Swiss poll could adversely affect traders' willingness to stay

By the time that this issue of *C&CI* is published in early March 2016, the result of a referendum in Switzerland will have become known that could have a huge effect on Swiss and multinational companies that deal in agricultural commodities, and have a direct effect on corporation tax raised in the country, employment and Switzerland's standing as a place where commodities traders come to business.

The Swiss people were due to go to vote on 28 February on a proposal to ban speculation on foodstuffs, a well-intentioned idea that could have wide-ranging ramifications for commodity traders who have made Switzerland their base

The vote is the end point in a process that started several years ago when the Young Socialist Party launched an initiative colloquially known as 'Don't play with food,' or 'No speculation with foodstuffs.' Now, years later, voters in Switzerland are likely to have the final say on a proposal by the left wingers. Their aim is to combat what they see as 'man-made' famine around the world and put an end to financial speculation in commodity markets. Sources in Switzerland say the left wing party blames Swiss banks and Swiss-based multinationals for their alleged role in creating the problem, believing as the do that price fluctuations resulting from speculation are adding to the number of people living in hunger around the world.


Futures trading affects prices and should be banned, Switzerland's Young Socialists argue

Stop playing with food

The plan to 'stop speculation' or 'stop playing with food' would apply to financial institutions that have their headquarters or a base in Switzerland. It would prohibit investment in financial instruments based on agricultural raw materials and foodstuffs, although some contracts with producers would still be possible. The proposal envisages prosecution of companies that do not comply with it, but is not totally without precedent: organisations such as Foodwatch in Germany and Global Justice Now (formerly known as the World Development Movement) have been pushing for stricter regulation of commodities and drawing attention to the link they perceive between speculation and food shortages in the developing world. Ongoing pressure from organisations such as these was widely seen as the reason for Commerzbank in Germany and Volksbanken in Austria removing agricultural products from their commodity index funds.

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It is certainly true that, over the past few years, price hikes in basic foods have created dramatic shortages in many of the world's poorest countries. In 2008, for instance, the world saw a major crisis with skyrocketing prices over a short time span for crops like rice, wheat and corn. Food riots erupted in 25 countries and many millions of people were added to the world's undernourished and starving. Food prices have risen again several times since, and organisations such as Global Justice Now see reining in financial speculation on agricultural commodities as the key to solving the problem. As previously highlighted in *C&CI*, whilst the global financial markets were in turmoil in the 'Great Recession' after the collapse of Lehmann Brothers, agricultural commodity 'futures' became increasingly attractive to financial investors and speculators and large sums of capital flooded into these markets, contributing to sudden food

price spikes. It is also true to say that increased volatility caused by the influx of 'hot money' into and out of commodity markets can cause havoc for farmers, who cannot predict what price their crops will command from one month to the next.

Home to leading commodity firms

As anyone working in agricommodities well knows, commodity trading has come to have a very important role in the Swiss economy over the last decade, and Switzerland is home to many leading commodity firms, including industry leaders such as Glencore, Cargill, Vitol and Trafigura. Switzerland is also home to banks such as UBS and Credit Suisse, which invest in the sector through either index funds or exchange traded funds. It is said that there are now around 500 companies of this type based in the country, and that around 10,000 employees who work in the sector contribute approximately 3.5 per cent to Switzerland's gross domestic product. To put it in perspective, that is more than tourism contributes.


Bert Koers: "multinationals will leave the country and Swiss firms will face a huge administrative burden"

Bert Koers, director of futures at Blaser Trading in Bern, who is also closely involved with the community of interest (CI) Coffee Switzerland, an umbrella organisation of the main associations in the Swiss coffee market, told *C&CI* that he believed a vote in favour of the Young Socialists proposal would have wide-ranging effects. "Multinationals will leave the country if they aren't allowed to continue trading in the way that they always have," he said. "It's as simple as that. It's an emotional issue, and no-one knows for sure how the vote is going to go."

Mr Koers explained that the proposal has already worked its way through the Swiss political system – at regional and national level – and had been defeated in the Swiss parliament and in regional votes in Switzerland's cantons, the member states of the Swiss confederation. In the last couple of years, the Swiss cabinet has discussed reforms to over-the-counter (OTC) trade in derivatives, which take place without the supervision of an exchange, but no changes have been proposed.

"If there was a 'yes' vote in favour of the Young Socialists' proposal we would still be allowed to hedge, and use the usual hedging tools available to a coffee trader, but we would incur a huge administrative burden from doing so," Mr Koers told *C&CI*. "A Swiss-owned company such as Blaser would be hit by a wave of extra administrative work under this proposal." ■ C&CI

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Main topics:
Island producers of coffee and cocoa
Coffee and cocoa consumption/production in China
The coffee and cocoa markets in Switzerland

Logistics feature:
Logistics of speciality coffee and cocoa
Plant & Machinery feature:
In-plant materials handling

Special feature:
A review of the decaffeinated coffee market
Profile of a leading coffee roaster

Contractor Profile

Bonus Circulation
The Specialty Coffee Association of America's (SCAA) Event, Atlanta, GA; 3rd World Cocoa Conference, Bávaro, Punta Cana, Dominican Republic; AC3 conference, Singapore. 3 500 bonus circulation.