Emerging Commodity Exchanges in a Globalized Economy

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Mr. Chairman, Distinguished Delegates, Ladies and Gentlemen,

I am most pleased to address this Annual Futures Industry Forum, particularly since UNCTAD has the honor, for the third consecutive year, of co-organizing a special pre-conference event. I would especially like to thank the organizers of the meeting, the Swiss Futures and Options Association, which has invited us to prepare, together with the Association of Futures Markets, three specific roundtables on emerging exchanges.

As a former Minister of Finance of Brazil, I recall that 10 years ago, my country was honored at Bürgenstock for its patronage of the event. This year Brazil is again being honored in the same fashion, which only increases my delight at being with you today.

The deregulation of financial markets and the liberalization of the commodity sector have undoubtedly introduced a measure of efficiency to market operations, but at the same time, they have left emerging economies without the support that was earlier provided through the government intervention. “Policy by absence” is not likely to be a sound alternative to “policy by intervention”. As has been repeatedly recognized by UNCTAD and recently by the World Bank, the “invisible hand” of the market place does not always create an efficient market.

These days, commodity producers in emerging countries have to deal with the challenge of increasingly unpredictable changes in prices, indices, exchange rates and interest rates, which expose most operators to considerable risks. At the same time, they also face obstacles to the access and use of risk management markets.

Well-organized commodity exchanges, then, can play a central role. Such exchanges from natural reference points for physical trade, and in this way, they help the price discovery process. If a commodity exchange manages to link different warehouses in the country, this allows trade to take place more efficiently.

If it is to be sustainable, a government’s policy of reducing its intervention in commodities has to be accompanied by an effort to strengthen the institutional framework, build private sector capacity and improve laws and regulations. An opinion often espoused by exchange operators is that less government is involved n a commodity exchange, the better. In the past, excessively detailed, inappropriate and counterproductive regulations could be observed in several countries. Today, this is an exception. In order to be efficient, however, the market needs an active, committed government, one which acts as a facilitator of the self-regulatory process and provides the necessary legal and regulatory framework along with the infrastructure without which market operators cannot function properly.

Furthermore, in a globalized economy, everyone could benefit from collaboration on regulatory enforcement and from comprehensive mechanisms to clrarify the jurisdictions of various regulatory agencies. Commodity exchanges can be abused for purposes as capital flight and tax evasion, and regulatory cooperation among countries would decidedly help to combat such practices. Discussions between exchanges can also help to create a framework of "enabling government policies". For instance, capital controls preventing the use of domestic exchanges by foreign operators can be amended to allow repatriation of profits made on the country's exchanges by such use.

The shape of exchanges, including those that trade commodities, has changed drastically over the last few years. Established exchanges suddenly, and often to their surprise, find themselves coming under attack from cyberspace. The industry first reacted defensively, with consolidation and reorganization, but now appears to be ready to go on the offensive. Whether the traditional exchanges are able to win back the lost ground remains to be seen, but they now seem convinced that the Internet is providing them not just with threats, but also with opportunities. This is equally true for commodity exchanges in developing countries: Technology has made it possible for them to grasp these possibilities (including the Internet exchanges).

Exchanges have several strategic responses they can make to this changing trading environment: changing their organizational structure, cooperation, adopting new technologies, and so forth.

Cooperation a,ong exchanges can play a useful role in this respect. In my country, Brazil, we always been convinced that a synergistic and harmonious approach is a key to success. For instance, the Bolsa de Mercadorias & Futuros (BM&F) strongly believes in efficient partnerships, which is why it merged in 1991 with BMSP, the former Sao Paulo Commodities Exchange, and in 1997 with BBF, the former Brazilian Futures Exchange of Rio de Janeiro. This is also why the BM&F last January became a member of Globex Alliance, looking ahead with other member exchanges to a less costly, more competent, stronger and united international market place.

An interesting example of cooperation is clearing arrangements. Collaboration in the creation of clearing mechanisms either nationally – through the merging of different domestic markets – or internationally, through the creation of a central clearing house for various exchanges – can represent a decisive step forward in the process of integration. Efficient clearing arrangements increase participants' confidence in the exchange and consequently attract a high volume of trade, which is particularly important for emerging exchanges.

Virtually all established exchanges have been significantly reorganized in the past few years. The movement towards demutualization of the markets, intended to turn exchanges into independent enterprises, could undeniably be a factor in attracting new operators, including through unlocking the resources needed to create a more global trading network through which the exchanges can be easily accessed, even from developing countries.