, and cheaper energy sources. However, while renewables gain traction – accounting for around 30% of global power generation in 2022, according to the IEA – the narrative is shifting from sustainability to security of energy supply.

The advantages of locally supplied, secure energy for the European continent are clear; cheaper power capitalizing on an abundance of wind and solar power, reduced impact of geopolitically impacted commodities, and high carbon efficiency.

"The narrative is shifting from sustainability to security of energy supply"

But despite these benefits, challenges remain around intermittency of generation without reliable long-term storage, regional interconnectivity, and long-term investment. Also, regulation needs to be addressed. A faster approval process is key to successful investment cycles. Currently, a projected multi-year project development presents the risk that the approved technology is becoming outdated before engagement.

Europe received a boost in January, following the announcement that the EU will ease state aid regulations, accelerate permits for new projects, and pump cash into strategic climate-friendly businesses. Whether it is enough to convince investors to stay in Europe rather than look to the US, where President Biden's Inflation Reduction Act represents a more coordinated and incentivized approach to mitigating climate change, remains to be seen, especially as Europe is seeking to implement major market reform that introduces additional investor uncertainty.

There is no doubt the continent is headed in the right direction – the EU installed more wind and solar capacity in 2022 (15GW wind and 41.4GW solar, 33% and 47% more than in 2021) than in any other year on record – and Europe can transition to low-cost generation if done in a balanced manner. Next year we expect to see an additional 60GW of solar power.

However, the target of 600GW, projected to be installed by 2030, will require significant effort and put pressure on administrations, supply chains, grid stability, and construction resources. While 90% of new capacity in wind was onshore in 2022, to deliver similar growth offshore we must address administrative processes and supply chain / construction complexity, because otherwise we won't see projects materializing until the second half of the decade.

Regulatory stability, certainty, and competitiveness of the electricity market design, removing of bottlenecks in supply chain and clear investment signals are critical for long-term energy security, sustainability, and affordability. To achieve 4x the wind capacity and 7x solar capacity by 2030 under REPower EU (from 350GW to 1200GWs combined), it will take an investment of $1 trillion. That's a significant challenge, but one Europe can achieve.

The bottom line is, the industry is ready, the resources are available, and Vitol is committed to being part of that change if the right regulation and policy is in place to support it. ■

Justine Ryan
Director of Renewables, Vitol

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ENERGY TRILEMMA AND THE ROLE OF TRADING COMPANIES

The trilemma is the balancing of three dimensions of energy supply so that it is secure, equitable, and environmentally sustainable.

- Energy security requires energy supplies, which are reliable, withstand, and bounce back from significant shocks.

- Energy equity is access to reliable, affordable, and abundant energy.

- Environmental sustainability – a system that minimizes potential environmental harm and climate change impacts.

Achieving and keeping each of these in balance is what constitutes a healthy energy system.

The past few years have thrust the energy trilemma into sharp focus. Prior to the COVID-19 pandemic, the focus was primarily on energy sustainability. But recent events have caused energy markets to contend with huge swings in demand, supply and prices. The pandemic saw global energy demand decline by 4% in 2020 leading to oversupply and negative prices in some markets as suppliers had to pay for product to be taken away. In 2022, the dynamics swung the other way with post pandemic economic demand recovery being stymied by supply shortages causing dramatic price spikes.

The future is no less straight forward as we face growing geopolitical fractures, increasing levels of nationalism and an urgent need to decarbonize energy systems. In this context, attaining the delicate balance requires all energy market actors to play their part. Producers to unlock more supply, consumers to change behaviours, governments to provide the right frameworks and incentives and trading companies to bring market participants together.

The role of the trading company is often overlooked or at best misunderstood, despite having a key role across all dimensions of the energy trilemma from:

- Security: identifying new energy sources (e.g. Liquid Natural Gas) and ensuring it arrives where it is needed. Working with partners around the globe to develop these new sources through financing, off-take agreements, hedging, risk management and then deliver them to market.

- Equitability: providing pricing transparency and helping to create a market so prices are set at a fair market value and extending financing that might not otherwise be available.

- Sustainability: investing in and developing new forms of low carbon energy (e.g. renewables), establishing and stimulating carbon markets, and innovating to encourage lower carbon energy production and product shipping, and increasing the traceability of products to ensure they are responsibly sourced.

Sustainability must be at the heart of a healthy energy system, as low carbon energy will provide secure and equitable supply. However, for this to happen, managing the energy system will need innovation and imagination - as well as short-term fixes - and this is where trading companies play a crucial role in helping guide the energy system toward a sustainable future. ■

Nick Lawson
Global Head of Carbon Strategy, Mercuria

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THE UN AND ITS PUBLIC POLICIES ON ENERGY

The current energy crisis began a few years ago due to a lack of investment in energy infrastructure, whether it be nuclear, gas or renewable energy. To have energy accessible to all, it is necessary to have it be abundant, reliable and sustainable.

To achieve this, the Global Gas Centre based in Geneva, which represents the gas sector, works closely with UNESCAP (United Nations Economic and Social Commission for Asia and the Pacific), UNECE (United Nations Economic Commission for Europe) and UNCTAD (United Nations Conference on Trade and Development).

In order to make this energy transition a success for all the citizens of the world, it is essential to encourage exchanges and discussions, to make this transition to a low-carbon world realistic and possible. Numerous exchange forums are held in the UN to better understand the economic issues at stake, the workings of the market, the advancement towards newer and cleaner technologies and the difficulties which developing countries face in attracting investments to develop their own resources.

In the Asia-Pacific region and in Africa, millions of people still do not have access to electricity, which is why companies active in the energy sector must be involved in the work of the United Nations to find solutions and facilitate the sharing of experiences.

At UNCTAD, based in Geneva, multiple meetings are held to bring together experts, member states and researchers, particularly those from the energy supply field. Geneva plays a central role in the world of energy in collaboration with the UN and the private sector, represented by the Swiss Trading and Shipping Association (STSA) and the Global Gas Centre.

The challenges are clear: to carry out the energy transition in parallel with a decarbonized economy, and to simultaneously respond to the increasing global energy demand.

By 2050, the planet will have 9.7 billion inhabitants, which means 30% more energy will have to be produced to meet future needs. All energy sources have their place: those based on electrons and those coming from molecules, provided that we invest in low-carbon technologies and reduce methane emissions.

The solutions are known: increase the ratio of renewable energies in the energy mix (hydrogen and biogas), invest massively in nuclear energy with the most advanced technologies, invest in all the clean technologies useful for the gas and oil sector to allow countries with the right resources to use them for their own development and to export towards those who are in need of them.

It is therefore important to develop a collaboration between international organizations, member states and the private sector, to meet the trilemma of abundant, reliable and sustainable energy. ■

Valérie Ducrot
Executive Director, the Global Gas Centre

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THE INSURANCE MARKET IS NOT IMMUNE TO CHANGE

Philippine de Villèle
Director, BPL Global

Following the outbreak of the pandemic in early 2020, the Credit and Political Risk Insurance market entered into a challenging period, which was compounded by Russia's invasion of Ukraine last year. From a general point of view, despite an increasingly gloomy risk environment, the market's theoretical capacity kept growing in 2022, reaching a total available capacity of USD 11.9 bn. Risk appetite has unsurprisingly shifted but insurers remain committed to supporting their existing clients. Insurers have shown some flexibility to support new industries, new flows of business and are willing to study new structures inevitably linked to the evolution witnessed by traders and banks in their respective markets.

One of the main changes is the quality of the enquiries being submitted to insurers. Indeed, due to the high price environment particularly in the energy sector, a lot of financial institutions, trading houses and utility companies have an increased need to distribute risk to stay within their own credit appetite. As a result, the insurance market has seen an increase in the number of enquiries for counterparties in developed countries that have rarely been seen by CPRI Insurers, such names include the likes EDF and Axpo. The conversion rate from enquiry to policy was much higher: in 2020, BPL received a total of 2,244 enquiries out of which 770 policies were placed in the market, while in 2022 we received 2,342 enquiries and placed 1,245 policies.

In terms of premium rates, we have seen increases due to high demand on very strong counterparties as explained above, but also linked to concerns over potential significant claims arising from the Ukraine conflict and the pandemic emergency help packages being progressively unwound by governments. This rising corporate default sentiment is also highlighted by the Credit Outlook Survey recently released by IACPM which revealed that 91% of the financial institutions that responded expect default to rise in Europe and 68% in Asia in 2023. This can be an important change after relatively benign claims activity for the CPRI market in 2022 where we have seen losses incurred on Political Violence policies (triggered by physical damage/lack of use/access to physical assets based in specific areas) and losses arising as a result of sanctions prohibiting the payment/receipt of payment by certain counterparties (as opposed to losses due to credit issues with the counterparty).

A very important topic that is preoccupying banks, insurers and brokers is the transposition of the final Basel III standards by the EU legislators. The impact on banks using the advanced approach might be significant if the Loss Given Default linked to credit insurance is maintained at 45% as is currently being proposed. For banks using the standardised approach, the impact will be less significant and the European Banking Authority is likely to independently clarify the eligibility of insurance as a Credit Risk Mitigant. EU legislator's final decision is expected in the summer 2023 and we still await FINMA's position on the subject. ■

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A RADIANT FUTURE FOR COMPLIANCE

Taulant Avdija Partner, Head Regulatory and Compliance, BDO

Should a trading company have a compliance function? In other words, should a control unit, independent of operational activities, be put in place? Why invest in such a function, which for many years was considered to be synonymous with pure additional costs? In the midst of a changing environment, what importance should players of the trading marketplace on fighting corruption, money laundering or on international sanctions?

The Federal Council confirms the so far pursued approach for the commodities trading sector, which is based on preserving the competitiveness and integrity of the Swiss economic and financial center. The competitive advantage means that companies active in trading are not subject to supervision equivalent to that of other economic players, although they face similar risks, as for example financial intermediaries. Even a small asset manager with a client base of ten retired Swiss residents is required to implement a rigorous control framework, unlike a multinational company with transaction volumes of several hundred billion dollars that works with thousands of counterparties worldwide.

Several analyses and reports have been politically mandated, one of the best known being the report that followed the Seydoux postulate aiming at the supervision of commodity trading activities from a money laundering perspective. The results were relatively mixed, and the conclusion remained the same: the current supervision is sufficient, particularly through banks. However, in a society where personal accountability is becoming increasingly important, and in a world where ESG criteria are now scrutinized by the public, the tolerance for error has drastically decreased.

The crisis in Ukraine brought the importance of establishing effective internal control systems back to the forefront. Trading companies found themselves directly confronted with and exposed to massive regulatory measures. The cost of legal advice skyrocketed, and the fear of making mistakes settled in.

By this accountability constraint, some fundamental questions are suddenly surfacing: Are the sanctions lists in use up to date? Who is responsible for downloading and updating them? What sanctions are applicable? Are risks adequately covered? Companies have always proceeded in the same manner, but is it the right way?

It does not appear that these challenges in risk control and governance constitute a temporary occurrence, but rather represent a logical long-term transition. It is up to everyone to think about and objectively assess the risks specific to their own activity, and, if possible, to do so before the next crisis. ■

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TRADERS AND THEIR BANKS IN FRONT OF THE EUROPEAN "GAS SHOCK"

Olivier Le Bihan | Global Head Products and Structuring, CA Indosuez SA (Switzerland)

At the beginning of 2023, the wholesale price of natural gas in Europe fell to its lowest level since the Russian invasion of Ukraine. The reference price - the Title Transfer Facility (TTF) - which was fluctuating on Monday 2nd January at around EUR 73 per megawatt hour (MWh), has largely fallen back since August 2022 when it peaked at 342 euro/MWh.

The price of gas had started to rise before the conflict, with a first peak reached at above EUR 100 in October 2021, compared to the EUR 5 to EUR 25 which the markets had been used to for years. However, it notably jumped again from February 24, 2022. The closure of the gas pipelines between Russia and Europe, followed by the progressive package of sanctions against Russia, only accelerated the complete disruption of the already strained market.

It should be noted that the impact on EU markets was massive, as Russian gas represented 40% of its supply. By calling into question the continuation of these deliveries particularly into Germany, the Russia-Ukraine conflict drove the price of European gas to record levels, creating a real "gas shock".

Prices then fell because in the summer of 2022 Europe filled its reserves, autumn 2022 and winter 2023 were very mild, and finally, households and companies voluntarily reduced their consumption.

So, in this first trimester of 2023, market players - all of whom participated in averting the much-dreaded shortage in Europe – are warned of the unpredictability of the market. With stocks filled to over 80% (vs. 54% at the beginning of 2022), the continent is better prepared.

What has been the impact on traders over the last 18 months?
Traders have benefited from a heavily volatile market and logistical arbitrage linked with the disorganization of transport. The exposure to price risk, observed by traders since the summer of 2021, has thus strongly risen but it was able to be managed in a satisfactory way and traders generated a very strong profitability.

What happened during the raise in gas price?
In the case of managing their exposure to the price of gas, traders entered into commitments on markets (futures, options), either to hedge or to play spreads and arbitrages. Exchanges require the payment of an initial deposit ("IM") and then an additional cash cover in case of negative variation of the position ("VM").

The raise in the price of gas had led to an unprecedented mechanical increase in the Variation Margin (VM) for all traders who held sales contracts ("shorts"). This increased volatility in the gas market forced all exchanges to significantly increase their Initial Margins (IM). Thus, IMs on the TTF had risen from EUR 7/MWh, on very short-term contracts in September 2021, to just over EUR 80/MWh in March 2022. To maintain their position by hedging the price risk, traders had to tie up much more liquidity and call on their banks for considerable amounts.

What were the risks involved and how have traders managed them since fall 2021?
The risk during this period would have been to see a trader not be able to meet his margin calls and would close out his positions by freezing the cash outflows and giving up the assurance of a fixed minimum price on its sale. Fortunately, this did not happen, as the major companies were quick to call on their RCFs (Revolving Credit Facility), and then put in place additional but temporary bank financing (called "back ups") to protect themselves from any new surge in the context of the war in Ukraine.

Despite different types of flows or arbitrage structures, traders used certain tools in order to best manage the situation:

- the use of additional transactional financing (notably in the form of secured gas storage lines)

- the reduction of their trading book, most often forced by the need to stay within the established VaR limits

- the simplification of market access or the transfer of lots to avoid having open arbitrage positions at two different clearers

- the use of over-the-counter hedging transactions to avoid tying up initial margins in the futures markets

- instructions to brokers to select certain counterparties or to accept only one type of contract (purchase only), and to reduce trading to much shorter maturities in order to limit the creation of additional exposures

- increased use of the insurance market to cover potential counterparty risk

Being very responsive, the banks specializing in commodity trading played a major role as shock absorbers by quickly providing the necessary liquidity to traders. This support from the banks was possible thanks to a more thorough analysis of their respective books, detailed projections of liquidity needs, and an optimal use of management tools.

How are traders preparing for a potential new price surge?
Traders have been able to adapt in record time to the supply shortage from the Russian gas pipeline by multiplying ship imports of LNG (Liquefied Natural Gas) from Qatar, the US or Algeria. These alternatives should reduce volatility despite the inevitably higher cost of gas transported to Europe.

The extreme stress on all gas market conditions in Europe over the last 18 months has forced market players to adapt urgently. The stress test models have been enriched with new scenarios that previously appeared unthinkable since they were so excessive. Following the "gas shock", the vast majority of traders have emerged strengthened by the experience of risk management (market, liquidity, counterparty) that is more precise and complete than before, but also thanks to a higher level of equity capital. ■

“Traders have been able to adapt in record time to the supply shortage from the Russian gas pipeline”

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THE GROWING ROLE OF DEVELOPMENT FINANCE INSTITUTIONS

Development finance institutions (DFIs) are are playing a counter-cyclical and crisis response role in emerging markets. The commodity markets have become an area of focus for them due to their main development priorities like food security, energy access, strategic import and export flows in emerging markets, and sustainability.

The global volatility of the past years has changed the landscape of the commodity trade finance market, pushing DFIs to expand their involvement in the sector. In 2019-2020, we faced a series of defaults in the market which, coupled with the effects of the COVID-19 pandemic, created turbulences for commodity traders and banks. Some banks exited this sector or limited their exposure to emerging markets. These events affected mostly small commodity traders who faced difficulties in maintaining their bank facilities and volumes, as commodity prices rallied until summer 2022. This situation was further aggravated by uncertainties triggered by the conflict in Ukraine – the suspension of banks' financing in Russia and Ukraine, and the impacts on global energy and food security.

The International Finance Corporation (IFC) is the private sector arm of the World Bank Group. Part of its mandate is to fill the deepening trade finance gap (estimated at $1.7 trillion) and help banks to finance more trade flows to emerging markets. Over the years, IFC has developed its trade and commodity finance franchise to support banks and commodity clients. Under its Global Trade Finance Program, IFC offers confirming banks partial or full guarantees covering payment risk on banks in emerging markets for trade-related transactions, adding much needed bank capacity to the market. So far, IFC has issued guarantees covering over 80,000 transactions for more than $85 billion.

Under its Global Warehouse Finance Program, IFC has increased risk sharing facilities and loans with banks to finance more traders, farmers, producers, processors and buyers in the agriculture and fertilizer sectors based on warehouse receipt financing. IFC is financing flows of grains, animal feeds, fertilizers, pulses, nuts, cotton, coffee, sugar and other commodities predominantly in sub-Saharan Africa, Central & Latin America and Asia. IFC is also a participant in syndicated trade facilities like borrowing bases for agriculture and energy clients, where its presence is often seen as a comfort for the banks who may be tempted to reduce or exit such facilities and for new lenders who need to convince their credit committees. IFC's Commodity Trade Finance volumes are expected to increase by 50% in 2023.

More and more commodity traders seek short-term financing from DFIs, especially as it can pave the way for long-term financing of assets. This is a win-win partnership with banks, who leverage IFC's presence to increase their facilities and revenues while limiting their risk,but also with commodity clients who gain greater access to finance their business development while using IFC advisory to enhance their environmental and social practices. ■

Pierre Ligneul-de Villeneuve
Head Commodity Trade & Structured Finance, IFC

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PROMOTING MORE RESILIENT AGRICULTURE WITH GREEN FINANCING

COFCO International

Geneva-headquartered COFCO International is at the forefront of the agricultural commodity industry's efforts to leverage green financing to achieve greater sustainability. The company has leveraged the potential of sustainability-linked loans to build resilience in agricultural supply chains.

The business broke new ground in 2019 with a sector-leading, three-year $2.3bn sustainability-linked loan provided by a consortium of 21 banks, achieving traceability progress for direct Brazilian soy supplies. It built on this momentum with a further loan of $700 million in 2021, expanding the scope to include social and environmental supplier risk screening. In 2022, having met all its targets, the trader agreed to a third sustainability-linked loan for $1.6 billion.

Sustainability-linked loan

A total of 19 international banks have agreed to provide its latest $1.6 billion loan, providing financial incentives for the business to strengthen its sustainability performance.

The loan features a lower interest rate, with pre-agreed supply chain traceability, and sustainability key performance indicator targets. By demonstrating progress in these areas, the company can harness its margin savings and interest discounts to fund further environmental and social assessments on direct Brazilian soy suppliers' farms. It uses this information to identify and address risks with targeted supplier capacity building activities.

Monitoring of targets is highly rigorous, requiring evidence and assurance of the social and environmental targets. The company works collaboratively between multiple departments to provide details of its sustainability practices, sourcing policies, suppliers, due diligence conducted and multi-year commitments.

The overall environmental, social and governance score is measured by recognised rating agency Sustainalytics, which considers more than 70 management indicators in a wide variety of areas, including environmental management, human rights and diversity. Meanwhile, an independent third party verifies the company's traceability and sustainability screening performance. This provides sufficient reassurance to lenders and helps to benchmark companies for comparison. The discount is applied in relation to each KPI achieved.

With the increased focus on climate change and the contribution towards the UN's Sustainable Development Goals, sustainability-linked loans are fostering a greater interest among financial institutions than standard corporate loans.

A large part of the margin savings finance activities enables further traceability and responsible sourcing of critical commodities. Another portion will help the company advance its sustainability strategy, while the rest will be invested in landscape projects, whereby the company engages with suppliers, and in sector initiatives, working with peers on shared sustainability goals. ■

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RE-INVENTING THE SHIPPING CONTAINER

The arrival of containers disrupted the shipping business in the 1960s, forcing everyone to rethink the way transporting goods was done. But since Malcolm McLean's invention in 1956, the venerable box has barely changed. A paradox, given that 80% of the world's goods transit through containers - the building blocks of our global economy.

But today with business and ESG requirements, the hot, often rusty and largely unconnected metal container is becoming less efficient. Taking this challenge head on, AELER - a Swiss-based scale-up - has launched a new generation container that's reversing the paradigm: it's time for the container to fit cargo owners' needs and not the reverse.

"Stronger, insulated, connected and smart, this new container has specific benefits"

The new container provides greater strength to store more goods and in better conditions with insulated walls and state-of-the-art electronics that allow shippers to track goods in transit. This drastically reduces both operational costs and CO_2 emissions, tackling some of the key challenges of the classic container: security, payload, temperature stability and sustainability.

The trading of perishable commodities, such as coffee, cocoa, and cereals, faces many challenges, including container heat, humidity, temperature variation, and traceability of goods. The new container can meet many of the challenges which merchants face in transporting their goods.

How is this possible? On the structural side, it is owing to the use of composite materials which all the side panels, doors and floors are made of. For the IOT, it's not a simple add-on box with a single use battery, but rather a high-tech device using proprietary technology that's embedded directly inside the container and is constantly recharged via solar panels.

This new technology allows the commodity trading company to know exactly where the container and its cargo are at all times. In addition, a special emphasis has been put on security for all stakeholders, with door openings and shocks being detected thanks to the new technology.

Stronger, insulated, connected and smart, this new container has specific benefits for:

Bulk liquids: Thanks to the container's increased strength, it can safely accommodate flexitanks of up to 28 tonnes instead of 24. That's a 17% higher payload which means that only 6 containers are now needed instead of 7, cutting CO_2 emissions by 20%.

Sensitive goods: Drastic reduction in temperature variations with the container's structural insulation. This significantly reduces fitting time and costs and offers a viable alternative to reefers for specific use cases.

High value goods: This container creates visibility with a special emphasis on security for all key stakeholders. It tells them where and 'how' the container and its cargo are at all times with door openings and shocks now all detected.

In this period of high change, the common link between all stakeholders in a logistic chain is the container. It's the one thing that connects all commodity stakeholders and many can benefit from AELER's innovations. ■

Naik Londono and David Baur
co-CEOs, AELER

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NEW THEMES ADDRESSED BY THE MASTER IN COMMODITY TRADING

The Master in Commodity Trading offered by the University of Geneva, in partnership with the Swiss Trading and Shipping Association, is a unique program in Europe.

Taking place over 12 months, the program combines theory with practice as students are employed by industry related companies while studying for their Master.

The goal of this program is to ensure that students acquire financial, economic and responsible management skills. The Master provides interdisciplinary courses with different perspectives to allow students to approach complex interrelations in today's world.

"Courses adjusted to address today's business environment and challenges"

Since its inception, the program is constantly adapted. It is crucial that the content of the courses be adjusted to address today's business environment and challenges. Courses like Sustainability or New Technologies, and topics like wind, solar energy or blockchain did not exist in 2008 at the creation of the Master degree. Likewise, both professors and students must be able to assess the impact of any decision or situation and the courses are adapted accordingly.

Being part of a program wherein students are working and attending lectures simultaneously is an enormous advantage. They are exposed to the real-life situation of their companies while studying. By discussing with professors, exchanging with classmates on best practices, working on case studies, debating or writing a thesis on current topics, students acquire new unique talents which companies are looking for. The profiles of the students have also changed over the years, more students have quantitative skills, with knowledge in coding, for example, and are aware of the sustainability aspects.

Professors Giacomo Luciani and Dr John Gault, both recognized experts in Energy, have been teaching the Energy and Renewable Energy courses in the Master since the beginning of the program. Both professors adapt their lectures each year, with an ever-increasing attention to the energy transition and to the converging interrelationships among all energy commodities.

Since their guest speakers are primarily practitioners, active in the markets every day, their presentations evolve each year to reflect the latest developments in their specialized fields.

Over the years, professors Luciani and Gault have devoted increasing time teaching electricity markets, non-fossil fuels and carbon trading, while maintaining a realistic balance reflecting the relative importance of each energy source.

They dedicate time to a discussion of the ever-changing relationships between Swiss and EU energy markets and how they are affected by political considerations.

While the professors have always discussed questions of energy security, they now devote additional emphasis to this concern along with goals of low energy cost and sustainability.

Over the last years, the number of students joining the Master has increased in response to a growing demand by the commodity trading industry for trained talents. This is an equal opportunity program, welcoming an increasing number of women.

Eliane Palivoda Herren
Senior Program Officer, Master and Executive Diploma in Commodity Trading, University of Geneva

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AT THE HEART OF CHANGE: WHERE ARE THE WOMEN?

Eglantine Jamet
Founding Partner, Artemia Executive

For several decades, scientific research has shown that diversity is a considerable asset for companies' performance and innovation. During the pandemic or the financial crisis of 2008, we were able to notice a better resistance from companies with mixed governance[1]. This reality led Christine Lagarde, then Director of IMF, to declare that if Lehman Brothers had been called Lehman Sisters, the situation would not have been as dire[2].

The integration of more women, particularly into leadership positions, is a performance driver, because bringing a diversity of people from different paths of life and various experiences into organizations, allows for more open-mindedness and limits blind spots. This is also true of other forms of diversity, but women have an added advantage: they represent half of humanity. In a context of transformation of the corporate world, from the environmental crisis to deep geopolitical tensions, it seems fundamental that change itself should be thought of and implemented by the population as a whole. On the other hand, on the job market, women constitute the largest pool of unused talent, at a time when the shortage of skilled workforce is a major issue.

The commodity trading sector is not immune to these observations nor to the desire to feminize both the teams and governance of organizations. However, what makes an organization appealing to women today, as well as to many men and particularly the younger ones, is the sense of purpose, the values it promotes, an attention to work-life balance and an inclusive culture. This may appear to be a caricature, but it is a real paradigm shift: the time when salary and a company car made the candidates' eyes sparkle has gone by, there is now a need for purpose and well-being. Of course, there are exceptions, and the international market is partly different, but this is where it is important to know what is at stake. If it is about guiding the commodity trading evolution in line with the energy and societal transition, and in a more ethical way, we undoubtedly need to think in a different manner. Commodities are at the center of our lives, of our homes, and of our commutes. It is thus necessary to underline this social dimension and to ensure the building of a sustainable future thanks to more diversity. Female experts, fully committed and passionate about these topics, are out there. It is about making sure they can contribute at the right level and be part of a more inclusive workplace. This obviously involves challenging certain processes or working conditions which seem to be unchangeable, but this is exactly what it means to be "at the heart of change"! ■

"Women constitute the largest pool of unused talent"

1) Gender diversity protects stock market investments against the COVID-19 crisis - SKEMA ThinkForward
2) 'If it was Lehman Sisters, it would be a different world' – Christine Lagarde | International Monetary Fund (IMF) | The Guardian

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MOVING, BUT NOT FAST ENOUGH

Moving, but not fast enough – this is the title of the Survey on Gender Diversity and Equality in the Swiss Commodity and Trading industry conducted by Women's International Shipping and Trading Association (WISTA) Switzerland and PwC Switzerland in 2022. WISTA Switzerland is focused on promoting equality and supports women in their professional careers. It is the first study initiated by WISTA Switzerland that specifically focused on the Swiss commodity trading industry, with the goal to obtain feedback on the state of the current gender balance from employers, as well as perceptions from the employees.

The results of the Survey show that women represent on average 33% of the workforce in the commodity trading industry in Switzerland, with only 24% of the leadership roles being taken by women. This is in line with the Swiss gender quota guidelines, which require Swiss listed companies to have at least 30% of women on the board level and at least 20% of women on the management board. However, we need to caution that our numbers are probably too optimistic as the respondent data most likely includes a higher proportion of respondents that prioritize diversity and there is still a large number of companies in Switzerland that need to proactively work on the diversity topic. Moreover, Swiss based jobs in the commodity trading industry in Switzerland are more likely office based which traditionally have higher proportion of female workers. Having this in mind, a 33% participation of women leaves room for improvement and represents a big miss of talents and opportunities.

"There is a big potential to do more in Switzerland"

Our second finding was that Diversity and Inclusion (D&I) maturity in the industry in Switzerland is rather low. Most of the companies that participated in the Survey, and that are likely to be more advanced in the diversity topics, still do not have a stated D&I policy and do not have target KPIs against which they measure their gender parity progress.

We have seen a significant perceptions gap between the answers from men and women of all grades of seniority to questions about the equal rate of promotions and equal access to the professional development between men and women. Male colleagues tend to view the gender equality progress more positive than women. Although, progress has been made over the last decade, there is a big potential to do more in Switzerland. It is important to make sure that D&I policies and gender initiatives transform into the real impact and changes on the ground.

One of the reflections from the Survey is that it is important for companies to have stronger communication and implementation of their D&I programs. Other ideas which we have for example discussed within WISTA Switzerland a number of times, is need for balanced parental leave for both parents. This would help to overcome the so-called maternity penalty that still shadows careers of many women today.

Progress has been made, but according to the World Economic Forum Global Gender Gap Report 2022, "it will take another 132 years to close the gender gap" for real. Thus, we are moving, but not fast enough. ■

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Maryana Stober
President, WISTA Switzerland

INNOVATION AT STSA LEARNING AT THE HEART OF SUSTAINABILITY

Guillaume Cassaigneau | Public Affairs and Education Manager, STSA

To meet the challenges of sustainability, STSA member companies mandated their association in 2021 to create a new training course for their employees to integrate environmental, social, and good governance (ESG) challenges into their daily work. This training had to be relevant to the commodity stream and had to reflect the contrasting realities of different types of commodities: agricultural, metals, minerals and energy. In addition, members wanted to be able to identify the opportunities that arise from better consideration of ESG impacts in their value chain, as well as by their suppliers.

In January 2023, STSA rolled out its new training for some twenty participants coming from numerous professions from within and outside its member companies. In the new ESG Sustainability Fundamentals training, managers from legal and compliance departments, risk managers and traders, auditors and lawyers, as well as a bank managing director, were able to discover the reality of sustainability, taught by three experts and five external speakers. Owing to previously applied technological efforts, the course was held in a hybrid format, allowing the audience to be extended to German-speaking Switzerland and abroad (Colombia, Romania).

Over the course of two days, the experts articulated their knowledge in four modules: legal and political framework for sustainability; origin of commodities and processing; distribution and use; governance and communication. The learning method mixed conveying knowledge with active participation through group work and in class presentations. For the first time, a two-day course brought together more than 8 speakers, thereby proving the importance of and the interest in this topic.

In addition to the presence of ESG managers, the innovation consisted of including different stakeholders in its training. The Swiss government was able to explain its expectations with a presentation from the Federal Department of Foreign Affairs. Likewise, the NGO Terre des Hommes (TdH) addressed the issue of child labour in line with UN standards. TdH illustrated its cooperation with the private sector and its child protection work in many developing countries.

Finally, this new training is the tip of the iceberg for change. Sustainability issues will be integrated into all other STSA training courses, both short and long (Certificates). In this way, STSA will contribute to strengthening the Swiss labour market and will keep its participants ahead of the sustainability debate. The participants will be able to understand the challenges of our industry before Switzerland's competing trading hubs begin to decipher them and identify the available opportunities. ■

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ADM | ARAB BANK | BCGE | BCP Banque de Commerce et de Placements | BIC-BRED (Suisse) SA | BPL Global

Cargill | COFCO INTL | credit europe bank | CREDIT SUISSE | ECOM | GUNVOR

ING | LDC Louis Dreyfus Company | komgo Powering Trade Networks | MERCURIA | MKS PAMP | MRI

SGS | SOCAR | SUCAFINA | Vitol | WalterMatter

STSA