



Conference on Commodity Price Volatility

Private Sector Meeting

Istanbul, Turkey, 12 September 2011

The Istanbul Declaration

1. We, the private sector representatives of the G-20 countries, thank the G-20 French Presidency for identifying commodity price volatility and its impact on the world economy as a top priority in its work program.
2. We are also thankful to the leaders of the Turkish business community, the Union of Chambers and Commodity Exchanges of Turkey (TOBB) and the Turkish Industry and Business Association (TÜSİAD), for successfully hosting this conference and the generous hospitality it offered in Istanbul. The fact that Turkey, a major emerging G-20 country and an important commodity importer, hosts this event, demonstrates how critical it is to address the adverse impact of volatility problem in our economies.
3. The messages in the opening remarks of Mrs. Ümit Boyner - TÜSİAD President, Mr. Halim Mete - TOBB Vice President, as well as the wide-ranging panel discussion, chaired by Messrs Mehmet Ögütçü and Bruno Bensasson, include, *inter alia*:

Need for a fresh and innovative approach

4. Commodity volatility is fundamental to the survival of our businesses and our common political future. Our senior business leaders called for "a change in mindset", and indeed, a need for a "revolutionary thought process" in this field. We concur that the global community should focus on innovative solutions for investments, demand management and policy coordination. We feel that this is necessary considering the extreme complexity and wide-ranging effects commodity markets have on businesses and individuals throughout value chains. During this reform process, the business community should continuously assist and guide policymakers to find innovative and proactive solutions.
5. We recognize that excessive volatility in commodity prices, particularly those for food and energy, creates new risks and uncertainties for the ongoing recovery, and the prospect for investments into increase supply side capacities declines.



The need for a global solution

6. The unprecedented problems of the today's global commodity market means that no institution or interest group holds all the keys to a solution. While some lessons can be drawn from previous commodity price boom and bust cycles, the present problems are, to a large extent, unique. In devising a solution, it is therefore important to involve as many interested parties and stakeholders as possible.

7. Here, the business community plays a critical role. Our discussions came up with ways G-20 governments can better assist all exporting and importing countries as well as important commodity producers, traders and financial market players. This, of course, needs to be done without disrupting the market mechanism and without leaving the poor to the whims of market forces.

8. Other conclusions reached in the conference:

- Long-term upward trend in commodity prices starting from early 2000s and the post-crisis increase in volatility have to be evaluated separately;
- Increasing global demand, mostly stemming from Emerging Asia, seems to be the major reason for the long-term upward trend in commodity prices;
- New supply can take a decade to realize. Constraints on new supply will increase the difficulties of already tight markets;
- Uncertainty about the global recovery is one of the key aspects of volatility. Any positive or negative news about global growth will directly be reflected by commodity prices;
- High regulation, price subsidies (especially in the agricultural commodities) and barriers to investment and trade will eventually distort the market mechanism and increase price volatility;
- Commodities are traded in a global market, but policies and regulations are implemented nationally. In the absence of policy coordination, this causes more volatility in the markets.

Proposed actions

9. As the private sector representatives of the G-20 countries, we have agreed to communicate the following messages and proposed actions to the B-20 Business Summit as well as to the G-20 Heads of Government Summit in Cannes this upcoming November:



Market fundamentals matter more than speculation

9.1. There is little evidence to support the theory that financial speculation on commodity markets has been a major cause of the price increase. At this stage, the available evidence suggests that fundamental factors are the foremost determinants of commodity prices. Speculators do play a role, but only a secondary one.

9.2. One of the most significant fundamentals shifts has been the shift in the composition of global growth, as emerging markets came to act as the engines of world growth. Since these emerging market economies are generally at a relatively commodity-intensive stage of development, global demand correspondingly shifted towards commodities.

9.3. We call on G-20 governments to focus more on improving market fundamentals, rather than controlling financial speculators, who in fact enable producers to hedge their price risk, which they would otherwise have to hold expensive capital against.

Increased transparency and long-term planning

9.4. We believe that excessive price fluctuations foster uncertainty and disrupt the forecasting abilities of economic stakeholders. This uncertainty is exacerbated by the lack of transparency in commodities markets, which in turn makes prices more volatile. The lack of reliable international data concerning supply and demand trends on commodities markets hampers price formation and increases volatility. Improved information about the level of commodities stocks would also be a step forward.

9.5. We are convinced that information asymmetries should be removed in order to have more efficient markets. Thus, collecting and disseminating timely and accurate information on supply, demand and storage flows have to be one of the top priorities of policymakers. Policy coordination should also be sustained along the supply chain. The International Energy Forum's JODI¹, Food and Agriculture Organization's AMIS² are important initiatives worth supporting in this context, and should be expanded to other commodity groups. This will help all market participants and policymakers to develop a fact-based consensus on the sources and implications of price volatility.

9.6. We also call on developed G-20 countries as well as all relevant international organizations to provide technical assistance to countries which want to improve their statistical reporting systems and data collection and dissemination mechanisms. We encourage them to take a long-term view of their future supply, demand, inventories and price formation processes.

¹ Joint Organisations Data Initiative

² Agricultural Market Information System



Interrelatedness among commodities

9.7. Commodities prices, more so than stocks or currencies, are vastly inter-dependent. The price of one commodity depends heavily on the prices of other commodities as their production and transportation often require the use of, or are in some way intrinsically linked to, other commodities. For commodities traded internationally, the strengths of producers' and consumers' currencies can also effect prices. We therefore call on G-20 governments to strive for a better understanding of foreign commodity markets and develop integrated policies.

Designing an enforceable regulatory framework to cope with market abuse

9.8. The regulation of commodity markets is not harmonized, and some markets have no regulation mechanisms. We call on governments to step up their efforts in establishing a basic set of rules governing market abuses and price manipulations for both commodity and financial markets.

9.9. It is, however, our belief that across-the-board over-regulation will stifle the markets. We propose that enforceable regulations should target the market abusers including financial and proprietary deals in certain commodities to make sure that markets function effectively.

Ensure level playing field for commodities

9.10. Increasing the possible number of players participating in physical markets enables the efficient allocation of resources and reduces global supply-demand imbalances. G-20 governments should enforce WTO rules for the countries introducing new regulations of raw material exports and imports, thus ensuring long-term efficient and stable regulatory rules to stimulate investment and trade flows.

Foster demand management schemes and efficient use of resources

9.11. Efficient policies governing the use of raw materials is important in limiting the increase in commodity consumption. This will immensely contribute to the ongoing sustainability efforts in various commodities. Moreover, we call on G-20 governments to remove price subsidies (to the extent political and social realities allow) that distort efficient consumption patterns.



The improvement of our business climate, policy and institutional framework

9.12. Increasing commodity supply and inventories is key in curbing price volatility. This means channeling massive funds of investment in energy, food and metals along the value chain. Investors will take action only if host governments create a conducive business environment. We call on G-20 governments to persist in their efforts to help build appropriate policy, legal and institutional frameworks.

Social fairness for the less fortunate

9.13. Rising commodity prices and volatility, particularly for fuel and food, have placed millions at risk of malnutrition and hunger, exacerbating social tensions worldwide. Because of commodity market volatility, market-based mechanisms will not solve the problems of the less fortunate unless they are complimented by stronger hedging instruments as well as development and social policies. We call on G-20 governments to design special policies in order to ensure the sustainable supply of basic materials to the most vulnerable part of the global community.

Last, but not least

10.1. G20 leaders should deal with these issues and cooperate more closely with the business community. Since the underlying fundamentals and the implementation process of the necessary policies are long-lasting, we highly recommend keeping this issue on the G20's agenda beyond the French presidency.

10.2. Turkey and its Turkish business community have expressed its willingness to follow up efforts in this critical area under all relevant platforms such as the B-20 umbrella and ICC-WEF task forces.