International Finance and Investment in Agriculture: Trends and Prospects
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

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

25 June 1996
- Hedging 88%
- Speculation 12%

21 June 2011
- Hedging 39%
- Speculation 61%


Graph 3. Financial holdings in agricultural commodity derivative markets 2006-2011

Volume of corn in millions of tons

Speculators at Work

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

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