Conjuntura Austral

COMMODITY MARKET REGULATION: EXPORTING COUNTRIES VERSUS IMPORTING COUNTRIES.

Regulação do mercado de commodities: Países exportadores versus países importadores.

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INTRODUCTION

The discussion regarding the strong commodities price increases has earned space in international organisms publications such as the *Food and Agriculture Organization* (FAO), International Monetary Fund (IMF), World Bank, United Nations Conference on Trade and Development (*UNCTAD*), as well as in the statements of world leaders during various multilateral forums in recent years, as the G20.

While exporting nations benefit from earnings increase of primary products exports, the importers complain of rises in import costs of these *commodities*[2], what generates difficulties restraining external accounts imbalances, besides increasing food shortages and inflationary pressures in different countries, which is the most temerarious because endangers the food security of millions of people, mainly in Africa (FAO, 2010).

Pronouncements of governments that eager to regulate commodity markets as the one made by the French President Nicolas Sarkozy (FLYNN; BREMER, 2011) put on opposite sides exporting countries, advocating the non-intervention in commodity markets, such as Argentina and Brazil (TAQUARI, 2011), and the big importers of raw

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[2] For this paper, the concept of *commodities* used will be the one defined by the Ministry of Development, Industry and Foreign Trade of Brazil, which considers *commodity* as any product in the raw state or with a small degree of industrialization, with patronized characteristics, produced in large-scale e by different producers, that can be stored without significant loss of quality and that have global quotation and liquidity.

materials such as France, Germany and Japan, that support control extension over the primary products markets.

This article aims to analyze the genesis of speculation in the commodity market and G20's proposals to combat its consequences, delineating the economic interests that involve dispute for commodities markets regulation, opposing exporting countries and importers of primary products, in a moment in which developing countries' currencies face a strong appreciation due to the abundance of the rich nations' currencies in the international financial markets, resulting in developing countries loss of competitiveness in exports of basic products, as well as in the high value-added products. In contrast, core countries face a decrease in import commodities costs and an increase of competitiveness in other export products.

THE SPECULATION IN THE COMMODITIES MARKET

The gradual liberalization of financial markets initiated in the 1960s allied with a continuum deregulation movement in the structure foreseen in Bretton Woods during the 1970s intensified the movement in the capital flows and consequently expanded the volatility of assets prices, leading to the emergence of investment funds based on existent hedge instruments: the hedge funds, allowing "professional speculators[3]" to proliferate (LOPES, 2010).

Since the early 1990s, financial investors (or non-commercial) began to treat these goods as a new class of financial asset, along with stocks, bonds and real estate. At first, when the participation of these instruments in portfolios of investment funds (the hedge funds, above all) was still small, applications in commodities market emerged as a great alternative for risk diversification due to the low historical correlation with the performance of stocks and bonds (FUNDAP, 2011).

Financial investments in commodities derivatives markets increased after the 2000 stock markets dot-com crash and gained momentum from 2005, when the global macroeconomic conjuncture stimulated applications in those instruments as a source of

[3] The speculator is a specialist in commodities prices formation and acts in the market with the goal of generate profit due to the prices oscillations.

speculative gains and hedge mechanisms against dollar depreciation and inflation. In this sense, the deepening financialization process increased the correlations between commodities markets and other financial markets segments (reducing the main demand for risk diversification) and reinforcing the historically higher volatility of their prices relatively to manufactured goods (FUNDAP, 2011).

Along with substantial applications increase in commodities market investments funds, mainly after 2003 (table 01), adding pressure to most primary products prices.

Table 01. Volume of Investment in Commodities Market (US$ billions).

	2003	2004	2005	2006	2007	2008	2009	2010
VOLUME	15	45	70	110	160	189	257	376

Source: Barclays Capital. Own elaboration.

The banking sector re-orientation to manage investment portfolios is also related with a profusion of derivatives. The banks began to intermediate relations between their clients in contract negotiations, enjoying economies of scale in these activities. There is a large information asymmetry between participants and no transparency in negotiations, once the market is not sufficiently organized. High amounts of interbank transactions enhance the possibility of a "domino effect" in case of one of them fails (LOPES, 2010).

The derivatives are not considered in financial institutions' balances sheets, what difficult the possibility of regulation and supervision by government authorities. The profit or loss admeasurement is possible only after the contracts' settlement, with the constant possibility of dishonor by a party involved. Therefore it is a challenge to settle a perspective of the financial health of agents engaged in derivatives businesses (LOPES, 2010).

PROPOSALS FOR COMMODITIES MARKET REGULATION

The raw materials high increases price quotations in the last decade engendered import costs rises for most countries (few countries are self-sufficient in basic goods, especially food), where the most affected are developing countries, particularly regarding the lack of food security. On an alarming scenario, the G20[4] (multilateral organism that brings together the 20 largest economies of the planet) had to discuss and propose solutions to tackle the problem (G20, 2009).

One of the proposals that was not officially presented at the G20 meeting by the end of March 2011 but remained behind the diplomatic scene, authored by France, proposed setting a ceiling for primary products prices, aiming to limit markets' volatility, because stiff negotiations in future markets would make them less attractive, leading to a flight of speculators, and consequently to the main reason of high prices. The proposal was not supported by the main primary products exporters, including Argentina, Australia, Brazil and the United States (MOREIRA, 2011b).

The Brazilian proposal on the financial regulation sphere provided greater transparency in raw materials financial transactions on the stock exchanges, over-the-counter market (OTC) and even limitations on commodities trading.

The market regulation proposal was brought to the G20 countries agriculture deputy ministers for negotiation based on the fear that if high prices were not contained food prices could explode causing geopolitical tensions. Several countries, however, among them Brazil, argue that to limit volatility[5] it is necessary to increase production and expand trade (the Brazilian view is derived from the analysis in which price fluctuations are generated not only by speculation in financial markets but also by determinants of price formation).

The criticism of the major importers and exporters of agricultural products is the existence of strategic food reserves that aim to maintain profitability in international market by regulating supply and interest of importers to ensure food security of their own country in times of high food prices in international market.

[4]Another international organization, CEPAL, suggested to tax commodities exports driven by increases in exports of raw in the past years, that was brought about by increases in quotation prices of commodities, which has attracted Foreign Direct Investment (FDI) in sectors intensive in natural resources, mainly of Asian origin (LEO 2011).
[5] The increase in earnings from exports plus the increase in FDI has generated appreciation of the currencies of countries in Latin America, so one of the measures to be adopted, as suggested by CEPAL, would be control foreign capital inflows (LEO, 2011).

Hence, the major exporters began to consider the use of emergency reserves to attend only poor countries facing food insecurity (MOREIRA, 2011a).

Some proposals were examined by G20 leaders who analyzed two other forms to support countries developing their agricultural sector in the long-term: one is the incentive of a tropical agriculture development platform, based on the Brazilian experience of the state-owned company Embrapa cooperation with African countries (MOREIRA, 2011c).

Another proposal provides stimulus to buy small farmers production for school meals, inspired by the Brazilian experience (a significant part of public schools supply is from family agriculture). The World Food Programme (WFP) has a pilot experience and should be expanded[6] (MOREIRA, 2011c).

Furthermore the release of a database named Jadi (Joint Agriculture Data Initiative) was suggested to gather reliable and up to date data on production, public and private supplies, demand and exports of member countries. To provide "clarity" to agricultural prices, the initiative aims to harmonize information and disseminate the data. Nowadays FAO publishes information two months late, in part due to countries delay to pass their statistics. China is reluctant to associate in this area because considers food stocks information a matter of national security, while in Brazil the data are public (MOREIRA, 2011B).

CONCLUSION

The clash between exporters and importers of primary products on international commodities markets regulation possibility put on opposite sides exporting countries that have achieved a surplus in their accounts due to high primary products quotations prices in international market. At the same time, countries with high-valued currencies generate loss of competitiveness in exports, especially non-commoditized products, and defend regulation in international financial flows rather than commodities

[6] Funding for agriculture in developing countries should have more support. Multilateral banks have abandoned agriculture and industry experts have resigned in recent years, but now, given the context, this type of action begins to be resumed.

markets, using dividends generated by the high prices of basic products simultaneously with the increase competitiveness for higher value added products in the international market. In opposition to these interests are the countries importers of raw materials that have undervalued currencies, claiming containing measures to primary products high prices, which affect negatively the current account surplus in trade balance, however, oppose to the adoption of financial flows restrictions, given this movement can be a major factor in devaluation of their currencies, resulting in an export competitiveness increase.

The developing countries necessity to contain their currencies appreciation finds resonance in the position defended by the BRICS members (Brazil, Russia, India, China and South Africa) at the last meeting of the organization by issuing a joint statement which extols the need to adopt measures to curb currencies of developing countries appreciation.

The large price quotations increases of some agricultural crops have created serious problems for many developing countries in providing affordable food to the poorest segments of the population. The dramatic social and humanitarian consequences are jeopardizing progress towards achieving the Millennium Development Goals (MDG)[7].

The increase in food and energy prices raises concerns in both developing and developed countries on the inflation impact. In this context, what matters is not only the direct effect of high commodity prices in the consumer price index but also, and perhaps most importantly, the indirect effects that may result from subsequent attempts to increase other prices and salaries in response to the perception of real income losses caused by the initial energy and food prices increase.

Indeed, the macroeconomic and social implications of primary products prices development are a theme in vogue on the political agenda, not only for developing

[7] The Millennium Development Goals (MDGs) arise from the Millennium Declaration of the United Nations. Created in an effort to synthesize various international agreements reached at world summits during the 90s (on environment and development, women's rights, social development, racism, etc.), The Declaration has a number of concrete commitments that, if completed on schedule, according to quantitative indicators that accompany them, should improve the destiny of humanity this century.

countries but mostly for developed countries, as negotiations that preceded the recent G20 meetings reflected.

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RESUMO

As altas nas cotações das *commodities* no mercado internacional na última década acirraram as tensões entre países exportadores e importadores de commodities, a ponto de terem suas reivindicações e pressões debatidas nos principais organismos internacionais, principalmente no G20.

PALAVRAS CHAVE

Commodities, países exportadores, países importadores

ABSTRACT

The high in commodity prices in the international market in the last decade, tensions escalated between exporting and importing commodities countries, the extent of having their demands and pressures discussed in the main international organizations, especially in the G20.

KEYWORDS

Commodities, exporting countries, importing countries