Public Eye
Berne Declaration

ALTERNATIVE FACTS FROM THE SWISS COMMODITY TRADING LOBBY

March 27, 2017

The recently published "Commodity Trading Monitoring Report" claims to be "the first scientific study on the sector in Switzerland". This is not quite true; it is not the first study and it is definitively not scientific. The simple fact that the underlying data has been seen by only a handful of people does not allow it to be qualified as "scientific". And despite the fact that it has been published on the University of Geneva's website, it is by and large a paper written by the Swiss Trading and Shipping Association (STSA), the lobby of the commodity trading companies.

SERIOUS METHODOLOGICAL FLAWS

In addition to the secret data, which reflects the opacity that reigns in the Swiss commodity trading sector, there is a series of highly problematic flaws:

- **VERY LOW RESPONSE RATE** The questionnaire that was sent out to collect information directly from companies had a very low response rate of 12.5% (62 companies) of the 496 companies, that "were eligible, i.e. their core activity was commodity trading or related activities" (p. 3). To arrive at this number only partially filled-in questionnaires were also counted. Therefore, for some questions, the response rate was even lower. For example, for the question on "volume by commodity family" (p. 14) there were only 46 answers. As multiple answers by an individual company are possible (many trading companies trade energy and agricultural commodities, as well as minerals and ores), we can safely estimate the response rate for this question was only half the overall rate.

- **DISTORTED SAMPLE** The sample is distorted because only 3 big companies (those with more than 500 employees) responded. The 7 commodity trading companies that rank among the top 10 Swiss companies by turnover have a combined turnover of 691 billion CHF.[1] The weight of these big companies can already be seen from the paper itself, for the question concerning Swiss turnover (43 responses), the biggest responding company stands at 101'502 million USD, the mean calculated is 5'617 million USD while the median is only 400 million USD (p. 13). A serious scientific study should put its results in the context of other existing figures. The Swiss National Bank gave a turnover of "transit trade" of 797 billion Swiss Francs in 2014 and 573 billion Swiss Francs in 2015[2], with around 90%[3] of this representing commodity trading. Depending for which year the companies reported their turnover (this is also left in the dark) the paper covers at the very best 33-46% of the total turnover, but as turnover from companies other than trading companies has been included (diluting the data further see next point) the coverage is in fact considerably lower.

  In a small sample from a sector where a few big companies dominate, at least all the big companies should be included. Otherwise from such a distorted sample, as this is, very few meaningful conclusions can be drawn. It does not matter that 80% of the responding companies are small and medium companies (SME's) with less then 100 employees, if only 3 responding companies outweigh all of them completely. And together with the 4 big companies that did not respond at all, the big 7 companies dominate the reality of Swiss commodity trading even more.

[1] Handelszeitung, "Top 500. Die grössten Unternehmen der Schweiz", 2016.
[2] SNB, Swiss Balance of payments, current accounts (consulted 27.03.2017).
[3] SNB, Balance of Payments 2011, p. 37.

- **THE SAMPLE INCLUDES ENTITIES THAT ARE NOT TRADING COMPANIES** The results and the validity of the sample are even more distorted by the fact that a considerable number of companies among the respondents are not commodity trading companies at all. Since it is clear that inspection, shipping and chartering and commodity trade finance are not commodity trading, this means that at least 11,9% of the 59 that responded are not trading companies. Again the study also fails to disclose their size, and consequently we do no know how much the non-trading companies distort the final result. That there is a potentially large distortion is demonstrated by the next point.

- **GROSSLY INFLATED EMPLOYMENT FIGURE** The paper gives a vastly exaggerated figure for employment in the trading sector in Switzerland: 36'154. According to the paper, this figure "has been estimated" by the Federal Statistical Office (FSO) based on a list provided by STSA of 405 companies that are "active with employment". The "new" employment figure is more than 3.5 times higher than the figure in the Background Report Commodities (2013) of the Federal Council. On this STSA-list, that is not made public, there might also be a number of companies that are not trading companies, such as banks, which are also active in commodity trade finance, commodity importing companies (for their own use) or shipping companies, all of which can have many employees. The grossly inflated employment figure in the paper stems from the simple fact that STSA provided a list of companies to the FSO with an unknown number of companies not active in commodity trading but only in related activities.

  Public Eye has also mapped the commodity trading sector and, contrary to STSA, we give the names of all the companies identified and we make our database public. We asked the FSO to calculate from this database the number of employees of the 400 companies we identified as being active in commodity trading (companies active only in extractive, gold refiners or service providers were not included) and that actually employ people. According to the FSO those 400 companies employ 7'594 people, which is close to earlier estimates by the industry[4] and certainly a more realistic estimate than the 36'154 provided in the paper.

- **CIRCULAR ARGUMENTATION** The paper gives the following percentages of the location of companies: Geneva/Vaud 61.3%, Ticino (Lugano) 19.3%, Central CH (BS, ZH, ZG) 17.7% (p. 9): The STSA has more members in Geneva/Vaud than in Ticino and there are more members than in Central Switzerland. Given that among STSA-members, the response rate was more than double the overall rate, this neatly explains the result, but it is not an accurate description of the reality.

- **WRONG FACTS** Only 4,5% of the responses mention the Commonwealth of Independent States (CIS) as one of the main regions of origination. But in a study from 2007 by Ernst and Young and the Geneva Trading and Shipping Association (GTSA)[5] it was estimated that Geneva trades 75% of the Russian oil, while for Kazakh oil it was 50% in the same year.[6] Even without mentioning other countries such as Azerbaijan or commodities – zinc from Kazakhstan, wheat from Ukraine for example – that are also traded in Switzerland, the "fact" that only 4.5% of the commodities come from CIS-countries is more than alternative. It is another proof that the sample is not representative. Further, it could also be that the responding companies did not give the origin of the commodity but instead pro-

[4] e.g. GTSA presentation 12.6.2012: «Over 400 companies in commodity trading 9'000 to 10'000 jobs relating to the sector».
[5] GTSA merged in 2014 with its sister organisations in Ticino and Central Switzerland to become STSA. GTSA and E&Y, *Négoce et affrètement à Genève*, 2007.
[6] Le Temps, *Genève, Capitale mondiale des matières premières*, 20.10.2007.

vided information on where they bought it from (Russian oil in Rotterdam for example) or that they simply do not know where their commodities come from.

- **BIGGEST OMISSION** There are no estimates at all of the share of Swiss trading companies in commodities traded worldwide. The above mentioned 2007 study had included this.

WHO WROTE THIS PAPER?

The paper lists Dr. Nina Eggert as the main author; she is the CSR officer of the STSA. The co-author was, according to a footnote, only responsible for the statistical analysis and the survey was only “supervised by the University of Geneva and the Haute Ecole de Gestion of the University of Applied Sciences”. The role of the “Swiss Research Institute on Commodities”, on whose website it was published remains unclear. But this institute is also not independent as Stephane Graber, the Secretary General of the STSA, was in the founding council of the institute. He is still one of the 8 members of the foundation, alongside the president of the Swiss Coffee Trade Association. Where the founding capital came from was not made public when the institute was founded, which led to further questions regarding its independence from the trading industry.[7]

This leads us to the conclusion that the paper is not only not a scientific study at all but rather a paper written by the traders’ lobby for precise purposes.

WHY WAS THE PAPER WRITTEN?

Although the survey that provided the data for the paper was conducted in the context of a government sponsored multi-stakeholder initiative (MSI) to develop guidance for the implementation of the UN Guiding Principles in the commodity trading sector (see p. 4 of the paper), its results were used for the lobbying purposes of the STSA. These lobbying efforts started at the end of November 2016 with an article in the Swiss newspaper Le Temps concerning leaked “confidential data”, even though the results of the survey were not shared with other parties in the MSI, including the authorities. A full blown media offensive followed with the main “results” of the survey, when finally the paper was given to journalists ahead of publication. This media work was quite successful as it led to a number of articles containing seemingly “new insights” into the commodity trading sector.

The background of the STSA lobbying explains a lot of the biases in the paper: In February 2017 the Swiss voted on the Corporate Tax Reform III package, a topic of particular interest to the trading sector as under the proposed reform, their privileged tax status would have been abolished, although enough sweeteners remained – specifically the announced reduction of the normal cantonal corporate tax – for trading companies to make them support the reform. The inflated employment numbers, the alleged “dominance” of SME’s (which play far more on the sympathies of the Swiss people than multinationals do) or the stated origin of commodities as being from “unproblematic” European countries, were all inexpensive arguments presented to journalists ahead of the vote.[8] Without success though; the reform was turned down by a large majority of the votes.

[7] Le Courrier, *Un institut de recherche sur les matières premières voit le jour*, 19.12.2014.
[8] See for example: Le Temps, *Les coûts de réglementation provoqueront une consolidation des entreprises de négoce*, 21.12.2016.

BANKS REGULATE COMMODITY TRADERS – REALLY?

That the STSA has further lobbying purposes in mind with this paper explains some additional judgements that are made in it that are neither based on the data provided, nor belong logically in a "Monitoring Report". From the facts that a majority of companies use bank financing and that the banking sector is regulated, the paper concludes that "being under the direct supervision of banks, commodity traders are indirectly subject to these regulations". This argument has been constantly used by commodity trading companies and their lobby to argue against any further regulation. But the fact that many companies (mostly the small and medium) depend on bank financing is no proof that the banks effectively "regulate" them. As this paper did not even try to test the validity of this argument, it remains the unfounded assumption it was before.

There are good reasons to question it: first, in commodity trading, there are many moneyless transactions that take place, such as "swaps", where crude oil exports are directly (i.e. without financial intermediaries) offset against imports of refined products. Second, the big traders (that dominate both the sample and reality) raise important sums on the capital markets, they therefore can fund an important part of their transactions without banks. Third, banks do carry out due diligence on their own clients, but not on the clients or business partners of their clients. And they do not have all relevant information, such as in relation to the prices charged and their appropriateness. The "Wolfsberg Principles on Trade Finance" (2011) by the Wolfsberg Group of banks, that addresses money laundering, confirm this: "[I]t is extremely rare for any one Bank to have the opportunity to review an overall trade financing process in complete detail given the premise of the trade business that banks deal only in documents. Furthermore it is relevant to note that:

- Different Banks have varying degrees of systems capabilities which will lead to industry wide differences in their reviewing abilities
- Commercial practices and industry standards determine finite timescales in which to act.
- In determining whether transactions are suspicious due to over or under invoicing (or any other circumstances where there is misrepresentation of value) it needs to be understood that Banks are not required to check the underlying documents presented with BCs [Documentary Bills for Collection]."

Last (but at least) this shallow "Commodity Trading Monitoring Report" suggests that the Federal Statistical Office "define a 3-digit code NOGA in order to systematise and standardise future data collection" (p. 16). Public Eye already raised the issue of the lack of official and accurate data on the sector in a parliamentary hearing in 2013. The problem has not become smaller since then. The STSA exercise and the resulting paper shows very clearly that voluntarism can never lead to reliable and complete information. It can also not be achieved through "regular monitoring under the auspices of the Swiss Research Institute on Commodities", as the paper suggests (p. 2). Only the federal administration has the means to coerce companies to participate, which is a prerequisite for accurate information about a sector that is so obsessed with secrecy.

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