

International Finance and Investment in Agriculture: Trends and Prospects

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Bossey, Switzerland

Financialization: Food and Agriculture as Financial Investment

- Long history of grain futures markets (1700s-1800s)
- Regulation to prevent excessive speculation (1920s-30s)
- Since 1980s-90s growing interest in agriculture as a financial investment



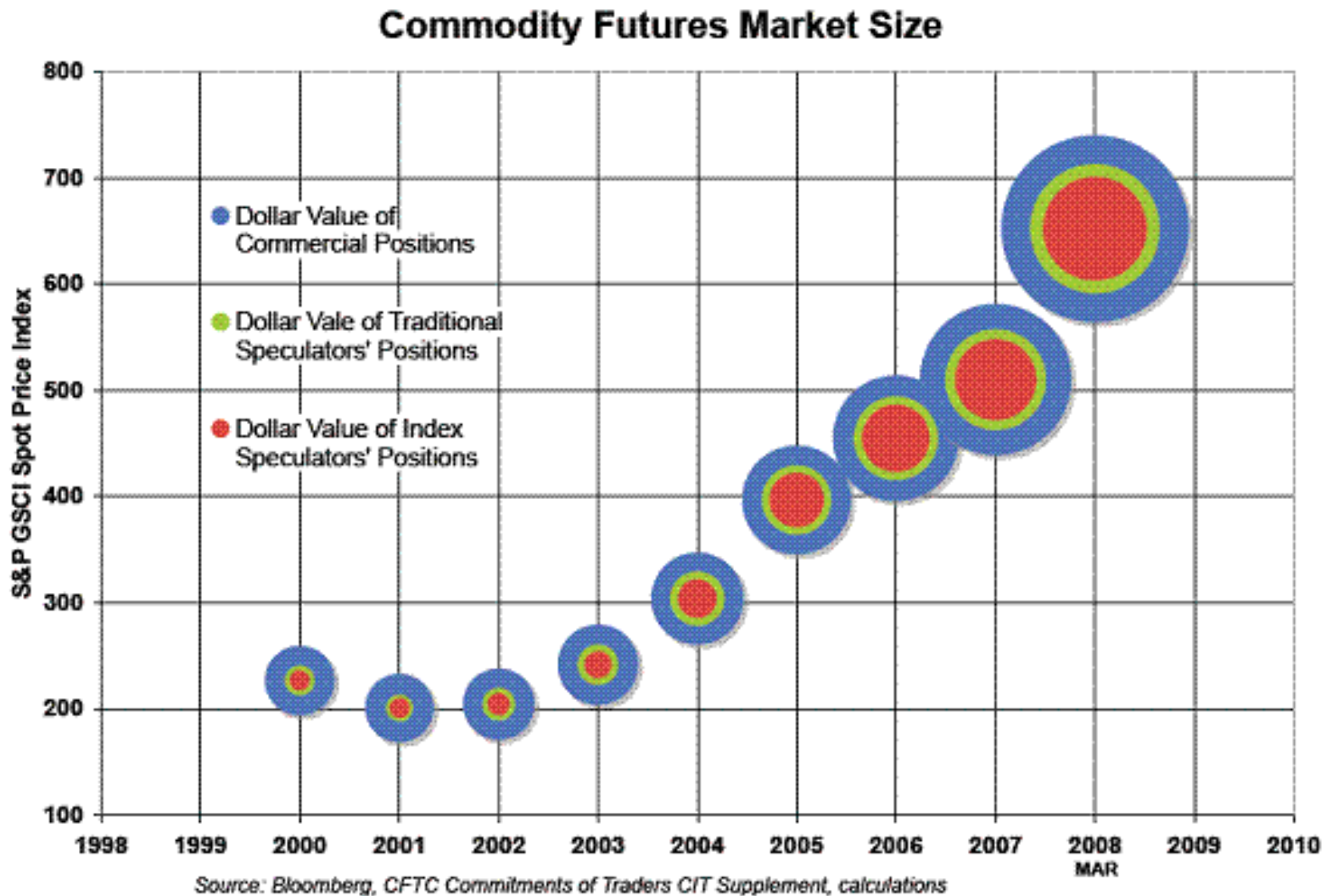
Deregulation of global financial markets, including commodity investment rules

Changes in the US Financial Market Regulations Affecting Agricultural Commodity Derivatives Trade

1922	1936	1974	1986	1991	1990s	2000
1922 Grain Futures Act Trades must be on approved exchanges and market manipulation outlawed.		1974 Commodity Futures Trading Commission (CFTC) becomes regulator of commodity markets			1990s Exemptions from position limits extended to other swap dealers	
1936 Commodity Exchange Act Position limits placed on 'non-commercial' traders		1986 US Congress encourages CFTC to expand criteria for exemption from rules for noncommercial traders to include need to hedge financial risks			2000 Commodity Futures Modernization Act – exempts over the counter commodity derivatives trade from CFTC oversight	
		1991 First formal exemption for banks from commodity market position limits to allow Goldman Sachs to set up commodity index swap				

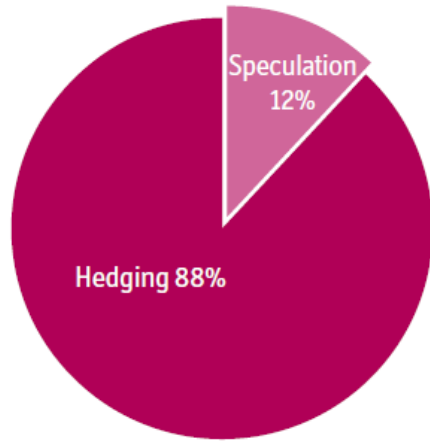
Source: Clapp and Helleiner 2012

Massive growth in speculative investment in agriculture and food

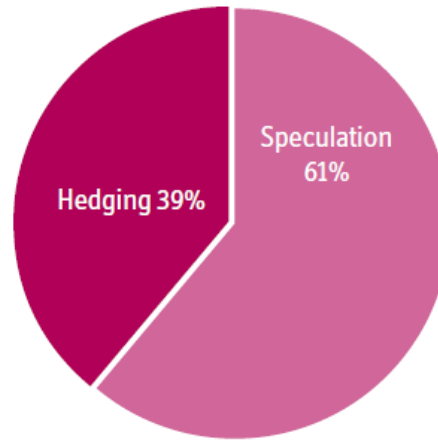


Market share of hedgers and speculators in the Chicago wheat futures market²⁶

25 June 1996



21 June 2011



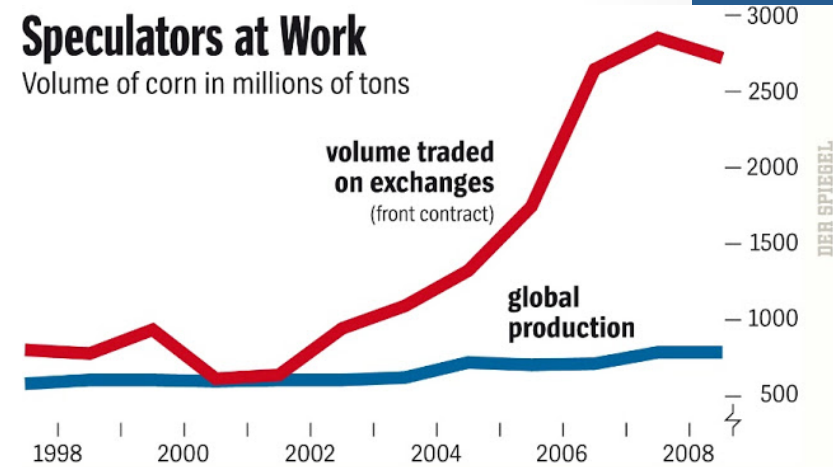
Source: World Development Movement report, *Broken Markets* (2011)

Graph 3. Financial holdings in agricultural commodity derivative markets 2006-2011²⁹



Speculators at Work

Volume of corn in millions of tons



Source: Thomson Reuters Datastream; LBBW Commodity Research

Who are the players?

Who is selling?

- Banks
- ABCD financial subsidiaries

Who is buying?

- Hedge funds
- Pension funds
- Sovereign wealth funds

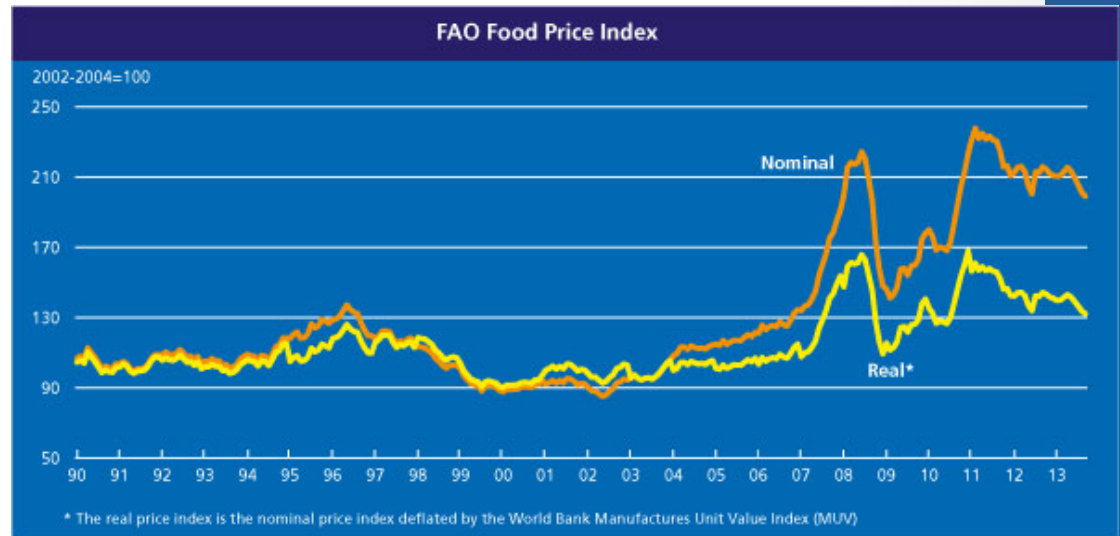
Financial Institutions Serve Investors:

- Facilitate investments for third parties
- Provide specialized knowledge to investors



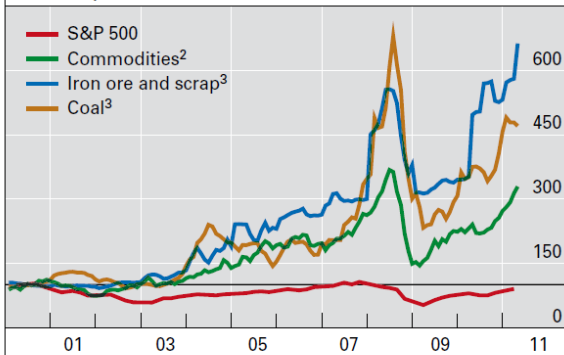
Implications of Financialization

- Heated debate over impact of commodity speculation on food price volatility



Financialisation of commodities

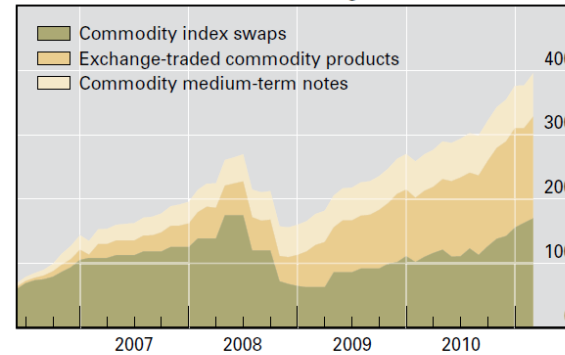
Asset prices¹



¹ 2000 average = 100. ² Goldman Sachs general commodity index. ³ HWWI index. ⁴ Barclays Capital data, in billions of US dollars.

Sources: Barclays Capital; Bloomberg; Datastream; national data.

Commodity assets under management⁴



Graph IV.B

But many organizations (BIS, UNCTAD, HLPE, etc) note that at very least exacerbates price volatility

Difficulty of drawing lines of cause, effect and responsibility

- Abstraction of food into financial instruments
- Cost externalization by investors
- Blurred lines of responsibility
- Heated debates over regulations

Source: Clapp 2014



Recent Developments:

US- CFTC Position Limits Rule

EU – new MiFid Rules on position limits

DZ vows to stop food price speculation

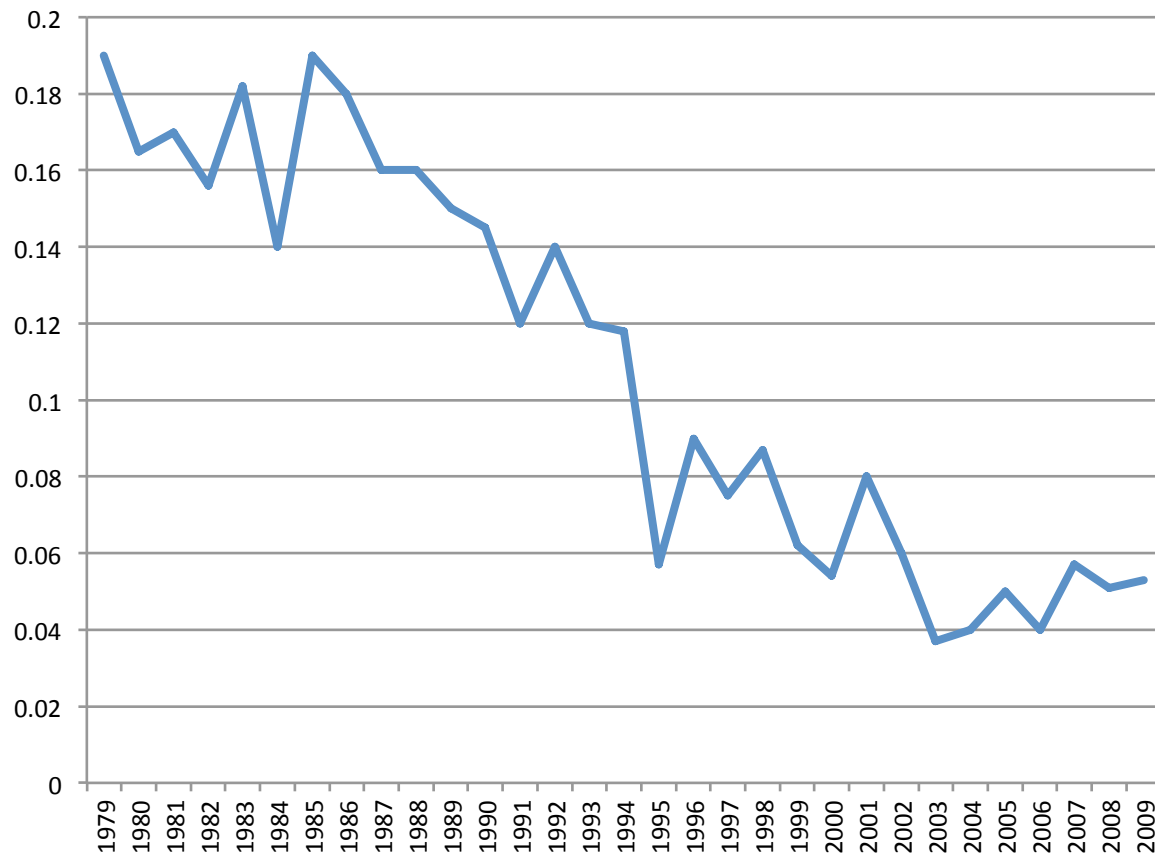
Another approach to Food Price Volatility: Agricultural Market Information System

- Aim is to improve access to market information to smooth commodity prices
- Challenges:
 - *Will key players share information?*
 - *Is market info alone enough to stabilize prices?*



Meanwhile: Decline in public agricultural investment

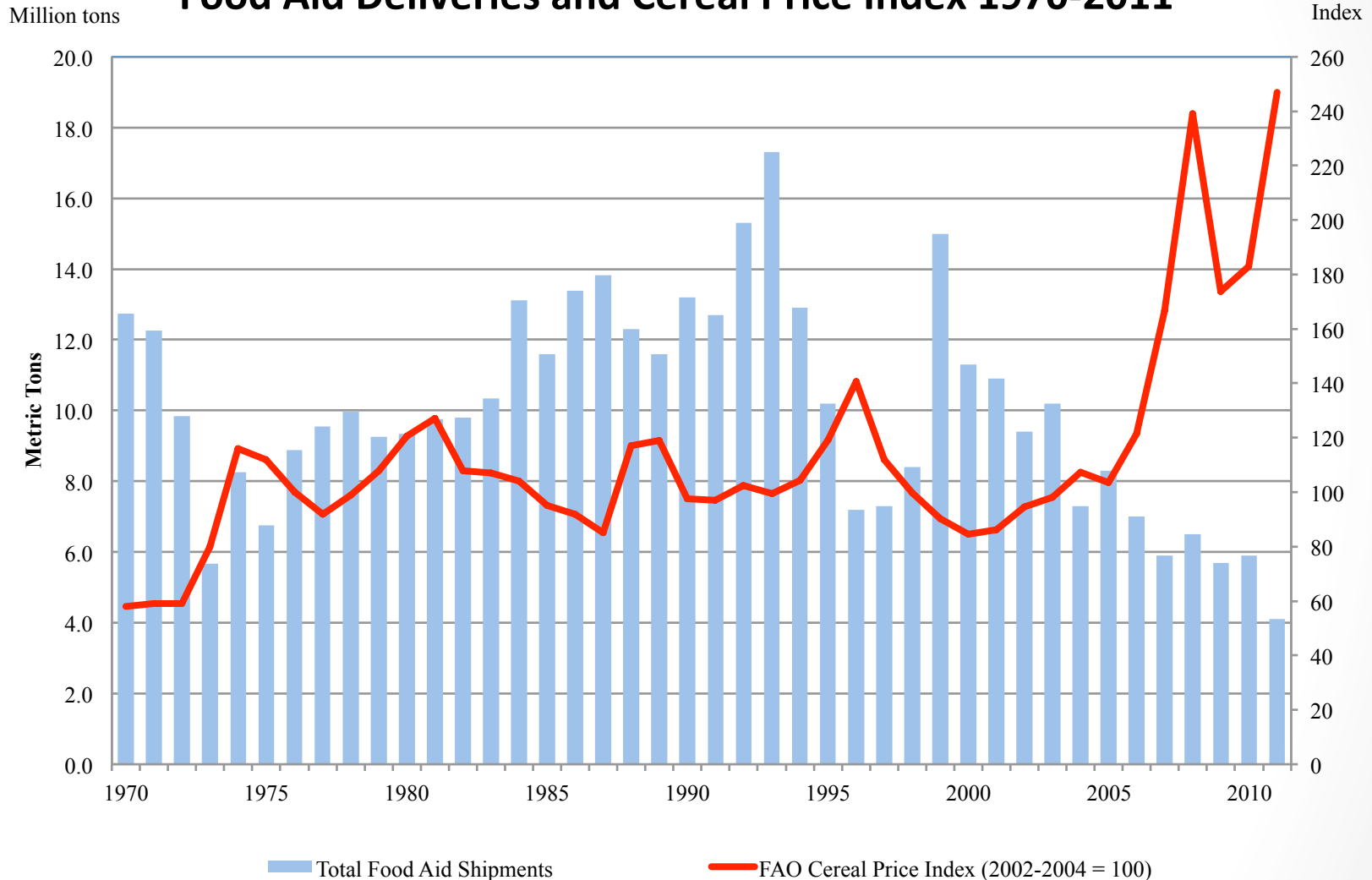
Share of Agricultural Aid in ODA 1979-2009



Source: OECD data

And ...Declining donor interest in food aid

Food Aid Deliveries and Cereal Price Index 1970-2011



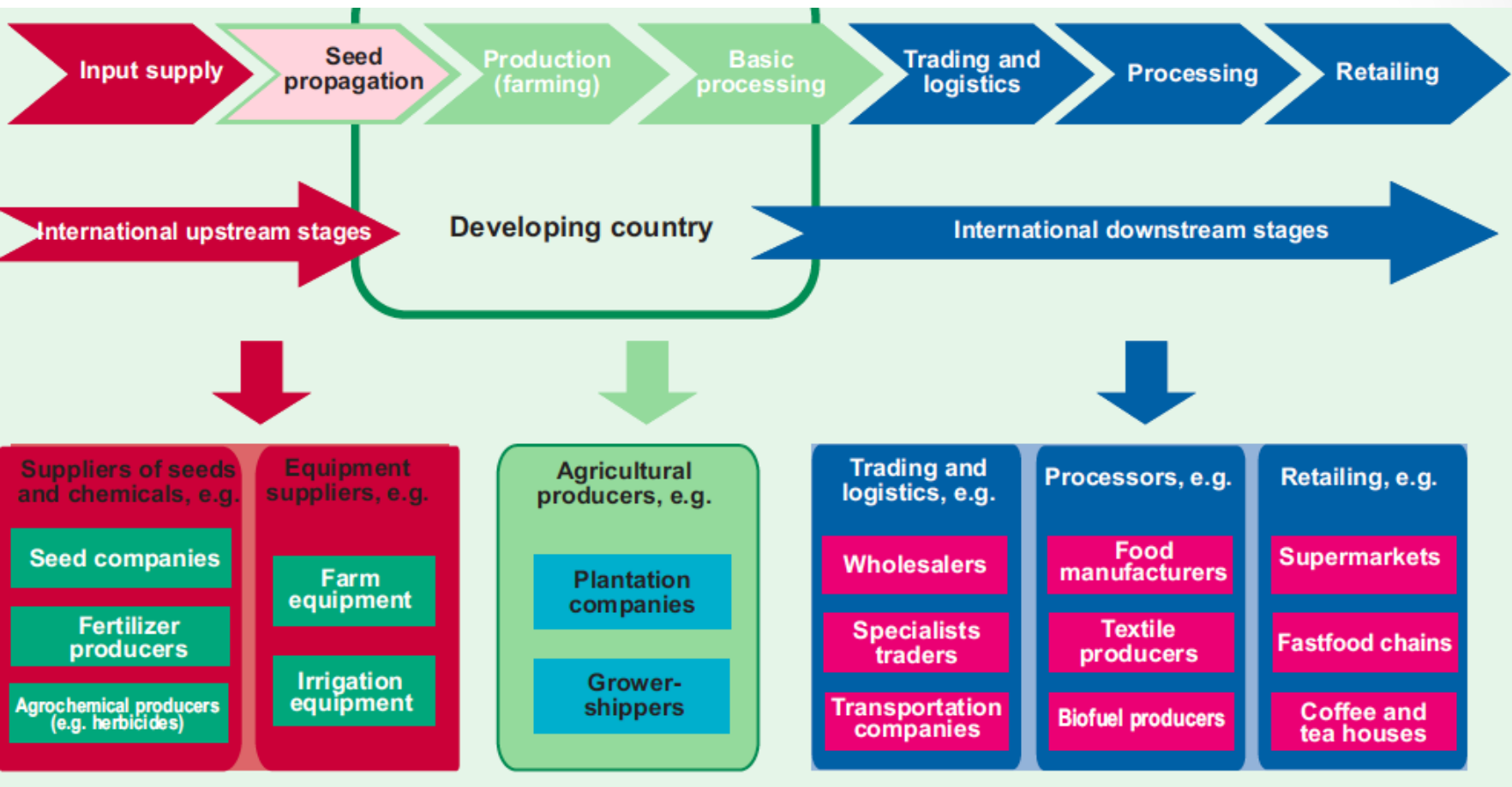
Sources: FAO and FAC data

As depicted in Clapp 2012

Promotion of Private Investment & PPPs

Linkages and overlaps with financial investors

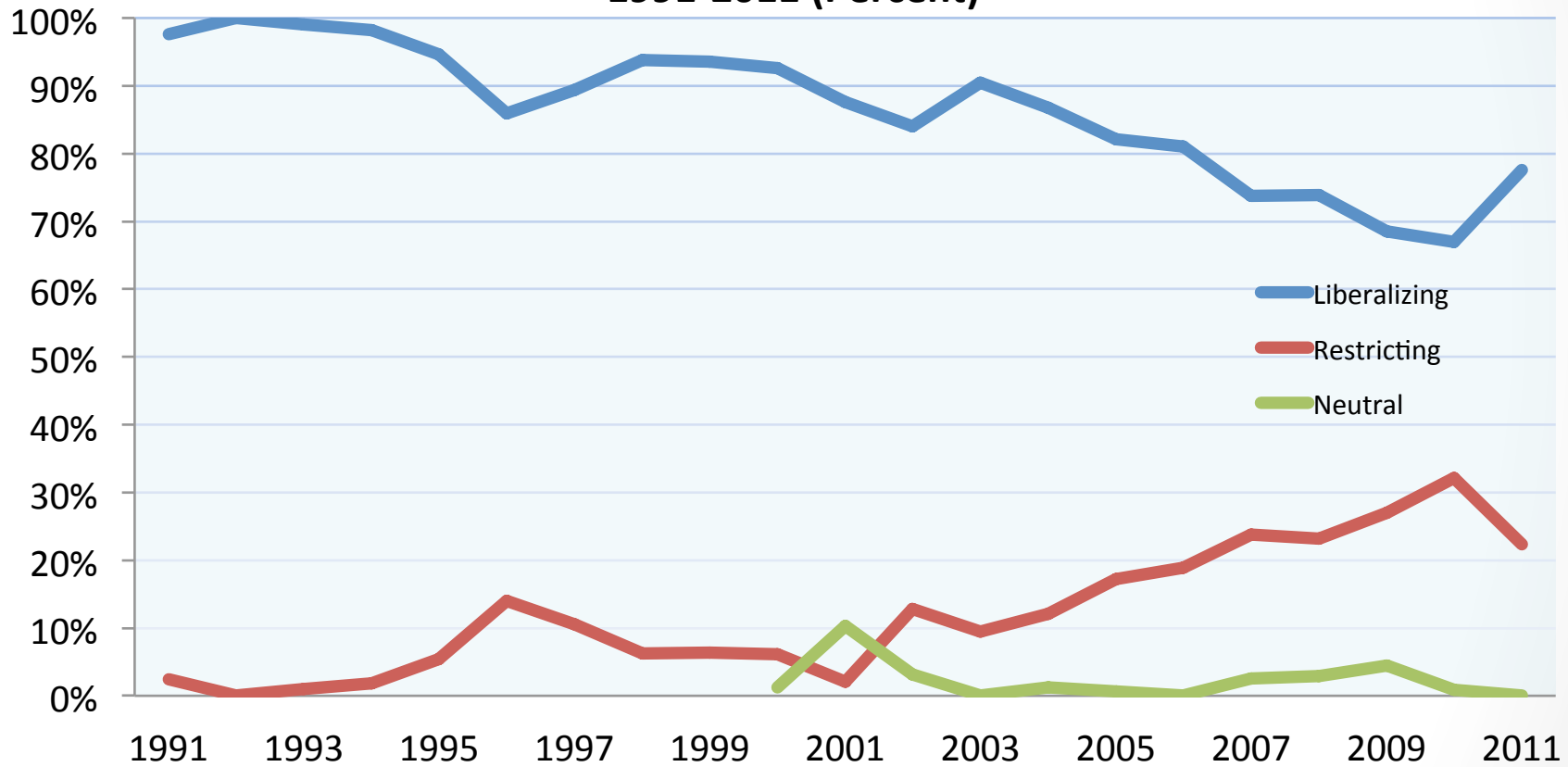
Typical Agribusiness TNC Value Chain in Developing Countries



Source: UNCTAD

Regulatory trends affecting foreign investment – long history of opening up markets for investment

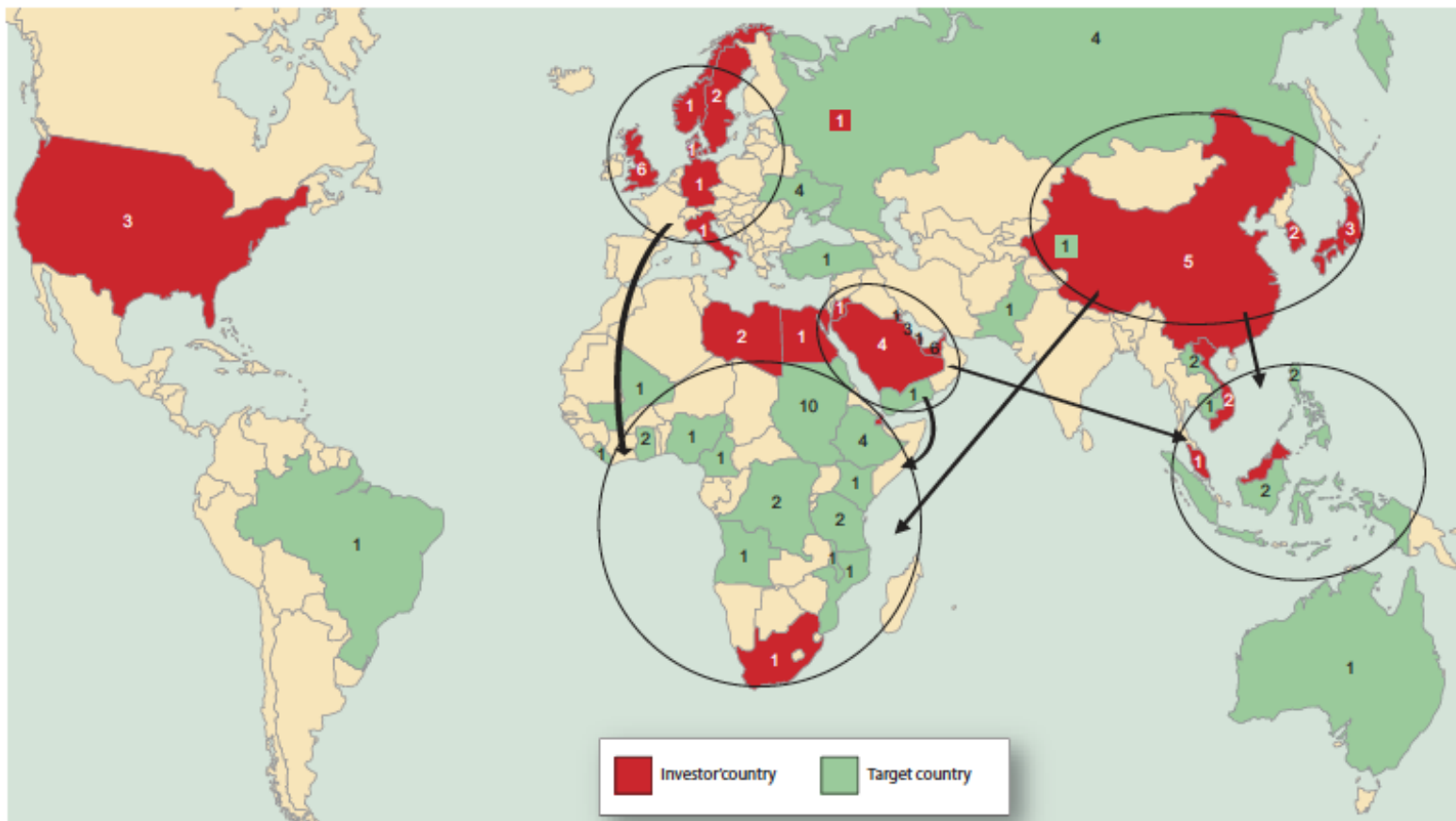
National Regulatory Changes affecting Foreign Investment, 1991-2011 (Percent)



Source: UNCTAD World Investment Reports, 2012 and 2000

Large-scale land acquisitions and private sector agricultural investments

Figure III.14. Investor and target regions and countries in overseas land investment for agricultural production, 2006–May 2009
(Number of signed or implemented deals)



Source: UNCTAD.

Governance initiatives for agricultural investment

Initiatives

- G8 Pledge (2009) of \$22bn public investment for agriculture
- GPAFS (2009)
- G20 Wheat initiative (2011)
- G20 push for PPPs (2012)
- G8 New Alliance for Food security and Nutrition (2012)

Principles/Guidelines

- Voluntary Guidelines on Responsible Governance of Tenure of Land (CFS) - 2012
- PRAI – original version (WB, UNCTAD, and FAO) ditched in favour of rai (CFS - currently underway – expected adoption 2014)
- PRI Farmland (private sector – PRI) - 2011
- Private sector commodity production guidelines