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A centralised mercantile exchange, set to launch in July, will offer transparency and therefore equitable prices, says Shafeequr Rahman, CEO of the Cambodian Mercantile Exchange PLC

Photo by: HENG CHIVOAN The new mercantile exchange will depend on Internet connections for prices to be transmitted to the provinces, a factor that could be problematic given the lack of connectivity and electricity in rural areas of the Kingdom, says Shafeequr Rahman, CEO of the Cambodian Mercantile Exchange Plc.

Everything happens when the time is ripe, and we think that this is the right time."

Many people do not understand how a commodities exchange works and what it does. Can you explain the exchange?

A commodities exchange is a central meeting place where buyers and sellers meet to do business.

The exchange provides an online trading facility where buying and selling takes place.

The exchange itself does not buy or sell commodities or contracts; nor does it set or establish prices, but it makes sure that a fair trade happens between its member buyers and sellers.

A commodity exchange performs three valuable functions.

It sets rules and regulations to promote uniform practices between buyers and sellers in the market.

It instantly circulates valuable price and market information to exchange members, their customers and other interested market participants. And it provides the machinery for settlement of business disputes.

Buying and selling of commodities such as rice, rubber or cassava may be done in two ways.

They can be bought or sold in either the cash market or the futures market, which are two separate but related markets.

The cash, or “spot” market, is where the physical commodities are bought and sold at a price negotiated between buyer and seller. It will make farmers get the fair and market prices for their products.

The futures market is different from the cash market. In the futures market, legally binding futures agreements – not the actual commodities themselves – are bought and sold. These agreements are called futures contracts, because they provide for the delivery or receipt of a specified amount of a commodity during a specified future month.

Futures contracts do not involve immediate transfer of ownership of the commodity. Instead, futures contracts involve actual receipt or delivery of the commodity at some future date.

For this reason, you can buy and sell commodities in a futures market, in the form of contracts, whether or not you own that commodity.

How can a mercantile exchange raise prices for farmers? Won’t raising prices for farmers lead to food price rises for consumers and fuel inflation?
What I mean is that the farmers will get better prices than what they are getting now.

As of now they don’t have an organised setup where they can look at a transparent, common market price system and confidently sell their produce without any fear of being exploited.

The buyers save in terms of cost of procurement. Hence, both parties will be happy from our initiative.

The magic is reducing cost of intermediation and improving market efficiency.

It would not fuel inflation, as the market is totally driven by actual demand and supply theory. It’s not driven by inflated or fabricated demand.

It will provide better prices for the farmer without compromising the interest of the buyer, which would help in stabilising the economy.

Now farmers get cheap prices for their products, but middlemen buy from them and resell [products] with very high prices.

We have seen fuel prices in Cambodia rise rapidly so far this year due to the cost of crude oil on world markets. How would Cambodia’s new commodities exchange affect fuel prices? How would fuel be handled by the exchange?

As far as the fuel prices are concerned, it's the government's prerogative to set the prices of crude according to the world prices.

It's purely driven by actual fuel-price fluctuations in the international market.

So since the price of crude is directly under the government's control, it's more in sync with international prices than the commodity prices that we are talking about, which are locally produced and driven by market forces locally.

So, we are speaking about streamlining this segment.

Where will the exchange be, and how will it operate on a day-to-day basis?
The exchange is centrally located in Phnom Penh and will be easily accessible to all. We will employ between 25 and 30 staff.

The software for the commodities exchange, purchased from Kappsoft, India, will be installed and put in operation in two months, and the launching of the commodities exchange will be definitely in July.

The new exchange depends on collecting price information on the ground on a day-to-day basis. How will these logistics work in Cambodia?
We will appoint Mex Cambodia personnel to all the major provinces where the commodities are produced.

They will have the latest automated price-feed systems to collect and transmit the day-to-day prices of the commodities, and all these prices will be instantly published on Mex Cambodia Web sites, so the farmers can access the prices from anywhere.

However, high Internet prices and limited access are main concerns for us.

Why do you think such a system has taken so long to arrive in Cambodia?
Everything happens when the time is ripe, and we think that this is the right time.

So we took the lead, and the commodities exchange is happening.

Presumably some large-scale purchasers of agricultural raw materials would prefer to source on an ad hoc basis in order to better suppress prices. Have you received any opposition to your plans?
So far, the response has been very positive. Almost everyone is unanimous in welcoming our exchange.

We don't foresee any opposition to our existence, as it will eventually be in the interest of everyone.

And since the commodity market potential is under-utilised, it will not cut anyone's business, but in fact only increase the volume of business and benefit all.