



Trading Overseas

Over seven years the Belarusian Universal Commodity Exchange has gone a long way from simple voice-facilitated trade sessions to digital auctions accessible from all over the world

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A commodity exchange in the structure of trade and economic ties of any country helps improve trade effectiveness and reduce the shady part in wholesale trade. Many post-Soviet republics have used commodity exchanges to establish transparent economic relations, in particular, Russia, Turkmenistan, Kazakhstan, Ukraine, and Uzbekistan. Belarus was no exception.

The Belarusian Universal Commodity Exchange (BUCE) was created following the initiative of the head of state by Council of Ministers' Resolution No. 1719 of 30 December 2003. The state owns 98% in the company.

Steps of the Way

In point of fact the commodity exchange started working in mid-2005 when regular trade in timber and metal products began (the first trading session to sell timber took place on 2 June 2005, metal products on 29 June 2005). In Q4 2005 the commodity exchange started preparing for selling agricultural products and launched actual sales in January 2006.

It should be noted that initially the commodity exchange performance was poor largely due to the lack of understanding of the company's role among regular trade participants and high-ranking officials. Besides, at the start the company had no practical experience of assimilating exchange technologies.

Now the situation has drastically changed. The number of those opposing the idea reduced sharply while the stellar performance convincingly demonstrates the choice was right. Billions of rubles were saved (foreign currency in many cases) by Belarusian sellers and buyers thanks to the commodity exchange.

Over the seven years (which is quite a short period of time because some international exchanges have been in existence for over a hundred years) a lot has been done. BUCE

made the transition from conventional voice-facilitated trading sessions to digital auctions that use the latest information technologies, modern software, computers, and communication equipment, allowing sellers and buyers to make transactions in any part of the globe.

The legal base that regulates the commodity exchange market has been considerably improved: several presidential decrees were adopted along with a new revision of the law on commodity exchanges, over 50 resolutions and decisions of the Council of Ministers, the National Bank and other government agencies, with dozens of local regulations of the commodity exchange adopted.

In between general meetings of shareholders BUCE is managed by the Supervisory Board chaired by the Belarusian Trade Minister. The official is the government's representative in the commodity exchange. Following the relevant resolution of the Council of Ministers, a Coordinating Council for Exchange Trade led by First Vice Premier of Belarus Vladimir Semashko has been set up. The Council includes heads of key ministries of the republic. It is worth noting that resolutions of the Council have been binding since August 2009 (they used to be recommendations).



The Belarusian Universal Commodity Exchange takes an active part in the work of international organizations, contributing to the expansion of economic ties and export of Belarusian products. In 2008 BUCE became member of the International Association of CIS Exchanges.

By the way, it was BUCE that submitted the proposal to set up a Committee for Commodity Markets under the Association. The proposal was backed by other exchanges. In November 2011, Minsk hosted the first session of the Committee that determines general guidelines and concrete measures of the program to realize integration processes at exchange-facilitated commodity markets of the CIS states, including the Customs Union and EurAsEC member states.

Besides, in 2011 BUCE became a full-fledged member of the Association of Future Markets



(AFM) that consists of clearing agencies and over 30 exchanges from various countries.

At present BUCE has branches in all the oblast capitals of the country, with a representative office in Moscow, Russia. There are BUCE plenipotentiaries in Lithuania, Latvia, and South Africa (there are plans to set up representative offices, daughter enterprises or joint ventures in these countries in the future). The establishment of exchange bodies in Ukraine and Estonia is on the agenda.

BUCE participates in international and national expos (including events featuring BUCE's own booths that allow visitors to watch trading sessions in real time and make transactions), forums, conferences and other events.

With the assistance of the Foreign Ministry BUCE regularly hosts seminars for ambassadors and trade councilors of Belarusian embassies to attract new foreign partners to the commodity exchange. Every quarter of the year presentation materials in Russian and English and the Exchange Bulletin magazine (BUCE's proprietary edition) are sent to 50 diplomatic missions.

Information technologies are vigorously used. The official website www.butb.by was complemented by the monthly digital edition "Commodity exchange market review" in 2011. The edition features analytical reports about the state and development forecasts of commodity markets, results of trading sessions, quotations, and other kinds of topical information. Over 100 BUCE clients have subscribed to the edition.

Many domestic and foreign participants of the commodity market believe that at present the Belarusian Universal Commodity Exchange is a major supplier of authentic up-to-date and statistic information required to make trade decisions as well as data about the status of various segments of the commodity market.

By the way, BUCE has started calculating market indexes, which are new integrated indicators of the status of commodity market segments, in particular, ferrous metal products. The instrument is used by leading international commod-

ity exchanges and allows assessing general market trends.

Figures and Facts

Nowadays the Belarusian Universal Commodity Exchange efficiently helps the government organize wholesale trade in strategic products; it participates in several government programs aimed at developing the national economy; it also promotes the integration of markets in Belarus, the CIS states and Europe. Several respected foreign experts have declared BUCE a major operator of the commodity spot market that directly influences the market situation, primarily in the countries Belarus borders on.

The facts indicate BUCE is a well-established economic institution. The conclusion is confirmed by the commodity exchange performance. As of 1 February 2012, there were 9,822 registered exchange trade participants and clients of exchange brokers, including 2,081 non-residents in 55 countries.

The three sections (timber, metal and agricultural products) conduct trading sessions to sell 130 commodity items (over 30,000 exchange commodities). The main ones are ferrous and non-ferrous metals and goods made thereof, scrap metal and metal byproducts, coal, coke, cables and wires (the metal products section), standing timber, round timber, timber, plywood and flake boards,

paper and pasteboard (the timber products section), hard cheese, milk powder, casein, butter, rapeseed oil, sunflower and soy oil cakes, hides (the agricultural products section).

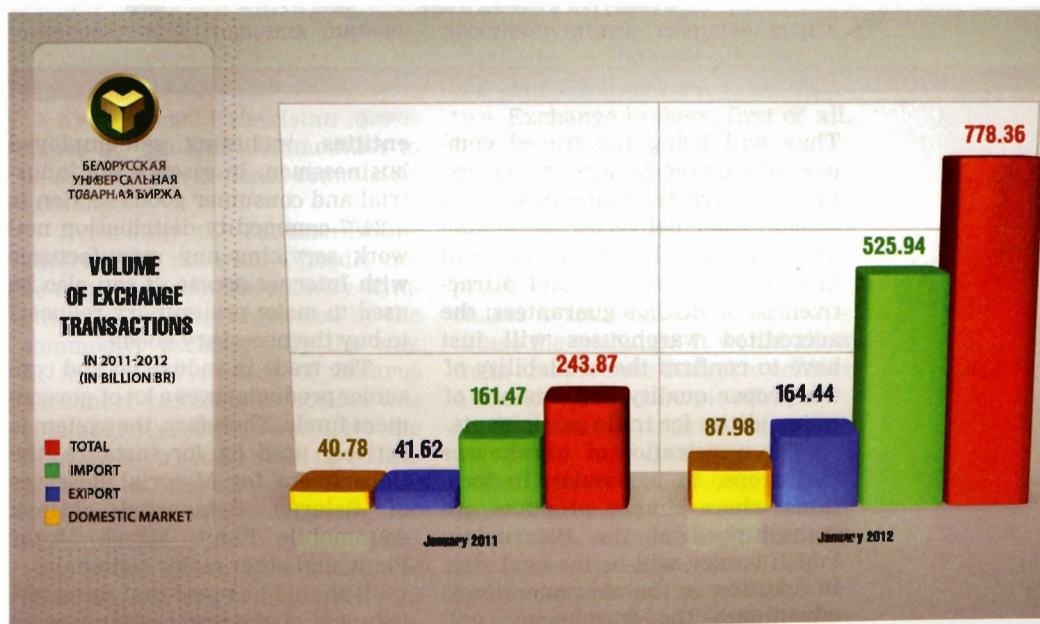
Every day BUCE hosts 5-7 trading sessions. For instance, the most intensive trading sessions to sell ferrous metals and goods made thereof involve about 700 sellers and buyers. The digital system can process up to 100,000 bids at a time, with the demand exceeding the supply 10-15 times. It allows domestic consumers to feel confident in the market segment and to make profitable purchases.

BUCE's total turnover between 2 June 2005 (the first trading session) and 1 February 2012 exceeded Br21.2 trillion, or the equivalent of about \$7.2 billion (taking into account the average exchange rate of the National Bank of Belarus in the relevant periods).

Calculated as a simple difference between initial prices and market prices (minus the commodity exchange fees), the additional revenue and the money saved by Belarusian participants of the trading sessions amounted to an equivalent of Br1.4 trillion between 1 January 2006 and 1 February 2012.

Steps for the Future

Along with holding trading sessions, processing data, handling transactions, BUCE pays close





attention to building up the exchange infrastructure and introducing new instruments and services. Adopted in 2010, the company's development program for 2011-2015 envisages the company's conversion into a holding company with a clear-cut organized commodity market infrastructure.

The project Exchange Logistics the company is implementing now was the first major step in this direction. Contracts with Belarusian wholesale traders, forwarding agencies have already been signed. Cooperation with companies that examine the quality of commodities has been established. BUCE has also accredited four major warehouses abroad: in sea ports of Lithuania, Latvia, Estonia and in Moscow.

help reduce the time spent waiting for European track trains.

A while ago the accredited warehouses and forwarding agencies set up a special logistics organization which services allow expanding the export of BUCE's earnings, which is particularly important for the national economy.

The creation of the industrial and consumer goods section in 2009 is a successful project accomplished by the commodity exchange. In essence it has granted Belarusian companies additional opportunities to sell domestic products and to buy a wide choice of products.

The system is unparalleled in Belarus and the CIS states. It relies on a modern computer system that can service all Belarusian economic

essential step in popularizing and expanding the use of digital trade in the country. In the future BUCE plans to set up a national web portal for trade. It would be able to offer complete information about the manufacturing potential of domestic enterprises, enabling fast deals, including export and import ones. For now Belarusian companies are reluctant to use the full potential of the commodity exchange despite the company's vigorous promotional efforts.

BUCE has an effective arbitration commission. Trade participants say their disputes are handled at a high professional level and in many cases faster than by economic courts.

BUCE is now working hard to form a forward market without government funds and financial profits for itself, at least initially. The forward market will help improve Belarus' image and will indicate the development of market relations in the country. Wisely used, the forward market opens up great opportunities for insuring price risks and for planning production efforts.

Following the relevant resolution of the government the Belarusian Universal Commodity Exchange became an operator of the digital trade platform used for government purchases. The relevant local legal acts have been passed, software has been developed, a proprietary authenticating center has been set up. Free educational courses are now available in Minsk and in the oblast capitals (at premises of BUCE branches), with about 5,000 executives and specialists instructed in using the digital trade platform for government purchases.

The first results of the digital auctions held for government purchases were rather vivid. The organizations that used the system saved between 18% and 47% of their money thanks to the reduced initial prices. As of 1 February 2012, buyers had saved over Br1 billion in all the completed digital auctions (for which contracts had been signed).

The BUCE-facilitated digital trade platform can be used for purchases using not only government funds but also proprietary funds. Since the auctions became available, Br1.3 billion worth of

Trade section	2011			2012		
	Brn BYR	Mln EUR	Mln USD	Brn BYR	Mln EUR	Mln USD
Metal products	367.8			62.7		
Timber products	283.2	1.72		12.6	0.02	
Agricultural products	0.39		0.84	3.34		0.00
TOTAL:	651.4	1.72	0.84	78.6	0.02	0.00

The amount of money saved and earned
in January 2012 is estimated at about Br78.88 billion, in 2011 – Br666.29 billion

They will bring the traded commodities closer to foreign buyers. In the future the warehouses will enable faster deliveries using simpler schemes. The measures will improve the standing and attractiveness of BUCE's guarantees: the accredited warehouses will just have to confirm the availability of the proper quality and amount of commodities for trade participants.

The registration of warehouses in Europe, in particular, in locations where timber products are transshipped at the Belarusian-Polish border, will be the next step. In addition to the abovementioned advantages the warehouses will

entities, including self-employed businessmen. In essence the industrial and consumer goods section is a 24/7 commodity distribution network servicing any manufacturer with Internet access. It can also be used to make preliminary requests to buy the necessary goods.

The trade in industrial and consumer products saves a lot of government funds. Therefore, the system is actively used by, for instance, the Department for Material Reserves of Belarus, Belaruskali, Minsk Automobile Plant, Minsk Motor Plant, and other major companies.

It should be noted that the establishment of the new section was an



БЕЛОРУССКАЯ
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ТОВАРНАЯ БИРЖА

Additional revenues

Earned by residents
of the Republic of Belarus
at the commodity
exchange in 2011-2012



Every day BUCE holds 5-7 trading sessions involving up to 700 sellers and buyers

purchase contracts using government funds have been signed, with Br5.3 billion worth of purchase contracts using proprietary funds signed. The most active participants are organizations reporting to the Belarusian Healthcare Ministry.

Matters of Dispute

The unique capabilities BUCE offers – flexibility, prompt response and ease of use – have allowed the company to quite rapidly secure a firm foothold on the domestic market and foreign ones. The attitude of market participants, economic entities, and top executives to BUCE has changed.

Still economic operators tend to believe that the commodity exchange is a middleman bent on earning profits. However, BUCE does not resell anything but enables conditions for effective operation of market participants.

The erroneous opinion comes from the lack of understanding of how commodity exchanges work. The Belarusian Universal Commodity Exchange operates under the control of and for the sake of the government just like exchanges in other countries do. In the USA, the UK, Germany, Poland, Uzbekistan, and Russia the commodity exchange is used as a real

mechanism to manage and influence trade, primarily foreign trade transactions.

For instance, the USA has the Commodity Futures Trading Commission. Its members and the chairman are appointed by the president and have considerable power, including power to “tune” market processes.

In Poland the government does not legislatively specify the commodities that have to be sold via the commodity exchange. However, preferences are granted only to manufacturers who can confirm that their products are sold via the exchange.

Every year Uzbekistan determines the quota of commodities to be sold via the national commodity exchange.

According to Turkmenistan’s government, not even a needle can be exported from the country without a deal getting registered by the commodity exchange. By the way, in his time President of Belarus Alexander Lukashenko noticed this commodity exchange and gave the relevant instruction to set up a similar body in Belarus.

Certainly, blind copying of exchange-facilitated trade practices is out of the question. These examples vividly demonstrate that the commodity exchange is a truly

indispensable economic institution for any country. We would like to discuss the problems BUCE has been facing recently and which resolution would make the financial and economic status of the country stronger taking into account state interests.

Let’s start with the metal products section. The share of exchange-facilitated operations involving the ferrous metals and goods made thereof, which are to be sold via the exchange, increased from 2% in 2005 to 20% in 2010. The growth is large but is it sufficient?

Buying metal in small batches is a problem because it is not effective. Exchange brokers, first of all, industry ones could consolidate purchases and buy large batches, for instance, wagon lots at lower prices. We would also like to encourage the enterprises that buy metal products using the government purchases system among other ways, to use the exchange. It would allow them and the state budget to achieve a considerable economic effect.

The same is true for the comparatively new items on sale – cables, wires, and electrical products. The customers are mainly enterprises of the Energy Ministry. Until recently they used BUCE to rather effectively purchase what they needed. However, the state



electrical company Belenergo issued order No. 275 of 17 August 2011 to make its constituent enterprises to use OAO Belenergosnabkomplekt for these purchases. While different forms of purchases are economically vital, purchases via the commodity exchange are undoubtedly effective.

There are problems in the agricultural products section, too. For instance, until recently instructions issued by the working group for monitoring dairy, grain, and flour sales on the home and foreign markets (a body of the Agriculture and Food Ministry) were applicable to BUCE as well. But in a market economy only demand and supply can produce an objective balanced price and pull agricultural sales out of the shadow economy. Otherwise, the indicative prices formulated by the working group have no real economic basis.

However, an exchange is effective because the most representative price is determined by the conflict of concentrated levels of supply and demand. It is possible only at the commodity exchange. Operative and regular exchange quotes are the primary source here. They should be used to establish prices for similar products sold off the exchange. The enforcement of minimal prices contradicts the logic of exchange trade. It has been mentioned repeatedly.

If these rules are broken, we will get the situation we saw earlier. While BUCE offered dairy products

at recommended prices on conditions of 100% upfront payment and FCA delivery (seller's warehouse), the over-the-counter market offered dairy products at the same prices, with delay of payment, delivery to the border or to the buyer.

However, we came to terms with the Agriculture and Food Ministry and forwarded a coordinated proposal to the government. On 26 January 2012, Prime Minister of Belarus Mikhail Myasnikov signed Ordinance No. 30p to address the situation. Although it is too early to talk about results, we are convinced it will help raise dairy exports via the exchange, making them more economically effective and restoring market diversification.

BUCE's proposals to sell new items are hard to implement, although the items fully meet the classical exchange commodity item description: they are fast-moving, homogeneous, and replaceable. For instance, sugar and salt. All over the world these commodities are traded via the stock exchange, but the situation in Belarus is different. For two years BUCE has been trying to come up with a solution to suit the Belarusian state food industry concern Belgospischeprom but to no avail.

As a result, this important market segment remains semi-transparent due to, for instance, sugar sale offers that forbid export of sugar to Russia, Kazakhstan, Ukraine,

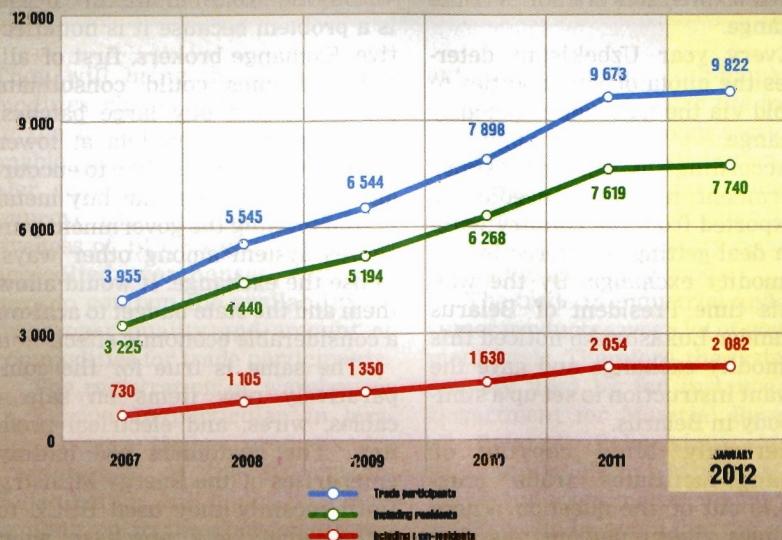
Kyrgyzstan, and Georgia. Every year these countries get over 80% of sugar export. It is Russian, Kazakh, and Ukrainian customers that regularly place orders to buy Belarusian sugar.

The timber products section. It should be noted that BUCE enjoys best understanding with the Belarusian Forestry Ministry and the state forestry industry concern Bellesbumprom. Cooperation is smooth but there are things to improve. For instance, after assessing the demand (transactions are preceded by the collection of offers to buy commodities) the main suppliers, like Bellesexport, Bellesbumpromexport, the Belarus President Property Management Department sometimes offer to sell products way above the demand, thus competing with each other and creating prerequisites for lower prices. The approach is not exactly correct and should be fixed.

All in all, those who are against using BUCE to sell products generally say they use their own distribution chains. But BUCE could be a complementary tool! The commodity exchange is an additional way to sell products and learn the true value of a product. It should be understood that with its client base in 55 countries BUCE is a commodity distribution chain with obvious advantages. Besides, technical capabilities of the commodity exchange exceed those of some trading houses many times over.

Exchange-facilitated transactions are a mechanism to determine a fair market price that sellers and buyers in the OTC market can and should keep in mind. The instrument is indispensable for individual economic entities and the entire Belarusian export-oriented economy.

BUCE performance demonstrates that with proper legal and administrative support commodity exchange operations can give a considerable economic effect to the state. It is manifested in financial results of Belarusian economic entities that use the exchange to sell and buy products. Not only the commodity exchange and the government bodies that control it but all economic entities should bolster the effect. ■



**БЕЛОРУССКАЯ
УНИВЕРСАЛЬНАЯ
ТОВАРНАЯ БИРЖА**

**Number
of exchange trade
participants**

(taking into account clients
of brokers)
in 2007-2011