

Trump's 'America First' Won't Place Commodity Traders Last

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The wave of protectionist sentiment sweeping the globe following the election of Donald Trump is unlikely to significantly disrupt trading flows of the world's largest commodity merchants.

While the rhetoric of Trump's "America First" pledge, the Brexit vote in the U.K. and the rise of populist politicians such as France's Marine Le Pen has raised fears of trading curbs, the free-flow of oil, metals and food products is simply too vital to each nation's economic health to obstruct.

"Commodities are the most strategic item, particularly for large developed consuming countries when they lack resources," said Jean-Francois Lambert, an industry consultant and former commodity trade-finance banker at HSBC Holdings Plc. "They are, therefore, likely to be the least affected by ramping protectionism."

Commodity-trading chiefs attending the annual FT Commodities Global Summit in Lausanne on Tuesday underlined their belief in free trade and the forces of globalization. Even if trade barriers do increase, Jeremy Weir, chief executive officer of Trafigura Group, the third-largest independent oil trader and the second-biggest metals trader, said his firm would adapt.

"Trade flows will change as a result of protectionism," Weir said. "And the question is how we will adapt to those changes. Personally, I see it as an opportunity for our business."

Industry Summit

The Trafigura CEO joined top executives of many of the largest trading houses, including Cargill Inc., Louis Dreyfus Co., Mercuria Energy Group, Gunvor Group and Vitol Group, in Lausanne. Protectionism and the shift to inward-looking nationalist trading policies were discussed on the opening day of the summit by attendees tasked with overseeing flows that include 30 million barrels a day of crude.

Few sectors are more dependent on the free-flow of goods than commodities traders and the heads of the top trading houses represent a globe-hopping elite that's long used political

influence and deal-making with governments to further their business interests.

Now some Trump supporters, including Brexit-champion and former U.K. Independence Party leader Nigel Farage -- himself a former London Metal Exchange broker -- have declared that “Davos man,” the term invented by political scientist Samuel Huntington to describe the well-heeled attendees of the annual World Economic Forum at the Swiss ski resort, is “dead.”

Globalization Outlook

William Reed, the former U.S. special-operations soldier and math scholar who is CEO of Castleon Commodities International, isn't convinced by the populist rhetoric.

“Globalization is here to stay unless you think that they're going to be able to slow down communications, eliminate internet, make transportation more expensive, which is all going in the opposite direction,” Reed said at the conference in Lausanne. “I can't imagine that the world is going to do anything other than get smaller.”

Still, there are greater “uncertainties” than in the past, said Brian Perrott, a partner at Holman Fenwick Willan LLP, a London law firm that represents commodity trading firms.

Trump has vowed to use only American steel to build pipelines and to resuscitate his country's moribund coal industry. At the same time, some traders are concerned that a proposed U.S. “border tax” could impact oil trading by taxing imports to the U.S. and subsidizing exports.

The Trump administration has already pulled out of the Asia-focused Trans-Pacific Partnership multilateral trade agreement and is also calling for re-negotiations of the North American Free Trade Agreement with Mexico and Canada.

Trade Wars

Under Trump, the risk of a trade war with China looms, Cargill CEO David MacLennan said in Lausanne. He warned that “me first” trade stances around the world threaten to undo decades of social and economic progress.

“I don't want to sit in the bunker for four years,”

MacLennan said of the Trump administration. “I think we all have to make a case for trade.”

Barriers could threaten an independent commodity trading sector that has seen volumes of oil and petroleum products surge in the past few years. Vitol, the world's biggest independent

oil trader, handled more than 7 million barrels a day last year, up from about 5 million barrels a day in 2014.

China has been the driver of commodities trading growth, with its share of metal imports climbing from less than 10 percent of global supply in 2002 to 46 percent in 2014, Trafigura said. Russia is now the world's biggest wheat exporter, with shipments more than doubling to almost 26 million metric tons since 2008.

Perhaps the biggest short-term threat to commodity trading houses in a post-Davos man world are curbs to immigration and the free-movement of people. Staffing rolls of the biggest trading houses often resemble a United Nations plenary session, with Britons, French, Iranians, Chinese and Americans rubbing shoulders on the same trading floor.

"The current climate has many of our smartest people from outside the U.S. questioning whether they want to stay here," Cargill CEO MacLennan wrote in the Huffington Post in February.

Adaptive Powers

In the event of barriers being raised, commodity traders would need to adapt. That, ironically, could increase opportunities for the biggest trading houses amid shortages and disruptions.

"Commodity traders are at their best when there are problems," said Philippe Chalmin, a professor of economic history at University Paris-Dauphine.

When barriers have been at their highest, trading houses have thrived, said Lambert, citing legendary trader Marc Rich's sale of Soviet oil to apartheid South Africa and Iranian oil to Israel via a secret pipeline. Rich, who was charged with racketeering and "trading with the enemy," by the U.S. in the 1980s, fled to Switzerland and was pardoned by President Bill Clinton in 2001.

Commodity trading houses would adapt again to take advantage of any potential disruptions, according to Lambert. Trafigura CEO Weir agrees.

"Global trade is not going to slow down but the flows will change," he said. "You just have to be in the right position to identify what those changes are going to be and how to adapt."

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