Farming money
How European banks and private finance profit from food speculation and land grabs
january | 2012
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Friends of the Earth Europe campaigns for sustainable and just societies and for the protection of the environment; unites 30 national organisations with thousands of local groups, and is part of the world’s largest grassroots environmental network, Friends of the Earth International.

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<td>ABP</td>
<td>Stichting Pensioenfonds ABP - Dutch pension fund for the public sector and education</td>
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<td>ADM</td>
<td>Archer Daniels Midland, agribusiness company</td>
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<td>AMIS</td>
<td>Agricultural Market Information System</td>
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<td>APG</td>
<td>Asset management subsidiary of ABP</td>
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<td>AUM</td>
<td>Assets Under Management</td>
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<td>BBVA</td>
<td>Banco Bilbao Vizcaya Argentaria - Spain-based international financial group</td>
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<td>BIS</td>
<td>Bank for International Settlement</td>
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<td>BNL</td>
<td>Banca Nazionale del Lavoro SpA – former Italian public bank</td>
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<td>BNP</td>
<td>Banque Nationale de Paris, merged with Paribas as BNP Paribas, French banking group</td>
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<td>CAP</td>
<td>Common Agricultural Policy</td>
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<td>Chicago Board of Trade</td>
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<td>CCPs</td>
<td>Central Counter Parties</td>
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<td>CDM</td>
<td>Clean Development Mechanism (United Nations)</td>
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<td>CEA</td>
<td>Commodity and Exchange Act</td>
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<td>CEO*</td>
<td>Corporate Europe Observatory</td>
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<td>CEA**</td>
<td>Chief Executive Officer</td>
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<td>CFTC</td>
<td>Commodity Futures Trading Commission</td>
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<td>CME</td>
<td>Chicago Mercantile Exchange</td>
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<td>CRAs</td>
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<td>CRBM</td>
<td>Campagna per la Riforma della Banca Mondiale</td>
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<td>CRD</td>
<td>Capital Requirements Directive</td>
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<td>CTA</td>
<td>Commodity Trading Adviser</td>
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<td>DJ UBS</td>
<td>Dow Jones UBS Commodity Index</td>
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<td>DLUC</td>
<td>Direct Land Use Change</td>
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<tr>
<td>DNTF</td>
<td>Direcção Nacional de Terras e Florestas; Mozambique’s National Directorate of Lands and Forests</td>
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<td>EBA</td>
<td>European Banking Authority</td>
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<td>ECB</td>
<td>European Central Bank</td>
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<td>EIOPA</td>
<td>European Insurance and Operational Pensions Authority</td>
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<td>EMIR</td>
<td>European Market Infrastructure Regulation</td>
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<td>ESMA</td>
<td>European Securities and Markets Authority</td>
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<td>ESRB</td>
<td>European Systematic Risk Board</td>
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<td>ETC</td>
<td>Exchange Traded Commodity</td>
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<td>ETF</td>
<td>Exchange Traded Fund</td>
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<td>ETN</td>
<td>Exchange Traded Note</td>
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<td>European Union</td>
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<td>FAO</td>
<td>Food and Agriculture Organisation (United Nations)</td>
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<td>FED</td>
<td>U.S. Federal Reserve</td>
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<td>FSB</td>
<td>Financial Stability Board</td>
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<td>FoEE</td>
<td>Friends of the Earth Europe</td>
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<td>FTT</td>
<td>Financial Transaction Tax</td>
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<tr>
<td>G20</td>
<td>Group of 20 major advanced and emerging economies</td>
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<td>GSFF</td>
<td>Global Solidarity Forest Fund</td>
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<td>HLTF</td>
<td>High-Level Task Force on the Global Food Security Crisis (United Nations)</td>
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<tr>
<td>HSBC</td>
<td>UK based global banking and financial services group</td>
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<td>IFAD</td>
<td>International Fund for Agricultural Development</td>
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<td>IFPRI</td>
<td>International Food Policy Research Institute</td>
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<td>IIF</td>
<td>Institute of International Finance</td>
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<td>ILUC</td>
<td>Indirect Land Use Change</td>
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<td>IMF</td>
<td>International Monetary Fund</td>
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<tr>
<td>Abbreviation</td>
<td>Full Form</td>
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<tr>
<td>ING</td>
<td>Internationale Nederlanden Groep, global financial group of Dutch origin</td>
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<td>KBC</td>
<td>Kredietbank ABB Insurance CERA Bank - Belgian bank</td>
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<td>MAD</td>
<td>Market Abuse Directive</td>
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<td>MAR</td>
<td>Market Abuse Regulation</td>
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<tr>
<td>MEAG</td>
<td>Global Asset Manager of Munich Re and ERGO</td>
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<td>MiFID</td>
<td>Market in Financial Instruments Directive</td>
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<td>MiFIR</td>
<td>Market in Financial Instruments Regulation</td>
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<td>NFC</td>
<td>New Forest Company</td>
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<td>NGO</td>
<td>Non-Governmental Organisation</td>
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<td>OECD</td>
<td>Organization for Economic Cooperation and Development</td>
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<tr>
<td>OTC</td>
<td>Over-The-Counter</td>
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<tr>
<td>PFZW</td>
<td>Stichting Pensioenfonds Zorg en Welzijn - Dutch pension fund for the health and care sector</td>
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<td>PGGM</td>
<td>Asset management services arm of PFZW</td>
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<tr>
<td>PIMCO</td>
<td>Pacific Investment Management Company, owned by Allianz</td>
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<tr>
<td>PRIPs</td>
<td>Packaged Retail Investment Products</td>
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<tr>
<td>QE</td>
<td>Quantitative Easing</td>
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<td>RBS</td>
<td>Royal Bank of Scotland</td>
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<td>RICI</td>
<td>Rogers International Commodity Indices</td>
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<td>RSPO</td>
<td>Roundtable for Sustainable Palm Oil</td>
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<tr>
<td>SEC</td>
<td>US Securities and Exchange Commission</td>
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<tr>
<td>SICAV</td>
<td>Società d'Investimento a Capitale Variabile - an 'investment company with variable capital'</td>
</tr>
<tr>
<td>SP-GSCI</td>
<td>Standard &amp; Poor’s Goldman Sachs Commodity Index</td>
</tr>
<tr>
<td>TR</td>
<td>Total Return</td>
</tr>
<tr>
<td>UCITS</td>
<td>Undertaking for Collective Investments in Transferable Securities</td>
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<tr>
<td>UN</td>
<td>United Nations</td>
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<tr>
<td>UNCTAD</td>
<td>United Nations Conference on Trade and Development</td>
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<tr>
<td>UN PRI</td>
<td>United Nations Principles for Responsible Investment</td>
</tr>
<tr>
<td>US</td>
<td>United States of America</td>
</tr>
<tr>
<td>VaR</td>
<td>Value at Risk</td>
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<tr>
<td>WDM</td>
<td>World Development Movement</td>
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<tr>
<td>WEED</td>
<td>World Economy, Ecology and Development</td>
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<td>WFP</td>
<td>World Food Programme</td>
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<td>WTO</td>
<td>World Trade Organisation</td>
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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 has led to prices no longer being solely driven by supply and demand, but also 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. 

Driven by high food prices and increasing demand for agrofuels and raw materials, the number of large-scale acquisitions of farmland in developing countries is soaring, threatening the livelihoods and the food sovereignty of communities. Land grabs refer to land deals that disrespect rights of local communities and land-users. Such land deals often lack their free prior informed consent, violate or disrespect customary land rights, result in loss of access to natural resources, fail to deliver on employment and development, drive landlessness, and can involve violence and intimidation.

As a result of land-grabbing, peasants, smallholder farmers and local communities can lose the ability to feed themselves, and/or their access to locally-produced food, e.g. due to a shift to cash crops such as jatropha for agrofuels. Land use changes also have environmental impacts, for example increasing water use, privatising water assets, and increased pesticide use. Smallholders forced to abandon their land may relocate into ecologically sensitive areas, leading to primary forest clearance, biodiversity loss and land use change-related greenhouse gas emissions.

Companies, investment funds and sovereign wealth funds are increasingly investing in land to hedge their price risks, driving land grabs. This is as a consequence of food security concerns in some investor countries, agrofuel programmes in Europe and the North, and predicted rising consumption patterns in emerging countries. Non-commercial speculators follow, fleeing from insecure financial markets, in pursuit of profits from growth in land value.

This research finds that both food speculation and the financing of land grabs are issues with great significance for Europe.

It appears that a broad list of EU-based private financial institutions – banks, pension funds and insurance companies – are involved in trading or marketing investment products based on agricultural commodity futures or other agricultural commodity derivatives and complex instruments. Some of those which seem most involved are Deutsche Bank, Barclays, the Dutch pension fund ABP, the German financial services group Allianz and French banking group BNP Paribas.

A significant number of financial institutions across Europe appear to also be involved in financing land grabs directly or indirectly. Allianz has a fund that invests in Bulgarian agricultural land, Deutsche Bank has a fund that invests in Brazilian farm land, and a subsidiary of the Italian insurance group Generali has purchased land in Romania. Other financial institutions are involved in financing large agribusinesses whose activities include purchasing or leasing land in third countries: ABP, HSBC, Lloyds, Unicredit, AXA and Credit Agricole. Some of these have financed agribusinesses with explicit links to land grabs and human rights abuses, notably ABP in Mozambique, AXA in India and HSBC in Uganda.

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This report recommends a set of key measures to regulate EU financial markets and tighten corporate policies on financial services and investments in food commodity derivatives and land deals. In order to avoid excessive speculation influencing food prices, the de-regulation that has taken place over the last 20 years must be reversed. Commodity futures markets have become monstrous in size compared to the actual production of the traded commodities, thereby causing volatility and longer-lasting speculative bubbles.

As a first step in the right direction, new rules for improving transparency in commodity derivatives markets have been proposed by the European Commission. However, serious omissions and loopholes in these plans need to be addressed. Caps on the size of the bets speculators can make, so called ‘hard position limits’, are essential to tackle excessive speculation. The EU proposals must be strengthened and improved supervisory capacities must be introduced. Index speculators and similar types of investors should be banned from agricultural commodity markets. Indexes that track agricultural commodities or commodity derivatives should be excluded from use by index funds, ETFs and related structured and synthetic products.

Private financial institutions, including banks, pension funds and investors, 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.

2 On October 20, 2011, the European Commission published their proposals for a revised Market in Financial Instruments Directive (MiFID II) and a new Regulation (MiFIR).
Objective

Banks, pension funds and insurance companies have been speculating on food and making profits and losses in the billions. Financial institutions are also involved, either directly or indirectly, in financing land grabs. Given the environmental and social implications of these activities, it is clear that the role of European financial institutions in this area demands much greater scrutiny. This research seeks to provide an overview of the activities of key European financial institutions in this area; to substantiate the involvement of key European banks, selected insurance companies and pension funds and to raise awareness among European decision makers and to spur financial institutions to recognise their role in the food crisis.

Research methods

The research examined the key European financial actors involved in soft commodities derivatives trading, such as ‘exchange traded funds’ and index funds that track agricultural commodity futures. It also examined the possible involvement of European financial institutions in financing land grabs, through the direct financing of land acquisition, and investment in companies whose core business might result in land-grabbing.

Twenty nine institutions from nine European countries were selected on the basis of size, market dominance, brand recognition and other characteristics such as expertise in agricultural financing. The research analysed publicly-available data, including financial reports, fund factsheets, and research papers. Most institutions were also sent a questionnaire about their investments in soft commodities and land deals, in October 2011. Not all replied. The information provided reveals varying degrees of transparency.

This lack of information meant it was not always possible to verify the impact specific investment funds have on commodity prices, or to verify land grabbing. But the evidence does indicate a need for better scrutiny from investors, as well as greater transparency.

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3 Belgium, Denmark, France, Germany, Italy, the Netherlands, Spain, Switzerland and the UK.
Skyrocketing and volatile food prices

Food prices, which are monitored by several bodies including the UN Food and Agriculture Organisation (FAO) and the World Bank,\(^4\) rose steeply in 2007 (see Fig.1) after a period of relative stability, increasing by an average 56% between January 2007 and June 2008.\(^5\)

This price spike, which led to riots and protests in 25 countries, followed a general rise in commodity prices, particularly in oil. It also coincided with the subprime mortgage crisis, which caused investors to start withdrawing funds from bond markets. Food prices fell again at the end of 2008, only to hit a new all-time-high in February 2011.

Today, global food prices remain volatile and are expected to remain so.\(^6\) According to the World Bank, domestic prices in low-income and landlocked countries are most affected by the high level of global volatility.\(^7\)

Price volatility, by its very nature, is difficult to predict as it is driven by a range of factors, including the weather, macroeconomic factors, policy interventions and energy prices.\(^8\)

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\(^4\) The up to date FAO Food Price Index can be found here [http://www.fao.org/worldfoodsituation/wfs_home/foodpricesindex/en/](http://www.fao.org/worldfoodsituation/wfs_home/foodpricesindex/en/)


\(^6\) See: [http://www.agri-outlook.org/documents/54/0,3746,en_36774715_36775671_45433974_1_1_1_1,00.htm](http://www.agri-outlook.org/documents/54/0,3746,en_36774715_36775671_45433974_1_1_1_1,00.htm)


High and volatile food prices increase hunger and poverty

The UN’s FAO has estimated that 100 million more people were pushed into hunger and extreme poverty as a result of the 2007-08 price increases, triggering riots and protests across the Middle East, South America and Asia.

High food prices hit the poorest the hardest, as they spend a greater proportion of their income on food. A World Bank study on the impacts of the price increases in June-December 2010 concluded that “the results show that those who are already poor were disproportionately affected by the increase in prices as the share of food in their consumption basket is higher than the non-poor.”

For people who sell more food than they buy, high prices mean extra income. The World Bank estimated that 24 million people escaped poverty as a result of June-December 2010 high prices, but 68 million people entered into poverty in the same period.

Price volatility is also damaging. Rapid price swings caused by rapid movement of money in and out of commodity markets mean that farmers cannot predict the price their crops will command. This makes it more costly for farmers to hedge against future price changes. The FAO and OECD have noted that “Many governments are concerned about price volatility even in the very short term, because it threatens both farm viability (low prices) and food security (high prices) [and] affects investment decisions.”

High food prices negatively impact people in Europe too. Producers and consumers have struggled with high food prices pushing up the cost of living across Europe.

Driving the food crisis: the role agrofuels and speculation

Food prices depend on several inter-related factors, including the weather (which affects harvest levels), levels of national and commercial food stocks, energy prices, trade/export and agricultural market policies. Demographics, dietary habits, and purchasing power (depending on currency values) also play a role.

Increasing demand for agrofuels has been a major factor in the recent agricultural commodity price rises, with agrofuels policies creating a demand shock. Land and crops are being diverted from food production, less food is available and food prices are increasing. Agrofuels have accounted for 70% of the incremental demand for maize since 2001, 13% of wheat, 90% of rapeseed, 47% of soybean oil, and 22% of palm oil. The World Bank, OECD and the WTO, have concluded that food prices are “substantially higher than they would be if no biofuels [i.e. agrofuels] were produced”. When the supply and demand equation is “tight”, as it is for many food crops, even small increases in demand can cause inflation and price volatility.

Local food prices also depend on the level of integration with the global economy; trade policies; domestic policies, infrastructure, poverty levels, and the level of reliance on food imports. Local weather conditions, national agriculture policies, inflation rates, supply costs, and distribution problems in conflict zones also affect national prices. The strength of dollar also impacts on food prices world-wide, because many food commodity prices are measured in U.S. dollars.

Agricultural commodity markets are prone to high volatility and price shocks because there is very little elasticity in supply and demand. This means suppliers cannot adapt quickly to price changes. While low elasticity in food markets can explain price shocks and high volatility to a certain extent, the scale of price movements seen in 2007/2008 and 2011, and the extreme levels of price volatility cannot be explained by these factors alone. They can only be explained by taking into account the role of excessive speculation in food commodity derivatives markets, reacting to, amplifying and exaggerating the underlying trends.
Hedging and speculating on food prices

‘Futures contracts’ started being widely used in the 19th century to help grain traders deal with the uncertainties involved in crop trading. They work by allowing a buyer and a seller to agree a fixed price for a crop’s delivery at a future date. In this way, they allow farmers to fix crop prices months before harvest, and so avoid risks. Futures contracts can be traded on a regulated financial exchange.

Traditionally, commodity speculators are intermediaries between farmers and their trading partners, such as crop traders and food and feed processing companies, providing funding and organising the desired trade. The resulting contract can then be traded with anyone willing to take on the risk. The price of futures contracts changes according to their anticipated value, which is related to the anticipated price of the actual commodity.

Commodity markets could work without speculation, but speculators can facilitate trading and enable market participants to settle more of their trades at fair prices. Up to a certain point, regulated commodity markets can be useful. Speculators can bridge the gap between buyers and sellers and ‘provide liquidity’ in the market. The answer to excessive speculation may not therefore be an outright ban on agricultural commodity futures.

For many years, commodities futures were traded primarily at the Chicago Board of Trade, and until the 1980s, regulated commodity derivatives exchanges could be considered a useful part of the global food system.

In Europe, the Common Agricultural Policy (CAP) and bodies such as cooperatives ensured relative price stability, at least until the late 1990s. Agricultural futures markets were smaller in Europe as price-fixing provided an alternative protection mechanism against price volatility.

However, the very nature of commodity futures markets has fundamentally changed as a result of 20 years of deregulation in the financial and agricultural markets in the U.S. and Europe (following heavy lobbying by investment banks such as Goldman Sachs). This allowed commodity derivatives markets to expand and increased price volatility, linking domestic food prices more closely to world market prices, and exposing farmers to global markets.

With access to derivatives markets liberalised, the big Wall Street banks pioneered lucrative businesses for their commodity derivatives trading desks. They simplified, standardised, structured and sold financial products based on commodity derivatives: futures, options and swaps in oil, metals, staple foods and other tradable commodities.

Today, speculation in commodity derivatives is presented as an investment like any other. Pension funds and investors are advised to buy into commodity derivatives to “diversify their portfolios”. However, there are big differences between this type of speculation and regular investments:

- Speculation does not put capital to productive use. Money used to buy commodity derivatives is not used by farmers or food processing companies to produce or to add value to the food chain. It is simply a bet on the future price of the underlying physical commodity.

- Speculation is a zero-sum game. Just like in a casino, there are as many losers as there are winners in the game. But the casino, or bank, always wins (through fees and commission). Commodity derivatives do not provide cash flow via dividends, interests or rents.

Arguing ‘the more liquidity, the better’, Wall Street attracted capital from investment funds, pension funds and insurance companies to speculate in food and other commodity derivatives. This generated artificial demand, creating a speculative bubble, increasing food prices, volatility and the banks’ profits (they profit from commission on every trade).

The more futures contracts bought, the more prices rose. But the real price for the actual physical commodity relies on investors basing their decisions on expectations of the future prices of the actual goods. Hedgers used to be experts in the underlying real-world factors, i.e. farming and agricultural trading. Now investors engage in commodity derivatives speculation without much knowledge of the properties or condition of the underlying commodities.

Because most futures contracts are “cash settled” there is no commitment to buy or sell the actual crops underlying the contract, only to exchange the difference between the price fixed in the contract and the spot price at maturity. Because only a small deposit is paid upfront (plus fees and commission), high profits can be realised with very little wager.
Often, small investors and investment fund clients are not well-informed about the price trends of the underlying commodity. Rather, they follow marketing by fund managers, creating a ‘herding effect’ as investors follow others like a flock of sheep.

**Excessive speculation exacerbates food price hikes and volatility**

Speculation has become a strong factor in setting commodity prices. Demand for futures contracts, and other commodity derivatives, has become detached from the underlying market and speculation now surpasses the supply and demand of the underlying commodities.

Since 2002, the volume of the commodity futures market has more than tripled. In the same period, the prices for physical commodities, i.e. the spot prices, have also tripled (See Fig. 2). 14

There is a link between the increasing speculation and the increased spot prices (Fig. 2 shows the inner circle of the ‘market bubble’ representing the speculators’ positions becoming dominant). Speculative trades have become an important reference for commodity prices, amplifying trends in real supply and demand and driving up prices in a way that is unrelated to underlying price trends.

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14 Michael W. Masters: ibid.

15 The Standard & Poors GSCI (formerly the Goldman Sachs Commodity Index) is widely used measure of commodity price movements over time. The index is calculated primarily on a world production-weighted basis and is comprised of the principal physical commodities, see: http://www.standardandpoors.com/indices/spgsci/en/us/?indexId=spgscirg--usd----sp
Studies scrutinising recent price bubbles in oil and food have confirmed a link between excessive speculation and rising and more volatile prices for the underlying goods.16

- The U.N. Special Rapporteur on the Right to Food established that “a significant portion of the price increases and volatility of essential food commodities can only be explained by the emergence of a speculative bubble”.17

- In June 2011, an Interagency Report ‘Price Volatility in Food and Agricultural Markets: Policy Responses’, commissioned by the UN High-Level Task Force on the Global Food Security Crisis (HLTF) and other agencies, found that “most [analysts] agree that increased participation by non-commercial actors such as index funds, swap dealers and money managers in financial markets probably acted to amplify short term price swings and could have contributed to the formation of price bubbles in some situations.”18

Recipe for disaster – a crude idea of portfolio diversification

To some extent, the dramatic increase in commodity trading is a consequence of the recent financial crises, which left the bond and stock markets fragile, risky and unattractive to profit-seeking investors, making commodities more attractive.

The U.S. Federal Reserve (FED) and the European Central Bank (ECB) aimed to keep markets liquid by providing cheap money to banks. New commodity derivative products made a whole range of internationally traded commodities available to investors. Flows into commodities accelerated sharply at the start of 2009. As a result, speculation overwhelmed commodity markets:19

- Financial speculators now dominate food commodity markets, such as the wheat market, where they hold over 60 per cent, compared to 12 per cent 15 years ago.

- In the last 5 years, the total assets of financial speculators in these markets have nearly doubled from U.S. $65 billion in 2006 to $126 billion in 2011.

There are concerns that the commodities boom represents a risk to financial stability as a whole. The global financial watchdog, the Financial Stability Board, has warned that it has all the hallmarks of a bubble waiting to burst.20

17 Briefing note by the Special Rapporteur on the right to food, Olivier de Schutter (September 2010): Food Commodities Speculation and Food Price Crises. Regulation to reduce the risks of price volatility: http://www.srfood.org/index.php/en/component/content/article/1-latest-news/894-food-commodities-speculation-and-food-price-crises/our_emphasis
18 The report, coordinated by the FAO and the OECD, includes contributions by FAO, IFAD, IMF, OECD, UNCTAD, WFP, the World Bank, the WTO, IFPRI and the UN HLTF. See: http://www.unctad.org/templates/Page.aspx?intItemID=5966&lang=3 (our emphasis)
Easy-to-use ‘financial weapons of mass destruction’: index funds

Financial market activities can be classified in two categories: dealing in actual assets versus dealing in bets. Dealing in assets includes dealing in shares, bonds, and currencies. Dealing in bets is called ‘derivatives dealing’.

Derivatives contracts specify conditions under which payments, or payoffs, will be made between parties, based on the value or the state of a specified ‘underlying’ asset at a certain date, the variable rate of a loan over time, or even the weather.

Derivatives come in three major types: futures and forwards, options and swaps. Futures are traded on regulated exchanges. Options convey the right, but not the obligation, to engage in a future transaction. With a swap, counterparties exchange the cash flows or benefits of one party’s financial instrument for those of the other. Many of these derivatives are traded ‘over-the-counter’ (OTC).

Much of the recent growth in commodity markets has been through new “structured” products, invented by banks and sold to investors such as pension funds.

Following deregulation, Goldman Sachs pioneered commodity index funds, which offer investors a chance to track changes in a spread of commodity prices and profit from average price changes of a selected range of commodity derivatives, grouped in an index. These funds are entirely unrelated to the actual commodities, but because of their sheer size, they can dramatically affect market prices.

Some index funds – ‘short funds’ – work by inverting the price development of an index. This means buying when the prices are going down, and selling when they’re going up. Short funds appear to be outnumbered by index funds going long, i.e. betting on rising prices.

Short funds can contribute to food price volatility and exacerbate food price trends by promoting ‘massive’ and ‘passive’ speculation, with no direct link to the food market.

Mutual funds, hedge funds, life insurance and pension funds, with billions of euros at their disposal, have invested ‘massive’ quantities of capital into commodities derivatives – often in the form of index funds. Such funds are not actively managed, but replicate the performance of an index ‘passively’ – potentially exacerbating price movements.

This has allowed huge amounts of money to be thrown into the market based only on an aggregate index of physically unrelated commodities. Buying and selling through index funds is not based on information about the specific supply and demand of the underlying commodities.

Exchange Traded Funds (ETFs) resemble mutual index funds, and like exchange traded notes (ETNs), are designed to reproduce the performance of the index they are based on, but can be traded on the exchange, at close to their net asset value, over the course of the trading day. Small investors can trade ETFs via a brokerage account at their bank.

Many of the index funds and ETFs that engage in agricultural commodity derivatives track an index comprised of futures contracts on physical commodities, some of which are agricultural commodity futures. ETFs fall into two categories:

- Physical-replication commodity-ETFs replicate the performance of their underlying index by buying equivalent amounts of, for example, the commodity futures that the index is comprised of. In such cases, it can be expected that close to 100% of the fund’s assets are invested into commodity futures, in accordance with the index’s composition (i.e. the percentage of each of the different commodities in the index).

- Synthetic commodity-ETFs replicate the performance of their underlying index by using a swap construction.21 Instead of buying commodity futures directly, the ETF receives the return (change in value) from its swap-partner, whilst investing the fund’s assets into, for example, U.S. treasury bills, known as the ‘collateral’. The swap-partner then receives the return of this collateral (for example, interest rates or dividends). It is possible, although unlikely, that a synthetic commodity-ETF and its swap-partner have no direct exposure to the commodity futures market. Nevertheless, synthetic ETFs compete with commodity investment products and their prices, and therefore interact with commodity futures prices.

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21 See: http://www.investopedia.com/terms/t/totalreturnswap.asp#axzz1gRWdAeqq
Table 1: Commodity Futures Indices

<table>
<thead>
<tr>
<th>Name of Index</th>
<th>Agriculture %</th>
<th>Livestock %</th>
<th>Total A&amp;L%</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dow Jones-UBS Commodity Index</td>
<td>26.66</td>
<td>6.37</td>
<td>33.03</td>
<td>30/11/11</td>
</tr>
<tr>
<td>Dow-Jones UBS Agriculture Subindex</td>
<td>100</td>
<td>0</td>
<td>100</td>
<td>30/11/11</td>
</tr>
<tr>
<td>S&amp;P GSCI Total Return Index</td>
<td>15</td>
<td>4.6</td>
<td>19.6</td>
<td>31/10/11</td>
</tr>
<tr>
<td>S&amp;P GSCI Agriculture Capped Component Total Return Index</td>
<td>100</td>
<td>0</td>
<td>100</td>
<td>31/10/11</td>
</tr>
<tr>
<td>S&amp;P GSCI Non Energy</td>
<td>49.18</td>
<td>15.08</td>
<td>64.26</td>
<td>31/10/11</td>
</tr>
<tr>
<td>S&amp;P GSCI Commodity Light Energy</td>
<td>31.3</td>
<td>9.7</td>
<td>41</td>
<td>31/10/11</td>
</tr>
<tr>
<td>Rogers International Commodity Index (RICI)</td>
<td>31.8</td>
<td>3.1</td>
<td>34.9</td>
<td>09/12/11</td>
</tr>
<tr>
<td>RICI - Agriculture</td>
<td>91.4</td>
<td>8.6</td>
<td>100</td>
<td>09/12/11</td>
</tr>
<tr>
<td>Reuters/Jefferies CRB Index</td>
<td>36</td>
<td>7.3</td>
<td>43.3</td>
<td>10/12/11</td>
</tr>
</tbody>
</table>

In order to compare the size of the agricultural part of synthetic and physical-replication ETFs, it is reasonable to estimate the proportion of a synthetic ETF’s total assets that is equivalent to the amount of agricultural commodity futures it would have to buy if it were using the physical replication method.

Most of the funds managed by the financial institutions covered by this research, in particular exchange-traded-funds (ETF), passively replicate the performance of one or a combination of the indices in Table 1 (above). Relatively few aim at outperforming their underlying index with active management.

Big investment banks

Investment banks make money by facilitating transactions between companies, investors, funds, etc. - their ‘end-users’, ‘clients’ or ‘customers’. The dealers hope to buy at a lower price than they sell at and, in doing so, to make money off the spread between those prices. When it comes to dealing in derivatives, investment banks effectively act as ‘bookies’, quoting ‘odds’ for derivatives trades, taking bets from clients, and then trying to offset these against bets from other clients. The aim is to make money, regardless of the outcome.

Banks have also created commodity derivative instruments which they promote and sell to investors and fund managers, including products with substantial agricultural elements. Although their core activity is not speculation, many investment banks have aggressively marketed structured products and also speculated themselves.

Banks can be involved in food commodity speculation and land grabbing through activities like:

- Retailing products to retail clients, and portfolio management for investors of varying size;
- Providing loans and financing to companies involved in food speculation and/or land grabbing;
- Providing financial advice to corporations involved in food speculation and/or land grabbing;

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23 Dow Jones, ibid.
25 Standard and Poors, ibid.
26 ibid.
27 ibid.
29 Rogers International Commodity Index, ibid.
• Helping corporations involved in food speculation and/or land grabbing to raise money by issuing shares or bonds;
• Lending to hedge funds or mutual funds involved in food speculation or land grabbing;
• Dealing in agricultural commodity derivatives (secondary capital markets).

Hedge funds and pension funds

The ‘financialisation’ of agricultural commodity markets has led to increasing capital inflows from ‘non-traditional’ investors, such as pension funds, mutual funds, life insurance companies and big hedge-funds. They often buy into agricultural commodity futures with little or no consideration of the underlying food market. These actors tend to follow financial market trends, and only take macro-economic information into account, following others into food commodity derivatives and creating a herding effect. Their demand pushes up futures prices, causing volatile and high food prices.

Whilst dealing by hedge funds can increase volatility in markets, longer term investors such as pension funds can be an even greater driving force, because they hold onto investments. Pension fund managers are not necessarily looking for increased value, but want to spread their risk by diversifying their portfolios. This can create structural upward pressure on derivatives pricing.

Big users and commercial traders of food and feedstuff, such as Cargill, also trade in commodity derivatives, boosting profits by using their expertise to gamble on food prices. This position gives them the potential to manipulate prices. The impacts of this should be examined.

Land deals – development or land grabbing?

Large-scale land deals have generated media headlines across the world as private investors, companies and governments invest in farmland. Land grabbing is not new, but the recent trend for big land deals has shifted ownership from small-holders and communities to foreign control – sometimes using force or intimidation, frequently without free prior and informed consent.31

The drivers of this trend are diverse. Food security concerns, caused by recent food price hikes, diminishing agricultural production, population growth and increasing urbanisation have made acquiring foreign land an attractive option.32 Another driver is demand for agrofuels, triggered by government targets intended to mitigate against climate change and energy security.33 Emerging carbon markets may also be driving land acquisitions, e.g. for projects within the UN Clean Development Mechanism (CDM).34

High agricultural commodity prices and price volatility have magnified this trend. Rather than relying on markets, food processing companies have attempted to integrate vertically to gain control of the whole value chain.35 The prospect of rising returns from agricultural commodities and increases in land value have boosted agricultural land as an investment.36

Foreign investors frequently promise they will bring new technologies, develop infrastructure, create employment, and supply food to local markets.37 But these promises often turn out to be empty, with many examples of land grabs depriving

36 de Schutter, ibid.
Local smallholders forced to abandon traditional forms of land use may relocate, either to cities or clear forests or peat land. This indirect land use change (ILUC) results in substantial increases in greenhouse gas emissions, as well as biodiversity loss.

In Ethiopia, one of the largest recipients of food aid, 150,000 inhabitants of the eastern Somali region were relocated in 2010 following large scale land leases to foreign companies. In Uganda, more than 20,000 people were forcefully evicted to make way for the London-based New Forest Company (NFC)’s timber investments.

Financial investors promote land grabbing

The number of large-scale land acquisitions in Africa, Latin America, Central Asia and South East Asia has increased dramatically over the past few years. Cases of land grabbing have been documented in Angola, Ethiopia, Kenya, Democratic Republic of Congo, Madagascar, Mali, Mozambique, Sierra Leone, Zambia, Southern Sudan and Tanzania, as well as in emerging economies such as Brazil, Argentina, Indonesia and Ukraine. According to the FAO, up to 20 million hectares have been acquired in the last three years in Africa alone.

In the last five years, Agricultural Funds in Europe have bought or leased increasing amounts of land in Africa, Latin America, Eastern Europe and Russia. Many have links to US financial markets and American investment banks, but European financial players are also involved.

Although rarely directly involved, European banking groups are servicing some funds directly financing land deals, for example, Bramdean Alternatives Ltd St. Brazilian Farmland Fund, with Deutsche Bank as one of its main investors.

Banking groups seem to prefer to profit from land investments by buying stakes in stock listed companies via mutual or hedge funds, or acquiring minority stakes in private equities and partnerships that buy and harvest land. Providing funding to agribusiness companies via loans and bonds can also indirectly contribute to land grabs.

Pension funds are also involved in land grabbing. Of the estimated U.S. $100 billion that pension funds invest in commodities, some $5-15 billion reportedly goes into farmland acquisitions. These commodity and farmland investments are expected to double by 2015.

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40 Cotula et al. ibid.; FoE & ERA, ibid.; Justicia Ambiental et al., ibid.; and Friends of the Earth Europe, 2010, ibid.


47 Menon Research et al., ibid.

The role of European financial institutions

The following section scrutinises a selection of the European private financial institutions regarding their involvement in food commodities derivatives trading and land deals. In most cases it is difficult to conclusively ascertain a total amount that has been invested into agricultural commodities derivatives, and it is not always possible to compare like with like. For example, for some financial institutions, it is possible to calculate the total investment, whereas for others, only the aggregate amount invested in commodities without further breakdown into agricultural commodities. Where appropriate or available, data is given on the direct or indirect financing of land deals that are linked to reported cases, or high risk, of land grabbing.

Belgium

Dexia S.A. is a European banking group, active in Belgium, Luxembourg, France and Turkey. In October 2011, Dexia’s Belgian branch was nationalised by the Belgian state.\(^{49}\) Dexia’s investor services business is conducted by RBC Dexia Investor Services, a joint venture with Royal Bank of Canada. Dexia’s 2010 Annual Report accounts for some risks from commodity trading in its Value at Risk (VaR) assessment.\(^{50}\)

- The Dexia Fund Commodities aims at replicating the S&P GSCI Commodity Light Energy sub-index, which is 41% agricultural and livestock commodities derivatives.\(^{51}\) The fund held U.S. $59.3 million assets under management, as of 31 May 2011, thus up to/around $24.3 million could account for agricultural and livestock futures.\(^{52}\)

- A new commodities fund was launched on 23 May 2011: Cordius Long Short Commodities.\(^{53}\) No detailed information on this fund is yet available.

No indication was found on Dexia investing in firms active in land-grabbing. The Sustainability Team of Dexia Asset Managers published a paper on food speculation in May 2010 in which it condemns land grabbing (both by governments and private investors) and describes it as controversial, counterproductive and a factor in the decrease of food security.\(^{54}\)

KBC Group NV is a banking and insurance group, which focuses on retail and SME customers, and is active mainly in Belgium and Central and Eastern Europe.\(^{55}\) According to its own estimates, KBC holds substantial shares of the investment funds markets in Belgium (39%), Czech Republic (32%), Hungary (20%) and Slovakia (11%).\(^{56}\) The 2010 Annual Report of the KBC Group NV lists €567 million\(^{57}\) of ‘commodity and other contracts’ under its derivatives balance sheet but no commodity contracts under its hedged derivative portfolios.\(^{58}\)

The KBC Eco Fund Agri sub-funds of the KBC Eco Fund invest specifically in the agricultural sector. Both the KAP and the DIV versions of the KBC Eco Fund Agri fund invest in shares of agribusinesses,\(^{59}\) including several firms that are actively acquiring farmland, some of which are involved in reported cases of land grabbing: Black Earth Farming Ltd.\(^{60}\), a company that is buying up farmland in southern Russia;\(^{61}\) Landkom International PLC,\(^{62}\) which has leased more than 100,000 hectares of farm land in Ukraine;\(^{63}\) Trigon Agri A/S, which was controlling roughly 100,000 hectares in Russian regions Penza and Samara;\(^{64}\) and KTG Agrar AG BR, a company buying agricultural land in Eastern Germany and Lithuania (together almost 30,000 hectares).\(^{65}\)

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57 €567 million held as trading assets as well as €567 million euros held for trading as liabilities; carrying value €47 million euros assets and €35 million euros liabilities
60 ibid., p. 12
61 Ibid.
63 Ibid.
64 Ibid.
65 Ibid.
Denmark

Danish banks are newcomers to the market of complex commodity derivatives. Until 2006, they showed little sign of interest, but since then they have joined several initiatives, mainly targeted at retail investors. In 2013, 70% of investments in index funds and similar instruments were made by wage earners, pensioners or privately owned companies.  

Nordea is the biggest investor in index funds in Denmark. It runs two index fund-investment vehicles called MF Råvarer 2013 and MF Bløde Råvarer 2013. The issuer is Finnish Municipality Finance plc, established to provide diversification for the investments of Finnish municipalities and public housing companies. As of October 2011, Nordea invested approximately €80 million into MF Råvarer 67, which covers soy, sugar, nickel and copper – deemed to be ‘low risk’, and up to €58 million into MF Bløde Råvarer 68, which covers sugar, wheat, corn, soy, cocoa, coffee and cotton.

Danske Bank has invested approximately €28 million in the funds Råvarer 2013 Basal and Råvarer 2013 Offensiv. Both funds are linked to the Dow Jones-UBS Commodity Index, which tracks a number of different commodity futures, including agricultural commodities futures.  

Jyske Bank, a slightly smaller player in the Danish banking sector, offers the fund JB Råvarer 2013, which harvests profits on price movements in copper, oil and soy. Jyske Bank has invested €9 million in this fund. The funds and investments listed under Nordea and Danske Bank, combined with the Jyske Bank Råvarer 2013, cover complex instruments. Their combined total comes to around €200 million. According to Jyske Bank’s Annual Report 2010, the bank bought and sold commodity futures to the sound of €250 million (nominal value).  

Saxo Bank is advertising its investments in commodities quite aggressively. On their website, Saxo Bank states that it provides: “reliable online Futures trading, offering a large selection of online, offline and pit-traded Futures. Its large product range includes agricultural products, [...] Trading Futures is not only more popular than ever, it’s also easier than ever thanks to Saxo Bank’s leading online trading platforms.”  

According to their Annual Report 2010, the bank sold commodity futures last year of €600 million (notional amount).  

Saxo Bank’s chief commodity analyst is “fully aware [of] the disaster that even a small fluctuation in a price can be” for people, particularly in the developing world. But he insists that the presence of his own bank in the market doesn’t make a difference, since others would take over the trades if Saxo Bank left the market.

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66 DanWatch: Sultens spekulanter, September 2011,  
France

**AXA Group**, a global insurance and savings group, is the world’s sixth largest asset manager. AXA’s two principal asset managing subsidiaries are **AXA Investment Managers** (mainly Europe, including AXA Rosenberg) and **AllianceBernstein** (mainly USA and Asia).76

**AXA World Fund Framlington Hybrid Resources**,75 active since 31 May 2001, has U.S. $129.62 million under management (as of 31 October 2011). 40% of the fund is related to commodities, of which 30% are agricultural commodities (i.e. 12% of the total, representing approximately $15 million). However, the fund only partly engages in derivatives markets, using index-swaps and futures contracts (on commodity indices and sub-indices, both listed or OTC).76

AXA is also involved in several commodity-ETFs,77 as part of a partnership with BNP Paribas, branded as **EasyETF.** See section on **BNP Paribas** for more details. On its website, **AXA France** advertises agricultural commodities as a form of private investment (“Investir dans les matières premières. [...] les ressources agricoles : du blé au mais [...]”). The site promotes the benefits of diversifying investment and profiting from the ‘demand shock’, e.g., in China or in India, which drives prices up.

AXA is financing agribusinesses and forestry businesses in Asia, Latin America and worldwide. Of the companies AXA has invested in,78 the following have been linked to land grabs:

- **AXA S.A.** holds shares of U.S. $1.25 billion in mining company ** Vedanta Resources PLC**, whose subsidiaries have been accused of land grabbing, particularly lands belonging to indigenous people in India, for mining (e.g., in Niyamgiri, Orissa).80
- **Sumitomo**, a Japanese fruit exporter, acquiring agricultural land in the Philippines, the USA and China (bonds: U.S. $150 million from AXA S.A.; loans: $560 million from AXA Asia Pacific Ltd.).80
- **AXA S.A.** invested at least U.S. $44.6 million in Landkom, an investment firm registered in the Isle of Man, which has been leasing farmland in Ukraine.84

AXA has expressed their intent to further investigate, in 2012, their group’s involvement in soft commodity derivatives markets and financing companies who face allegations of land grabbing, as well as the need for policies or guidelines for both of these areas.85 They also state that both **AXA IM** and **AllianceBernstein** are signatories to the UN Principles for Responsible Investment (UNPRI), and that **AXA IM’s** funds and land holdings comply with UNPRI recommendations.86

**BNP Paribas** is among the most active banks in commodity derivatives trading, alongside **Goldman Sachs**, **Morgan Stanley**, **Barclays Capital**, **Deutsche Bank** and **JP Morgan**. Amine Bel Hadj Souiami, head of commodity derivatives at **BNP Paribas**, told the Financial Times in an interview that his target was “to double commodity derivatives revenues over the next three years”.85

**BNP Paribas**' commodity revenues are estimated at around U.S. $500 million per year.84 According to **BNP**, agricultural commodity exposure at group level represents up to 8% of their global commodity exposure. “As of November 2011, for **BNP Paribas Investment Partners**, the asset management branch of the **BNP Paribas Group**, overall €648 million are exposed to agricultural commodities [€706 million including livestock] through open ended funds which represents 0.12% of BNPP IP’s

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79 ThomsonOne, Dow Jones NewsEdge, applied for AXA (symbol CS-FR) and AXA Asia Pacific Limited (symbol AXAPI-P) including subsidiaries, available at: https://www.thomsonone.com [accessed at 26 November 2011]


83 AXA Group: *Response to FoEI/BankTrack questionnaire by email from AXA Group Vice President - Corporate Responsibility*, 19 December 2011


86 Ibid
[£540 billion\(^{93}\)] total assets under management (0.13% with livestock).\(^{96}\)

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”.\(^{94}\) However, BNP Paribas offers a whole range of structured products based on commodity derivatives to institutional investors, private banks and retail clients, for portfolio diversification.

- 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 100% agricultural commodities and livestock. Parvest World Agriculture is offered to institutional entities, private banks, distributors and retail clients, with a recommended investment horizon of 5 years.\(^{95}\)

Managed against the DJ UBS Commodity Index, BNP Paribas offers a range of funds based on different recommended investment horizons.

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

- THEAM Harewood Oscillator Commodities Core, with agricultural commodities accounting for €26 million out of €102 million AuM (as at 31 October 2011), targets institutional investors and distributors, with a time horizon of 3 years;

- BNP Paribas Li 1 World Commodities, with agricultural commodities accounting for €121 million out of €327 million AuM (as at 31 October 2011), targets institutional investors and private banks with a time horizon of 10 years; and,

- BNP Paribas Commodities index fund targets private investor clients, with a recommended 5 year-investment horizon. It aims at replicating the Dow Jones UBS Commodity Index. Its proportion of agricultural commodities is €17 million (€21 million with livestock) out of €61 million AuM (as at 31 October 2011).\(^{90}\)

BNP Paribas has created several commodity-ETFs, targeting mainly institutional investors. At least three of them are still operational, aiming to replicate indexes with 24 different commodities in 5 sectors (energy, industrial metals, precious metals, agriculture, and livestock):

- EasyETF S&P GSCI™ Capped Commodity 35/20,\(^{92}\) 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, as of 17 November 2011.\(^{93}\)

- EasyETF S&P GSCI™ Light Energy Dynamic TR, swap-based replication (synthetic): replicates the performance of the S&P GSCI Light Energy index.\(^{94}\) Agricultural commodities: €3 million (€3.9 million with livestock) out of €9 million AuM, as of 17 November 2011.\(^{95}\)


- EasyETF S&P GS Agriculture & Livestock is based on the S&P GSAL Index, a composite index representing unleveraged, long-only investment agricultural commodity futures.\(^{97}\) The fund’s net assets were €19.7 million, as of 31 October 2011.\(^{98}\)

There is some evidence for significant proprietary trading at BNP Paribas. However, different sources offer contradictory evidence.
information on this area.\textsuperscript{100} In response to a question regarding trading in agricultural commodities, BNP Paribas categorically denied any proprietary trading.\textsuperscript{101}

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.”\textsuperscript{102}

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).”\textsuperscript{103} 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.\textsuperscript{104} However, the given sector policies do not 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),\textsuperscript{105} 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.”\textsuperscript{106}

Crédit Agricole S.A. (CASA) is the second largest retail banking group in Europe. Since 2010 Crédit Agricole’s asset management activities have been conducted through its asset management subsidiary Amundi. Amundi is 75% owned by Crédit Agricole S.A. and 25% by Société Générale.\textsuperscript{107}

The Amundi ETF Commodities S&P GSCI Agriculture aims at replicating the S&P GSCI Agriculture Capped Component Total Return Index. This ETF is exposed to commodities in the sector of food, beverages and tobacco, with total assets under management (AuM) of U.S. $97.66 million (as of July 2011).\textsuperscript{108} The Amundi ETF Commodities S&P GSCI Non Energy aims at replicating the S&P GSCI Non - Energy Total Return Index. This ETF is exposed to non-energy commodities, such as food and metals. Agricultural commodities and cattle have a share of approximately 64% of the fund, with total AuM of $4.76 million (as of end October 2011).\textsuperscript{109} Crédit Agricole has stated that they will withdraw from certain activities (equity derivatives and commodities)\textsuperscript{110} and therefore close their soft commodities desk.\textsuperscript{111}

In regard to land deals, the Amundi Funds Global Agriculture, established in March 2008, is of some relevance. Managing $122.1 million AuM, as of June 2010, the fund invests in companies based in Asia (30.3%, excluding Japan), the United States (29.2%) and ‘emerging countries’ (9%).\textsuperscript{112} Companies in the fund’s portfolio include Archer-Daniels-Midland, Wilmar International, Bunge, SLC Agricola, Astra Agro Lestari and Olam International, most of which control foreign land or resources for food production and some of which are reported to have been implicated in land grabs.\textsuperscript{113}

The Baring Global Agriculture Fund, launched by Crédit Agricole and Société Générale in January 2009, with a size of €133.3 million, invests in agribusiness companies, including those

\textsuperscript{100} See, for example, http://www.tradersmagazine.com/issues/20071112/2942-1.html and http://www.handelsblatt.com/unternehmen/banken/eigenhandel-des-banken-beendigt/509872.html

\textsuperscript{101} BNP Paribas Questionnaire Response, ibid.

\textsuperscript{102} BNP Paribas Questionnaire Response, ibid.


\textsuperscript{104} BNP Paribas Palm Oil Sector Policy, ibid., p. 3 and, BNP Paribas Wood Pulp Sector Policy, ibid., p. 3

\textsuperscript{105} BNP Paribas Palm Oil Sector Policy, ibid., p. 3


\textsuperscript{111} Crédit Agricole: Response to FoE/BankTrack questionnaire by email from Crédit Agricole CSR Officer, 04 January 2012


involved in farming and palm oil.\textsuperscript{114} No further information on involvement in agricultural and farm land deals was found. \textit{Crédit Agricole} has however produced a policy paper calling for principles of responsible agricultural investments in the least developed countries and developing countries.\textsuperscript{125}

\textbf{Société Générale S.A.} is the parent company of Lyxor Asset Management, an investment company based in France. It offers exchanged-traded index funds and other ETFs, exchanged-traded notes (ETNs), and several other products to private and corporate investors. Société Générale also holds a 25% stake in Amundi (see: \textit{Crédit Agricole}).\textsuperscript{126}

Lyxor Asset Management offers a number of commodity based ETFs. Notably:

- \textit{Lyxor ETF Commodities CR}, which has total assets of €815 million (as of 8 July 2011),\textsuperscript{127} and tracks the \textit{Reuters/Jefferies CRB Index},\textsuperscript{128} which includes 43% agricultural and livestock commodities,\textsuperscript{129} and could therefore account for up to/around €352 million in agricultural and livestock futures;

- \textit{Lyxor ETF Commodities CRB Non-Energy}, with total assets of €253 million (as of 8 July 2011),\textsuperscript{130} tracks the \textit{Reuters/Jefferies CRB Non-Energy Index}.\textsuperscript{131} It allocates approximately 67% to agricultural and livestock commodities (as of April 2011),\textsuperscript{132} which could account for up to/around €169 million in agricultural and livestock futures;

- \textit{SGI Smart Market Neutral Commodity Index} aims at absolute returns taking non-directional exposures in three main commodity sectors, including 30% in agriculture. Non-directional risk refers to a strategy in which the potential to profit does not depend on whether the underlying stock price will go upwards or downwards, but on the expected volatility of the underlying stock price.\textsuperscript{133}

- \textit{SGI Agriculture and Livestock Static Index} is an agricultural excess return commodity index, also offered by Société Générale since July 2009.\textsuperscript{134}

No evidence was found for proprietary trading in agricultural commodities. However, Société Générale is said to have reduced its proprietary trading since 2009.\textsuperscript{125}

In regard to land deals, Société Générale manages the Baring Global Agriculture Fund and the Amundi Funds Global Agriculture, in cooperation with Crédit Agricole (see above). Société Générale actively advocates land acquisitions as an investment opportunity: In a note to clients, Société Générale analyst Dylan Grice wrote, in October 2009, that: “farm companies provide an opportunity for investors who believe that global demand for food will rise in coming years, pushing up commodity and farmland values, note to clients. Agricultural companies are the safest way for investors to gain exposure”.\textsuperscript{126}

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\textsuperscript{115} Crédit Agricole: Analysis; Ensuring responsible agricultural investments in the least developed countries and developing countries, available at \url{http://farmlandgrab.org/wp-content/uploads/2010/07/ANALYSIS_Responsible-agricultural-investments.pdf}

\textsuperscript{116} For more information, see \url{http://www.societegenerale.com/en/our-businesses/private-banking-global-investment-management-services}

\textsuperscript{117} ETF Explorer: \url{http://www.etfexplorer.com/en/ETF/F0001270093-Lyxor-ETF-Commodities-CRB}

\textsuperscript{118} Global Fund Data: Lyxor ETF Commodities CR, accessed December 2011, available at \url{http://www.globalfunddata.com/node/104874/funds}

\textsuperscript{119} See Table 1.

\textsuperscript{120} ETF Explorer: Lyxor ETF Commodities CRB Non-Energy, data as of 8 July 2011 \url{http://www.etfexplorer.com/en/ETF/F00010346205-Lyxor-ETF-Commodities-CRB-Non-Energy}

\textsuperscript{121} Global Fund Data, Lyxor ETF Commodities CRB Non-Energy, accessed December 2011, available at \url{http://www.globalfunddata.com/node/78504/funds}

\textsuperscript{122} Lyxor: Lyxor ETF Commodities CRB Non-Energy, data as of April 2011, available at \url{https://www.sgindex.com/admins/files/other/sgindex/files/factsheet/9524_SGiCAMXFactsheet.pdf}

\textsuperscript{123} Further information available at \url{http://www.globalfunddata.com/services/quotes/sgbourse_uk/materials/factsheet/Dividends.pdf}

\textsuperscript{124} Société Générale: SGI Agriculture and Livestock Static Fact Sheet, available at \url{http://www.globalfunddata.com/admins/files/other/sgindex/files/factsheet/9124_SGiCAMXFactsheet.pdf}

\textsuperscript{125} See \url{http://www.efinancialnews.com/story/2009-09-21/sp-to-cut-prop-trading-as-new-capital-rules-loom}

\textsuperscript{126} Bloomberg: Argentine rains to boost Cresud, soybean harvests, 9 November 2009, available at \url{http://farmlandgrab.org/post/view/8827}
Germany

The scope of this research seeks to cover the big brands in retail banking, which in Germany includes Deka Bank, the central asset manager of the German Savings Bank Finance Group’s, banking giant Deutsche Bank, and the smaller Commerzbank. The two big re-insurance and life insurance companies in Germany, Munich Re and Allianz, are also considered.

Allianz SE is one of the largest active asset managers in the world. Alternative investment, which includes commodity funds, is one of the four pillars offered to institutional and retail clients. Allianz’s Global Investors division manages €1,443 billion (£1.4 trillion) assets under management (AuM), as of September 2010.

- The Allianz Commodities Strategy fund focuses on energy and commodities. It aims at replicating the performance of the Barclays-Comorls-Index. As of 30 November 2011, the fund was approximately €99.8 million in size, with agricultural commodities (wheat, corn, soy) making up a 32% share of its portfolio. 124

- Allianz RCM Commodities - I - EUR was launched in October 2010. It aims at replicating the performance of the RCM Active Commodity Index125. Net assets, as of 30 October 2011, were €46.3 million, with agricultural commodities making up 21% of its portfolio (soybeans 4.9%, corn 4.6%, wheat 3.4%, raw sugar 2.9%, etc.). 125

€1.131 billion of mostly third-party AuM are managed by the group’s specialized asset managers, such as PIMCO (Bond fund), RCM (Equity fund), Degi (Real estate fund), etc. PIMCO (Pacific Investment Management Company, Llc.) was acquired by Allianz in 2000, but continues to operate as an autonomous subsidiary. In 2008, PIMCO managed approximately U.S. $15 billion in commodity index funds. PIMCO went on to nearly double its investment in commodity index funds, by 2011, investing close to $30 billion. Currently, the firm manages three commodity funds of varying sizes:

- PIMCO CommoditiesPLUS Strategy Fund INSTL has total assets of U.S. $2,332 million (as of 31 October 2011), with agricultural commodities making up 19% of the portfolio. The fund seeks to gain exposure to the commodity futures markets primarily through investments in swap agreements and futures, and through investments in the PIMCO Cayman Commodity Fund III Ltd, a wholly-owned subsidiary of the fund, set up under the laws of the Cayman Islands. The CommoditiesPLUS Strategy Fund’s portfolio may deviate from the returns of any particular commodity index. 122

- PIMCO CommodityRealReturn Strategy Fund has total assets of U.S. $22,785 million (as of 30 September 2011), with agricultural commodities making up 36% of the portfolio (grains 19%, softs (sugar, cotton, coffee) 7%, livestock 7%, soybean oil 3%). 123 It seeks to outperform the Dow Jones-UBS Commodity Index Total Return by actively managing its commodity exposure. 124

- PIMCO CommoditiesPLUS Short Strategy Fund has total assets of U.S. $10.9 million (as of July 2011), with a portfolio containing grains (18%), agricultural commodities (7%), livestock (6%), vegetable oil (3%). It was launched in August 2010. The fund actively manages short exposure to the commodity index using commodity-linked derivative instruments. By using the synthetic replication method, it seeks extra returns from a collateral portfolio of fixed income securities. 125

The Allianz RCM Global Agricultural Trends fund focuses on agribusiness rather than commodities or farm land. Through the agribusiness companies it invests in, the fund may have implications for agricultural land deals. The fund was established in April 2008, and primarily invests in the raw materials production and product processing and distribution sectors. As of 16 September 2010, the fund’s total assets

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134 PIMCO Prospectus, ibid., p. 17
amounted to U.S. $239 million (€184 million). Companies in the fund’s portfolio include a range of palm oil companies that own large amounts of land in Indonesia and Malaysia, including Wilmar International, Golden Agri-Resources Ltd, IOI Corporation and Kuala Lumpur Kepong. The fund mainly invests in companies based in the United States (29%), Singapore (17.4%), Canada (12.3%), Malaysia (6.8%), the Netherlands (5.7%) and Brazil (5.1%).

Allianz also holds 26% of Elana Agricultural Land Opportunity Fund, a real estate investment fund in Bulgaria. The fund purchases agricultural land, consolidates it and leases the consolidated plots. As of June 2007, the size of the fund was €59 million.

Commerzbank is active in the commodity derivatives markets by providing commodity market advice as a service for its corporate clients, derivatives hedging products for its clients, and managing its commodity investment funds. Commerzbank undertakes research about commodity markets, which is then used to give advice. For instance, it publishes the ‘Commerzbank Commodity Radar’ which gives an all-in-one overview of the volatility of each of the different commodity prices, including the following agricultural commodities: cotton, coffee (based on the price of Robusta Euronext Liffe London), cocoa (based on the price of Liffe Cocoa Euronext), maize, soybeans, wheat (based on the Euronext Milling Wheat price), and sugar.

Commerzbank has a very active world-wide Commodity Trading Desk, which specializes in hedging products for (sometimes large) corporate end-users, and claims to have a “large-scale product range, starting from plain vanilla options up to ASIAN swaps and many other sophisticated products”. To corporate clients, they offer “hedging solutions which will help to reduce their exposure to the prevailing risks in the global commodity markets” and promise “investment strategies with high returns based on commodity links”.

However, in their response to FoEE and Banktrack’s questionnaire, Commerzbank stated that “With regard to trading in soft-commodities Commerzbank engages at minimal level.” They also responded affirmatively to a question about whether their risk assessment for agricultural commodity deals factors in reputational risk, stating that, in general, business which could possibly pose ecological, ethical, or social risks to the bank is intensively assessed by Reputation- and Sustainability Management. The one explicit commodity related fund of Commerzbank is:

- **ComStage ETF Commerzbank Commodity EW Index TR**, an exchange-traded fund aiming at replicating the performance of the Commerzbank Commodity EW Performance Index (Total Return index, TR) or CoCo Index for short. The index is comprised of 16 different commodity futures. The fund was launched in May 2009. It had a volume of approximately €457 million, as of 31 July 2011 and U.S. $575 million, as of 17 October 2011. All commodity futures were equally weighted in the initial index composition, so that it contained 25% agricultural commodities (6.25% sugar, 6.5% wheat, 6.25% corn, 6.25% soy). As the index weighing is regularly adjusted, at least every six months, the index contained 26.18% of agricultural commodities, as of 5 October 2011. The ComStage ETF Commerzbank Commodity EW Index TR uses synthetic replication, which, if it was using physical replication, would translate into investments of around €150 million in agricultural commodity futures.

Commerzbank have stated that they have adopted a policy/guideline for investing in land / financing land deals in non-EU/OECD countries, claiming that “Such deals would have to be cleared through our reputational risk (RepRisk) department.”

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137 FIAN Deutschland, p.15, ibid


139 Commerzbank website, see https://www.commerzbank.com/en/hauptnavigation/institutions/products_services/markt_products/commodities/commodities.html

140 ibid.

141 Commerzbank: Response to FoEE and Banktrack “Questionnaire on investments in soft commodities and land deals”, received on the 25 November 2011.

142 ibid. They provided the following link, for more information, http://www.commerzbank.com/de/products/land/eti_brochures/003-035796.pdf


144 Commerzbank: Written responses to a short report on a draft report entitled: Commerzbank – Involvement in agricultural derivatives’, 20 October 2011

DekaBank is the central asset manager of the German Savings Bank Finance. In response to FoEE and Banktrack’s questionnaire about their involvement in agricultural commodities or land deals, DekaBank unequivocally stated that: "Neither DekaBank, nor our subsidiaries nor our funds are involved into the investment into soft commodities, soft commodity derivatives or land in any form." \(^{146}\)

However, the Deka-Commodities CF (A) fund, launched in October 2006, \(^{147}\) has a stated aim of outperforming the Dow Jones UBS Commodity Index, with agricultural commodities and livestock covered by 35%, \(^{148}\) which would represent almost €90 million, as of October 2011, when the fund’s volume was €260 million. The description of this fund is perhaps misleading, as charts in the fund description might lead to the assumption that the fund was composed of commodity derivatives. However, the commodity derivatives that the fund invests in and sells represent less than 2% of the fund’s total assets. The fund invests in non-commodity related financial products, many of which are bonds and credit products of banks. \(^{149}\)

DekaBank also offers investors in Germany the UBS (LUX) Structured SICAV-Rogers Commodity Index Fund (EUR). \(^{150}\) Subsidiaries of DekaBank provide some of the administration/custodian services. A part of its assets (around 10%) is invested in swaps based on the RICI, \(^{151}\) which is approximately 35% agricultural and livestock commodities futures. \(^{152}\)

Deka Investment offers the BGF World Agriculture Fund by Black Rock, which as of February 2010 had a size of approximately €20.3 million. \(^{153}\) The fund primarily invests in companies based in North America (44.6%), Asia (19.2%), Europe (18.2%) and Latin America (9.9%), with 2.3% invested in companies based in Africa. Companies include Archer-Daniels-Midland, Indofood Agri Resources, Wilmar International, ICI, SLC Agricola and Illovo Sugar.\(^{154}\) Agribusinesses like those listed above, are often involved in land acquisition in third countries, and at least some of them have faced allegations of land grabs. \(^{155}\)

Deutsche Bank has an active commodities team that operates on commodity derivatives markets in several different ways. \(^{156}\) The Deutsche Bank commodity business is relatively highly profitable and therefore allowed to take correspondingly high risks. Deutsche Bank also offers its clients (especially in Germany) a special instrument to trade directly on US agricultural futures markets.

Deutsche Bank is active on US agricultural derivatives markets as part of its range of commodity services, namely developing and selling commodity hedging derivatives services and operating as counter party in commodity derivative trading with clients who are hedging or speculating. In addition, Deutsche Bank offers structured commodity trade finance that uses commodity derivatives, and operates commodity derivatives clearing.

Deutsche Bank offers a large variety of exchange traded commodity investment products. The majority of the commodity investment products are synthetic. These synthetic products include approximately 19 ETFs (out of which 11 are mixed with non-commodity assets). For example, db X-trackers DBLCI – OY Balanced ETF (EUR) has net assets of €802.53 million, with a 31% share of agricultural commodity derivatives, as of 31 October 2011, \(^{157}\) which could account for up to/around €248.78 million in agricultural and livestock futures. Deutsche Bank also offers approximately 6 Exchange Traded Commodities, and approximately 8 Exchange Traded notes, including the PowerShares DB Agriculture ETNs. \(^{158}\)

Most Deutsche Bank commodity funds are for institutional investors only. They provide Deutsche Bank with the opportunity to accrue fees from all kinds of operations related to the funds (managing, clearing, etc.), to benefit through the swap when prices of the tracked index are low compared to the assets invested by the commodity fund, as well as when its risk

146 DekaBank: Response to FoEE and BankTrack “Questionnaire on investments in soft commodities and land deals”, received on the 2 December 2011, from DekaBank External Communications.
149 Deka Bank: Fondsporträt per 31.08.2011, Deka-Commodities CF (A), alternative investmentfonds Rohstoffonds, p.2: the agricultural sector was covered by 26.6% during the previous month.
152 See Table 1
154 ibid., p.13
156 Based on: Myriam Vander Stichele: Deutsche Bank – Quick Scan about agricultural and oil commodity derivative activities, 2011. Non-published research paper commissioned by Oxfam Deutschland, Misereor and WEED.
management for the Deutsche Bank swap with the fund is successful.

Two particularly large Deutsche Bank funds, the PowerShares DB Commodity Index Tracking Fund and the PowerShares DB Agriculture Fund, invest in agricultural commodity futures contracts:

- **PowerShares DB Commodity Index Tracking Fund**, had total assets of U.S. $5.1 billion, of which $563 million was net unrealized appreciation on futures contracts, as of 31 December 2010. At that date, it held 30,414 food commodity futures contracts covering corn, wheat, sugar and soybeans. According to the annual report of the PowerShares DB Commodity Index Tracking Fund, these food commodity futures contracts had a fair value (also referred to as net unrealized appreciation on futures contracts) of $262.6 million, as of 31 December 2010. According to Deutsche Bank Global Commodity Business division, these 30,414 food commodity futures contracts of the PowerShares DB Commodity Index Tracking Fund were valued at approximately $1.1 billion.

- **PowerShares DB Agriculture Fund**, had total assets of U.S. $2.7 billion, of which $370 million was net unrealized appreciation on futures contracts, as of 31 December 2010. Part of the futures contracts held as its assets on 31 December 2010 were 66,104 agricultural commodity futures contracts in 11 sectors, namely corn, soybeans, wheat, Kansas City wheat, sugar, cocoa, coffee, cotton, live cattle, feeder cattle and lean hogs. The fair value of these 66,104 agricultural commodity futures contracts was $370.4 million, according to the 2010 annual report of the fund. According to Deutsche Bank, the 66,104 agricultural commodity futures contracts, covering the same 11 commodity categories held by PowerShares DB Agriculture Fund were valued at approximately $2.7 billion.

Aside from the data above, which was obtained from fund annual reports and other publically available sources, Deutsche Bank themselves have stated that, through the commodity index tracking investment funds and management companies they own (e.g. PowerShares DB Commodity Index Tracking Fund and PowerShares DB Agriculture Fund), they held total agricultural commodity futures contracts valued at least $3.8 billion, as of 31 December 2010.

It is also notable that DB Platinum Advisors, manager of numerous Deutsche Bank synthetic commodity funds, appear to have invested between €400-800 million (depending on the estimate) in agricultural commodity contracts (as of 31 December 2010). For example:

- **DB Platinum Agriculture Euro IIC**, which tracks the S&P GSCI Agricultural Excess Return (composed of 100% agricultural commodity derivatives), has net assets of €183.36 million, as of 31 October 2011.

- **DB Platinum Commodity Euro IIC**, benchmarked against S&P GSCI TR Hedged EUR, which is composed of 19.6% in agricultural and livestock commodity derivatives, has net assets of €919.98 million, as of 31 October 2011, which could account for up to/around €180 million in agriculture and livestock futures.

DWS Invest Commodity Plus Fund, with €79.6 million assets (95% of which are in commodity derivatives, 5% in equities) and agricultural and livestock representing 34.3% of the portfolio, could account for up to/around €25.5 million in agricultural and livestock commodity futures. According to SOMO’s estimates and calculations, Deutsche Bank Group

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160 IEC, PowerShares DB Commodity Index Tracking Fund (exact name of Registrant as specified in its charter), Annual Report (2010) pursuant to section 13 or 15(b) of the securities exchange Act of 1934, 28 February 2011, p. 40, 51.

161 M. Vander Stichele, Deutsche Bank – Quick Scan about agricultural and oil commodity derivative activities, 2011. Non-published research paper commissioned by Oxfam Deutschland, Misereor and WEED.


164 Letter by email by T. Martin, COO - Deutsche Bank Global Commodities, on 26 October 2011 as part of the review process of the draft report Myriam Vander Stichele: Deutsche Bank – Quick Scan about agricultural and oil commodity derivative activities, SOMO, 2011. Non-published research paper commissioned by Oxfam Deutschland, Misereor and WEED.

165 According to figures provided by Deutsche Bank, in Myriam Vander Stichele: Deutsche Bank – Quick Scan about agricultural and oil commodity derivative activities, SOMO, 2011. Non-published research paper commissioned by Oxfam Deutschland, Misereor and WEED. This research paper notes that the figures provided to them by Deutsche Bank are different to the ones mentioned in the annual accounts of the funds. More research is needed why these figures are different, e.g. whether the annual report relates to collateral and whether a swap construction is involved.

166 Vander Stichele, ibid.


owned outstanding agricultural commodity contracts valued up to €5 billion, as of 31 December 2010.29

Deutsche Bank also uses derivatives for hedging against overall balance sheet exposures, thus, it seems that Deutsche Bank uses derivatives for proprietary trading.30 It remains unclear however if that involves agricultural commodity derivatives trading and hedging. There is lack of transparency about this and the very fluid and complex risk management does not make it clear what nature Deutsche Bank’s commodity trading volumes are.

Deutsche Bank is involved in agricultural land deals31 via its DWS retail mutual funds business:

- The DWS Global Agricultural Land and Opportunities Fund (GALOF) was established in July 2007. The DWS GALOF is approximately €110 million in size. GALOF enters into joint venture agreements with farmers and supplies them with equity in order to expand their farms. The fund currently has farms in Australia and Zambia, but is looking at opportunities in Argentina, Vietnam and New Zealand.32

- DWS Access Global Timber GmbH & Co. KG was established in January 2008. It is a closed fund, with a target group of German private investors. The fund invests in forests and wood processing plants. The minimum investment in the fund is €6,700. Initial investments have already been made in the United States, Uruguay, Serbia, Indonesia, Brazil and China.33

Deutsche Bank has also invested in the Bramdean Alternatives Ltd St. Brazilian Farmland Fund, a private equity fund investing directly in Brazilian farmland.34

Munich RE and ERGO, its retail branch, have their global assets managed by MEAG. MEAG does not offer commodity funds for retail customers.35 However, it was exposed to commodity risks of €764 million in 2010, according to its annual report.36 The same report notes that the Munich RE Group is “responding to the economic uncertainties by continuing to strongly diversify our portfolio. [...] To this end, we propose to moderately increase in our equities and commodities portfolio.”37 No further information is available.

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170 ibid.
171 Deutsche Bank: Annual Review 2010 - Delivering in the face of uncertainty, Chapter 2 – Consolidated Financial Statements, p. 307
173 GRAIN: Corporate investors lead the rush for control over overseas farmland, October 2009, website: http://www.dws-galof.com/EN/ (not accessible)
176 See http://www.meag.com/reddot/html/de/privatanleger/p_meag_fonds.asp and http://www.ergo.de/de/Privatkunden/Produkte/Finanzen/Fondsplanken
178 ibid., p. 143
Italy

Gruppo Assicurazioni Generali’s investments in agricultural commodities seem limited.179 The Generali sicav fund Absolute Return Multi Strategies, which was €311 million in size, as of 30 September 2011,180 has a maximum exposure of 35% in derivatives based on financial indices on commodities.181 The Generali fund Absolute Return Global Macro Strategy fund might have up to 10% of its total AuM invested in commodity-ETFs, although it reported no actual investments in ETFs at the end of 2010.182 No specification of the type of commodities is available.

In 2003, Generali, through its 100% subsidiary Geneagricola Spa, planned to buy 5500 hectares of land in the North of the province of Timisoara, Romania. According to some newspapers, the arrival of Geneagricola in Romania corresponded with a sharp increase in the price of land. Prices rose from around €800 per hectare in 2002 to around €1200. At the end of 2004, 3500 hectares of land in Romania had been bought by Generali or its affiliates, with a further 1500 hectares planned. In the same year, Generali released a DVD book of photography aiming to demonstrate that their agricultural investments in Romania were made to “increase the value of the territory and not for a speculative purpose”.

Intesa-Sanpaolo Group member Eurizon Capital Sgr183 manages 73 different funds, several of which invest in food commodity-ETFs. For example, Eurizon Focus Profilo Dinamico and Fondo Eurizon Focus Profilo Moderato invest in Lyxor ETF Commodities CRB (two different commodity-ETFs, one including and the other excluding the energy sector).

Fonditalia, part of Banca Fideuram, which is in turn part of the Intesa-Sanpaolo, manages several investments in food commodities. As of June 2011, Fonditalia Core 1 fund (€2.7 billion AuM) invested more than €50 million in the EFTS All Commodities DJ-UBSCISM exchange-traded commodities fund (ETC), which itself invests 30% in agricultural commodities and 5% in cattle.

The Intesa-Sanpaolo investment branch, Banca IMI, creates ETFs and ETCs via their market-making structure Retail HUB and directly structures and emits products, such as their Reflex index certificates on cocoa, coffee, cotton, etc.185 In June 2011, Banca IMI had emitted some 6.15 million certificates on food commodities, trading at a total market price of €123.64 million.

Unicredit186 directly invests or promotes investment in food commodities and land deals through the banking group’s asset manager Pioneer Investments; by promoting commodity-ETFs and ETCs to its institutional clients; and by directly or indirectly financing companies operating in the agribusiness sector in emerging markets.

The hedge fund Pioneer Funds Commodity Alpha held €617 million assets under management (AuM) in commodities derivatives (as of April 2011), thereof 26.3% in grains, 17.9% in other agricultural commodities and 6.2% in cattle (adding up to 50.4% or €311 million AuM in food commodities). Other funds, such as Pioneer Fund Strategie Portfolio Wachstum invest a part of their portfolio in the Pioneer Funds Commodity Alpha. In November 2011, Unicredit stated that the size of their engagement in soft commodity derivatives markets is of a total net value of $91 million in Pioneer S.F. – EUR Commodities and $153 million in Pioneer Funds – Commodity Alpha, “based on flows in or out of the funds”.

Several Pioneer Investments funds invest in ETFs linked to food commodities. These include Pioneer Target Sviluppo, Pioneer Asset Management SA Luxembourg, Pioneer Funds Absolute Return Multi-Strategy, and Pioneer Funds Global Balanced. However, each of these funds’ investment in ETFs is relatively small (typically corresponding to a few million euros). Among these are several ETFs that feature food commodities in their portfolio: Lyxor ETF Commodities CRB (see Société Générale section), ETF Agriculture, ETFS Soyabeans, ETFS Corn, and ETFS Grains. Moreover, Unicredit offers its clients several ETFs listed on the Italian market,187 including five ETFs focusing on agriculture, four focusing on cattle, six on wheat and six on agricultural commodities (sugar, coffee and cotton).

Benchmark Certificates allow Unicredit’s retail clients to follow agricultural commodities indexes. The Open End Indice Materie Prime Agricoltura DI-AIG Agriculture (Total Return) benchmark

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184 CRBM: ibid.
185 See http://retailhub.bancaimi.com/retailhub.html
186 CRBM: ibid.
187 Unicredit: Response to FoE/BankTrack questionnaire by email from Unicredit representative, 30 November 2011
188 See http://www.unicreditgroup.eu/en/home.htm
follows the Dow Jones AIG Agriculture Total Return Index (composed of 100% agricultural commodities). The Open End Indice Materie Prime AI-AIG Commodity benchmark follows the Dow Jones AIG Commodity Index (composed of 19 commodities, thereof about 1/3 agricultural commodities). These financial products were proposed by Bayerische Hypo- und Vereinsbank AG, which is now part of the Unicredit Group. It is unclear whether these products are still available to the public. Several Pioneer funds invest in agribusinesses, including Archer-Daniel-Midlands, China Agri-Industries Holding Ltd, Charoen Pokphand Foods, Indofood CBP Sukes Makmur TBK PT (whose businesses include a palm oil plantation), Kuala Lumpur Kepong Berhad (palm oil in Malaysia and Indonesia) and others, many of which are involved in land acquisition.189

In December 2007, Unicredit was co-lead manager in the initial public offering of Black Earth Farming, a company that buys and cultivates land in South-West Russia and produces flour, corn, seeds, sunflower oil, etc. Unicredit has, in the recent past, invested in research into the agricultural and agricultural commodities sectors, which allegedly formed the basis of investments into agribusinesses in Russia and Ukraine. This however has been disputed by Unicredit.

Netherlands

Dutch pension funds have been highly active in commodities investments, and most analysts expect growth to remain strong.190 Two Dutch pension funds, Stichting Pensioenfonds ABP and PPMG have been considered, alongside Dutch banking and insurance group ING, and the smaller Rabobank, for its history and expertise in agricultural markets.

Stichting Pensioenfonds ABP appears to be highly active in both agricultural commodity derivatives and land acquisition. According to the 2010 Annual Report of APG, the subsidiary of ABP that administers the Stichting Pensioenfonds ABP pension scheme, “the current value (net asset value) of the commodities amounted to €8.0 billion (2009: €6.0 billion). The exposure is largely made up of commodity derivatives and is an almost exact replica of the S&P GSCI Total Return Index that serves as the benchmark.”191 With the S&P GSCI Total Return Index being composed of approximately 20% agriculture and livestock,192 it can be estimated that APG’s investment into agricultural and livestock derivatives was, in 2010, up to around €1.6 billion.

The 2007-2008 food price hikes put APG’s focus onto food producing assets.193 Jos Lemmens, senior portfolio manager at APG, has publicly stated that APG plans to raise its investment in land to around one billion euros. “Part of (our) strategy is more efficient allocation to commodities, part of that strategy is to own real assets, especially land.”194 APG started in 2007 investing “a few hundred million” euros in farmland, primarily in Latin America, Australia, New Zealand and Eastern Europe, according to Lemmens. “Basically, the world is our farm”, and choosing a country or region for investments “just depends on the specific project and whether the risk/return profile is right.”195

In 2009, APG committed to invest U.S. $10 million in Biogreen Oil, a company that grows jatropha and produces biofuels in Brazil. APG made its investment conditional upon all of Biogreen Oil’s operations complying with the standards of the Roundtable on Sustainable Biofuels.196 These standards are however subject to loopholes, “industry led, highly controversial, and are likely to mislead the public.”197

ABP is also part owner of Global Solidarity Forest Fund (GSFF), a Sweden-based ’ethical investment fund’, who aim to combine ethical investment choices with producing high profits. A subsidiary of GSFF, Chikweti Forests, has embarked on a U.S. $100 million investment in forestry plantations in Niassa province, Mozambique. Following the complaints of numerous local people about the timber companies working in Niassa, an investigation was launched by the National Directorate of Lands and Forests (DNTF, Direção Nacional de Terras e Florestas) in May 2010. The investigation reported that Chikweti was occupying another 32,000 hectares illegally. “Chikweti invaded


191 APB Annual Report 2010, ibid., p. 118

192 See Table 1


198 189 See section on Credit Agricole, and for example, Human Rights Advocates: Land Grabbing for Food & Fuel Outhcropsing: A Rising Threat to the Right to Food, 2009, available at


200 Knoepfli, Ivo: Responsible investment in commodities: The issues at stake and a potential role for institutional investors, January 2011, p. 2-3, available at


202 191 APB Annual Report 2010, ibid., p. 118

203 192 See Table 1


the land of local people, promising to compensate them, but failed to honour their promise.”

ING Groep stated in its 2010 Annual Report that increasing commodities product offering was one of three priorities of its Financial Market business units in 2010. ING has launched at least one commodity fund: with about $55.5 million (€38.5 million) assets under management (AuM), the ING (L) Invest Commodity Enhanced fund aims at outperforming the Dow Jones UBS Commodity Index, which is composed of 33% agricultural commodities and cattle. Further commodity funds are offered by regional retail branches, for instance Allianz RCM Rohstoffe by ING DiBa in Germany. Market research and recommendations also supported speculation with commodities, namely wheat and corn.

Addendum, 12 January 2012: In a response to the report, sent to FoEE by email, ING stated that their “total combined exposure to agricultural commodity futures is limited to €40 million, of which €28 mln through the bank and €12 mln through a fund of ING IM.” Moreover, ING affirmed that it will “take appropriate measures if and when investments in commodities derivatives are considered to correlate with agricultural commodity price increases and volatility” as their response to the “increasing concern (...) that too many investments and capital flowing to the market may drive agricultural commodity price increases and volatility”.

Published financial reports indicate that proprietary trading has significant influence on the company’s earnings, at least for activities in the U.S. In 2010, ING Group’s total income decreased by €161 million, to €1,106 million (down from €1,267 million in 2009). According to their Annual Report 2010, the Financial Market Unit showed a strong proprietary trading performance in Brussels and New York. In 2010, general account assets (proprietary) increased to 37% of total assets (€387 billion) under management. There is no information available about the role or share of agricultural commodities in ING’s proprietary trading. However, given the total amount of proprietary trading (>€140 billion in 2010), and the fact that commodities are a strategic priority of the ING Financial Market business unit, a significant involvement seems likely.

Addendum, 12 January 2012: In their email response, ING stated that “ING does not trade physical agricultural commodities, or derivatives of agricultural commodities for its own account, nor does it invest its proprietary assets in these securities/products.”

Rabobank (Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A.), which acquired the majority of Swiss-based bank Sarasin in 2007, operates on the basis of cooperative principles. Rabobank Group’s primary international focus is food and agribusiness. To reflect the importance of agribusiness for its core business activities, Rabobank issued a set of ‘Food and Agribusiness Principles’. According to these principles, “the first priority of food and agribusiness chains is to feed the world at a reasonable price with products that are not harmful to the health of people and animals.”

Addendum, 19 January 2012: This fact sheet was updated, based on information by Rabobank, sent to FoEE by email on 13 January and 19 January 2012.

According to a FAO working paper, “Rabobank offers a wide range of OTC derivative products to meet the specific hedging needs of its food and agribusiness clients. The range of agricultural commodities covered is comprehensive including commodity price swaps and commodity price options.” Rabobank (including Robeco) is likely to have an exposure of up to €608 million in agricultural commodity derivatives. The Robeco Commodities Fund (managed by Sarasin, €128 million AuM, thereof approximately €43 million in agricultural...
derivatives, as of 31 December 2011), invests in a wide range of commodity futures. Its “anti-cyclical” active investment strategy is, according to Rabobank, “deemed to contribute to stabilizing prices and volatility”. Rabobank stated that the bank “does not engage in proprietary trading of agricultural commodity derivatives”.

Rabobank has partnerships in countries that are high risk for involvement in land grabs, including Mozambique, Tanzania and Rwanda. However, Rabobank states that it has only minority participations and no majority ownership or control in its partner banks, and that Rabobank’s main objective is to contribute to developing access to finance and banking infrastructure in rural areas.

The Robeco Agribusiness Equities D EUR, a specialized shares fund of the Rabobank subsidiary Robeco Group N.V., invests in agribusiness companies, such as Bunge, Archer-Daniels-Midland, Wilmar International, SLC Agricola and Illovo Sugar. On 1 June 2011, Bunge and certain of its subsidiaries entered into a U.S. $700 million trade receivables securitization program with Rabobank as administrative agent.

Providing finance to agribusiness companies involved in large land deals comes with considerable risk of involvement in land grabs, often relating to agrofuels production.

Rabobank seeks to control these risks by several value chain considerations, addressing specific risks in the value chains of soy, palm oil, sugar, etc. According to Rabobank, new policies on biofuels and biodiversity are in the final stage of decision-making. “Applying these principles and policies is deemed to provide a solid framework to assess risks in case of financing land appropriation.”

However, Rabobank’s ambition to control the risks inherent in financing big agribusinesses stands in contrast to recent allegations of land-grabbing against Wilmar International and Illovo Sugar, in which Robeco Agribusiness Equities D EUR is investing. On 19 January 2012, Rabobank responded: “[...] We do not simply accept the allegations as they arise in the media or by NGOs but rather undertake a rigorous research and verification process before accepting and acting on allegations. If a company is verified to be implicated in land grabbing or in this case human rights, labour or environmental allegations resulting from land grabbing our first action would be to undertake engagement with the company on a set of pre-defined and transparent objectives. [...] If engagement is unsuccessful after 3 years then we may consider exclusion from our portfolios.”

PGGM, the asset management services arm of PFZW (Stichting Pensioenfonds Zorg en Welzijn), was one of the first institutional investors in the world to include commodities in its investment portfolio. In early 2000 PGGM decided to allocate 4% of its assets to commodities, mostly to be invested in passive long-only indices of rolling commodities futures, primarily in energy. In January 2009, they launched the PGGM Commodities Fund.

In their 2010 Annual Report, PFZW announced that due to risk considerations it would reduce its assets invested in commodities form 7% in 2010 (€7 billion out of a total €100 billion, primarily through investments in funds that gain exposure through derivatives) to 6% in 2011. In 2010, return on agricultural commodities was +26%, due to rising price levels of cotton, maize and grain.

PGGM concludes in a position paper on agricultural commodities: “[...] PGGM is convinced that long-term investment in commodities form 7% in 2010 (€7 billion out of a total €100 billion, primarily through investments in funds that gain exposure through derivatives) to 6% in 2011. In 2010, return on agricultural commodities was +26%, due to rising price levels of cotton, maize and grain.

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212 Rabobank response to the FoEE/Banktrack “Questionnaire on investments in soft commodities and land deals”, received from the Rabobank issues manager sustainability by email on 29 November 2011; And: Rabobank response to the first publication of this report on 12 January 2012, sent by the Rabobank issues manager sustainability by email on 13 January 2012

213 Ibid.


215 For more information, see http://hbr.yahoo.com/a/110607/beh-4.html (that is asset-based lending, see http://www.deutsche.com/solutions/securitization/4-securitization-benefits)

commodity price trends in the world market are determined by relationships between the supply of and demand for physical commodities.” In other words, PGGM rejects the role of food speculation in influencing long-term commodity price trends, but appear to fail to address the impact of food speculation on short term price volatility and hikes.

Spain

**Banco Popular** invests in commodities through several of its funds, but their portfolios revolve mainly around energy and mining. No major involvement of *Banco Popular* in agricultural commodity derivatives trading was found. Their private banking branch does offer the *Dexia Fund FI Dexia Equities L Sustainable G. Planet*, which has significant holdings in biofuel companies, and could therefore be contributing to land grabs.124

**BBVA** (*Banco Bilbao Vizcaya Argentaria S.A.*) Asset Management added a commodities derivatives fund to its Quality Funds multimanager range in May 2010:

- **Quality Commodities FI** has a volume of around €7 million and is measured against a composite benchmark, including the *DJ UBS Commodity TR* (70%), which is comprised of around 34% agricultural commodities and livestock.

- **The Quality Commodities FI Top 3 fund** includes 20.95% in *Pioneer EUR Commodities*, which is comprised of 19% agricultural commodities and livestock, and 5.73% in *ETFS Agriculture DI-UBSCI*, which is comprised of 100% agricultural commodities and livestock.

Overall, BBVA’s involvement in the agricultural commodity market appears to be limited. In 2010, BBVA’s equivalent maximum exposure in OTC commodities derivatives was €299 million; further specification is not available.129

**Santander Group** is the fourth largest bank in the world by profit and eighth by stock market capitalization, as of 2009. There is little evidence for extensive involvement in agricultural commodity derivatives markets. In 2008, *Santander* closed down its four ETF funds. A percentage of the *Fondo Commodity Trio* open-end fund131 is linked to the performance of the *DJ AIG Copper, DJ AIG Crude Oil, and DJ AIG Corn Indices*, but it is primarily an equity fund.122

According to CEO Alfredo Saenz, *Santander* has “negligible” activity in proprietary trading. However, according to *Santander*’s 2010 Annual Report, proprietary trading grew 27% to €793 million in 2010.123 Moreover, *Santander* had €252 million invested in commodity derivatives in 2010.124 Further specifications of the class of commodity derivatives are not available.

*Santander* was criticised for financing the Santo Antonia dam project in Brazil, which would have led to the forced relocation of large numbers of indigenous people. However, in May 2011, *Santander* announced that it was suspending its involvement.125


233 *Santander*: Annual Report 2010, p. 345, available at http://www.santander.com/cpas/Static57Blobool%3duridata%26blobheader%3dapplication%2d pdf%3dtrue%26BlobTitle=M Dongolo%26BlobWhere%3d126529953010%26cachecontrol%3dtype%3dbinary&unid=faac9eb8

234 Ibid, p. 178


**United Kingdom**

Barclays PLC is the third largest bank globally, with assets of nearly £2 trillion.\(^{236}\) Its investment banking division, Barclays Capital, dominates the UK commodities market and is generally considered the third largest player in commodities worldwide.\(^{237}\) Barclays Capital has expanded its commodity market presence aggressively over the last decade, with pre-tax profits from the unit overall rising 90% in 2008-2009.\(^{238}\) In addition, it is seen as the undisputed leader of the related sector of emissions derivatives within Europe.\(^{239}\)

Barclays Capital profits from agricultural commodities derivatives by acting as a broker for its clients, who pay commission, as well as lending to speculative players; by dealing in over-the-counter derivatives; and by facilitating the creation of investment products backed by commodity derivatives, which make the market accessible to long-term investors such as pension funds.\(^{240}\)

Barclays Capital is known to be an innovator in structured commodity investment products. Such products include its capital commodity index, collateralised commodity obligations (developed by Barclays Capital in 2004 but apparently scrapped following the credit crisis), and ‘i-Path’ branded exchange traded notes (ETNs). Barclays Capital has claimed to be “the largest dealer of commodity-linked notes in the world, with more than US$7.9 billion… issued in 2009.”\(^{241}\) It is very difficult to know the specific structure of these notes, but many of them are linked to baskets of commodities that contain agricultural components.\(^{242}\) ETNs include:

- **iPath DJ-UBS Agriculture TR Sub-Idx ETN**: follows the Dow Jones-UBS Agriculture Total Return Sub-Index – which is comprised of futures contracts on soybeans, corn, wheat, cotton, soybean oil, coffee and sugar – and, as of 30 November 2011, had net assets of U.S. $137.87 million.\(^{243}\)
- **iPath DJ-UBS Grains TR Sub-Idx ETN**: follows the DJ UBS Grains TR USD – which is comprised of futures contracts on corn, soybeans and wheat – and, as of 30 November 2011, had net assets of U.S. $170.7 million.\(^{244}\)
- **iPath DJ-UBS Livestock TR Sub-Idx ETN**: follows the DJ UBS Livestock TR USD – which is comprised of futures contracts on lean hogs and live cattle – and, as of 30 November 2011, had net assets of U.S. $107.65 million.\(^{245}\) Research for the World Development Movement estimated that Barclays makes up to £340 million (£398 million) per year from speculating on food commodities.\(^{246}\)

Barclays Capital has tended to deny engaging in proprietary trading although staff have admitted that “there’s a tremendous diversity of opinion about… the difference between taking proprietary risk and the risk warehousing that would normally be associated with a large franchise business such as ours.” Although Barclays Capital does not have a dedicated proprietary trading unit, the bank’s reputation as a more aggressive risk taker than other European banks is suggestive of proprietary trading.\(^{247}\)

HSBC (HSBC Holdings plc) is involved primarily in metal markets rather than food.\(^{248}\) None of the funds HSBC offers to private and commercial clients are specifically built around agricultural commodities, although many include commodities more generally, such as the JPM Natural Resources Fund in the UK,\(^{249}\) and the internationally marketed fund ranges HSBC Global Investment Funds (GIF), MultiAlpha, ETFs and the Shariah compliant HSBC Amanah Funds.\(^{250}\) In the GIF range, several funds include investment in agriculture and food, but mostly in equities, or directly into commodities, rather than derivatives.

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239 Scott, ibid.
240 Scott, ibid.
242 Scott, ibid.
246 Scott, ibid.
247 Scott, ibid.
Outside Europe, HSBC appears to market commodities investments more aggressively. For example, among the Amanah Funds, HSBC Saudi Arabia recently launched a new HSBC Amanah Commodity Index Fund, which tracks the performance of a commodity index that includes agricultural products (e.g. wheat, cattle).252 HSBC is also involved directly in trading of commodities, through, for example, HSBC Broking Services Asia, which offers execution services in hard and agricultural commodities, including corn, oats, rice, soybeans, soy meal and oil, wheat, breakfast commodities and cattle, traded at exchanges in Chicago New York and London.252

HSBC has been an important financer of Latin American agrofuels companies, providing funds for the agrofuels expansion activities of, for example, ADM, Bunge, Cargill and São Martillo.253 In South East Asia, HSBC has been criticised for financing palm oil companies which violate human rights norms and the Roundtable for Sustainable Palm Oil’s (RSPO) standards, with reports claiming that community land is taken over, people are displaced, and forest of high conservation value is being cleared.254 This would also violate HSBC’s own forestry guidelines.255

Moreover, HSBC is co-financing agribusiness companies in Latin America and Africa. Large scale agricultural investments, without due diligence, carry the risk of land being grabbed in the host countries. Some of the most recent financing operations of HSBC include:

- **HSBC** is one of the main financers of London-based New Forests Company (NFC), which has been criticised for taking away the homes and land of more than 22,500 people in Uganda for timber investments. NFC also has projects in Tanzania, Mozambique and Rwanda.256

- **HSBC** contributed U.S. $30.5 million to a $500 million pre-export financing for Brazilian commodity agrribusiness Multigrain. The pre-export financing covers the purchase of soybeans, cotton, wheat and corn from Brazilian suppliers.257

- **HSBC Securities (USA)** acted as co-underwriter of Adecoagro’s initial public offering at the New York Stock Exchange. Adecoagro is a leading South American agricultural company, which owns farmland and industrial facilities in Argentina, Brazil and Uruguay.258

- **HSBC** is one of the lead arrangers of the largest ever structured agricultural commodity syndicated deal in Africa, a U.S. $2 billion pre-export finance loan to the Ghana Cocoa Board.259

According to HSBC, their Forest Land and Forest Products Sector Policy260 should ensure that if they were to finance a company involved in developing plantations on forested land, then it would need to meet their standards on certification, which would include taking wider social impacts into account.261

**Lloyds Banking Group PLC** offers several funds to private clients which include positions in agricultural commodities (physical, not derivatives) or in agribusiness companies. Investing or lending to agribusinesses carries the risk of contributing indirectly to land-grabbing. A range of Lloyds’ funds invest in agribusinesses, such as:

- **CF Eclectica Agriculture Funds**, which has major holdings in agribusinesses like Wilmar International (major palm oil plantation owner) and Archer Daniels Midland (world leading grain and oilseed trader and processor) and others;262

- **Sarasin AgriSar Funds**, which has major holdings in agribusinesses like Bunge, Slc Agricola (Brazil-based agricultural production company, focusing on cotton, ropes and other agricultural products) and also has projects in Peru and Ghana.263


261 HSBC: Response to FoEE/BankTrack questionnaire by email from HSBC Group Corporate Sustainability representative, 30 November 2011


soybean and corn), Cosan (Brazilian company producing sugar and ethanol from biomass), Viterra (global agribusiness in grain handling and marketing, agri-products and processing) and others.263

Lloyds was one of the co-bookrunners of three loans packages (each at U.S. $2,543 million) and co-arranger of two multi-loan facilities (both at $1,599 million) to Noble Group,264 a global conglomerate manager of agricultural, industrial and energy products, integrating their sourcing, marketing, processing, financing and transportation. Noble Group own palm oil plantations in Africa and Asia.265

Lloyds is part of a banking syndicate providing large revolving credit facilities to Bunge Finance Europe (e.g. U.S. $600 million in November 2009 and $1,750 million in March 2011).266 Bunge Finance Europe is a large edible oil trading, crushing and refining company in Europe, a subsidiary of Bunge, one of the most important soy traders and crushers in Latin America.267

Royal Bank of Scotland (RBS) offers more than 3000 products focused on commodities to institutional investors only.268 At least 50 of those are based on agricultural commodity futures. Most of them mirror Rogers International Commodity Indices (RICI) Indices. RBS is represented on the management committee of RICI.269 Among these funds are several ETFs, including:

- RBS Market Access RICI Agriculture Index ETF (launched January 2007, Luxembourg registered, UCITS compliant, listed on several stock exchanges): mirrors the RICI Commodity Index – Agriculture – which is based on 22 agricultural commodity futures, with the largest components being wheat (19%), soy (18%), corn (14%), cotton (12%) and livestock (9%)270 - and has net assets of €134.08 million;271

- RBS Market Access Rogers International Commodity Index ETF (launched in May 2008, Luxembourg registered, UCITS compliant, listed on several stock exchanges): mirrors the RICI International Commodity Index272 – which is comprised of 35% agriculture and livestock futures273 - and has net assets of €233.38 million. Thus, agricultural and livestock futures could account for up to around €81 million;

- Two RBS Market Access EFTs mirroring the S&P GSCI Capped Component 35/20 2X (Inverse Monthly and Leverage Monthly: launched February 2011, Luxembourg registered, UCITS compliant, listed on European stock exchanges). The underlying S&P GSCI commodity futures indices include 21% grains (including soy) and 9% livestock;274

In September 2011, RBS launched the world’s first ETF that tracks the performance of commodity trading advisers (CTAs), a rapidly growing part of the hedge fund industry.275 The composition of the RBS Market Access CTA Index ETF (Luxembourg registered, UCITS compliant, listed on Deutsche Börse) includes 34% grains sector and 3% meats sector.276 With net assets of U.S. $49.9 million, as of 31 October 2011,277 agricultural and livestock derivatives could account for up to/ around €18.5 million.

Two EFTs have been listed on the Frankfurt Stock Exchange since April 2010:

- RBS RICI Enhanced Agriculture Index Exchange Traded Commodities,278 which is based on RICI Enhanced Agriculture Index, and, as of 31 October 2011, had net assets of €9.48 million;279

- RBS RICI Enhanced Grains and Oilseeds Index Exchange

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273 See Table 1
275 Financial Times: RBS launches world’s first CTA ETF, 12 September 2011, available at http://www.ft.com/cms/s/0/3c0a5e5c-da07-11e0-b109-001446e00ced.html#axzz1eXSnRAOa [accessed 31 October 2011, 8fb4-ee57341b0ea2&version=1 [accessed 23 Nov 2011]
Traded Commodities, which based on RICI Enhanced Grains & Oilseeds, and, as of 31 October 2011, had net assets of €6.25 million.

RBS offers many other funds and structured products that are more narrowly focused on individual commodities, for example, more than 50 which focus on wheat, over 60 on soy, more than 60 on corn, 9 on biofuels and 29 on palm oil.

Moreover, RBS is co-financing agribusiness companies. Large scale agricultural investments, without due diligence, carry the risk of land being grabbed in the host countries. Some of the most recent agribusiness financing operations of RBS include:

- **Noble Group**: RBS was one of the bookrunners of a U.S. $350 million bond issued by Hong Kong-based Noble Group in October 2010. They are also co-bookrunners of a large revolving credit facility to Noble Group, which is renewed regularly (reported sizes between $2,400 and $3,185 million). For details on Noble Group, see: Lloyds.

- **RBS** was co-bookrunner of a U.S. $1,250 million loan package to Olam International, a global supply chain manager of agricultural commodities. Olam is increasingly moving into production, for example by acquiring 300,000 hectares in Gabon for palm oil and rubber plantations, as part of a joint venture.

- **RBS** is part of a banking syndicate providing large revolving credit facilities to Bunge Finance Europe. For details, see Lloyds.

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283 ThomsonOne, ibid

Findings of the research

This report indicates that both food speculation and the financing of land grabs are issues with Europe-wide significance.

- Among the European private financial institutions researched, it appears that the most significant actors involved in trading agricultural commodity futures, and other related derivatives and complex instruments, are Germany’s Deutsche Bank, UK’s Barclays, Dutch pension fund ABP, German financial services group Allianz and French banking group BNP Paribas.

- Many financial institutions are involved in financing large agribusinesses whose activities entail purchasing or leasing land, including Dutch pension fund ABP, UK’s HSBC and RBS, Italy’s Unicredit and France’s AXA and Credit Agricole. Some of these have financed agribusinesses with explicit links to land grabs and human rights abuses, notably ABP in Mozambique, AXA in India and HSBC in Uganda.

- A number of European private banks and insurance firms are directly involved in financing land deals that run the risk of land grabbing. Germany’s Allianz holds a quarter of a fund that invests in Bulgarian agricultural land, Deutsche Bank has invested in a fund that buys Brazilian farm land, and Italy’s Gruppo Assicurazioni Generali has a subsidiary that purchases land in Romania.

Recommendations to European policy makers

It is imperative that European governments and parliamentarians listen to the concerns of consumers, workers, farmers, businesses UN and other international agencies, religious groups, academics, international development activists and others who believe effective controls over financial speculation on agricultural commodities are necessary to defend the world’s poorest people and the world’s food producers from exposure to sudden food price hikes and extreme price volatility.

It is not access to financial markets for speculators that is of paramount importance, but fair access to food for people in Europe and abroad. The right to food and the principles of food sovereignty must be at the heart of EU regulation in food markets – including agricultural commodity derivatives markets and investor regulations.

Alternative means to support agriculture other than hedging through commodity derivatives need to be promoted in order to meet the needs of farmers, food producers, processors and consumers, and to ensure stability in, and adequate finance of, the food supply system. For example, local food markets, cooperative farming, higher on-farm diversity including crop rotation for arable farms as well as better synergies between crop and livestock farming, social warehousing and national stocks can, in various ways, reduce price volatility and the dependency of domestic food markets on global markets. Alternatives like these can help to increase the resilience of the global food supply system, and to fulfil the right to food both locally and globally.

There is much more to say about the kind of policies that are urgently needed to ensure sustainable agriculture, finance for farmers, and stable and affordable food prices world-wide. However, the scope of this report is limited to the involvement of European private financial institutions in commodity speculation.
derivatives and land deals, and the necessary financial market regulation to reduce this. Nonetheless, it must be acknowledged that this is only a small part of the solution to the challenges of the global food system. Other causes for the recent food crises, including climate change and the surge in demand for agrofuels, must gain equal attention from policy makers, experts and civil society.

A key principle for commodity markets regulation should be policy coherence with the EU policies on sustainable development, including the Millennium Development Goals, the protection of human rights and the environment, as well as with the Common Agricultural Policy (CAP).

Because of the potential impacts on people and the environment, supervision of commodity markets must follow the precautionary principle, as enshrined in the Lisbon Treaty. Speculative trades that cannot be proven to serve the needs of sustainable development must be restricted.

Decision making, supervision and enforcement must be open and accessible to the public, in order to avoid undue influence of interested parties and to ensure that the use of the funds is acceptable. Results must be monitored and publicised to ensure accountability.

In order to avoid excessive speculation influencing food prices, it is essential to reverse most of the de-regulation that has taken place over the last 20 or so years. Commodity futures markets have become monstrous in size compared to the actual production of the traded commodities, thereby increasing price volatility and forming speculative bubbles. Lack of transparency and regulation prevent both adequate supervision and the assigning of responsibility to relevant market actors. Many rules that were disregarded as a result of lobbying by the financial industry were effective, feasible, and in light of the current crises, efficient and necessary.

In June 2011, a report by the FAO, IMF, World Bank, WTO and others, on Price Volatility in Food and Agricultural Markets, recommended greater transparency and appropriate rules for the futures and over-the-counter derivatives markets. It also listed policy options such as limiting positions held by speculators on commodity futures contracts, limits on daily price changes, and measures to deal with high volume and high frequency food commodity derivatives trading.

At present, action to crack down on excessive speculation in commodity markets is being considered both in the U.S. and EU. In both markets there are opportunities to implement reforms that would help stabilize food prices. Effective regulation can tackle excessive financial speculation and prevent it from driving food prices higher. This report sets out the following recommendations to regulators at EU and national levels:

- **Make curbing speculation a key objective of financial market policy** – The objectives of the reviewed EU Markets in Financial Instruments Directive (MiFID) and Regulation (MiFIR), as proposed by the European Commission, need to be revised to ensure food markets take into account the right to food and help to achieve food sovereignty. Following the Stop gambling on hunger campaign, the U.S. Dodd-Frank-Act on financial market regulation included ‘reducing, preventing and stopping excessive speculation on food’ as one of its policy objectives. The EU should at least follow the U.S. example.

- **Improve market transparency** – Trading of derivatives should be moved from deregulated ‘over-the-counter’ (OTC) markets onto well regulated public exchanges, similar to the stock market. ‘Position reporting’ should be introduced so that regulators and analysts can properly assess the functioning of the markets. Moreover, disclosure obligations on funds and investment products, especially for retail, need to ensure transparency regarding their composition.

- **Ban institutional investors and investment funds from food commodity derivatives** – For example, pension funds and ‘portfolio diversifiers’ are not needed to provide sufficient liquidity in agricultural commodity markets and do not pursue legitimate hedging needs in the agricultural market. Similarly, products like commodity index funds and exchange traded funds (commodity-ETFs) and notes (commodity-ETNs), as well as high frequency trading (HTF) should be prohibited in food commodity markets.

286 The focus of this paper is not policy coherence, however a certain minimum level of coherence between EU policies and at the global level will be essential if a new food and agriculture policy for the EU is to succeed. Therefore reference to policy coherence is required within the principles of a new policy.


288 See: http://ec.europa.eu/internal_market/securities/isd/mifid_en.htm

289 See: http://stopgamblingonhunger.com

289 See: Stop gambling on hunger campaign
• Introduce strict position limits on the amount of the market that can be held by individual traders and by financial speculators as a whole – To prevent financial speculators from overwhelming the markets, the EU should introduce strict position limits. Based on analysis of U.S. markets, financial speculation should be limited to 25 per cent of the market.

• Ensure strong supervision – The EU’s legislation must give authorities sufficient powers to act on both market abuse and excessive speculation. This must include ensuring full transparency and supervision of financial markets in food commodities, caps on the size of bets speculators can make, and banning harmful trading activities, such as purely passive speculation. The EU should set up a specific agency for supervision of commodity futures – such as the U.S. Commodity Futures Trading Commission (CFTC).

• Introduce specific regulation on investments, in order to curb land grabs driven by investors and speculators – The proposals around the regulation of private equity funds and hedge funds are primarily centred on capital requirements and obligations for fund managers, rather than on the funds themselves and the scope of their action. This limited focus on financial stability and increased transparency will not prevent private equity funds from investing in land grabs in the near future. 

• Strengthen liability rules for investors and financial service providers, with respect to their potential role in agricultural commodity markets and financing land deals – Liability should exist for enabling or ignoring violations of human rights, ignoring the right to food or local land rights, environmental crimes, and the effects of indirect land use change on local communities and the environment.

**Recommendations to private financial institutions**

Alongside its recommendations to policy makers, this report sets out some key recommendations to private financial institutions, including banks, pension funds and investors:

• Investigate your involvement in food speculation and direct or indirect financing of land grabs, publish the results and make them available to relevant stakeholders.

• Liquidate all open positions and refrain from further activities in food commodity derivatives and related funds that are not directly linked to hedging for farmers, food processing companies or related commercial traders. Phase out commodity funds, structured and synthetic products that track food commodities or are partly or fully composed of commodities or commodity derivatives. Alternatively, their composition should be changed to remove food commodities from the index being tracked or the underlying. Banks should refrain from proprietary trading in food commodities derivatives.

• Fund managers and financial service providers should apply strict codes of conduct to the use and sale of food commodity products and agricultural land investments, and respective financial services.

• Banks and financial retail businesses should stop retailing financial products based on food commodities, commodity derivatives and agricultural land deals with a risk of land grabbing, to end-customers such as small investors.

• Pension funds should refrain from controversial investments in the food sector, as their clients usually have no means of influencing their investment strategy. Controversial investments include commodities, commodity derivatives and agricultural land deals, where land grabbing cannot be excluded.

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290 Merian Research et al., ibid.
Commodity
A basic good used in commerce. The sale and purchase of commodities is usually carried out through futures contracts on exchanges that standardize the quantity and minimum quality of the commodity being traded. 292

Derivative
Financial instrument, the price of which is directly dependent upon (i.e. “derived from”) the value of one or more underlying asset.

Excessive speculation
When speculation distorts rather than enhances the orderly working of markets, leading to “sudden or unreasonable fluctuations or unwarranted changes” in the price of commodities traded on an exchange. 293

Exchange
Central marketplace with established rules and regulations where buyers and sellers meet to trade futures and options contracts or securities.

Exchange Traded Fund
A security that tracks an index, a commodity or a basket of assets like an index fund, but trades like a stock on an exchange. ETFs experience price changes throughout the day as they are bought and sold. 294

Food Sovereignty
The right of peoples to healthy and culturally appropriate food produced through ecologically sound and sustainable methods, and their right to define their own food and agriculture systems. 295

Future
A standardized contract between two parties to exchange a specified asset for a price agreed today (the futures price) with delivery occurring at a specified future date (the delivery date).

Hedger
A trader who enters a futures market in order to minimize the risk of financial loss from an adverse price change.

Index
An imaginary portfolio of securities representing a particular market or a portion of it 296 (for example, commodities, or agricultural commodities).

Index Fund
A type of mutual fund with a portfolio constructed to match or track the components of a market index. 297

Land Grabs
Land deals that result in human rights violations and/or that are made without prior consent by the local population (and in some cases, even where partial consent has been given, for example, by chiefs, but without any benefits for the majority of the population).

Option
A contract that gives the buyer the right, but not the obligation, to buy or sell a specified quantity of a commodity or other instrument at a specific price within a specified period of time, regardless of the market price of that instrument.

Over-the-Counter
The trading of commodities, contracts, or other instruments not listed on any exchange (also referred to as ‘Off-Exchange’).

Speculator
“A trader who does not hedge, but who trades with the objective of achieving profits through the successful anticipation of price movements.” 298

Swap
The exchange of one asset or liability for a similar asset or liability for the purpose of lengthening or shortening maturities, or otherwise shifting risks.

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292 Investopedia: Commodity Definition, accessed December 2011, available at http://www.investopedia.com/terms/c/commodity.asp#ixzz1gWpg0MwY
293 Section 4a (a) of the Commodity Exchange Act (CEA) directs the regulator (CFTC) to establish limits on speculation in order to prevent this from happening.
294 Investopedia: Index Definition, accessed December 2011, available at http://www.investopedia.com/terms/i/index.asp#ixzz1gWo7d8pz
295 Nyeleni Forum on Food Sovereignty, 2007, for more information see http://www.nyeleni.org/spip.php?article280
296 Investopedia: Exchange Traded Fund Definition, accessed December 2011, available at http://www.investopedia.com/terms/e/etf.asp#ixzz1gWqQxAl2
About the publishers

Friends of the Earth Europe campaigns for sustainable and just societies and for the protection of the environment; unites 30 national organisations with thousands of local groups, and is part of the world’s largest grassroots environmental network. Friends of the Earth International. FoEE’s economic justice programme addresses the influence of companies, including banks, over EU decision-making and the economic, social and environmental consequences of their practices. www.foe-europe.org

BankTrack is a global network of civil society organisations monitoring investment decisions and policies of the private sector (commercial banks, investors, insurance companies, pension funds) and its effect on people and the planet. BankTrack considers a stringent regulation of the banking sector a precondition for socially and environmentally sustainable banking. www.banktrack.org

World Economy, Ecology & Development e.V. (WEED) is an independent German non-governmental organization (NGO) founded in 1980 and based in Berlin. The social and environmental effects of globalisation require a reshaping of financial, economic, ecological and trade policies towards more justice and sustainability. WEED assesses the existing problems and their causes and advocates positive solutions. WEED is actively participating in national and international civil society networks, and advocacy initiatives. www.weed-online.org

Campagna per la Riforma della Banca Mondiale (CRBM) is a campaign and advocacy organisation which aims at a transformation of public and private finance in Italy, in coherence with environmental, social, and human rights, with development goals and in solidarity with affected communities. CRBM is also committed to promote new rules for finance benefiting the public interest and the environment, in Europe and at global level. CRBM is a founding member of the BankTrack network and cooperates with alternative and ethical financial institutions in Europe. www.crbm.org

The World Development Movement (WDM) campaigns for a world without poverty and injustice. We work in solidarity with activists around the world to tackle the causes of poverty. We research and promote positive alternatives which put the rights of poor communities before the interest of big business. WDM is a democratic membership organisation of individuals and local groups. www.wdm.org/uk

Corporate Europe Observatory (CEO) is a research and campaign group working to expose and challenge the privileged access and influence enjoyed by corporations and their lobby groups in EU policy making. This corporate capture of EU decision making leads to policies that exacerbate social injustice and accelerate environmental destruction across the world. Rolling back corporate power and exposing greenwash are crucial in order to truly address global problems including poverty, climate change, social injustice, hunger and environmental degradation. www.corporateeurope.org

The Centre National de Coopération au Développement (CNCD, 11.11.11) is a platform of around 80 development NGOs; trade unions and popular education associations committed to international solidarity in the French and German speaking community of Belgium. Together with its member organisations, CNCD-11.11.11 promotes development cooperation and international solidarity among national and international policy makers, engages in awareness raising and mobilisation campaigns, and finances action programmes and development projects in Africa, Latin America, MiddleEast and Asia. www.cncd.be

SETEM is a Development NGO whose work is focused on raising awareness of the inequalities that exist between Northern and Southern countries. In particular, it aims to contribute to the sustainable development of the financial system by fostering initiatives that are engaged in social justice and the protection of natural resources like fair trade, labor insertion, or organic farming projects among others. www.setem.org

Les Amis de la Terre is a non-profit association for the protection of people and the environment, independent of any religious or political affiliations. They form a network of thirty independent local groups in France, which act on their local priorities and relay national and international campaigns on the basis of a shared commitment to social and environmental justice, and are part of the first global environmental network, Friends of the Earth International. www.amisdelaterre.org