

BNP Paribas Fact Sheet



Background

With global financial markets in turmoil, agricultural commodity ‘futures’ have become increasingly attractive to financial investors and speculators. **Billions of euros and dollars are flooding in and out of commodity markets, causing sudden price spikes in world food commodity markets**, leading to higher prices for consumers. While high food prices hit the most vulnerable the hardest, threatening their right to food, the rapid price swings also affect poor farmers, threatening farm viability and making it more difficult for farmers to maintain a predictable income.

The huge growth in financial speculation means prices are no longer being solely driven by supply and demand, but increasingly by the actions of financial speculators and the performance of their investments. **Excessive speculation has forced food prices to rise** in recent years and has increased the frequency and scale of price volatility.

Rising food prices and high volatility have in turn contributed to rising living costs for Northern consumers, **and led to more hunger and poverty** across the world. Poor households, forced to spend more money on food, are less able to afford other essentials such as healthcare and education. **In 2008, the world saw a major food crisis as prices skyrocketed** for crops such as rice, wheat and corn. Food riots erupted in 25 countries and more than 100 million more people were officially classed as undernourished or starving. After a price correction in 2009, food prices again reached record heights in June 2011.¹

Driven by high food prices and increasing demand for agrofuels and raw materials, the number of **large-scale acquisitions of farmland - land grabs - in developing countries** is soaring, threatening the livelihoods, rights and food sovereignty of communities. **Land grabs** refer to land deals that **disrespect rights of local communities and land-users**. Companies, investment funds, sovereign wealth funds and banks are increasingly investing in land to hedge their price risks, driving land grabs.

Don't play with our food, BNPP!

BNP Paribas is among the most active banks in commodity derivatives trading, alongside Goldman Sachs, Morgan Stanley, Barclays Capital and Deutsche Bank. The head of commodity derivatives at BNP Paribas, told the Financial Times in a 2009

interview that his target was **“to double commodity derivatives revenues over the next three years”**.²

BNP's commodity revenues have been estimated at around U.S. \$500 million per year.³ According to BNP, agricultural commodity exposure at group level represents up to 8% of their global commodity exposure. **“As of November 2011, for BNPP IP⁴ overall €648 million are exposed to agricultural commodities [€706 million including livestock] through open ended funds which represents 0.12% of BNPP IP's [€540 billion⁵] total assets under management (0.13% with livestock).”**⁶

According to its CSR Position Paper on Essential Food Commodities, BNP Paribas has made a commitment never to sell derivative instruments to external intermediaries whose sole objectives are financial, meaning they will only grant **“finance to client[s] aiming at reducing their price risk through commodity derivatives (producers, process industry...). No finance is granted for pure trade”**.⁷ However, BNP Paribas offers a whole range of structured products based on commodity derivatives - to institutional investors, private banks and retail clients - for the purpose of ‘portfolio diversification’.

For example, the Parvest World Agriculture index fund, with assets under management (AuM) of €263 million, is managed against the DJ UBS Agriculture Subindex (50%) and the S&P GSCI Agriculture & Livestock Subindex (50%), both of which track solely agricultural commodities and livestock. It is offered to institutional entities, private banks, distributors and retail clients, with a 5 year investment horizon.⁸

Managed against the DJ UBS Commodity Index (33% agriculture and livestock, at 30 November 2011⁹), BNP Paribas offers a range of funds based on different recommended investment horizons, for example:

- THEAM Harewood Oscillator Commodities (agricultural commodities account for €119 million out of €463 million AuM, as at 31 October 2011);

¹ See FAO world food price index: <http://www.fao.org/worldfoodsituation/wfs-home/foodpricesindex/en/>

² Amine Bel Hadj Soulam, dead of BNPP commodity derivatives, cited in Financial Times: BNP Paribas in commodities push, 5 October 2009, available at <http://www.ft.com/cms/s/0/4103cc80-b1cd-11de-a271-00144feab49a.s01=1.html#axzz1U4bVx5PM>

³ *ibid.*

⁴ BNP Paribas Investment Partners, the asset management branch of BNP Paribas Group

⁵ BNP Paribas Group: Asset Management. <http://www.bnpparibas.com/en/about-us/core-businesses/investment-solutions/asset-management>

⁶ BNP Paribas Questionnaire Response to FoEE and Banktrack “Questionnaire on investments in soft commodities and land deals”, received from the Head of Corporate Social Responsibility BNP Paribas, on the 29 November 2011.

⁷ BNP Paribas Questionnaire Response, *ibid.*

⁸ BNP Paribas Questionnaire Response, *ibid.*

⁹ Dow Jones UBS Commodity Index Fact Sheet, available at http://www.djindexes.com/mdsidx/downloads/fact_info/Dow_Jones-UBS_Commodity_Index_Fact_Sheet.pdf

- THEAM Harewood Oscillator Commodities Core (agricultural commodities account for €26 million out of €102 million AuM, as at 31 October 2011); and
- BNP Paribas L1 World Commodities (agricultural commodities account for €121 million out of €327 million AuM, as at 31 October 2011).¹⁰

BNP Paribas has created several commodity Exchange Traded Funds (ETFs), targeting mainly institutional investors. At least three of these were still operational at the end of 2011, aiming to replicate indices covering an array commodity sectors (energy, industrial metals, precious metals, agriculture, and livestock), including:

- EasyETF S&P GSCI™ Capped Commodity 35/20,¹¹ swap-based replication (synthetic): “The objective of the Fund is to achieve a return comparable to the S&P GSCI Capped Commodity 35/20 Total Return Index.” Agricultural commodities: €51 million (€65 million with livestock) out of €316 million AuM (at 17 November 2011).¹²
- EasyETF S&P GSCI™ Ultra Light Energy, swap-based replication (synthetic):¹³ replicates the performance of the S&P GSCI Ultra Light Energy index. Agricultural commodities: €25 million (€33 million with livestock) out of €63 million AuM (at 17 November 2011).¹⁴

There is some suggestion of significant proprietary trading at BNP Paribas, but sources are contradictory.¹⁵ In response to a question regarding trading in agricultural commodities, BNP Paribas categorically denied any proprietary trading.¹⁶

BNP Paribas claims that it “has clients which might buy agricultural lands and a very small minority may be in non-OECD countries (e.g. in Brazil). Financing is given on a corporate basis but no financing has been dedicated for land acquisition.”¹⁷ BNP Paribas has not adopted a policy or guideline for investing in land or financing land deals in non-EU/OECD countries, although it says that they cover “this issue in the relevant sector policies (palm oil and wood pulp).”¹⁸ For both the palm oil and wood pulp sectors, BNP states that it will continue, under the conditions set out in their sector policies, to finance and invest

in the palm oil/wood pulp sectors, as it believes that they can be produced in a sustainable way.¹⁹

However, BNP's sector policies cannot ensure that no environmental damage, no human rights violations and no land conflicts occur. For example, BNP requires palm oil companies to become active members of the Roundtable on Sustainable Palm Oil (RSPO),²⁰ an industry led, voluntary certification scheme, that “has been subject to much criticism and includes a number of loopholes...[and] does not address the issue of land use change”.²¹

Recommendations to BNP Paribas

BNP Paribas should investigate their involvement in food speculation and their direct or indirect investments in land grabs, and publish the results of that research, making it available to relevant stakeholders. They should liquidate their open positions in food commodity derivatives and related funds and refrain from further activities that are not directly linked to hedging for farmers, food processing companies and related commercial traders. Commodity index funds and related structured and synthetic products should be phased out. Investments in agricultural commodities and related derivatives should not be retailed to end-customers. Fund managers and financial service providers should apply strict codes of conduct on the use and sale of food commodity products and agricultural land investment, as well as respective financial services.

Download the full report

“Farming Money: How European banks and private finance profit from food speculation and land grabs”

www.foeeurope.org/farming-money-Jan2012



10 BNP Paribas Questionnaire Response, *ibid.*
 11 See <http://www.bloomberg.com/apps/quote?ticker=GSCIUSD:SW> [accessed on 11 December 2011].
 12 BNP Paribas Questionnaire Response, *ibid.*
 13 http://www.easyeff.com/central/fundsheets/index.page?umbrellaid=323¤cy=EUR&ompartmetid=1516&l=fr&shareid=4009&p=EE_FR-NSG#tab=2 [accessed on 11 December 2011].
 14 BNP Paribas Questionnaire Response, *ibid.*
 15 See, for example, <http://www.tradersmagazine.com/issues/20071112/2942-1.htm> and <http://www.handelsblatt.com/unternehmen/banken/eigenhandel-der-banken-beerdigt/3098722.html>
 16 BNP Paribas Questionnaire Response, *ibid.*
 17 BNP Paribas Questionnaire Response, *ibid.*
 18 *Ibid.*. The two sector policy documents referred to are: BNP Paribas: Corporate Social Responsibility, Sector Policy – Palm Oil, available at [http://compresse.bnpparibas.com/applications/wCorporate/wCorporate.nsf/docsByCode/LDIO-8CJF3M/\\$FILE/Politique%20Sectorielle%20Huile%20de%20palme.pdf](http://compresse.bnpparibas.com/applications/wCorporate/wCorporate.nsf/docsByCode/LDIO-8CJF3M/$FILE/Politique%20Sectorielle%20Huile%20de%20palme.pdf), and BNP Paribas: Corporate Social Responsibility, Sector Policy – Wood Pulp, available at [http://compresse.bnpparibas.com/applications/wCorporate/wCorporate.nsf/docsByCode/JTAN-BLNBUL/\\$FILE/CSR%20wood%20pulp%202011%2009%2012.pdf](http://compresse.bnpparibas.com/applications/wCorporate/wCorporate.nsf/docsByCode/JTAN-BLNBUL/$FILE/CSR%20wood%20pulp%202011%2009%2012.pdf)

19 BNP Paribas Palm Oil Sector Policy, *ibid.*, p. 2; and, BNP Paribas Wood Pulp Sector Policy, *ibid.*, p. 3
 20 BNP Paribas Palm Oil Sector Policy, *ibid.*, p. 3
 21 Friends of the Earth Europe: “Sustainable” palm oil driving deforestation; Biofuel crops, indirect land use change and emissions, Briefing, August 2010, available at http://www.foeeurope.org/agrofuels/resources/biofuels_briefing_palm_oil.pdf
 For more information on the RSPO and its inadequacies, see Milieudefensie: Unilever Put The Brakes On Destructive Palmoil!, available at <http://milieudefensie.nl/english/earthalarm/129/unilever-put-the-brakes-on-destructive-palmoil/>; Milieudefensie and Friends of the Earth Europe: Too Green to be True; IOI Corporation in Ketapang District, West Kalimantan, March 2010, available at http://www.foeeurope.org/publications/2010/Too_Green_to_be_True0310.pdf; Friends of the Earth Europe: Sustainability as a smokescreen; The inadequacy of certifying fuels and feeds, Report, April 2008, available at <http://www.foeeurope.org/agrofuels/sustainabilitysmokescreen.html>