Commodities

Beyond national boundaries

A Swiss hub for a global future
Common objectives and a single voice

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Regulations & Sanctions
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CSR, Climate & Environment
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Education & Innovation
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Les entrepreneurs ont du flair pour les bonnes idées. Et les bons conseillers.
Beyond national boundaries

This second issue on the Swiss trading and shipping industry addresses the position of the sector on some of the most important themes at the heart of current concerns. The Swiss hub is truly global and knows no national boundaries. It affects and is affected by worldwide matters. International regulations and sanctions impact its daily business. Calls for social responsibility question its governance as ethics and human rights are important to Switzerland in general, and to Geneva in particular. Markets are increasingly weather dependent and it has become essential to recognise the strategic importance of climate changes for global commodity markets. Last but not least, international trade is one of the fundamental drivers of development and natural resources are the foundation on which many developing countries build their economic growth on the way to poverty alleviation. Commodity trading houses have a major role to play in addressing the infrastructure gap of emerging countries and in contributing to sustainable development.

The Swiss hub, now unified since the trade associations of Geneva, Lugano and Zug united last year. Our sector now has a common voice across the entire country. David Fransen, President, STSA. PAGE 4

What the sector means for Geneva

What is the State’s strategy to encourage the commodity industry’s development and to attract new participants? Pierre Maudet, State of Geneva. PAGE 5

Multi-stakeholder efforts for human rights

Industry focused, multi-stakeholder efforts are key to advancing corporate respect for human rights. Margaret Wachenfeld, Institute for Human Rights and Business. PAGE 19

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Revenues, margins and misconceptions

Trading houses may have large revenues but their margins are only a fraction of those of industrial or distribution companies.

![Image](https://via.placeholder.com/150)

**Schindler's CHF 896 million. Similarly Trafigura's revenue for 2013 was approximately CHF 129 billion (5133 billion). Its profit from operating activities was CHF 2.56 billion ($2.65 billion). Holcim's sales for 2013 were CHF 19.7 billion and its operating profit was CHF 2.4 billion.**

Schindler's CHF 896 million. Similarly Trafigura’s revenue for 2013 was approximately CHF 129 billion (5133 billion). Its profit from operating activities was CHF 2.56 billion ($2.65 billion). Holcim’s sales for 2013 were CHF 19.7 billion and its operating profit was CHF 2.4 billion. In other terms, whereas Trafigura’s revenue was over 6 times Holcim’s, its profit was of the same order of magnitude.

In order to achieve this, we united the trade associations of Geneva, Lugano and Zug in October last year. Our sector now has a common voice across the entire country.

**The Swiss Trading and Shipping Association (STSA) represents a very diverse industry. Its members include quality inspection and certification providers, shipowners, commodity traders, consultants and many other, highly specialised firms. We are diverse but we have one common objective: We want Switzerland to remain a leading hub of commodities expertise. The professional skill and knowledge accumulated in this country over decades is unique and aggregated in the minds of over 10,000 employees. It must be preserved, developed and defended against competition from alternative locations and extended, so Switzerland can continue to thrive in its position as a market leader.**

In particular, we want to take the right steps towards transparency by developing a framework that is truly tailored to the industry. Adapting rules designed for other sectors, such as the extractive industries, is not an appropriate solution and stops short of addressing issues in many countries in which our members are active. We are committed to finding solutions on such important issues as transparency of payments to governments and corporate social responsibility, which includes human rights and a sustainable approach to the environment. Our business transcends national boundaries and we believe that these solutions will be most effective if aligned with the legislative framework of other countries, notably those of the US and the EU.**

The Swiss trading and shipping industry has acknowledged the need for such international harmonisation and together, we will continue to make progress towards a global solution, following the multilateral and pragmatic process that is one of the great strengths of Switzerland’s political system. This special edition is dedicated to how we contribute to development abroad. Most members of STSA act globally. Many provide logistics, financial and other services to emerging regions. However, and contrary to widespread belief, commodity trading houses are not simply exporters of commodities from developing countries to the industrialised world.

In recent years, the industry has seen an unprecedented flow of investment in infrastructure based in countries which benefit substantially from the technical expertise and experience of the commodities sector. Some of our members have recognised this. Companies such as Vitol, which invested their knowledge as well as billions of US dollars in longer term growth projects, notably in acquiring assets. STSA can preserve and develop this unique concentration of knowledge, which will hopefully bring forward the global projects of the future.

**TO FINDING SOLUTIONS ON SOCIAL RESPONSIBILITY AND ON A SUSTAINABLE APPROACH TO THE ENVIRONMENT.**

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What the commodity sector means for Geneva

The commodity trading and shipping community plays a significant economic role in Switzerland and more so in Geneva, where merchant companies have long been a part of the business landscape. Today, Geneva and the Lake Geneva area are home to in excess of 400 companies, employing some 8000 people, and the industry contributes nine per cent of the canton’s GDP. Home to half the world’s coffee and sugar trade respectively, and one-third of each of the world’s oil and cereal trade, it is a global commodity trading hub alongside Houston, London, and Singapore.

How important is the sector in the eyes of Geneva’s cantonal government? What is its strategy to encourage industry development, and to attract new participants? We asked Pierre Maude, State Councillor in charge of Security and Economy for the Canton of Geneva.

How important is the commodity trading industry to Geneva? It has always been important, and this key importance has strengthened in recent years, forming an ecosystem composed of different areas of expertise that complement one another. Beyond pure trading, it encompasses trade finance, shipping and education. Shanghai plays an important role in the ecosystem. To our banking sector and education in particular, the high-tech cluster, the commodity and trade finance cluster and the authorities support the implementation of existing regulations and new activities around a normative framework.

What type of normative framework? International standards must be respected but there is no requirement for a Swiss finish that would hinder our competitiveness. This is something that the five cantons, home to commodity trading houses (Geneva, Vaud, Zug, Ticino and Basel), need to clarify with the Federal government. We must also scrutinise public opinion to the economic benefits of the commodity hub Switzerland — and Geneva in particular — offers a cluster of competence which is internationally renowned. We receive a continuous stream of requests, from new companies but also from groups repatriating some of their operations from London, as this has been the case in the sugar trade units recently.

Are Singapore and London big contenders as commodity trading hubs? Singapore is not a competitor to Geneva "per se". It does not sit in the same time zone and its role is to serve the ever-increasing Asian trade. Most companies have operations both in Geneva and in Singapore.

The competition for Geneva is rather in London but Geneva has proved its strength in many areas. As I mentioned earlier, we are seeing branches repatriated from London, which is a testament to the strength of business conditions here.

Do you have an example of a Swiss initiative to support the business? Diversifying currency settlement is one good example. We have supported a concerted strategy with the Federal authorities to open Switzerland to settlements in renminbi. A swap agreement was concluded last summer between the Swiss National Bank and the People’s Bank of China. It will ensure appropriate levels of liquidity and clearing will be performed through a Chinese bank which is in the course of setting up in Switzerland. This is an important step for commodity trading, as flows to and from China are continually increasing.

INTERVIEW

PIERRE MAUDE, STATE COUNCILLOR IN CHARGE OF THE DEPARTMENT OF SECURITY AND ECONOMY OF THE STATE OF GENEVA

Since 2005 President of the Federal Commission for childhood and youth.
2006 Master in Law of the Université de Fribourg.
2007-2012 Member of the Executive Council of the City of Geneva.
2011-2012 Mayor of the City of Geneva.
2012 State Councillor in charge of the Department of Security & Member of the Executive Council of the State of Geneva.
Since 2013 State Councillor in charge of the Department of Security and Economy.

How effective is the relationship between the Geneva government and the Swiss Trading and Shipping Association (STS)?

The sector really needed a strong umbrella organisation to speak with one voice and the dynamics work well. Obviously, the dialogue is greatly facilitated by the existence of STSA. We exchange information on a constant basis and it helps forming and informing, both internally and externally. It also smooths the progress of the multi-stakeholder dialogue.

How do you feel about the newly born Swiss Research Institute on Commodities (SRIC)?

It will be a key asset. It positions Geneva in the best sense of the term, interlinking and fanning out the knowledge developed here and modelling the future. Distanced from the corporate world, it will bring an objective and critical perspective from a city familiar with intellectual and spiritual awareness. It will also be in step with the cooperation between the academic world, the corporate world and the political world which is one of the trademarks of Geneva. On one hand, it marks the recognition of the commodity sector as a critical player in Geneva; on the other hand it demonstrates that our University is keeping pace with the economic development of the city. Lastly, we expect it to give the right space to civil society. The institute is a long term engagement, very distant from the quick benefits of a favourable tax regime.

Speaking about tax regimes, will the 13% tax rate for all be accepted in the Canton?

The tax rate of 13% is a proposal from the Geneva authorities to the Federal authorities and to the people. The new law will be submitted to popular vote in 2017 or 2018. Meeting the challenges will require a vast amount of work and preparation. If a reasonable taxation regime goes through, the most positive outcome will be that it will last. The Swiss democratic process may seem slow to some but once a decision is made, it carries on for a very long time. There is no risk of brusque changes in direction as seen in many European countries, according to the colour of their governments.

How are issues around transparency of the sector progressing?

The trading industry has understood very well the need for transparency and traceability. It has proved to be open to dialogue. By the nature of its global business, it is already subject to international standards. As I said earlier, there is no particular need for a Swiss finish.

Geneva is also a cluster of innovation in the field of commodity trading. Trafec is an example.

Trafec offers a unique solution to trade finance banks and commodity traders. It is another opportunity to demonstrate Geneva’s attractiveness, at the crossroads of information systems and finance. Trafec supports the implementation of Trafec, encourages innovative high-tech ventures in Geneva and benefits from the support of the governmental business incubator and the umbrella organisation Trafec, which is yet another point of encounter between the Geneva stakeholders, pulling together diversified components of our economic fabric. In this instance, the high-tech cluster, the trade finance cluster and the authorities have come together to create an innovative new interface for traders and their banks.

Interview Nicolette de Joncaire
Swiss research on commodities: another bold step

The Swiss Research Institute on Commodities (SRIC) is newly born. When the Master in International Trading, Commodity Finance and Shipping was created in 2008, it was a bold step. With the new research institute, the university is leaping forward again in a field which is quite unique. How does Jean-Dominique Vassalli, Rector of the University of Geneva and President of the foundation that oversees the institute, feel about this new venture?

“When the Master was created, it was a bit of a novelty. In particular because the students hold at the same time a job in their field of study. Working while studying is of course not exceptional, that is what happens also in medical school, for instance”. The courses make more sense to the students when they can apply teachings directly, for example, ethics beyond practical topics. “The academic teaching to Professor Vassalli is that the courses extend to the programme. What is imperative is that they have a job in the industry before they can apply the programme. What is imperative is that the students hold a job in their field of study. Working while studying is of course not exceptional, that is what happens also in medical school, for instance”.

Jean-Dominique Vassalli, Rector of the University of Geneva and President of the SRIC foundation.

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Natural resources provide opportunities for sustainable economic development

**Trade Forum 2015**

**How commodity traders confront market, financial and climate uncertainty.**

Dominique Le Doeul (Cargill), David Fyfe (Gunvor), Martin Everts (Axpo Holding), Pietro Poretti (EFTA) and Erwin Bollinger (SeCO), under moderator John Gault (Graduate Institute of Geneva, David Fransen, President STSa and Samuel Gayi, UNCTAD, three separate panels discussed trading in the context of market risk, financial uncertainty and sustainability concerns.

The commodity trading industry faces new challenges. Beyond regulations and sanctions, it wants to address the issues of sustainable development.

**The commodity trading industry faces new challenges. Beyond regulations and sanctions, it wants to address the issues of sustainable development.**

M arch saw members of the Geneva commodity trading industry gathered at the Fédération des entreprises romandes for the annual Commodity Trading Forum. Amongst the delegates were traders themselves, industry experts, NGOs, academics and current and past students. Having been welcomed by Professor Bernard Morard, University of Geneva, David Fransen, President STSa and MD Vitol SA, Pierre Maudet, State Councilor, and Samuel Gayi, UNCTAD, three separate panels discussed trading in the context of market risk, financial uncertainty and sustainability concerns.

Dominique Le Doeul (Cargill), David Fyfe (Gunvor), Martin Everts (Axpo Holding), Pietro Poretti (EFTA) and Erwin Bollinger (SeCO), under moderator John Gault (Graduate Institute) discussed “The Impact of Government regulation on trading practices”. The effects of sanctions were all too evident as resource financiers were often exposed to scrutiny and regulation. In fact, the Extractive Industries Transparency Initiative (EITI) can increase transparency in the trading industry, since it allows governments to report earnings that they received from trading companies. Trafalgus has received praise for having taken a voluntary initiative to join EITI, going against the trend that “Switzerland is not a regulation maker, but a taker.”

Complex challenges are faced nowadays in order to make sustainable markets in the energy and agricultural commodity markets; that was the overriding theme espoused by Alfred Evans (Ilan Investments), Claudio Coving (Platts/Kingsman) and Iain Henderson (UNEP FI), moderated by Margot Hill Clarvis (IOES). Consumer pressure has been driving this transition to an extent, especially for products like coffee. High profile consumer firms have committed to sourcing raw products responsibly, forcing producers to adapt.

However, places of consumption are disconnected from the places of production, and the risks involved in regional landscape scale initiatives is essential to support these private actions. Public policies are key drivers of change, providing they offer a flexible, market-efficient toolkit. If trading practices reflect responsible business practices, this means transparent contractual relations, protection of health and safety, the unity of job and family, and opportunities for further continuing education – especially for women – and it means taking up new opportunities to produce along the entire value chain.

There needs to be various mutually reinforcing instruments applied to ensure that raw material wealth is used for sustainable development. These range from transparent legal and taxation systems in producer countries to certification systems, on to strengthened local administrative bodies tasked with implementing and overseeing environmental and social standards, all the way to involvement by civil society organisations. Swisscontact wishes to reduce the discrepancy between raw material wealth and poverty, as well as to better mobilise domestic resources to fight poverty. Countries rich in raw materials should not slip into corruption and violent conflict, but continue to develop instead. This is an important element of Switzerland’s development policy. At the same time, countries should not allow their raw material precious resources to be exploited by strong suppliers on international raw material markets. Promoting “good governance” both in raw material producer countries and in international business can serve as a goal.

Swisscontact is convinced that the industry’s SRIC platform can open up pathways toward sustainable economic practices. Correspondingly, the foundation hopes to enhance exchange with all its partners in upcoming discussions. It hopes to offer its many years of experience implementing international development cooperation projects.

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Advantages and pitfalls of regulatory guidelines

How do you perceive the trend in regulatory enhancements?

The current trend of generic financial regulations on commodity markets is not a positive development for price transparency and market liquidity. We understand and support that regulators may want to avoid a repeat of the 2008 financial crisis, but since commodity markets were not a main feature of the crisis, it raises the question of how regulators should apply financial market concepts to commodities, a sector that is widely accepted as offering transparent pricing and not presenting a systemic risk of failure. Inappropriate restrictions on hedging would affect all market participants including commodity houses but would be less burdensome for companies that buy or sell commodities. As you can imagine, this is a rather large portion of the world’s economy.

How would this happen?

I need to make a few background comments to illustrate this. Cargill’s core business is buying and processing agricultural raw materials. At a basic level, we move raw materials from areas of production surplus to areas of deficit. To do so, we have to manage a variety of risks and our business is only viable to the extent that we are able to neutralise some of the risks in our supply chains. Some risks can be passed to or shared with other market parties, some can be insured but the biggest risk we face is probably price volatility. Raw material producers who want to sell products or processors who want to buy have become accustomed to markets where companies such as Cargill can quote a price at any time for any product they trade. The main reason we can commit to moving millions of tonnes of agricultural commodities, food and feed ingredients as well as energy products, is the fact that today’s markets give us options to hedge price risk. If commodity houses lose this option, they will stop quoting prices. Producers and processors will then lose the ability to plan and forecast. If commodity operators can no longer access derivatives to hedge their physical positions, no one will quote prices beyond a few days in the future. Liquidity will disappear and volatility may actually increase.

Is it correct to claim—as some do—that commodity trading is insufficiently regulated?

Commodity markets are extremely regulated. We have US regulations, EU regulations and specific country regulations overlapping. International commodity houses such as Cargill have hired teams of compliance specialists to figure out how to operate in compliance with the relevant rules across the relevant jurisdictions. This is a challenge. We encourage the various regulators to agree on common standards so we could operate on a consistent playing field.

Do you have an example?

Take the example of the latest “Directive on Markets in Financial Instruments”, otherwise known as MiFID II rules. The technical rules currently under discussion suggest that freight should be considered as a separate commodity, as opposed to a service to move commodities. This proposal would severely restrict freight companies in their efforts to manage price risk. Such inability would mean less market liquidity, less price transparency and less willingness to commit from for vessel operators. Over time, this would achieve the opposite of the desired effect. Hence our current involvement in a multi-stakeholder consultation process, whereby regulators are trying to better understand the impact of the draft rules on different markets.

What do you expect of Swiss authorities in terms of regulation?

Commodity houses operating internationally from Switzerland are already subject to a multitude of regulations, mostly coming from the US and the EU. We hope Switzerland can refrain from adding to the existing complexity, in a way that could negatively impact the trading industry. The commodity trade has positively contributed to the Swiss economy over the last decades. With the immigration quota vote, the high level of the franc and the uncertainty over the tax regime, there are currently many challenges for companies operating from Switzerland. Let’s keep Switzerland as competitive as it can be.

How can the trading sector contribute to building this framework?

We should proactively participate in discussions with the regulators and be consulted, as are all other sectors in Switzerland. In our case, whether from a Cargill or an STSa standpoint, we probably need to better explain our business and why certain things are done in a particular way. An over-restrictive framework would impact the economic fabric of the country.

According to some, the voluntary approach to regulation adopted by Switzerland in the field of human rights is insufficient. What is your view?

Adhering to high standards of business conduct has been important to Cargill since our founding in 1865. We are governed by a Code of Conduct based on our Guiding Principles. They are ingrained in our culture and serve as the foundation for the behavior we expect from all our employees in all parts of the world. We withdraw from certain markets and refuse to participate in others because they are not compatible with our ethical principles. In other words, if a market is not consistent with the Swiss Code of Conduct, we will not enter it.

Interview Nicolas de Joncaire
How is the sector regulated?

A multitude of laws and standards apply to every physical product traded. A complex interplay between regulatory framework and soft law.

Patrick McDonald
Research assistant, STI

Commodity traders are, contrary to popular belief, not only subject to many different regulations, but to regulations emanating from many sources, and are thus needed for multiple industries. Commodity trading being the diverse, international industry it is, these regulations often overlap and sometimes even cancel one another out.

For every physical product traded, there is a multitude of laws and standards applied. These include technical and quality standards, laws governing delivery, not to mention customs and quarantine regulations which vary wildly from country to country. Additionally, there are financial regulations to cover almost every type of financial transaction undertaken in the industry.

There are then the national and international laws that apply to the industry, and to each trading house individually. These vary from international laws governing maritime activities, to EU regulations on ships, and of course national legislation on storage, extraction and production. Laws and international regulation on other issues that are not meant purely for commodity traders are, nonetheless, applied to the industry. Anti-corruption and anti-money laundering laws and regulations, and laws related to human rights and environmental protection are all applied to commodity traders. Finally there is regulation that applies to trading partners – banks and other commercial entities in particular – that through our networks, affect our industry too.

It is also important to recognise the difference and interplay between regulatory framework and soft law. These two forms of regulation – one of which is legally binding, the other optional – can work well in complementarity, but in order for this to be the case, the regulatory framework must be strong, simple, and effective. From there, voluntary regulatory standards can be added to further refine the regulation of the industry. Switzerland generally is quite good at this type of regulation, but it is important that the industry work proactively with the government to ensure well-designed regulations that the industry can appropriately implement.

Thus it is clear that far from being under-regulated, the commodity trading industry must face a plethora of laws, regulations, and guidelines emanating from a variety of national and international actors. Commodity traders now have compliance officers and are subject to many different regulations, both national and international.

The lack of understanding of the commodity industry needs constant vigilance of the legislative and fiscal edits… To prevent negative impacts.

The negative impact of misunderstandings

Patrick McDonald
Research assistant, STI

Commodity traders, it is widely believed, are not the industry as a whole. Regulation relevant for commodity traders, for example, is not generally going to be useful for a small cocoa trader. It is in the interest of the whole industry to push for regulation that is better targeted, simpler, and fairer for all actors in the industry.

The step-up essentially would maintain (“grandfather”) the existing tax rates available under the current tax regime and offered by a tax effective amortisation over the next ten years.

The objective here is not to present all the details of the proposed Corporate Tax Reform III (CT III) Switzerland attempts to remain a competitive location for multinationals and, at the same time, reinforces the respect of internal tax legislation with international standards. This CT III process originated during the financial crisis when the weaknesses of the international taxation system were under constant scrutiny. The current Swiss practice of tax privileges relating to foreign revenues of holding, domiciliary and mixed companies has been increasingly criticised. The main objective of the reform is to abolish the so-called “cantonal tax status” under which domestic and foreign profit were subjeced to different tax regimes.

As a consequence, foreign income – which is currently benefiting from low taxation thanks to cantonal tax status – will be subject to a higher tax rate after the reform. As is the practice in Switzerland, the federal administration consulted all interested stakeholders (political and economic) and invited them to submit a statement regarding the new reform that includes several measures as part of the same package. The objective here is not to present all the details of the reform but to highlight one of the aspects which has been presented as favourable to the trading industry, the so-called “step-up”.

In the case that the cantonal tax status are abolished, the proposed provision would offer a tax neutral step-up – a self-created gain generated during the privileged taxation period would be allowed for tax purposes at the end of the special regime and followed by a tax effective amortisation over the next ten years.

The step-up essentially would maintain (“grandfather”) the existing tax rates available under the current tax regime. Its effect would run for ten years after the reform becomes effective.

Differences in defining correct transfer pricing for cross-border commodity transactions – Public discussion paper of the OECD

The OECD is currently conducting public procedures for a number of proposed actions to fight against Erosion and Profit Shifting (BEPS). The Action Plan identifies 15 actions to address BEPS in a comprehensive manner, and sets deadlines for their implementation.

Action 10 is related to base erosion and profit shifting in cross-border commodity transactions. The OECD acknowledges that some countries involve difficulties in determining adjustments made to quoted prices, verifying the pricing date, and accounting for the involvement of other parties in the supply chain.

In order to facilitate the handling of tax administration, Action 10 allows them to use quoted or publicly available prices (“quoted price”) to determine the arm’s length price for a controlled commodity transaction.

Commodity trading is often the subject of controversy, yet it is widely misunderstood, and often compared to financial services. However, when we look at the business in detail, differences and complexities emerge, as do the various uncertainties with which it is beset by in its very nature.

If prices for individual commodity trading transactions are usually fixed by an initial reference to prices that are quoted on well-developed commodity exchanges, these “quoted prices” are not equivalent to the ultimate commodity prices negotiated between the counterparties of any given transaction. This is due to a complex multitude of factors, specific to each individual transaction, which enter into the determination of the final price and can account for substantial price differentials.

One commodity transaction is practically never comparable to another, and that transfer pricing must therefore be assessed by an analysis of actual individual transactions.

Correspondingly, the below assertion should be rejected (BEPS Action para. 10):

“Taxes on and tax administrations […] take as a reference the standard specifications, on which the price of the commodity is based, used in commodity markets and by price setting agencies”.

Conclusion from these two examples: Again, if we are faced with two different examples, the complexity of commodity trading is often underestimated and the industry needs to be vigilant when tax authorities want to remodel taxation processes.

The lack of understanding of the commodity industry needs constant vigilance of the legislative and fiscal edits… To prevent negative impacts.

The negative impact of misunderstandings

Stefano Granieri
Independent consultant

**Note:**

*The BEPS initiative refers to tax planning strategies that exploit gaps and mismatches in tax rules to artificially shift profits to low or no-tax locations where there is little or no economic activity, resulting in little or no overall corporate tax being paid (OECD definition).*
Compliance in a trading house and trends in compliance strategies

Reputation is as important to a trading house as it is to any company and takes a lot of time and effort to build up.

Victoria Aitwood Scott Global Head of Compliance Gunvor Energy Group

Commodity traders have historically been viewed as unregulated entities, which beg the question: what is the role of compliance in a trading house? This view has largely been formed as a result of many commodity traders being private companies, limiting public disclosure to date, and the fact that they are not regulated by financial regulators. From inside a trading house the world is very different from this perspective, and compliance is a fundamental part of day to day business.

The truth is that commodity traders are subject to a raft of regulators and regulations across the globe and across their activities. Trading companies are often large global organisations with a multitude of different national and international physical, financial and EHS regulations to comply with. The industry understands and respects its obligations and as such has teams of in house compliance professionals to ensure compliance and help management to foster a compliance culture. Commodity traders have many stakeholders who influence their compliance culture and processes and traders are accountable to these stakeholders. For example, commodity traders are heavily reliant on financing and that financing is only available to us if we can demonstrate the financial health and capacity that we are conducting business in the right way.

There are many areas of focus for compliance teams in commodity trading companies, including anti-bribery and corruption, anti-money laundering, market abuse and health, safety and environment. We have extensive compliance programmes which look fairly similar in nature to those you would find in a traditional investment bank. These include extensive KYC and due diligence processes, infrastructure, policies, training and surveillance. We spend a lot of time working with various regulatory authorities across the globe and with relevant industry associations to communicate our business models and work on the implementation of new regulations. One of the most important things for effective compliance in a company is that the compliance team is and remains close to management and the business. Compliance is an integrative function that if the compliance team is integrated within the business activities and ideally should be physically located close to business activities so that they can see and hear what is happening and are accessible to all employees – it is difficult to get a good feel for what is going on from an isolated office!

Over the last few years trading companies have invested in experienced staff, information technology, databases and surveillance systems which all enhance the compliance culture and controls. Increasingly, trading companies are using the services of third party experts to help them with due diligence and other analysis to ensure that the business that we do and the companies that we do it with meet our standards.

The current one-size-fits-all approach leads to many material and unresolved issues. This in unlikely to assist in optimising energy markets.

A framework fit for purpose

Amidst a flourishing regulatory agenda, is the framework for commodity traders appropriate?

Brian Lewis Group Compliance Director, Gunvor

Moving, trading and manufacturing commodities have changed significantly over the last decade, driven by a multitude of market and geopolitical events. This business, of moving and trading commodities, is markedly different to trading and speculating in financial derivatives. The range of commodities, market participants, and physical infrastructures involved is both broad and heterogeneous, unlike the homogeneous and fungible derivative products traded in many financial markets across the globe.

Against this backdrop there is a popular misconception that commodity traders are “unregulated”. The perpetuation of this myth has become even more entrenched. At the last count, Gunvor – like its competitors – is answerable to more than 80 regulatory authorities worldwide covering health and safety, insurance, emission and environmental control, product, cargo and counter-party due diligence, international trade and sanctions legislation and banking, exchange and derivatives market rules.

The financial and economic crises of 2007-2009 rightly led policy makers to aim to reduce systemic risk in derivatives markets and the wider global economy. Each deliverable response: Dodd-Frank, EMIR, MiFID 2/MiFIR, FinfraG, and so on. Running parallel to this trend were other policy objectives to improve market transparency, eliminate abusive behaviours and enhance regulatory reporting. These aims are laudable and to be fully supported.

However, without regulatory harmonisation, each region or country’s requirements could impact a company’s ability to hedge price risk, amid stretching, and more complex supply chains, which could then in turn undermine any government’s goal of promoting more predictable and stable energy markets. Infras, under adverse, unintended consequences for physical market liquidity, price discovery and transparency could ultimately lead to higher costs for consumers.

Clear action from regulators and politicians is needed to address this and ensure that the scope deep into the physical commodity markets remains fit for purpose without constraining companies’ ability to effectively “smooth out” physical markets and equilibrate supply and demand.

This deepening program of physical and financial market regulation, frequently differentiated between regions may ultimately affect the traders’ traditional tolerance of risk and speed of response to changing market conditions. This would be evident during future geopolitical, economic or financial uncertainty and re-emergent heightened price volatility, during which times traders would not be able to buffer wild price swings and volatility. It is further uncertain whether they can still perform this function as speedily and effectively amid an evolving and, at times, inconsistent regulatory environment. The lack of international coordination for some of the incoming regulatory reforms risks undermining parallel policy imperatives concerning affordable energy and market volatility.

Today, trading companies are an integral part of the global supply chain and users of the global financial system. Regulatory authorities need to recognise that there are fundamental differences between physical commodity markets and financial markets, as well as differences between different commodity markets Oil, Gas & Power, Metals and Agricultural.

The current one-size-fits all approach has led to many material and unresolved issues on position limits, transparency, OTC derivative reform, transaction reporting and potential capital requirements for commodity traders. This may reduce costs for regulatory authorities in the short term, but is unlikely to assist in optimising energy market function in the medium to long-term. It is therefore critical for commodity traders and other physical market participants to engage with policymakers and financial regulators to ensure that the complexities and nuances of the commodity markets are not subsumed into a narrow and vague regulatory goal of a robust, internationally consistent regulatory framework, which reflects market realities and promotes healthy growth is one which is in everyone’s interest.
Impact of new transparency regulations

The Swiss government has decided to take a step further by implementing additional transparency requirements in order to reinforce Switzerland’s reputation.

Payments to government by private companies have always been subject to a certain degree of control and scrutiny. In the late 1990s and the beginning of the commodities super-cycle, leading economists concluded that the lack of transparency in growth of commodity-rich developing countries was inconsistent with their huge potential. On the contrary, those countries were suffering from poverty and corruption.

In an attempt to tackle this problem, governments and representatives of civil society have contributed to the emergence of multilateral initiatives such as the Extractive Industry Transparency Initiative (EITI), the purpose of which is to implement certain transparency standards in relation to payments made to governments by companies operating in the extractive industries. EITI gained a great deal of attention in the international press when Trafalga, a world leading energy trading company, disclosed its support in 2007. The EITI Initiative and Swiss Act on the transparency of payments to governments to make such an adjustment to situations where the standard offers clear and visible benefits and are aligned with European standards (yet to be implemented by the Swiss government).

The good news is that the proposed Swiss transparency rules are aligned with European standards (yet to be implemented by Member States). Swiss companies that are subject to mandatory audit and active in the extractive industry will have to publish every year a report listing all payments above CHF 100’000 made to governments. The list of “in-scope” payments overlaps to a large extent the EITI program and the EU directives.

The more concerning news is that the draft bill limits the ability of the Swiss government to make such an adjustment to situations where the “international circumstances would have changed”. But the absence of any clear definition of what “circumstances” could be sounds like a blanket cheque in favour of the Swiss government. The Swiss trading community remains concerned about a possible “Swiss finish”. NGOs such as the Bern Declaration and Swiss Agency for Development and Cooperation (SDC), and many others can be found on Transparency.org. Unique in its kind, it provides companies, governments and civil society organizations interested in working with T4SD a step further by implementing additional transparency requirements in order to support the discovery and prevention of corruption, serve the public interest and reinforce Switzerland’s reputation as a significant, reliable international financial hub, as well as the mechanisms put in place for transparency and reduced transaction costs through reporting.

Voluntary sustainability standards have historically been focused on a few products and industries, and have produced desired effects within certain value chains. Case studies show that sustainability initiatives aimed at commodities such as coffee, bananas, cocoa, tea and sectors such as horticulture have had a high market penetration in some developing countries, while the oil and fishing are the two main industries covered by voluntary standards at the global level. Additionally, types of linkages within value chains play an important role when it comes to standards implementation.

A third condition is the regulatory framework and functioning international environment where clear rules of engagement, property rights, particularly land tenure rights, and the enforcement of regulations factor heavily in the success or failure of voluntary standards. Weak or ineffective institutional capacity due to low level of investment, for instance, can be a barrier to producers facing stringent standards in their export markets.

The implementation systems of voluntary standards are equally important when attempting to gauge impact. Is the standard inclusive and transparent in its standard setting process, how effective are its enforcement mechanisms and does the standard provide guidance for adaptation to changing conditions? This is especially important for small-scale farmers and fisherpeople who cannot provide a learning experience for other producers in other geographical contexts. T4SD works with buyers and producers using a holistic approach comprising multiple examples to create the conditions for voluntary standards to have the most positive impact at the producer level. This especially involves increasing transparency and reducing transaction costs through producer self-assessments, customized on-line portals and on-the-ground assistance to improve value chains.

On October 2014, ITC launched the T4SD Principles at the first “Trade for Sustainable Development” Forum in Geneva. ITC invites all organisations interested in working with T4SD to endorse these principles:

- **Sustainability**
  Support and promote sustainable trade practices, with regards to social, environmental, economic and management, quality and ethics issues at stake in the production, processing and trading of goods and services.

- **Transparency**
  Contribute to enhancing efficiency in global supply chains by clear display of openness to sharing good practices, to foster transparency, trust and inclusiveness at all levels of global supply chains.

- **Harmonisation**
  Build on existing resources and methodologies with a collaborative approach and intervention that may provoke proliferation of standards, multiplication of audits or assessment methodologies.

- **Sustainable development goals (SDGs)**
  Act in alignment to the United Nations post-2015 Development Agenda, which builds upon the Millennium Development Goals with a view to developing a set of global sustainable development goals.

Voluntary standards are a growing part of the trade landscape and are here to stay. We must make sure not to be captured by easy compliance standards. This is a tool for more sustainable trade and eliminate the contexts where they become obstacles to global commerce. Working with the private sector will be essential towards this goal.

**Marc Gillieron**
Farmer-Charter-Accents

**Joseph Woznak**
Programme Manager, Trade for Sustainable Development, International Trade Centre

A key assumption behind the growth of voluntary standards is that they result in a positive economic and environmental impact. But do they really work and, if so, under what conditions? Understanding the contexts in which voluntary standards best deliver their promised sustainability outcomes is essential for maximising their impact. The fewest studies simultaneously address the issue of the impact of voluntary standards and the context in which they happen to be implemented, making a difference to producer livelihoods. Most of the existing studies centre on agricultural sectors. Nevertheless, reporting on the Trade for Sustainable Development (T4SD) programme of the International Trade Centre (ITC) indicates that positive outcomes can be measured on a level with the context in which the standards are implemented, as well as the mechanisms put in place for transparency and reduced transaction costs through reporting.

The T4SD programme covers voluntary standards pertaining to a wide range of sectors including agricultural commodities, textiles, electronics and mining. Information on initiatives such as the Alliance for Responsible Mining, the International Council on Mining and Metals (ICMM), the Responsible Jewellery Council (RJC), and many others can be found on T4SD’s web platform. Standards Map (www.standardsmap.org). Unique in its kind, it provides comparable data on over 160 voluntary standards and a self-assessment tool for companies interested in understanding their current performance vis-à-vis standards requirements.

Voluntary sustainability standards have historically been focused on a few products and industries, and have produced desired effects within certain value chains. Case studies show that sustainability initiatives aimed at commodities such as coffee, bananas, cocoa, tea and sectors such as horticulture have had a high market penetration in some developing countries, while the oil and fishing are the two main industries covered by voluntary standards at the global level. Additionally, types of linkages within value chains play an important role when it comes to standards implementation. According to some studies, in well-organised “hierarchical” value chains based on direct and long-term business relationships, it is easier to implement voluntary codes thanks to existing incentives and bundled quality demands. On the other hand, arm’s length, short-term relationships can often inhibit the adoption and enforcement of standards.

Different initial conditions in terms of macroeconomic and social environment and individual producer preferences may also create a “selection bias” in terms of ease of implementation of standards, and their impact. For example, producers who face lower standard compliance costs, are better skilled or are at a higher level of development find it easier to implement new standards, but tend to show reduced net positive effects of certification as they are already at a substantial level of performance and capacity. Impact potential is therefore greater for beneficiaries with lower preparedness and fewer economic resources as they can benefit more from compliance, for example through increased access to finance, training, market linkages and information.

**When and how do voluntary standards work?**
As a neutral country and member of the United Nations, Switzerland attaches great importance to the respect of international law, including human rights. In addition to international sanctions, the Swiss Government can enact coercive measures to apply sanctions decided by the United Nations Security Council, by the OSCE (Organisation for Security and Co-operation in Europe) or by its main commercial partners. Since 1 March 2003, the Federal Act on the Implementation of International Sanctions (Embargo Act) constitutes the legal basis for the implementation of sanctions enforced by Switzerland. The Embargo Act is a framework legislation that regulates general matters (aim, scope, duty of disclosure, supervision of compliance, data protection, administrative & legal assistance, rights of appeal and criminal provisions) Erwin Bollinger, Deputy Head of the Directorate for Bilateral Economic Relations and Head of Export Controls and Sanctions in the Federal Department of Economic Affairs, Energy and the Environment (SECO), World Trade Division: Diplomatic Counsellor at Swiss embassy in Brussels. In charge of economic policy issues then Deputy Head of the Division for Bilateral Economic Relations with European countries. In 2005-2008 Deputy Head of the Directorate for Bilateral Economic Relations and Head of Export Controls and Sanctions Policy.

Interview

Interview Elisa Floret

Erwin Bollinger | SECO

The Swiss approach to sanctions

In how many cases did Switzerland follow an autonomous policy towards sanctions? Every time Switzerland takes sanctions outside of the mandatory implementation of UN Security Council decisions, these sanctions have to be regarded as autonomous sanctions, even if they are closely aligned to the US. In the specific case of Iran, as Switzerland defends the US interests in Tehran, it is important to keep an independent position and thus remain credible to all partners in order not to jeopardize our diplomatic role. Our role of protecting power has a high priority. For economic reasons, we also share an interest in continuing commercial trade with Iran. In 2007-2008, the amount of our exports reached about 800 million francs per year, whereas in 2013, they dropped 56%, below 400 million. Different sanctions have been suspended by the EU and subsequently by Switzerland such as the prohibition of trading precious metals with Iranian public entities. Furthermore a delegation led by Livia Leu, Head of Bilateral Economic Relations and member of the management of SECO as well as former Swiss ambassador to Iran, and composed of government and possibly private sector representatives, is planning a fact-finding mission to Iran this month in order to take stock of economic relations and explore the potential of its future development.

Is there any incompatibility between neutrality and participation in economic sanctions? One should distinguish between neutrality policy and neutrality law. While neutrality law obliges Switzerland to stay out of armed conflicts between other states, neutrality policy is a tool of the Federal Council to give credibility to Switzerland’s neutral position.

Can embargoes be used for political pressure? As seen in the case of the US and BNP Paribas? Does SECO see the same risk of politicisation in the case of the conflict between Russia and Ukraine? Sanctions are always a political tool. Even though not always a perfect solution, they are a part of non-military intervention. They can also be useful in support of diplomatic actions. In the case of Ukraine, it is obvious that international sanctions are accompanying and supporting diplomatic measures. In the case of BNP Paribas, the Financial Supervisory Authority FINMA took action against the bank, because it did not sufficiently control and limit risks associated with US sanctions.

Interview Elisa Floret
THIRD PARTY THREATS
COULD YOU BE HELD LIABLE FOR THIRD PARTY SHORTCOMINGS?

Trends such as outsourcing, globalization, lean processes and the geographical concentration of production have made supply chain networks more efficient, but have also changed, and increased, their risk profile. Thomson Reuters Accelus offers a connected solutions-based approach to mitigating, on-boarding and maintaining your third party relationships in terms of risk.

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A third party who provides no serious questions at the outset may present difficulties as the relationship unfolds. The due diligence process should, therefore, never be considered finished!

For more information, visit accelus.thomsonreuters.com
John Tidmarsh, Chief Investment Officer at R20 Regions of Climate Action, how commodity traders should respond to climate change?

What are the prerequisites of successful climate resilient development projects?

The only way to reach climate and development goals is to encourage the large scale deployment of low carbon infrastructure, this will be possible if projects deliver financial attractive results to profit oriented investors. We have observed that while government commitment is strong, technology is at a reasonable cost, and investors are potentially willing to deploy significant amounts of capital to build and operate projects, projects are financially attractive or adequately address market, regulatory or political risk. R20 have proven that by building on political commitments of sub-national and national governments, associating government, business, technology and investors around a specific project, the projects can be developed, replicated and scaled up. Our mission is therefore to build on government commitments, and to develop financial solutions that will drive attractive investment opportunities with positive economic social and environmental impacts.

How should commodity traders address climate change?

No one commodity trader is the same and each must therefore deploy multiple and different strategies to respond to climate change. Each commodity and associated value chain will be impacted in a different manner. The first challenge is to understand the impact of climate change on the value and supply chains of the industries and a good place to start is considering the impact of climate change on supply and demand. In the short term climate impacts may affect supply, driving pricing volatility. Over the long term the emergence of alternatives to certain commodities, not least fossil fuels, may influence demand that will affect pricing and the long term viability of projects. We asked John Tidmarsh, Chief Investment Officer at R20 Regions of Climate Action, how commodity traders should respond to climate change.

What is the greatest opportunity being driven by climate change?

Energy is a particularly interesting sector, not least because it is essential to economic activity. It is also an example of the use of energy nevertheless produces climate change gases that are altering our climate. The United Nations has successfully associated the international development agenda and the climate change agenda – creating the concept of the “green economy”. Ensuring a transition to a greener economy will further create extreme volatility in prices, presenting opportunities as well as threats to trading business.

How can commodity traders respond to climate change?

First and foremost commodity traders need to develop a deep understanding of the environmental and social challenges that commodity sectors will face, as well as the opportunities that will arise. Commodity traders should consider what the impact of climate change on their commodities could be, what the impacts are likely to be, and how they can respond. Some of the biggest changes are already happening, such as the rising sea levels which are likely to impact on Africa's coastal countries.

Commodity traders should also consider how they can use their position to support climate change initiatives. This could be through investments in renewable energy projects, or through supporting initiatives that help to reduce carbon emissions, such as the development of low carbon projects.

Finally, commodity traders should consider how they can work with governments and other stakeholders to develop policies that will help to mitigate the impact of climate change on their commodities. This could be through supporting initiatives that help to reduce carbon emissions, or through supporting initiatives that help to develop new markets for low carbon commodities.

Interview Nisielette de Joncaire
Meteorology applied to commodity trading

Electricity markets are highly dependent on weather. Accurate forecasts and correct conversion from meteorological to energy variables are absolutely essential.

The impact of weather on commodity markets can be categorised in the following ways. Firstly, gas and electricity markets are strongly influenced by continuously updated forecasts about temperature, wind, sunshine and precipitation from intraday perspective to weeks-ahead. For electricity markets, it is not only essential to make accurate weather forecasts but to always be on top of the correct conversion from meteorological to energy variables. Consequently, the meteorologist must know what percentage of electricity production in a given market area comes from renewable production including the exact location of solar and wind turbine sources. Therefore, traders should be meticulously informed about the climatology of renewables production throughout the year as several other meteorological factors are also important. Curtailment of wind production during stormy weather conditions comes to mind as well as significantly reduced solar production in the event of sudden snow.

Defining a confidence interval for expected weather developments is essential for analysing market conditions. Chaotic weather forecasts will result in volatile market conditions while well-defined weather patterns, such as long-lasting cold spells, will make it easier to predict energy market trends. Focusing upon the uncertainty of weather forecasting and then on the likely market direction guarantees a correct weather risk assessment for market development.

The International Energy Agency’s 2014 medium-term forecast for renewable electricity generation predicts annual 5.4% growth rates for a total 7310 TWh by 2020. New solar photovoltaic capacity surged in 2013, led by China and Japan, while wind capacity has also continued to expand globally. Simultaneously, climate change is expected to not only result in higher temperatures but more importantly, significantly increased temperature extremes. Stronger mid-latitude storms and tropical cyclones are expected to become more intense. Extremely warm summers and summer droughts will become more prevalent while colder winters – though less frequent – will likely maintain their intensity. In years to come a combination of globally growing renewables supply, combined with climate change, will further increase commodity market volatility.

The growing impact of meteorology makes it necessary for traders to have access to weather pattern databases specifically designed for different global market regions. By visualising such patterns cartographically, a heuristic tool will be made available to traders so they are informed at a glance about how the latest weather forecasting developments impact their decisions.

In the landscape of commodity trading, the meteorologist will strengthen his role as educator, allowing traders to be less dependent on individual interpretations of weather developments. It is absolutely imperative that the complexity of chaotic weather information is transformed into a concise, comprehensive and useful meteorological instrument for commodity trading.

Carbon capture and storage, a key to climate change mitigation

Over 60% of electricity generation of the 56 member states of UNECE comes from fossil fuels. Carbon capture and storage is essential to reach climate goals.

The member States of the United Nations Economic Commission for Europe (UNECE) are committed to meeting the challenge the world faces on climate change. Because over 60% of electricity generation in the UNECE region comes from fossil fuels, climate change cannot be ignored. The UNECE’s 56 member states approved recommendations for CCS that were submitted to the United Nations Framework Convention on Climate Change (UNFCCC) in December last year and they are encouraged to include the recommendations in their national plans that are to be submitted to UNFCCC over the coming months.

The core focus of the recommendations is how CCS can contribute to climate change mitigation as part of the policy portfolio in a post-2015 instrument. The recommendations were developed by a UNECE Group of Experts through an inclusive and robust consultation process over a period of twelve months. The recommendations illustrate how UNECE offers a neutral platform that allows solutions to be developed that would otherwise not happen if not required to fall into four areas: Public Policy Para; Government Support for Global Demonstration Projects; Financing and the Role of the UN as a Governor and Enabler of Progress.

Key recommendations include:

- CCS was adopted as an environmentally sound technology in the Kyoto Protocol and was an eligible project level activity in the associated carbon markets and funding arrangements. These outcomes should be preserved in a post-Kyoto instrument.
- The current policy setting for CCS is insufficient to support commercial development. National and international policies on CCS should have parity with other no-carbon/low-carbon technologies.
- A post-Kyoto instrument should accept a broad array of fiscal instruments to encourage CCS, but the selection of instruments should be left to the discretion of national governments.
- A post-Kyoto international agreement must recognize that CCS in several industrial sectors will be essential to reach climate goals. Cement, steel, chemicals, refining and transportation are among many sectors that must be addressed in a manner similar to the energy sector and in a way that assuages concerns about effects on international competitiveness.
- CCS deployment will accelerate if governments sponsor commercial-scale demonstration projects.
- It is crucial that CO2 injected into reservoirs for enhanced oil recovery (EOR) and not used as storage if the CO2 is stored permanently. Measurement, reporting, and verification will be essential to establish that the CO2 is permanently stored.
- To quote the UNECE Executive Secretary, Christian Fall: “CCS has a vital role to play as part of an economically sustainable route to deep emissions cuts. UNECE stands ready to develop and promote international standards required for the efficient achievement of CCX.”

STEFAN MEULEMANS
Meteorologist GDF Suez Trading

SCOTT FOSTER
Director, Sustainable Energy Division, United Nations Economic Commission for Europe
The Happy Farmer

Farmers feed and will feed the world and smallholder farmers are the most environmentally friendly. Having no farmers will be a disaster. We cannot afford to ignore this issue.

Karen Canavan
Director Sustainable Finance, Bunge

We live in a world where population is growing exponentially while the resources to grow food are extremely constrained. Soils are generally degraded and water is scarce. Available arable land is not abundant and some forests are threatened with disappearance due to food production. In this context live over one billion farmers, many of them in extreme poverty on less than one US dollar a day. Considering this reality combined with the volatility that climate change will bring to the equation by adding flooding or droughts, one would think that Malthus is taking his revenge and we will all die of hunger. The fact is that we have much room for improvement to our methods. There is significant post-harvest loss and a great deal of food waste on the plate. There are abundant calories that are not nutritious and are even harmful to health. Yet there is innovation in the precision application of fertilizers and seed hybrids that could bring some breakthroughs. From my perspective though, the main weapons to fight food security in an environmentally and socially friendly manner lies with smallholder farmers.

When I travel to developing countries and have the privilege to meet these remarkable individuals that have to continuously make smart solutions to survive, I usually ask them one question: “What would you like your children to do when they grow up?” and the answer 4 out of 5 times has been “I would like them to study and find a job in a city”. This response seems to be aligned with projections that show that by the year 2050, 70% of the world’s population will live in cities. If we believe that farmers feed and will feed the world, and smallholder farmers are the most environmentally friendly then having no farmers will be a disaster. Therefore, we cannot afford to ignore this issue and have to work to improve the livelihoods of farmers to stop the rural exodus to cities.

But what about those farmers who did, in fact, live in cities. Considering this reality combined with the volatility that climate change will bring to the equation by adding flooding or droughts, one would think that Malthus is taking his revenge and we will all die of hunger.

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The fact is that we have much room for improvement to our methods. There is significant post-harvest loss and a great deal of food waste on the plate. There are abundant calories that are not nutritious and are even harmful to health. Yet there is innovation in the precision application of fertilizers and seed hybrids that could bring some breakthroughs. From my perspective though, the main weapons to fight food security in an environmentally and socially friendly manner lies with smallholder farmers.

When I travel to developing countries and have the privilege to meet these remarkable individuals that have to continuously make smart solutions to survive, I usually ask them one question: “What would you like your children to do when they grow up?” and the answer 4 out of 5 times has been “I would like them to study and find a job in a city”. This response seems to be aligned with projections that show that by the year 2050, 70% of the world’s population will live in cities.

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When a corporate mind-set adds vision to philanthropy

**The Trafigura Foundation’s embodiment in a corporate culture is a genuine asset.** Enabling it to develop self-sustainable ventures.

The Trafigura Foundation’s philanthropic journey started eight years ago with a focus on “traditional” charity-based grant-giving. But as we moved forward, we realized that sometimes appropriate, was not necessarily the best approach to find sustainable and impactful solutions to social problems. We also wanted partnerships with NGOs where our corporate background could be an additional asset, further leveraging our financial input. This is why exploring new avenues offering the best fit with our corporate culture, social entrepreneurship and venture philanthropy appeared to us as powerful instruments to bring meaningful change to communities whilst finding lasting solutions that can complement our financial input, which unavoidably can only by limited over time.

**Venture Philanthropy: much more than financial assistance**

Venture philanthropy is about giving more than just money and is defined by seven core principles: high engagement, organisational capacity building, multi-year support, non-financial support, sharing of networks, tailored financing and impact measurement. Most of our partnerships reflect these principles, as we genuinely engage at the side of our partners. By providing strategic advice, by strengthening their capacity, by offering the means for scaling up, our help goes well beyond donating money. Here, our embodiment within a corporate culture is a genuine asset; our operational mind-set, inspired by our parent company’s values, has enabled us to develop a powerful modus operandi in full alignment with venture philanthropy requirements.

As an illustration, after several years of cooperation with the IECD (European Institute for Co-operation & Development) on a programme of basic agricultural education through a network of “Family Farm Schools” in Cameroon, Côte d’Ivoire and the Democratic Republic of Congo, we decided to bring it further for greater impact.

If there is of course no question that basic farming skills are indispensable for running a farm, we were convinced that the link between basic agricultural education and marketable fruit and vegetables transformation would be a powerful trigger for the economic empowerment of farmers. Brainstorming with IECD we brought us to co-develop the Transform programme in Cameroon. With Transform, small agricultural producers—especially the young— are being taught entrepreneurial skills that enable them to launch and develop their own small agribusiness. Coaching and mentoring programmes are provided to the young entrepreneurs guiding them in the initial steps of their commercial journey. The results and feedback are that the first signals from the field are very positive.

**Social Entrepreneurship: sowing the seeds of self-sustainability**

For a philanthropic grant-maker, one of the biggest challenges is to overcome the structural financial dependency, and secondly to scale up those ventures which demonstrate obvious impact and achievements. Social entrepreneurship aims at fostering a mind-set to shape innovative ideas with a social benefit into marketable and scalable solutions. This is what makes it such a powerful tool for efficiently tackling social problems. Of course, one should remain realistic: it is not a panacea to all the world’s pressing problems and cannot be seen as a universal instrument. But more than two decades of highly successful experiences in this field, many of which championed through networks such as Ashoka have shown how “change-making” such a tool can be achieving impact where pure donor-based charity often finds its limits.

An example is our current partnership with Eau & Vie (“Water and Life”) in Bangladesh and in the Philippines. In order to bring reliable, safe and clean water to slum-dwellers in Dhaka and Manila, Eau & Vie has built small-scale water networks, within the slums, to distribute water — with individual meters — at household level. Eau & Vie has established water companies, under commercial status, to manage the whole metering, invoicing and money-collecting process. After five years, the system is about to reach break-even in the Philippines, with close to 6,000 consumers in a programme that is still at an affordable price. Reaching break-even means that the venture should soon be able to run on its own and generate its own resources, once we move on to new fields. Offering this legacy is probably the most rewarding success any grant-maker can dream of.

**The Farmers Support Program** — a holistic and action-oriented program to help smallholder farmers improve productivity and quality, enable social cohesion and generate solutions that retain the farmers. Farmers are trained on the FAO’s Good Agricultural Practices, climate change mitigation measures, financial literacy and ways to improve the chain of custody to enable traceability. They are also trained to build capabilities for the marketing of products and social cohesion through better enrolment and streamlining of women and youth.

**Sucafina has taken a bold step to be IFC Performance standards compliant by 2017** — The IFC performance standards are an arsenal of capabilities to simultaneously guard companies against unforeseen risks, maximize local development benefits, and practise good corporate citizenship. It requires rigorous assessment and management of environmental and social risks and impacts, optimisation of resource efficiency, pollution prevention, improvement of community health and safety, biodiversity conservation, and many other CSR, human rights, and related initiatives.

**Develop people and networks** — Sustainability requires empathy, the right mindset, and adequate skills. Sucafina’s CEO, Nicolas Tamari, is actively driving the sustainability agenda through the top and runs it through operations, the aim being to make it become “business as usual”. The operations managers are part of the Sucastainability network and mobilized for its success. Specific efforts are in place to increase the company skills and systemic capacity in sustainability.

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**Sucafina was instrumental in initiating the Kahawatu Foundation, a multi-stakeholder sustainable development initiative.** It has also committed to IFC Performance standards.

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**THE TRAFIGURA FOUNDATION’S PHILOSOPHY:**

As Vincent Faber, Executive Director at Trafigura Foundation, says: “We are deeply committed to sustainable development, corporate responsibility and giving back to the communities in which we operate. We support initiatives that aim at fostering a mind-set to shape innovative ideas with a social benefit into marketable and scalable solutions. This is what makes it such a powerful tool for efficiently tackling social problems. Of course, one should remain realistic: it is not a panacea to all the world’s pressing problems and cannot be seen as a universal instrument. But more than two decades of highly successful experiences in this field, many of which championed through networks such as Ashoka have shown how “change-making” such a tool can be achieving impact where pure donor-based charity often finds its limits.

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Ruggie Principles for small and medium-sized enterprises

The guidelines for implementation of the Ruggie principles are articulated around six basic steps that any company can and should take. Even the smallest ones.

Societies and markets continue to change and all enterprises have to cope with new expectations and frameworks. Respect for human rights is part of that development.

The human rights framework adopted by the Swiss government is the United Nations Guiding Principles on Business and Human Rights. The Ruggie Principles, endorsed by the UN Human Rights Council in 2011, encompass three pillars outlining how states and businesses should implement the framework:

- The state duty to protect human rights.
- The corporate responsibility to respect human rights.
- Access to remedy for victims of business-related abuses.

As a large number of trading companies (and indeed over half of the members of the Swiss Trading and Shipping Association) are small and medium-sized enterprises (SMEs), we asked John Ruggie to provide guidance on the approach to business and human rights for such companies as human rights are not only relevant to governments and large businesses.

Although most companies want to make sure that they respect others, it can be difficult to do it in practice. Guidelines for SMEs have been published by the European Commission. These guidelines are articulated around six basic steps that any company should take to understand risks of negative impacts and to avoid and address such impacts:

- Commit to respect human rights at the highest level of management and embed the commitment in the business by policies and processes but also by way of incentives.
- Identify human rights risks, whether they may be the result of the company’s activities or that of its partners, suppliers, clients or contractors. Take action to avoid and address the risks identified. This may mean using leverage on a third party or reconsidering ending business relationships altogether.
- Enable remedy for those affected, if the company is directly involved in a negative impact. This may involve apologizing, financial or non-financial compensation or any other remedy that the victim and the business agree as an appropriate response.
- Track progress, by way of regular follow up and the use of indicators wherever possible.
- Communicate about risks and actions informally or formally in annual reports, CSR or sustainability reports.

In many cases, these six steps are already incorporated in existing policies and processes, but ensuring human rights respect requires actions. No company is too small to put some form of process into place. These processes can be informal. What is important is that the spirit is truly respected. As a matter of fact, it has been recognised that, often, small companies are better at taking these matters seriously than large ones.

Human rights considerations are very wide and may affect recruiting, health and safety of employees, non-discrimination, fair remuneration, privacy and trade union affiliation. In the world of commodity trading, human rights are at risk when buying products from low cost countries or sectors that are suspected to use child labour.

They may also be related to selling products or services likely to be used in conflict-affected areas, or buying products made in conflict-affected areas. The most serious human rights impacts are more likely to occur where the law is weak or not properly enforced. This often – but not always – corresponds to countries that are less economically advanced than those in the western world such as developing and emerging economies.

Enterprises have a responsibility wherever they operate, whether or not local governments fulfill their duty to protect human rights. From a practical standpoint, respecting human rights helps avoid additional costs (litigation, damages, reputation). Compliance is also the best way to protect a company’s reputation, often one of its most important assets.

Text Nicolette de Joncaire


Multi-stakeholder efforts for human rights

Industry focused, multi-stakeholder efforts are key to advancing corporate respect for human rights.

June 2015 will mark the fourth anniversary of the UN Guiding Principles on Business and Human Rights. This framework, unanimously endorsed by the UN Human Rights Council in 2011, sets out a clear approach to the human rights responsibilities of all business actors in today’s world. In the years since their adoption, attention has turned towards how best to encourage implementation of the Guiding Principles. A key part of such efforts has been a range of initiatives to address in more detail how the “corporate responsibility to respect human rights” set out in the Guiding Principles should apply in specific industries or operating contexts.

One important example of an industry-focused approach is the European Commission’s initiative to assist three sectors – Employment & Recruitment, Information and Communication Technologies (ICT), and Oil & Gas – in understanding how the Guiding Principles could be incorporated into day-to-day business operations. The Commission worked during 2012 and 2013 with the Institute for Human Rights and Business (IHRB) at www.ihrb.org and the New York based Shift, to produce a set of three industry Guides, which were released in June 2013. Each sets out a step-by-step explanation of what the Guiding Principles expect of companies, offers “where to start” suggestions and a range of industry-specific approaches and examples for how to put them into practice, and provides additional resources that can support further work. Essentially, in developing the Guides we sought to help companies “translate” respect for human rights as defined by the Guiding Principles into their own systems and cultures.

The European Commission deliberately selected three very different sectors in order to highlight how adverse human rights impacts may play out in a wide range of contexts and how diverse industries can identify and address these proactively. The guides were also developed through a multi-stakeholder approach, involving a wide range of individuals and organisations, and building on the efforts that led to the Guiding Principles. The Guides, IHRB and Shift undertook extensive literature and field research and conducted two large multi-stakeholder consultations with representatives from three industries as well as governments, trade unions, civil society, academia and other experts. Involving such a wide range of actors was important to establishing the credibility and feasibility of the suggested actions with all parties.

What have been the results of this initiative so far? And what might be the lessons for other industries, which may currently be considering what corporate respect for human rights means in practical terms in their operations? First, in the almost two years since their release, we’ve been pleased that companies and other stakeholders are reporting they find the Guides’ step-by-step explanations useful in thinking through relevant human rights risks and actions in their respective sectors. Second, as we see in our work with the oil and gas sector, major companies from Myanmar to Kenya to Colombia find detailed industry-specific guidance, developed through consultative processes, serves as a common platform for advancing multi-stakeholder dialogue and action, for example, in developing human rights impact assessments. Third, the guides provide a clear marker that companies, trade unions and civil society can refer to in their advocacy with governments around their own duties to ensure that human rights are protected.

Although the Guides don’t provide easy answers to the many complex social and environmental challenges that companies face today, they are a shared platform upon which further work can build over the years ahead. It is critical that all companies now embrace, on demonstrating their commitment to respecting human rights. Working through sector-focused initiatives is one valuable approach in getting up to speed on the fast evolving business and human rights agenda.
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Andrew Bovarnick, Global Head of the Green Commodities Programme (GCP) of the United Nations Development Programme (UNDP), provides useful insight into the role of soft traders in agro-commodities.

**How can commodity traders contribute to the SDGs?**

Agricultural commodities are the bedrocks of many rural developing economies, contributing to economic growth, livelihoods and poverty reduction, but also to deforestation and land degradation which impacts biodiversity, loss and climate change. Yet agricultural production – largely carried out by smallholders – is itself threatened by climate change in its effects on rainfall, competition for arable land and ecosystem degradation. Poor farming practices and lack of investment also mean that sustainable and equitable development for farmers remains elusive. There are an estimated 26 million coffee farmers in 52 countries earning less than US$2 per day. However, while agro-commodity supply chains may be complex, dynamic and plagued with social and environmental risk, they also present significant opportunities for economic growth. Of the many stakeholders in the supply chain, agro-commodity traders who sit in the middle are key and can have substantial impact in shifting from negative to positive practices that promote sustainability.

**How important is traders’ current contribution and where should it be improved?**

At present there is a contribution, without question. But it has significant room to grow and achieve a wider and longer-term impact. The largest agro-commodity traders with whom UNDP has had dealings are Archer Daniels Midland (ADM), Louis Dreyfus and Bunge. The role and contribution of these traders, by country and commodity so it is difficult to generalise on their impact. Traders’ traditional focus was on price, so there was no sourcing loyalty. What we are seeing today (and need to see more of) is a fundamental shift in purchasing practices towards relationships with farmers and farming communities. This can be complemented by farmer training and long-term contracts. If dealings between farmers and traders develop, traders will better understand the risks of farmers and cooperate to reduce scarcity, strengthening the security of supply. This shift makes good business sense as there is a growing threat to supply, for example in cocoa. So more direct sourcing and assistance to farmers becomes a part of traders’ business. If there is no health or education or services – and some traders invest in public and social infrastructure. Is this positive? While well-intentioned traders have built schools or clinics that sit empty due to some traders’ business. If there is no health or education or services – and some traders invest in public and social infrastructure. Is this positive? While well-intentioned traders have built schools or clinics that sit empty due to lack of long term funds for teachers or medicine. Traders need to think of their role as part of national/sector level initiatives working in collaboration with the governments. The National Commodity Platforms help bring this strategic planning in which traders and other supply chain actors can invest and leverage financing across the supply chain. Having said that, the private sector as a whole needs to move beyond CSR to an inclusive business model that addresses the social and environmental impacts of their operations.

**What about local traders?**

Domestic exporters are rarely involved in global declarations and we need national mechanisms to engage them. As part of UNDP’s work in commodities we have pioneered the establishment of a new generation of multi-stakeholder dialogue called the Commodity Platforms. These create a organizational framework for supply chain stakeholders of a commodity sector in a country to come together and dialogue and collaborate. They particularly assist with engaging domestic companies that would not normally be involved in global initiatives.

**Do you have examples of cooperation between UN programs and trading houses?**

UNDP is working with Mondelez, and its Cocoa Life and Coffee Made Happy programmes, to mainstream sound cocoa production practices in Ghana and other producing countries. A central approach of these programmes is to require suppliers and traders, such as Cargill and ADM (in Ghana), to increase their support to farmers so that Mondelez is assured of sustainable cocoa in Ghana, one of the world’s largest cocoa-producing countries, supplying about 20% of global markets. UNDP proposal is that traders hire expertise for community development so that young people stay. This begs the question of the boundaries of the roles for traders who livelihood is tightly connected to agro-commodity production – is itself threatened by climate change.

**Is this in line with UN sustainability criteria?**

Traders often have teams of agronomists on site, focusing on increasing productivity potentially through agro-chemicals. What we want to see more of is that they invest in agro-commodities who can train farmers in sustainable agricultural practices (soil management, adaptation to climate change, worker rights, agro-forestry for cocoa) and in complying with legal requirements which ADM for example has included in its Paraguay curriculum. In addition, UNDP proposes that traders hire expertise for community development so that young people stay. This begs the question of the boundaries of the roles for traders who livelihood is tightly connected to agro-commodity production – is itself threatened by climate change.

**How should CSR be run?**

CSR should include proper due diligence. There are many examples where well-intentioned traders have built schools or clinics that sit empty due to lack of long term funds for teachers or medicine. Traders need to think of their role as part of national/sector level initiatives working in collaboration with the governments. The National Commodity Platforms help bring this strategic planning in which traders and other supply chain actors can invest and leverage financing across the supply chain. Having said that, the private sector as a whole needs to move beyond CSR to an inclusive business model that addresses the social and environmental impacts of their operations.

**Are traders investing in public/private partnership (PPP) or working in parallel?**

Traders are increasing farmer support but often in isolation. Innovations in farmer training are not being captured and scaled up by large communities. And from the traders’ perspective, PPFs are needed such as the National Commodity Platforms. In Paraguay, ADM joined UNDP and the government in establishing the National Soy and Beef Platform to scale up best practices to farmers and reduce deforestation. In Indonesia, we are encouraging similar practice and working with the governments. The National Commodity Platforms help bring this strategic planning in which traders and other supply chain actors can invest and leverage financing across the supply chain. Having said that, the private sector as a whole needs to move beyond CSR to an inclusive business model that addresses the social and environmental impacts of their operations.

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**Interview Nicolette de Janviers**
Staggering infrastructure needs in developing countries

Commodity traders can increasingly play a significant role in bridging the gap of much needed infrastructure investment in emerging countries. The undersupply of infrastructure in developing economies has been estimated by the World Bank at around US$1 trillion per year through 2020, with an additional US$200 to US$300 billion per year to ensure that infrastructure investments are low emitting and climate resilient. South Asian countries will have to invest as much as 2.5% of GDP over the next ten years on transport, electricity, water supply and sanitation, solid waste management, telecommunications, and irrigation to bridge their infrastructure gap. The Inter-American Development Bank (IADB) believes that infrastructure investment should reach US$250 billion annually in Latin America. Africa’s estimated infrastructure gap ranges between $75 billion and $93 billion per year. Countries spend less on infrastructure than needed. According to the OECD, infrastructure investment in Latin America is less than 3% of GDP, while it should be at least 5.2% to close the gap, and above 6% to reach the levels prevailing in Asia. In developing countries at large, the requirements are increasing infrastructure investment by a factor of 2 to 4, to 6-12% of GDP per year. The total required spending in Africa translates into some 12% of Africa’s GDP. Lack of financing is the principal constraint. Many governments do not have the budgetary strength to make significant progress in their infrastructure deficit without external assistance at all stages of development.

The traditional sources of external financing lie with official development finance from developed countries and multilateral institutions, private participation in infrastructure investments, and more recently, official Chinese financing. They are proving to be insufficient largely because of the decline in official foreign aid. In Africa alone, the World Bank estimates the current funding gap at US$35 billion per year. Infrastructure is essential to well-being. 2.5 billion people around the world do not have access to adequate sanitation. A vast number of people in South Asia lack access to roads, toilets, reliable electricity, clean water and telecommunications. Today 41% of South Asia’s population has no access to sanitation and 75% to piped water. Some of these figures are comparable only to Sub-Saharan Africa, where over 300 million people lack access to clean water and nearly 600 million to proper sanitation facilities. But Africa’s largest infrastructure deficit is to be found in power infrastructure, which delivers only a fraction of the service deficit is to be found in power infrastructure. Whether we look at Vitol’s transformational gas project for Ghana (page 23), Trafigura’s undertakings in Latin America, Gunvor’s significant stake in South African coal, Mercuña’s activities in Indonesian thermal coal mining or Louis Dreyfus, ECOM, ADM and Cargill’s innumerable agricultural and industrial investments in Latin America, Asia and Africa, commodity traders are at the forefront of infrastructure building in developing regions. Core physical trading and logistics business are supported by industrial and infrastructure investment. Something that commodity traders are well aware of, as highlighted in Trafigura’s recently commissioned report: Foundations for Growth. Infrastructure Investment in Emerging Markets.

Examples of diversified infrastructure investments of trading houses

Infrastructure projects spread over a wide range of sectors, including roads, ports, railways, water and sanitation, power delivery or medical and training facilities. Merchant houses have been involved in most types in one form or another and here are a few examples:

- In 2012, the first training centre for Vietnamese coffee producers was inaugurated in Bao Loc district (Vietnam) jointly established by the International Finance Corporation, a member of the World Bank Group, and Atlantic Commodities Vietnam, a subsidiary of ECOM Agroindustrial Corporation under their 2010 agreement to assist Vietnam’s coffee sector. It aims to help farm households meet international certification standards and improve the sustainability and productivity of crops, while increasing earnings and social and environmental standards (see also ECOM’s Ghana project on page 24).
- Cargill has strengthened its program in Côte d’Ivoire to launch a US$2.4 million partnership with the Conseil du Café-Cacao and 14 cocoa farmer cooperatives to improve the availability of healthcare and increase the number of children with access to good quality educational facilities across 14 local communities. In 2011, it completed a project in Wensu County (China) to address the region’s water shortages by using underground well water pumped through high-standard, low-pressure water pipes to irrigate cotton fields. The project also tackles salinisation issues in the area.
- The European Development Bank is supporting the development of a grain trans-shipment terminal in the Port of Odessa with an anticipated annual throughput capacity of up to 4.5 million tonnes of grain. The project will be implemented jointly by Brooklyn-Kiev and Louis Dreyfus Commodities. In addition to addressing the shortage of modern, deep-water port grain trans-shipment capacity in Ukraine, the terminal will benefit the region by creating jobs and increasing economic activity in the Port of Odessa area.
- Trafigura, through its subsidiary Impala, is involved in the construction of the superport of Porto Sudeste in Brazil aimed at opening worldwide markets to iron ore from the Minas Gerais region. The project will handle 50 million tonnes of ore per year and includes moorings for Worlex size vessels, conveyors, a 1.8 km tunnel to bring the ore to the vessels and a privately operated railway line. Impala is also involved in the development of the Magdalena river in Colombia. This multi-modal project involves the creation of new trading hubs, improved road transport links, port developments and the encouragement of barge transport including heavy investment in fluvial equipment and the construction of a new deep-water terminal at Barrancabermeja as well as the development of a trucking network.
- Both Vitol and Trafigura have invested in large African chains of petrol stations. Infrastructure is in great demand and the potential for commodity traders to contribute is large. However, impact assessment on communities and nature is of paramount importance and should be agreed with local and national governments as well as local communities.

![Image](image_url)
The World Bank described the development of the pure gas fields contained in the project as a "top priority" for Ghana.

Gas is brought to surface on a Floating Production, Storage and Offloading (FPSO) vessel. It is then processed and transported via pipeline to onshore facilities located near the village of Sancak in Western Ghana, where it is compressed and injected into the Western Corridor Gas Pipeline for transportation to industrial customers.

Powering Ghana's Growth

In a 2013 report, the World Bank clearly identified the risk of insufficient power becoming a drag on the economy: "A major, avoidable risk of insufficient power generation capacity shortages.

In its report, the World Bank described the development of the pure gas fields contained in the project as a "top priority" for Ghana.

The public private partnership between Ghana, Vitol and ENI extends beyond the block's development. To maximise the project's benefit, the Ministry of Energy has committed to enhancing the gas transmission system with compressor stations and connections to industrial users, who will invest in more than 700 MW of new power generation to come online.

Vitol has been supplying energy to Ghana for over 25 years. Developing a domestic solution marks a milestone in the company's growing expertise in energy infrastructure. After launching downstream operations in Africa, Australia and Europe, we are excited to be part of a venture which has the potential of making a real difference to economic growth for the people of Ghana.

Sustainable and environmentally responsible investments in steel production

We finance the development of the EAF steel production facility in Macedonia.

The acquisition of depreciated assets is an opportunity which comes with considerable liabilities to modernise and develop.

Vitol is a leading energy company with a strong heritage in the steel industry, where we are recognised for our commitment to environmental responsibility.

Vitol's steel business is focused on downstream operations in Africa, Australia and Europe, and has a long-standing relationship with the industrial sector.

In 2015, Vitol acquired a large shareholding in Euroferco International Trading Holding, which is currently one of the world's largest steel and steel-related raw materials trading and distribution companies.

Equity in the European steel market is also responsible for the global production of steel, and is the sole marketing channel for a 3rd production facility that has common ownership.

Two of the steel production facilities are located in South Africa: a steel cold rolling and galvanising plant ("DSP") commissioned in 2000 as a green field project in 50% partnership with the Industrial Development Corporation ("IDC") of South Africa, and a Ferro Vanadium and Vanadium Chemicals plant ("VVP") acquired in 2008, which was originally constructed in 1957. The third is an Electric Arc Furnace ("EAF") steel production facility in Macedonia, acquired in 1998 that was constructed in the late 1960s as part of a larger integrated steel production complex.

The facilities that existed at the time of purchase were poorly maintained and in need of investment to be competitive with international operating environments. While acquisitions of depreciated assets are an opportunity, it comes with liabilities requiring considerable management, time, and capital commitment to modernise and develop. As a globally active commodity company, we assume a responsibility to manage our businesses and assets in accordance with international standards while making the investments operationally sustainable and environmentally friendly.

When we purchased VVP there was no system for waste water collection and treatment or for storm water run off from the plant. Over a decade, the plant deposed treated ore containing chemicals used in the vanadium extraction process into an ash pond without protective earth liners which prevent soil contamination and water table penetration. Since 2008, investments have been made to construct a lined Calcine disposal facility fully compliant with environmental rules and regulations.

Investments covering waste water management, ambient air monitoring and particle emission control brought the operations in line with international standards.

In 2013, a new electric arc furnace ("EAF") was installed, providing increased flexibility in the production of both steel and non-ferrous metals. Since the installation, the facility has demonstrated its ability to meet the demands of the market.

The upgrade to the facility has allowed for the production of high-quality steel, which is in high demand in the construction and automotive industries. The facility is also equipped with modern technology to improve energy efficiency and reduce emissions.

We are committed to the sustainable development of the steel industry and have invested in research and development to find innovative ways to recycle steel scrap. The amount of steel recycled globally is equivalent to about 1.2 million cars daily. Steel can be recycled regardless of its origin, and the process requires less energy with lower CO2 emissions than an integrated blast furnace steelmaking process.

Our EAF operation in Macedonia is the largest single project foreign Direct Investment in Africa. In its report, the World Bank described the development of the pure gas fields contained in the project as a "top priority" for Ghana.

The world's largest steel and steel recycling companies are committed to the sustainable development of the steel industry. We are committed to the development of innovative solutions to meet the demands of the market. We are committed to the sustainable development of the steel industry.
A trader as a vehicle for development: the ECOM Ghana case study

Why would a 160 year old commodity trading company become involved in development? To trade for the next 160 years.

In the late 1990s after the collapse of the International Coffee Agreement, we saw coffee production decline in many countries where we had industrial facilities and concluded that insufficient farmer income had become a key issue that needed to be addressed. However, we were typically buying through intermediaries so how could we engage with thousands of smallholder farmers? With our infrastructure at origin and the growing number of agronomists in our team, we started to challenge the way GAP were delivered in the field, working with farmers on development programs in Latin America; we now do this in all 40 emerging markets where we operate as SMS “Sustainable Management Services”.

Over time, we have formed partnerships with development banks like IFC, FMO, IDH and several NGOs. These increasingly realize that traders are one of the best implementers for development, for three main reasons. We have our own assets and supply chain at stake. Contrary to consultants, we remain on the ground and continue to work with the supply chains we have developed. Supply chain managers will go where others will not go to procure the products.

Our cocoa operations in Ghana provide a good case study. Ghana is the second leading producer of cocoa in the world with a production of 800,000mt. The country has a population of 26 million, 50% of which live in rural communities. Agriculture represents 30% of the country’s GDP, estimated that 700,000 households, representing 6.5 million Ghanaians, depend on cocoa production for their livelihood. ECOM is the leading private licensed cocoa company in Ghana. The company impacts the livelihoods of over 2,500 cocoa growing communities and is considered a “1,200,000 tonnes Leon’s Agriculture” farm.

We work with over 4,000 local staff including agronomists and field technicians. Having an on-ground presence in remote communities, we are able to bring services closer to the farm gate and support farmers to make the right decisions about their cocoa farms, which are also their main source of income.

ECOM’s sustainability model delivers farm and community interventions through Farmers Development Centres (FDCs) established across the cocoa producing areas. 83 FDCs deliver services in the areas of agro-forestry management, farms and agroforestry analysis, input supply, planting materials, environmental management, community infrastructure and traceability systems.

Over the last four years ECOM, in partnership with chocolate makers, donor agencies and the government of Ghana has trained and supported 83,000 farmers to increase their productivity and optimise their production cost.

At the close of December 2014, 80,000 hectares of cocoa farms have been mapped and surveyed. The survey data is linked to a traceability platform which tracks the farm produce from farm gate to various processing points across the world. In addition to farmer training, ECOM has established 22 demonstration plots as well as the supply of 3,000 sets of personal protective equipment and safety on farms when applying pesticides. ECOM leverages on the existing FDCs to build the required community infrastructures in the fields of education, health, water and sanitation. All infrastructure projects are planned and initiated by the farming communities themselves. Communities provide local materials and labour, while ECOM provides technical and financial support to enable the communities to succeed in their projects. This approach promotes community ownership and ensures long term sustainability. Through these programs 148,000 people in the cocoa producing areas now have access to water while 14,000 school children have access to improved school facilities.

In the coming years ECOM plans to expand sustainability programmes to cover an additional 40,000 cocoa farmers and their households in Ghana. This will be done through the establishment of additional Farmer Development Centers and the recruitment of additional technicians. To address challenges is key in sustainability. We believe that building a more sustainable business is always accompanied by the vision of the future. We therefore plan to work beyond cocoa farmers to reach rural populations and provide the best services in financial inclusion, advisory services and agro-inputs distribution. The establishment of a Management Information System will allow us to assess the impacts of our projects, design comprehensive and tailor-made programs for our customers and, most importantly, keep improving our long-term partnership with farmers.

We are committed to be a leader in sustainability and provide the best quality of services to our suppliers and customers. To build the future, we want to keep bringing smallholder agriculture into the 21st century.

Epidemics and the risk of commodity supply chain disruptions

Investing in the fight to contain epidemics is another way to manage commodity risk. Another angle of CSR.

More than a year has passed since the current Ebola virus outbreak was detected in the forest region of Guinea.

The most recent epidemic of the disease was first identified in 1976 in what was then Zaire, it has spread to several West African countries including Nigeria, the biggest African economy and the recipient of large international investments in the oil sector.

New cases are finally showing signs of decline, but with mortality rates up to 90 per cent and being one of the world’s most virulent diseases, this epidemic has since killed more than 10,000 people in West Africa and is a serious threat both for the economic growth of the impacted countries, and for the international commodity business.

In August Moody’s noted that “If a significant outbreak emerges in the Nigerian capital of Lagos, Africa’s most populous city, the consequences for the West African oil and gas industry would be severe.”

Despite its unprecedented human toll, Ebola’s economic impact has fortunately been less severe than the US$23 billion initially feared. In January the World Bank updated its assessment of the economic losses for all sub-Saharan Africa between US$500 million to US$2.6 billion.

Commodities have a physical dimension: supply chains are based on the assumption that what will be grown or dug from the ground will exist at a specified quality and quantity, and that it will be delivered from one point to another within a specified time-frame. If for any reason the agreed quantity, quality, and delivery are different from what was initially agreed, then the whole supply chain of that commodity will be affected. However, we were typically unprepared to cover the events that occurred. However, we were typically unprepared to cover the events that occurred with our long-term perspective of ensuring that all our activities maintain long-term profitability. We have therefore established a strategy to engage with thousands of smallholder farmers so that they will want to keep bringing smallholder agriculture into the 21st century.

The views and opinions expressed in this article are those of the author and do not necessarily reflect the official policy or position of Thomson Reuters.
ADM’s global value chain includes more than 460 crop procurement locations, 300 ingredient manufacturing facilities, 40 innovation centers and has the world’s premier crop transportation network. The company connects the harvest to the home, making products for food, animal feed, chemical and energy purposes.

Every day, ADM processes more than 147,000 metric tons of oilseeds in Europe, North America, South America and Asia. As a leading originator and processor of oilseeds such as soybeans, canola, and sunflower seed, ADM works cooperatively with fellow industry stakeholders, governments and farmers to help improve the quality and sustainability of the supply chain as a whole. Kevin Brassington, Managing Director for European Oilseed Crushing and Origination, shares his view on sustainability throughout the whole oilseeds value chain.

What are the contributions of ADM in promoting a sustainable supply chain? At the beginning of our supply chain, we work with farmers to promote sustainable agricultural practices to improve their yields on existing cropland and minimise the need to expand into ecologically sensitive regions. For example, through our Brazil’s Brista, a program that says “Do Your Right”. Brazilian soybean farmers are trained on agronomically sound cultivation practices and work in fair labour conditions that meet or exceed environmental laws and regulations.

We have another example in Europe where ADM donated to the Polish Society for Bird Protection (PSRP), which supports biodiversity by encouraging the protection of nesting and food habitats for grassland birds in Poland’s agricultural areas. The goal is to increase biodiversity and preserve areas of high ecological value in Poland, which is an important origin market for ADM’s oilseeds operations. In the middle of the chain, we also encourage energy efficiency during the transportation and processing of our oilseeds. In transportation, our newest tanker, the Harvest Frost, developed by Mitsubishi, uses a system to reduce drag in the water, decreasing the ship’s carbon emissions by 27 percent. In our processing plants, we are continuously implementing new systems to reduce energy loss during the crushing process. In Europe, we have already reduced energy use per processed ton by 11.5 percent compared to 2010 levels. We are well on our way to meet our goal of 15 percent energy reduction by 2020.

And downstream in your chain? We recently signed a Joint Business Development Plan (JBDP) to continue to grow our relationship as an oils and fats supplier for Unilever in Europe, North America and Africa. The JBDP will help advance existing cooperation between the two companies, such as the ADM/Unilever Soybean Sustainability Program in the United States, through which ADM sources and processes sustainable soybeans and supplies Unilever with oil for some of their products; and ADM and Unilever’s partnership with LEAF (Linking Environment and Farming) in Europe, which promotes sustainable agricultural practices at the farm level to produce sustainable canola oil for Unilever’s Flora spreads.

The JBDP will also strengthen ADM’s existing European sustainability initiatives, particularly in Central and Eastern Europe, enhancing the company’s supply chain to provide Unilever with more sustainably produced oils and fats products. Through these various sustainability initiatives, ADM can leverage its integrated, end-to-end supply chain to encourage sustainable practices from the origination countries where it sources its raw materials to the products that consumers enjoy daily.

In the controversial palm oil industry, how do you make sure your suppliers comply with international standards? Palm oil is a key ingredient in consumer products ranging from cookies and crackers to cosmetics, renewable fuels and pharmaceuticals. ADM will not knowingly source or purchase palm oil from illegally cleared land or palm oil that does not comply with local laws and regulations. Suppliers must agree to meet the Roundtable on Sustainable Palm Oil Principles and Criteria (RSPO). ADM believes that all participants in the palm oil supply chain have an obligation to promote good stewardship of the world’s cropland and to respect biodiversity, the environment and human rights. ADM owns a 16 percent equity stake in Wilmar, Asia’s leading agribusiness group – ranked amongst the largest listed companies by market capitalization on the Singapore Exchange. Wilmar’s business activities include palm cultivation, oilseeds crushing, edible oils refining, sugar milling and refining, specialty fats, oleochemicals, biodiesel and fertiliser manufacturing, and grains processing. In 2014, Wilmar released its “No Deforestation, No Peat, No Exploitation” Policy which aims to advance an environmentally and socially responsible palm oil industry by establishing laws and regulations for palm land and respecting the rights of workers and local communities.

How do you support the development of laws and regulations for sustainable business? ADM encourages sustainable practices in the industry by being a member of international associations such as Fedol (The EU Vegetable Oil & Protein meal Industry) and STSA, as well as by participating in sustainability platforms like the ISCC (International Sustainability & Carbon Certification) from which we supply sustainably grown oilseeds to the European market. The ISCC was developed to guarantee that biofuels and biomass for biofuels are produced in compliance with recent EU legislation that requires biofuels and biomass to be certified according to the EU-RED requirements. ISCC PLUS is a certification system for food and feed products. We were the first company to provide Europe with ISCC-certified sustainable soy oil from sustainably grown sunflower seeds, while encouraging sustainable farming practices among growers. To qualify for certification, companies must meet strict criteria for sustainable biomass and biofuels production, as well as reported emissions of greenhouse gases over the entire production chain. Through our sourcing and processing operations around the world, and our extensive logistics and supply chain throughout the world, we continue to meet the evolving needs of European customers for products made from sustainably-grown crops.

How does regulation impact the core business of the four segments – origination, transportation, processing and storage – of your value chain? The inherent variability of commodity markets, combined with ongoing regulatory processes makes our industry very dynamic. We therefore must adopt a long-term strategic vision for each business segment, whether that be corn, oilseeds or grains. Regulated markets impact our work, so we need to remain flexible to continuously adapt our business to the market.
Are you connected?

TRAFC offers a unique solution to exchange safely about trade finance operations (LC, SBLC, LOI…) between trading companies and banks.

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No, I mean we have had a number of phases in the history of trade finance. If you go way back to the days of the monasteries and guilds, this whole trade finance business was the lifeblood of the economy. And then came the advent of the banks, which provided the mechanism for the growth of trade. Then came the rise of the shipping industry and the development of the insurance industry, which provided the necessary support for international trade. And finally, the advent of modern technology, such as the internet and mobile phones, has revolutionized the way we conduct trade. So, it's not just a natural authority; it's an essential part of the global economy. 

EMMANUEL ROGY | BNP PARIBAS

A natural authority in trade finance

Why are education and innovation so important?

Trade finance is at the crossroads due to two main reasons which are not linked to the banking system itself but to our clients. The end of the Chinese super-cycle has created a suction effect on the whole raw materials market. Starting with Deng Xiaoping, this increase lasted more than 15 years until the end of the 2000s. The first big change on our working environment came with the end of this era of high growth. This has no precedent in the recent history of the trading business. Since 2008, we have been facing a normal situation for a market with ups and downs in limited range. The second change came from the production of shale oil and gas in the United States which has reversed worldwide energy and petrochemical flows. These two macroeconomic and industrial trends are putting some pressure on the profitability of our clients. At the same time, we can observe an increasing trend within public opinion in favour of regulation. But regulation costs money. And this is why innovation and education are of utmost importance. Industrialisation is the only way to try to reduce the cost of this ever increasing regulatory control.

How is BNP Paribas fostering innovation in the field?

Since the economic crisis, we have had no other choice than to implement the best compliance processes at every level of our work. This is the reason why we abandoned some practices if some steps remain unclear to us. Our strategy is to support business which we fully understand. We were among the first banks to bring our clients to explain every step of their process. If no convergence points are met, then we decline financing. We want to position our bank long-term. We want to play a leading role for the future, as a bank respected for its expertise and its capacity to have a strong market position.

BNP Paribas has clearly identified this evolution in our industry and has put a strong strategy in place to support this change. The BNP Paribas Group has made significant investments in research and development, particularly in the field of digital technologies. For example, the bank has developed a platform called TRAPEC, which is designed to improve the transparency and efficiency of the trade finance market. This platform allows traders to share information and collaborate more easily, reducing the cost of transactions and improving the overall quality of service. The TRAPEC platform has been widely adopted by banks and other stakeholders in the industry, and has been recognized as a key innovation in trade finance. 

Is the TRAPEC platform created by STSA and a pool of banks including BNP Paribas a key and concrete example of this innovation solution?

This is indeed a good example of a common communication tool used by both banks and trading companies to standardize some steps (invoice payment, letters of credit, commercial transactions...) in trading. Our intention is to enhance this system and extend it to improve and automate the compliance process, like the vetting of a vessel and the confirmation of BICs. Innovation is to work on tomorrow's needs", says Emmanuel Rogy who sees transparency as a competitive advantage.

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Is education essential for success?

STSa's course offering tries to fit all profiles and ranges from a Master programme for young graduates with a Bachelor's degree, to a 2 day course of introduction to the industry.

STSa's educational programmes are sensitised to fix problems and mistakes and move on. To identify the right talents, we have as HR professionals suggested to University of Geneva and STSa to set up two half days where we meet most of the students accepted to the course. We call this the “Speed Recruiting days”.

SUCCESS COMES WITH THE ABILITY TO FIX MISTAKES AND MOVE ON. THIS IS PARTICULARLY TRUE IN COMMODITY TRADING.

Vitol has hired on average two students from each new session of the Master in Trading and Shipping programme. They have experienced great success in their career.

STSa's course offering tries to fit all profiles and ranges from a Master programme for young graduates with a Bachelor's degree, to a 2 day course of introduction to the industry.

The trading environment is constantly evolving, and therefore requires new knowledge and new talent to enable companies to be successful. At Vitol we believe in developing our people, one of the key reasons why we have been an active member in setting up specific education and training relating to trading and commodities together with STSa (at the time GTSa) and the University of Geneva. It is vital for us to have the right talent pool, but also to contribute to gene- ral training and development in our industry in Switzerland, to ensure the best possible perception and image of our industry as well as develop the next generation of professionals.

Since the start of the University of Geneva's 18-month Master in Trading and Shipping programme, Vitol has hired on average two students from each new session and we are very proud of providing them with a stable career path, where they have experienced great success. Once again, we have fantastic students following the current intake. For us, the program delivers the basic knowledge required to become a trader, but offers much more than that. Students may follow other paths such as Risk, Compliance and Operations, or become a valuable member of the legal team.

We have also made use of STSa's Operator Certificate and Commodity Trading Fundamentals course for the continued training of our staff. These courses are developed in collaboration with professionals of the industry and are therefore very practice-oriented. The Fundamentals course gives a very good insight to the trading world for people in positions such as accounting, paralegal, paper operation or IT, either already in the energy sector or coming from a different industry.

Such programmes are one of the ways to maintain the sustainability of the talent pool and are also a way for our industry to contribute globally to the international image of Switzerland as a major player of the global academic world together with highly respected institutions such as EPFL, ETH Zurich, IMD and a number of Universities across the country. It is not enough for us to wait for good talent to come through our doors—we must be active in encouraging it, and can be assured of doing so through programmes that we help develop. Their importance is also in mass marketing; educational aspect—these programmes help participants develop other important, practical skills necessary for success as a trader. Networking is especially important—traders need to be able to effectively communicate with stakeholders and partners, build networks, and look forward to connections that will benefit them in the future. Such connections are a key asset for your team. The importance of constantly building relationships by being friendly and helpful to people is also stressed. Success in a person also comes with his ability to fix problems and mistakes and move on. To take severe blows and stay put in the ring. He must learn how to organise in time to win. This is particularly true in an industry such as commodity trading, and we believe our educational programmes equip participants with the skills required to face up to the challenges of working in such a demanding industry.

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Geneva training in commodity trading: the employer's viewpoint

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IT IS NOT ENOUGH FOR US TO WAIT FOR GOOD TALENT TO COME THROUGH OUR DOORS. WE MUST BE ACTIVE IN ENCOURAGING IT.

The training programmes maintain the attractiveness of the Swiss hub by ensuring sustainability of the talent pool.

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Geneva training in commodity trading: the student’s viewpoint

STSA Operator Certificate. The program is demanding. With a full time job, side, it can become very challenging. But it made me ready for a career change.

I was particularly interested in the STSA Operator Certificate. The format was practical, eight hands on modules covering all commodities and taught by active professionals. On Friday evenings and Saturday mornings. But without predicting it, I was heading towards a double life, and appeared to be more than expected. With a 60% success rate, the program is demanding. Presence in class is mandatory and with a full time job aside, this became very challenging. I was studying in the evenings, writing assignments at night and revising sporadically for exams. Sundays were usually used to catch up with classmates, which gave me a great opportunity to build up a network of people active, or soon-to-be active within the industry. The idea of working within the commodities trade however never left my mind and three years later I looked out for alternatives. I needed to pick up the pace and new studies were necessary. I looked for a short but intense course that I could attend besides working hours, and that would not only teach me the basics but also give me a good understanding of the industry mechanics, and how they link together.

Trading Fundamentals: A unique tool for employer training

The course is rich in content and well conducted with opportunity for free and frank discussions. It was also valuable in terms of the networking.

The Commodity Trading Fundamentals course offered by STSA was extremely useful to us as it helped to strengthen the capabilities of our firm in the operational aspects of commodity trade. It helped us to better understand operational intricacies that could otherwise present themselves only as problems when we begin to implement an area of business that the firm is expanding on.

Within the logistical chain, time has no boundaries. Dealing with several vessels at the same time, I followed voyages from loading port to discharge port, solving problems while checking that instructions were respected and in accordance with the governing charter party. Within the logistical chain, time has no boundaries and operations never stop. On the small tankers desk, nights are short but it seems that sleeping with a blackberry in your hand can be rewarding. I was then given the chance to move onwards to the commercial side where I currently sit on the “very large crude carrier” (VLCC) desk.

Working for a company that invests in their employees can be a great advantage. A colleague of mine, for instance, had the opportunity to pass his “seaman’s book” and to spend several weeks on a Suezmax vessel. Through BRS, most of us have the opportunity to spend time at sea. This opportunity gives us a hands-on-deck experience on understanding the operations on a ship, and a better grasp of why certain clauses are implemented in the charter party and negotiated so heavily back at the office. But primarily, time on a vessel teaches us never to forget about the human element involved in this complex but remarkable industry.

In conclusion, from my point of view, it was very important to get a structure through a standardized and recognized programme. Undeniably, I have had difficulties compiling all the information and documents that were provided in class by myself. Access to valuable debates and to that very special atmosphere created by people sharing the same interests and enthusiasm, makes it a rich achievement. Clearly, the STSA Operator Certificate cannot be compared to years of experience in a company, but at least, it gives a punch in your knowledge and a boost in your career.

Diploma of Advanced Studies

The world of commodity trading is a combination of different expertise, offering attractive and challenging career opportunities.

The great advantage of the programme is its close cooperation with recognized experts in the fields of international trade, trading contracts, insurance, shipping, risk management and trade finance. In the weekend courses, the experts combine theoretical basics with practical knowledge and their own experience. It is not only the high level of quality in teaching, however, that explains the success of the programme but also the exchange between the students from different professional backgrounds. Lively interaction between teachers and students often results in interesting discussions and conclusions for both.

The highlight of the programme is without doubt the 6-week “trading game” in the second semester. In this reality-based set-up, students set up their company’s structure and take over the roles of traders, risk managers and analysts. Confronted with the challenges of commodity trading, the teams develop a trading strategy, calculate a risk profile and regularly deliver profit and loss reports. A strong emphasis on group work enables students to bring their specific knowledge and to learn from each other’s competencies. The Diploma provides participants with not only expert training, but a ready-made network for the future, and is thus a powerful tool for both the industry and its emerging talent.
TRAFC: Industry innovation in practice

A unique standardised communication network serves the trade finance needs of banks and traders.

The founding banks of TRAFFC

Trade Finance banks have come together to better service the industry

The aim of TRAFEC is to create a streamlined, one-standard, one-media application for trade finance.

TRAFC is defining the future standards of the industry now rather than waiting for others to define them.

The banks offering trade finance services in Geneva are competitors, but from time to time it is more beneficial for competitors to work together for each to gain individually and as a group. So it is in the case of TRAFEC – the multi-bank platform designed to better service the commodity trading industry by making transactions more efficient, safe, and user-friendly.

Through TRAFEC, the trade finance banks have offered their expertise to ensure that the platform is effective as a secured communication tool. By integrating it with their back-office systems, we ensure that our clients are assured of the integrity of the platform, which can be used in conjunction with their other online payment mechanisms. However, TRAFEC’s uniqueness is that it does not stop at the types of transactions that are already widely completed online. It is especially important that we introduce further financial institutions involved in commodity trade finance to the platform to continue to expand its services to its clients. The advantages for banks are simple: they benefit from being an early adopter of the technology and are able to offer a service to their clients that simplifies their communication platforms. Far from losing a competitive advantage by joining competitors in the platform, it is a comparative gain. All trading companies have numerous financial providers, so it is a real attraction to be able to boast presence in a platform that covers multiple institutions and makes the customer’s life easier.

TRAFC is defining the future standards of the industry now rather than waiting for others to define them.
Towards a better platform for all actors

Transamine signed onto TRAFEC and have continued to support it actively. Because it has the capacity to significantly simplify the way they do business.

Transamine is a small company working in metals sourcing, marketing, finance, and investment. We have been involved with TRAFEC since the beginning, despite the fact that we were not initially convinced: the platform seemed to be geared towards large companies dealing in oil and grains – not all of our profits. Still, we persevered, and today are closely involved in its day-to-day functioning and continuing development. We help facilitate the discussions going on between the banks and traders: all the details on format and functioning go through electronic conversations, and, at the end of the process, we get an electronic notification to sign off on it. A lot of power for a small trader.

One of the key reasons we signed onto TRAFEC, and have continued to support it actively, is because we believe it has the capacity to significantly simplify the way we do business. Transamine gets all of its financing from trade finance, so a traders-bankers-interface could, eventually, be our “one-stop shop” for finance, saving us considerable time and resources. We use 11 banks to source our financing, so dealing with them individually can be time-consuming, complicated, and confusing. Although only three of our banks currently use TRAFEC, we are constantly trying to expand this number. This isn’t always easy – banks are wary of using technology set up by a competitor! But we believe it is important to have as many as possible using it – banks on their own can only extend their technology so far, before it becomes unhelpful without a common interface that means we don’t have to jump through countless applications. We keep supporting TRAFEC because we are sure, eventually, we will be able to convince all our banks to use it in their trade financing processes.

TRAFEC is not the only multi-bank platform available to traders, but it does have a number of advantages over the others on offer. For starters, many other platforms are consultation-only. Whereas with TRAFEC, we can carry out our trade finance needs from beginning to end. In addition, TRAFEC is unique in the sense that it manages Letters of Credit (LCs) – an absolutely important for speed and efficiency in our dealings with banks. In an environment where completing a trade quickly is often critical, this is a huge plus.

TRAFEC is obviously still a work in progress, albeit one that already works effectively enough for us to make use of it in our daily business. It is key that we continue to develop it and particularly in a way that we can extend the template to other uses. All the right elements are there – it is intuitive and easy to use, and maintains a high level of security through encoding all communication and transactions routed through it. But it is in danger of getting stuck in a rut if it does not expand or, enhance its offers to reflect the diversity of the industry it serves. As with luring more banks to joining the platform, it is necessary to overcome the perception that TRAFEC was set up to benefit just part of the industry, or only large trading houses. TRAFEC needs to do better at reflecting the diversity of the industry if it wishes to better serve it.

Creating TRAFEC was important. The platform is an allegory for the commodity trading Swiss hub in general.

In a way, TRAFEC is an allegory for the commodity trading industry’s Swiss hub in general. Although Geneva is an undisputed world hub of commodity trading, those of us based here have to make sure we are always setting industry trends, rather than following them and risking falling behind. Creating TRAFEC in the first place was an important step. Now, we need to be committed to its constant evolution and improvement to ensure we remain at the cutting edge of commodity trading business practices.

Commodity trading and start-up accelerators: strange bedfellows?

The platform uses the existing synergies of commodity trading, innovation, policy and institutions. It has the potential to become the reference standard for the industry.

Of the stock phrases of school career advisors the world over is that the jobs of tomorrow do not exist today. That tired-out cliché is already being vindicated, with countless new types of businesses, organisations, and occupations springing up seemingly weekly.

One such institution is the “start-up accelerator” or “business incubator”, and not the type seen in biology labs. Dr François Gilardoni of FONGIT, Geneva’s own start-up (FINTeCH) accelerator, tells me his foundation is all about making it easier for businesses to get started by facilitating a technological, social, and legal conditions necessary. Companies and ventures in their early stages also often find it helpful to have assistance in administrative, logistical and strategic matters – an incubator can help with risk minimisation, contracts, licensing, and building partnerships, to name just a few. “It’s all about smart money”, says Gilardoni – the idea that it is better to use less money to entice “people who can open doors” to new opportunities, rather than deploy large amounts of capital in the wrong places. What does this have to do with the commodity trading industry? Gilardoni is a member of the board of TRAFEC, and FONGIT has helped turn around the fortunes of the platform to make it the sought-after industry tool it is today. He believes that “This platform uses the existing synergies of commodity trading, innovation, policy, and institutions, and has the potential to become the reference standard for the commodity trading industry”. As well as providing TRAFEC with the necessary office space, FONGIT has offered logistical and strategic help to the project, as well as continued support so TRAFEC can expand to assist new industry and new industry partners. In Gilardoni’s view, “Technology has no value without a business need”, and for TRAFEC that need, and secure platform for trading, had to be well-developed before even thinking of how it could be achieved technologically.

Not that the work stopped once TRAFEC had been developed and put on line. “Selling” the product to companies is not always easy and even the most studentically innovative companies are often wary of previously unheard of technology. Technology is “changing the way people do business” Gilardoni reminds me, and convincing a company to change when their current business model works, just fine is not easy. To get the message across that a company should embrace technology it has to be convinced that they need it before they actually do. With the ever-accelerating advancement of technology companies are getting better at this, but any organisation wishing to effectively harness technology in today’s world needs to actively absorb it into their daily business practices, says Gilardoni. This means new products have to be lean and attractive, so they can be easily integrated into day-to-day business. Industries like the commodity trading industry that are multinational by nature are also going to have to start adapting to changes to emerging markets. Technology is changing the way we do business the world over, but perhaps nowhere more than the developing world: areas that once had no access to finance or banking now find themselves sending money via text message, and setting up businesses that would not have been possible without internet access, or easy access to solar power. There is an unprecedented scope for entrepreneurship in places such as Sub-Saharan Africa just waiting to be tapped, thinks Gilardoni, and industries that harness it will benefit themselves as well as improving lives in some of the world’s poorest regions.

Before we finish, I ask Gilardoni what it takes for a start-up to succeed in today’s world. “Passion”, is his first answer, and “being surrounded by passionate people” his second. Finally, he spoke of the importance of positive criticism, accepting your failures, and learning from your mistakes. Perhaps the fundamentals of business are not changing so quickly after all.

Interview Patrick McDonald

NEW PRODUCTS HAVE TO BE LEAN AND ATTRACTIVE, SO THEY CAN BE EASILY INTEGRATED INTO DAY-TO-DAY BUSINESS.
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