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Farming money

How European banks and private finance profit from food speculation and land grabs

january | 2012



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This report was coordinated by Friends of the Earth Europe.

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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List of Abbreviations



ABP	Stichting Pensioenfonds ABP - Dutch pension fund for the public sector and education	EU	European Union
ADM	Archer Daniels Midland, agribusiness company	FAO	Food and Agriculture Organisation (United Nations)
AMIS	Agricultural Market Information System	FED	U.S. Federal Reserve
APG	Asset management subsidiary of ABP	FSB	Financial Stability Board
AUM	Assets Under Management	FoEE	Friends of the Earth Europe
BBVA	Banco Bilbao Vizcaya Argentaria - Spain-based international financial group	FTT	Financial Transaction Tax
BIS	Bank for International Settlement	G20	Group of 20 major advanced and emerging economies
BNL	Banca Nazionale del Lavoro SpA – former Italian public bank	GSFF	Global Solidarity Forest Fund
BNP	Banque Nationale de Paris, merged with Paribas as BNP Paribas, French banking group	HLTF	High-Level Task Force on the Global Food Security Crisis (United Nations)
CAP	Common Agricultural Policy	HSBC	UK based global banking and financial services group
CBoT	Chicago Board of Trade	IFAD	International Fund for Agricultural Development
CCPs	central Counter Parties	IFPRI	International Food Policy Research Institute
CDM	Clean Development Mechanism (United Nations)	IIF	Institute of International Finance
CEA	Commodity and Exchange Act	ILUC	Indirect Land Use Change
CEO*	Corporate Europe Observatory	IMF	International Monetary Fund
CEO**	Chief Executive Officer	ING	Internationale Nederlanden Groep, global financial group of Dutch origin
CFTC	Commodity Futures Trading Commission	KBC	Kredietbank ABB Insurance CERA Bank - Belgian bank
CME	Chicago Mercantile Exchange	MAD	Market Abuse Directive
CRAs	Credit Rating Agencies	MAR	Market Abuse Regulation
CRBM	Campagna per la Riforma della Banca Mondiale	MEAG	Global Asset Manager of Munich Re and ERGO
CRD	Capital Requirements Directive	MiFID	Market in Financial Instruments Directive
CSR	Corporate Social Responsibility	MiFIR	Market in Financial Instruments Regulation
CTA	Commodity Trading Adviser	NFC	New Forest Company
DJ UBS	Dow Jones UBS Commodity Index	NGO	Non-Governmental Organisation
DLUC	Direct Land Use Change	OECD	Organization for Economic Cooperation and Development
DNTF	Direcção Nacional de Terras e Florestas; Mozambique's National Directorate of Lands and Forests	OTC	Over-The-Counter
EBA	European Banking Authority	PFZW	Stichting Pensioenfonds Zorg en Welzijn - Dutch pension fund for the health and care sector
ECB	European Central Bank	PGGM	Asset management services arm of PFZW
EIOPA	European Insurance and Operational Pensions Authority	PIMCO	Pacific Investment Management Company, owned by Allianz
EMIR	European Market Infrastructure Regulation	PRIPs	Packaged Retail Investment Products
ESMA	European Securities and Markets Authority	QE	Quantitative Easing
ESRB	European Systemic Risk Board	RBS	Royal Bank of Scotland
ETC	Exchange Traded Commodity	RICI	Rogers International Commodity Indices
ETF	Exchange Traded Fund		
ETN	Exchange Traded Note		

RSPO	Roundtable for Sustainable Palm Oil
SEC	US Securities and Exchange Commission
SICAV	Società d'Investimento a Capitale Variabile - an 'investment company with variable capital'
SP GSCI	Standard & Poor's Goldman Sachs Commodity Index
TR	Total Return
UCITS	Undertaking for Collective Investments in Transferable Securities
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UN PRI	United Nations Principles for Responsible Investment
US	United States of America
VaR	Value at Risk
WDM	World Development Movement
WEED	World Economy, Ecology and Development
WFP	World Food Programme
WTO	World Trade Organisation

Executive summary



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 2011¹.

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.

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

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 Commission². 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).

Introduction



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 countries³ 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.

³ Belgium, Denmark, France, Germany, Italy, the Netherlands, Spain, Switzerland and the UK.

The role of food speculation in the food crisis

Skyrocketing and volatile food prices

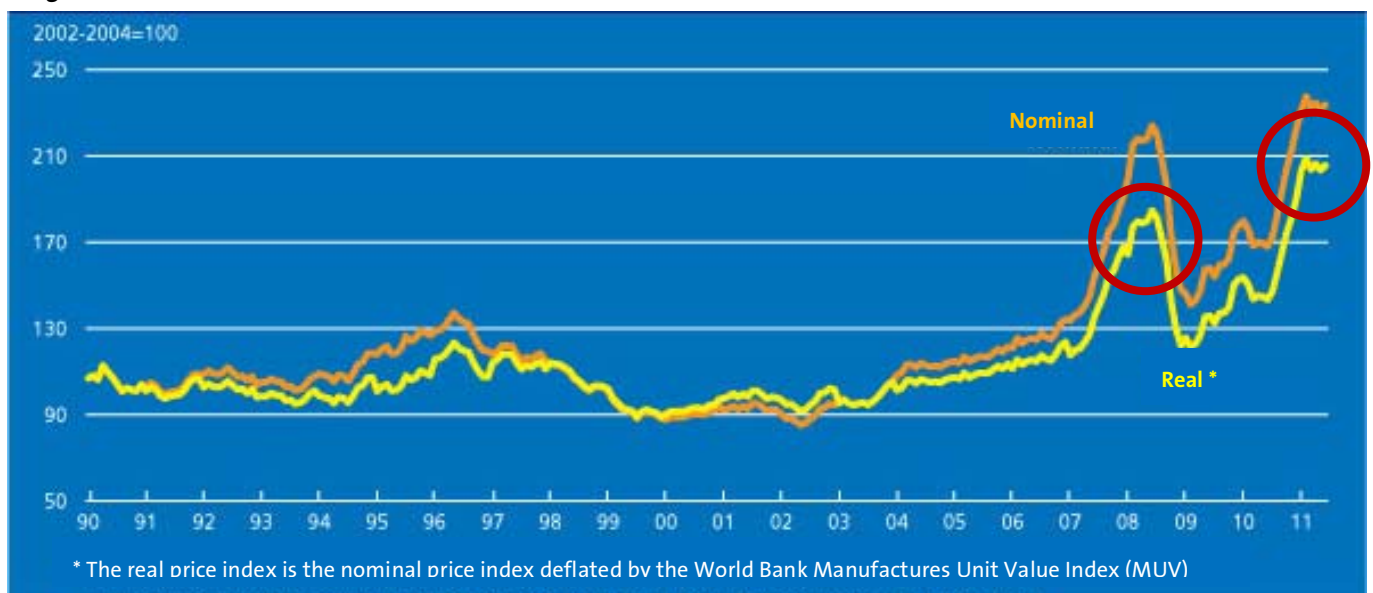
Food prices, which are monitored by several bodies including the UN Food and Agriculture Organisation (FAO) and the World Bank,⁴ rose steeply in 2007 (see Fig 1.) after a period of relative stability, increasing by an average 56% between January 2007 and June 2008.⁵

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

Figure 1: FAO Food Price Index 1990 – 2011



4 The up to date FAO Food Price Index can be found here <http://www.fao.org/worldfoodsituation/wfs-home/foodpricesindex/en/> and the World Bank's food price index can be found here http://www.worldbank.org/foodcrisis/food_price_watch_report_feb2011.html
5 See for analysis: <http://www.imf.org/external/np/exr/faq/ffpfaq.htm>

6 See: http://www.agri-outlook.org/document/54/0,3746,en_36774715_36775671_45433974_1_1_1_100.htm
7 See: <http://siteresources.worldbank.org/EXTPOVERTY/Resources/336991-1311966520397/Food-Price-Watch-November-2011.htm>
8 http://www.keepeek.com/Digital-Asset-Management/oced/agriculture-and-food/oced-fao-agricultural-outlook-2010_agr_outlook-2010-en

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,⁹ 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."*¹⁰

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.¹¹

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."*¹²

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"*.¹³ 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

9 Food and Agriculture Organisation of the United Nations (FAO): Press Release 1.02 billion people hungry - One sixth of humanity undernourished - more than ever before, 19 June 2009 <http://www.fao.org/news/story/en/item/20568/icode/>

10 http://www-wds.worldbank.org/external/default/WDSContentServer/IW3P/IB/2011/04/13/000158349_20110413081249/Rendered/PDF/WPS5633.pdf

11 World Bank Policy et al, Estimating the Short-Run Poverty Impacts of the 2010-11 Surge in Food Prices, April 2011

12 http://www.keepeek.com/Digital-Asset-Management/oecd/agriculture-and-food/oecd-fao-agricultural-outlook-2010_agr_outlook-2010-en

13 IFAD, IMF, OECD, UNCTAD, WFP, World Bank, WTO: <http://www.oecd.org/dataoecd/40/34/48152638.pdf>

'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.

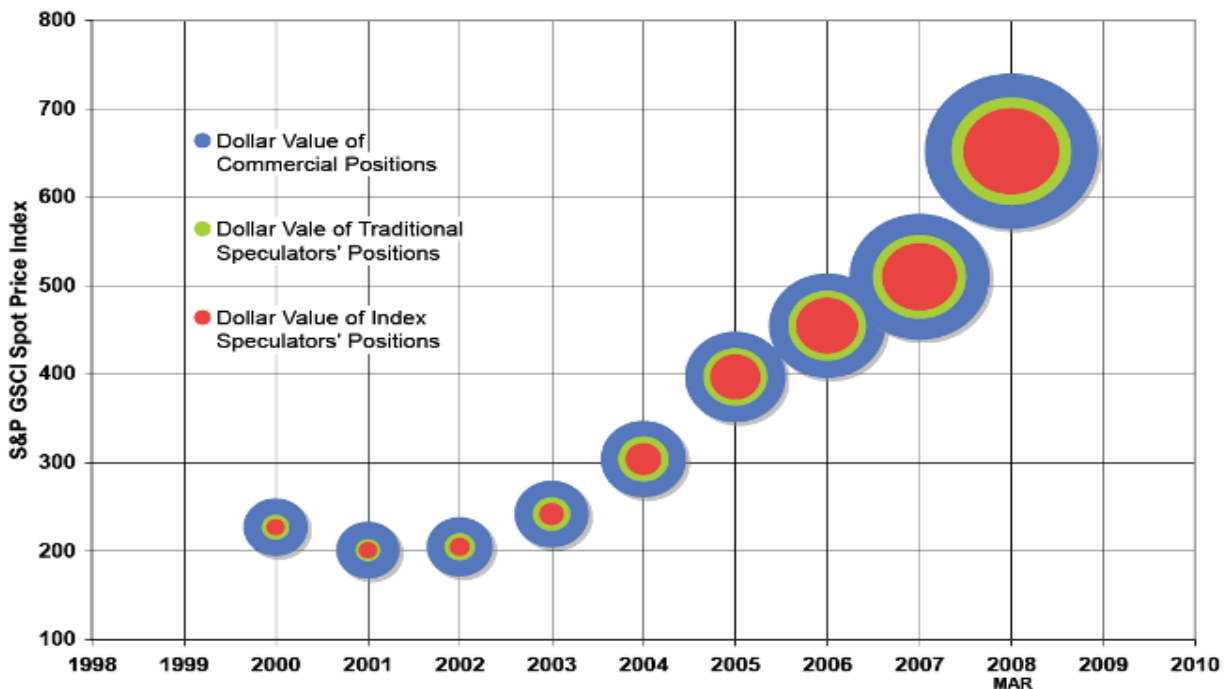
Excessive speculation exacerbates food price hikes and volatility

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).¹⁵

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.

Figure 2: S&P GSCI spot price index in relation to the commodity futures market size futures market size¹⁴



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/sp-gsci/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

16 For an extensive list of evidence on negative impacts of commodity speculation by scientists, analysts and public institutions, see the regularly updated list of WEED (ed.): http://www2.weed-online.org/uploads/evidence_on_impact_of_commodity_speculation.pdf (version: 22 November 2011) and the similar list of the Commodity Markets Oversight Coalition: <http://www.nefictioncenter.com/PDF/evidenceonimpactofcommodityspeculation.pdf> (version: 22 August 2011).

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.asp?intitemID=5906&lang=1_our_emphasis

19 WDM (September 2011): “Broken Markets”; <http://www.wdm.org.uk/stop-bankers-betting-food/broken-markets-how-financial-regulation-can-prevent-food-crisis>

20 The Guardian (17 April 2011): “IMF raises alarm over exchange traded commodities funds”; <http://www.guardian.co.uk/business/2011/apr/17/imf-commodities-funds-sub-prime>

The craft of food speculation



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.

21 See: <http://www.investopedia.com/terms/t/totalreturnswap.asp#axzz1gRWdAeqq>

Table 1: Commodity Futures Indices

Name of Index	Agriculture %	Livestock %	Total A&L%	Date
Dow Jones-UBS Commodity Index	26.66	6.37	33.03	30/11/11 ²²
Dow-Jones UBS Agriculture Subindex	100	0	100	30/11/11 ²³
S&P GSCI Total Return Index	15	4.6	19.6	31/10/11 ²⁴
S&P GSCI Agriculture Capped Component Total Return Index	100	0	100	31/10/11 ²⁵
S&P GSCI Non Energy	49.18	15.08	64.26	31/10/11 ²⁶
S&P GSCI Commodity Light Energy	31.3	9.7	41	31/10/11 ²⁷
Rogers International Commodity Index (RICI)	31.8	3.1	34.9	09/12/11 ²⁸
RICI - Agriculture	91.4	8.6	100	09/12/11 ²⁹
Reuters/Jefferies CRB Index	36	7.3	43.3	10/12/11 ³⁰

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;

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

23 Dow Jones, *ibid.*

24 Standard and Poors, S&P GSCI Commodity Indices Fact Sheet, available at http://www.standardandpoors.com/servlet/BlobServer?blobheadername3=MDT-Type&blobcol=urldata&blobtable=MungoBlobs&blobheadervalue2=inline%3B+filename%3D%2F%2FS&P_GSCI_LTR.pdf&blobheadername2=Content-Disposition&blobheadervalue1=application%2Fpdf&blobkey=id&blobheadername1=content-type&blobwhere=1244017995531&blobheadervalue3=UTF-8

25 Standard and Poors, *ibid.*

26 *ibid.*

27 *ibid.*

28 Rogers International Commodity Index: The RICI Weighting, available at <http://www.rogersrawmaterials.com/weight.asp>

29 Rogers International Commodity Index, *ibid.*

30 Thompson Reuters and Jefferies: Thompson Reuters/Jefferies CRB Index, available at http://www.jefferies.com/pdfs/TRICRB_Index_Materials.pdf

- Providing financial advice to corporations involved in food speculation and/or land grabbing;
- 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

31 Cotula, L., Vermeulen, S., Leonard R., Keeley, J.: Land grab or development opportunity? Agricultural investment and international land deals in Africa, 2009, London/Rome: IIED/FAO/IFAD; and Daniel, S., Mittal, A.: The Great Land Grab - Rush for World's Farmland Threatens Food Security for the Poor, 2009, Oakland: The Oakland Institute

32 de Schutter, Olivier: Large-scale land acquisitions and lease; A set of core principles and measures to address the human rights challenge, 11 June 2009, available at <http://www2.ohchr.org/english/issues/food/docs/BriefingNotelandgrab.pdf> [accessed on 26 Nov 2011]; and Cotula et al. *ibid.*; Daniel et al. *ibid.*

33 Friends of the Earth Europe: Africa: up for grabs. The scale and impact of land grabbing for agrofuels, 2010, available at http://www.foeeurope.org/agrofuels/FoEE_Africa_up_for_grabs_2010.pdf [accessed on 19/11/10]; and Cotula et al. *ibid.*; de Schutter, *ibid.*

34 Gaia Foundation: The CDM in Africa: marketing a new land grab, 2011, available at http://www.gaiafoundation.org/sites/default/files/CDM_Briefing_Feb2011_lowres.pdf [accessed on 26 Nov 2011]; and de Schutter, *ibid.*

35 See for a corporate strategy of vertical integration: Glencore Strategy: <http://www.glencore.com/strategy.php>

36 de Schutter, *ibid.*

37 World Bank: New World Bank Report Sees Growing Global Demand for Farmland, 7 September 2010, available at <http://web.worldbank.org/WBSITE/EXTERNAL/NEWS/0,,contentMDK:22694767~pagePK:64257043~piPK:437376~theSitePK:4607,00.html> [accessed on 26 Nov 2011]; and Cotula et al. *ibid.*

communities of land,³⁸ failing to deliver jobs, and creating environmental problems through intensive agriculture and increased water demand.³⁹

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.⁴⁰ In Uganda, more than 20,000 people were forcefully evicted to make way for the London-based New Forest Company (NFC)'s timber investments.⁴¹

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.⁴²

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.⁴³ 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.⁴⁴ According to the FAO, up to 20 million hectares have been acquired in the last three years in Africa alone.⁴⁵

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.⁴⁶

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.⁴⁷ 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 2015.⁴⁸

38 e.g. IFAD: The growing demand for land - Risks and opportunities for smallholder farmers, Discussion Paper for Round Table 2, Governing Council, 18-19 February 2009, Rome; FoEE and ERA: The Nigerian land grab - the controversial use of land to grow agrofuels, 2009, Brussels: Friends of the Earth Europe & Environmental Rights Action; Justiça Ambiental & União Nacional de Camponeses: Jatrophal A socio - economic pitfall for Mozambique, 2009, available at http://www.swissaid.ch/global/PDF/entwicklungspolitik/agrotreibstoffe/Report_Jatrophal_JA_and_UNAC.pdf [accessed on 26 Nov 2011];

Action Aid: Fuelling Evictions: Community Costs of the EU Biofuels Boom, 2011, available at: http://www.actionaid.org/sites/files/actionaid/aa_dakatcha_report_final.pdf [accessed on 26 Nov 2011];

Friends of the Earth Europe, 2010, *ibid.*; and Daniel et al. *ibid.*

39 Cotula et al. *ibid.*; FoEE & ERA, *ibid.*; Justiça Ambiental et al., *ibid.*; and Friends of the Earth Europe, 2010, *ibid.*

40 Anyuak Media: African land, up for grabs, 27 March 2011, available at: <http://farmlandgrab.org/post/view/18359> [accessed on 29 Nov 2011]

41 Oxfam: Land and Power: The growing scandal surrounding the new wave of investments in land, 2011, available at: <http://www.oxfam.org/sites/www.oxfam.org/files/bp151-land-power-rights-acquisitions-220911-en.pdf> [accessed on 29 Nov 2011]

42 Institute for European Environmental Policy (IEEP): Anticipated Indirect Land Use Change Associated with Expanded Use of Biofuels and Bioliquids in the EU - An Analysis of the National Renewable Energy Action Plans, 2011, available at: http://www.foeeurope.org/agrofuels/ILUC_report_November2010.pdf [accessed on 26 Nov 2011]

43 FIAN: Land Grab study, 2010, p. 51, available at <http://www.fian.org/resources/documents/others/report-on-land-grabbing/pdf>; Cotula et al. *ibid.*

44 See, for example, von Braun, J., and Meinzen-Dick, R.: "Land Grabbing" by Foreign Investors in Developing Countries: Risks and Opportunities, 2009, IFPRI Policy Brief 13,

available at <http://www.ifpri.org/sites/default/files/publications/bp013all.pdf> [accessed on 26 Nov 2011]; Friends of the Earth Europe, 2010, *ibid.*; de Schutter, *ibid.*

45 Hallam, David: Foreign Investment in Developing Country Agriculture - Issues, Policy Implications and International Response. Paper presented at the Global Forum on International Investment, OECD, 7-8 December 2009, available at www.oecd.org/dataoecd/30/39/44231828.pdf [accessed on 26 Nov 2011]

46 Merian Research and Campagna per la riforma della Banca Mondiale: The Vultures of Land Grabbing, 2010, available at <http://www.pambazuka.org/en/category/land/68535> [accessed on 26 Nov 2011]

47 Merian Research et al., *ibid.*

48 GRAIN: Pension Funds: Key Players in the Global Farmland Grab, June 2011, available at <http://www.grain.org/article/entries/4287-pension-funds-key-players-in-the-global-farmland-grab> [accessed on 26 Nov 2011]

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 €67 million⁵⁷ 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 farm land, some of which are involved in reported cases of land grabbing: *Black Earth Farming Ltd.*,⁶⁰ a company that is buying up farm land 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

49 Dexia: *Annual report 2010*, p. 100, available at http://www.dexia.com/EN/shareholder_investor/individual_shareholders/publications/Documents/annual_report_2010_UK.pdf [accessed 28 November 2011]

50 *ibid.* p. 85, p. 226

51 See Table 1

52 Global Fund Data: *Dexia Fund Commodities I*, accessed December 2011, available at <http://www.globalfunddata.com/node/90998/funds>; Goldman Sachs: *S&P GSCI Components and Weights*, official website, available at <http://www2.goldmansachs.com/what-we-do/securities/products-and-business-groups/products/gsci/components-weights-index-levels.html> [accessed 04 December 2011], see also: <http://www2.goldmansachs.com/gsci/insert.html> [accessed 28 November 2011]

53 Dexia: *Fund Comment – October 2011*, p. 4, available at <https://be.dexia-am.com/tools/search+funds/FundsPresentation.htm?FundId=1377> [accessed 28 November 2011]

54 Dexia AM: *Food Scarcity - Trends, Challenges, Solutions*, available at: http://sri.dexia-am.com/LibrarySRI/FOOD_SCARCITY.pdf [accessed 04 December 2011]

55 KBC: *Organisational structure*, official website of KBC Group, available at <https://www.kbc.com/MISC/D9e01/~E/~KBCCOM/~BZIZTPN/BZJ07TR/BZLOEEP/~BZJ07UX> [accessed 04.12.2011]

56 KBC: *Group profile*, official website, available at <https://www.kbc.com/MISC/D9e01/~E/~KBCCOM/~BZIZTPX/~BZIZTPN/~BZJ07U3> [accessed 04.12.2011]

57 567 million euros held for trading as assets as well as 567 million euros held for trading as liabilities; carrying value 47 million euros assets and 35 million euros liabilities

58 Data as of 31 December 2010, KBC Annual Report 2010, *ibid.*, p. 153

59 KBC: *Audited annual report as at 31 August 2011*, KBC Eco Fund Agri, p. 7, available at https://multimediafiles.kbcgroup.eu/NG/feed/am/funds/jv/JV_BE6222657106_EN.pdf [accessed 04.12.2011]

60 *ibid.*, p. 12

61 GRAIN: *Seized! GRAIN Briefing Annex - The 2008 land grabbers for food and financial security*, available at <http://www.grain.org/media/BAhbBIsHOgZmSSl3MjAxMS8wNi8zMC8xNi8wMV8zNF80MTNfbGFuZGdyYWJfMjAwOF9lbi9hbm5leC5wZGVyGogZFVA/landgrab-2008-en-annex.pdf> [accessed 04.12.2011]

62 KBC Audited annual report, *ibid.*

63 *ibid.*

64 *ibid.*

65 Bloomberg: *KTG Agrar to Increase Farmland 20-25% in Year*, CFO Blaesi Says, Rudy Ruitenber, 29 July 2009, available at

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 2011, 70% of investments in index funds and similar instruments were made by wage earners, pensioners or small privately owned companies.⁶⁶

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 Råvare*⁶⁷, which covers soy, sugar, nickel and copper – deemed to be ‘low risk’, and up to €8 million into *MF Bløde Råvare*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.⁶⁹

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).⁷⁰

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.”⁷¹ According to their Annual Report 2010, the bank sold commodity futures last year of €600 million (notional amount).⁷²

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.⁷³

<http://www.bloomberg.com/apps/news?pid=newsarchive&sid=aD1BTmOCT2vo04.12.2011>

66 DanWatch: *Sultens spekulanter*, September 2011,

67 Nordea: *MF Råvarer 2013 – Investering i udviklingen i kobber, nikkel, sukker og sojabønner med lav risiko*, available at http://www.nordea.dk/sitemod/upload/Root/main_dk/investering/brochure_mf_raavarer.pdf

68 Nordea: *MF Bløde Råvarer 2013 – Investering med lav risiko i råvarer fra landbrug*, available at http://www.nordea.dk/sitemod/upload/root/main_dk/privat/raadgivning/opsparing/strukturerede_produkter/Oevrige_obligationer/MF_blode_raavarer_2013_brochure.pdf

69 Danske Bank: *Råvarer 2013*, available at http://www.danskebank.dk/da-dk/Privat/Opsparing-og-investering/Investering/Produkter/strukturerede-produkter/Documents/2010/DBR%C3%85VARER2013/Faktaark_Danske_Bank_R%C3%A5varer_2013.pdf

70 Jyske Bank, Annual report 2010, page 73, http://www.jyskebank.dk/_jb/commoninc/bin.asp?id=297611&src=rsrapport2010.pdf. Note that the number covers all commodities, including oil and metals.

71 Saxo Bank, *Financial Products & Services*; available at <http://uk.saxobank.com/about-us/saxo-bank/multi-asset-trading>

72 Saxo Bank, Annual report 2010, http://www.saxobank.com/Documents/financial_documents/Saxo-bank-Annual-Report-2010.pdf Note that the number covers all commodities, including oil and metals.

73 Politiken: *Banker er skyld i hungersnød*, 27 October 2010, available at <http://politiken.dk/erhverv/ECF1094892/fn-banker-er-skyld-i-hungersnoed/>

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).⁷⁴

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 maïs [...]"*⁷⁸.) 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,⁷⁹ 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.*);⁸¹
- 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.⁸²

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.⁸³ 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.⁸⁴

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 Soulami, 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's commodity revenues are estimated at around U.S. \$500 million per year.⁸⁶ According to *BNP*, agricultural commodity exposure at group level represents up to 8% of their global commodity exposure. "As of November 2011, for *BNPP IP* [*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

74 AXA: *Registration Document- Annual Report 2010*, p.190, available at: http://www.google.co.uk/url?sa=t&rct=j&q=AXA%20registration%20document%202010&source=web&cd=1&ved=0CC0QFjAA&url=http%3A%2F%2Fwww.axa.com%2Flib%2Fen%2Fuploads%2FAnr%2Fgroup%2F2010%2FAXA_Reference_Document_2010c.pdf&ei=9crOToHhHsOH8gPFmq3nDw&usq=AFOJCNESeE4UhakxMFoO8ovFw8sQBe91iw&cad=rja [accessed on 26 November 2011]

75 AXA Investment Managers: *Fund Fact Sheet Framlington Hybrid Resources*, p. 2-4, available at <http://www.axa-im-international.com/funds/qualitative-equity/axa-wf-framlington-hybrid-resources-i-usd-596/documents> [accessed 25 November 2011]

76 AXA World Funds: *Prospectus*, July 2011, p. 114, available at <http://www.axa-im-international.com/funds/qualitative-equity/axa-wf-framlington-hybrid-resources-i-usd-596/documents>

77 Reuters: *Axa to list five commodities funds in London*, 30 January 2008, available at <http://uk.reuters.com/article/2008/01/30/commod-funds-axa-idUKNOA03185220080130> [accessed 27 November 2011]

78 AXA France: *Mon épargne – Investir sur les marchés financiers*, official website: <http://www.comprendreavecaxa.fr/mon-argent/mon-epargne/investir-marches-financiers/Pages/investir-dans-matieres-premieres.aspx> [accessed at 26 November 2011]

79 ThomsonOne: *Deals, Basic Screener*, applied for AXA (symbol CS-FR) and AXA Asia Pacific Limited (symbol AXAPY-5) including subsidiaries, available at <https://www.thomsonone.com/> [accessed at 26 November 2011]

80 GRAIN: *Yours today, 'mine' tomorrow!*, 24 July 2009, available at <http://www.grain.org/article/entries/744-yours-today-mine-tomorrow> [accessed at 28 November 2011]

81 Mindanao Examiner: *Philippine rebels accuse Japan fruit exporter of land grabbing*, 12 April 2011, available at http://www.mindanaoexaminer.com/news.php?news_id=20110412005532 [accessed 27 November 2011]

82 Sunday Times: *Richard Spinks of Landkom snaps up Ukraine plots to cash in on high crop prices*, 18 May 2008, www.thesundaytimes.co.uk/2Fsto%2Fbusiness%2Farticle93157.ece [accessed 27 November 2011]

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

84 United Nations Principles for Responsible Investment (UNPRI): *Responsible Investor's Guide to Commodities*, September 2011, p. 7, available at www.unpri.org/publications/commodities_2011.pdf

85 Financial Times: *BNP Paribas in commodities push*, 5 October 2009, available at <http://www.ft.com/cms/s/0/4103cc80-b1cd-11de-a271-00144feab49a.s01=1.html#axzz1U4bVx5PM>

86 *ibid.*

[€40 billion⁸⁷] total assets under management (0.13% with livestock).⁸⁸

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”.⁸⁹ 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.⁹⁰

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 €19 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 L1 World Commodities*, with agricultural commodities accounting for €21 million out of €27 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).⁹¹

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 €16 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 (€9 million with livestock) out of €9 million AuM, as of 17 November 2011.⁹⁵
- *EasyETF S&P GSCI™ Ultra Light Energy*, swap-based replication (synthetic):⁹⁶ replicates the performance of the *S&P GSCI Ultra Light Energy* index. Agricultural commodities: €25 million (€3 million with livestock) out of €63 million AuM, as of 17 November 2011.⁹⁷
- *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.⁹⁸ The fund’s net assets were €19.7 million, as of 31 October 2011.⁹⁹

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

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

89 BNP Paribas Questionnaire Response, *ibid*.

90 BNP Paribas Questionnaire Response, *ibid*.

91 BNP Paribas Questionnaire Response, *ibid*.

92 See <http://www.bloomberg.com/apps/quote?ticker=GSCIUSD:SW> [accessed on 11 December 2011].

93 BNP Paribas Questionnaire Response, *ibid*.

94 <http://www.boerse-frankfurt.de/EN/index.aspx?pagelD=105&ISIN=LU0309198074>, [accessed on 11 December 2011].

95 BNP Paribas Questionnaire Response, *ibid*.

96 http://www.easyetf.com/central/fundsheets/index.page?umbrellaid=323¤cy=EUR&compartmentid=1516&l=fre&shareid=4009&p=EE_FR-NSG#tab=2 [accessed on 11 December 2011].

97 BNP Paribas Questionnaire Response, *ibid*.

98 Information sourced from http://media.fundinfo.com/pdf/2011/07/11/2323322.pdf/MR_en_DE_LU0252701189_2011-06-30.pdf and <http://www.allcountry.easyetf.com>

99 Global Fund Data: *EasyETF S&P GSAL A EUR*, Net Assets Date 2011-10-31, accessed December 2011, available at <http://www.globalfunddata.com/node/77891/funds>

There is some evidence for significant proprietary trading at *BNP Paribas*. However, different sources offer contradictory information on this area.¹⁰⁰ In response to a question regarding trading in agricultural commodities, *BNP Paribas* categorically denied any proprietary trading.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.”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).”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.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),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”.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*.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).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).¹⁰⁹ *Crédit Agricole* has stated that they will withdraw from certain activities (equity derivatives and commodities)¹¹⁰ and therefore close their soft commodities desk.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%).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.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

100 See, for example, <http://www.tradersmagazine.com/issues/20071112/2942-1.html> and <http://www.handelsblatt.com/unternehmen/banken/eigenhandel-der-banken-beerdigt/3098722.html>

101 *BNP Paribas* Questionnaire Response, *ibid.*

102 *BNP Paribas* Questionnaire Response, *ibid.*

103 *Ibid.*. The two sector policy documents referred to are: *BNP Paribas: Corporate Social Responsibility, Sector Policy – Palm Oil*, available at <http://compre.bnp-paribas.com/applis/wCorporate/wCorporate.nsf/docsByCode/LDIO-8CJF3M/SFILE/Politique%20Sectorielle%20Huile%20de%20palme.pdf>, and *BNP Paribas: Corporate Social Responsibility, Sector Policy – Wood Pulp*, available at <http://compre.bnp-paribas.com/applis/wCorporate/wCorporate.nsf/docsByCode/JTAN-8LNBUL/SFILE/CSR%20wood%20pulp%202011%2009%2012.pdf>

104 *BNP Paribas Palm Oil Sector Policy, ibid.*, p. 2; and, *BNP Paribas Wood Pulp Sector Policy, ibid.*, p. 3

105 *BNP Paribas Palm Oil Sector Policy, ibid.*, p. 3

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

107 Information from <http://www.credit-agricole.com/en/The-Group/About-Us/Credit-Agricole-a-leader-in-Europe>, http://en.wikipedia.org/wiki/Cr%C3%A9dit_Agricole and http://www.amundi.com/home_prop_grou

108 Trustnet Offshore: *Amundi ETF Commodities S&P GSCI Agriculture Fund Fact Sheet*, available at <http://www.trustnetoffshore.com/Factsheets/Factsheet.aspx?univ=E&fundCode=ISFL1&pagetype=overview>

109 Trustnet Offshore: *Amundi ETF Commodities S&P GSCI Non Energy*, available at <http://www.trustnetoffshore.com/Factsheets/Factsheet.aspx?fundCode=ISFL0&univ=E>

110 *Crédit Agricole: Meeting the challenge*, 14 December 2011, Press Release, available at <http://www.credit-agricole.com/en/News/Press-releases/Financial-press-releases/Credit-Agricole-meeting-the-challenge>

111 *Crédit Agricole, Response to FoEE/BankTrack questionnaire by email from Crédit Agricole CSR Officer*, 04 January 2012

112 http://farmlandgrab.org/wp-content/uploads/2010/11/1011_FIAN_Profundo_Landgrabbing.pdf (p. 7)

113 See, for example, Human Rights Advocates: *Land Grabbing for Food & Fuel Outsourcing: A Rising Threat to the Right to Food*, 2009, available at <http://www.humanrightsadvocates.org/wp-content/uploads/2010/05/Right-to-Food.pdf>

involved in farming and palm oil.¹¹⁴ No further information on involvement in agricultural and farm land deals was found. *Crédit Agricole* has however produced a policy paper calling for principles of responsible agricultural investments in the least developed countries and developing countries.¹¹⁵

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: *Crédit Agricole*).¹¹⁶

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

- *Lyxor ETF Commodities CR*, which has total assets of €815 million (as of 8 July 2011)¹¹⁷ and tracks the *Reuters/Jefferies CRB Index*,¹¹⁸ which includes 43% agricultural and livestock commodities,¹¹⁹ and could therefore account for up to/ around €52 million in agricultural and livestock futures;
- *Lyxor ETF Commodities CRB Non-Energy*, with total assets of €253 million (as of 8 July 2011),¹²⁰ tracks the *Reuters/Jefferies CRB Non-Energy Index*.¹²¹ It allocates approximately 67% to agricultural and livestock commodities (as of April 2011),¹²² which could account for up to/ around €169 million in agricultural and livestock futures;
- *S&P 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.¹²³

- *S&P Agriculture and Livestock Static Index* is an agricultural excess return commodity index, also offered by *Société Générale Index* since July 2009.¹²⁴

No evidence was found for proprietary trading in agricultural commodities. However, *Société Générale* is said to have reduced its proprietary trading since 2009.¹²⁵

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”.¹²⁶

114 Baring Asset Management Ltd.: *Baring Global Agriculture Fund*, Information as of November 2011, available at <http://www.barings.com/ucm/groups/public/documents/marketingmaterials/017215.pdf>

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

116 For more information, see <http://www.societegenerale.com/en/our-businesses/private-banking-global-investment-management-services>

117 ETF Explorer: <http://www.etfexplorer.com/en/etf/FR0010270033-Lyxor-ETF-Commodities-CRB>

118 Global Fund Data: *Lyxor ETF Commodities CRB E*, accessed December 2011, available at <http://www.globalfunddata.com/node/104874/funds>

119 See Table 1.

120 ETF Explorer: *Lyxor ETF Commodities CRB Non Energy*, data as of 8 July 2011 <http://www.etfexplorer.com/en/etf/FR0010346205-Lyxor-ETF-Commodities-CRB-Non-Energy>

121 Global Fund Data, *Lyxor ETF Commodities CRB Non-Energy E*, accessed December 2011, available at <http://www.globalfunddata.com/node/78504/funds>

122 Lyxor: *Lyxor ETF Commodities CRB Non-Energy*, Data as of April 2011, available at https://sglistedproducts.co.uk/fileadmin/user_upload/sgbourse_uk/materials/factsheet/Factsheets_-_Price_Return_Lyxor ETF Commodities CRB Non-Energy.pdf

123 Further information available at <http://www.sgindex.com/admins/files/other/sgindex/files/8671.pdf>, and <http://www.sgindex.com/services/quotes/details.php?family=63>

124 *Société Générale: S&P Agriculture and Livestock Static Fact Sheet*, available at https://www.sgindex.com/admins/files/other/sgindex/files/factsheet/9524_S&PAGXFACTSHEET.pdf

125 See <http://www.efinancialnews.com/story/2009-09-21/sg-to-cut-prop-trading-as-new-capital-rules-loom>

126 Bloomberg: *Argentine rains to boost Ceresud, soybean harvests*, 9 November 2009, available at <http://farmlandgrab.org/post/view/8823>

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.¹²⁷ *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-Corals-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.¹²⁸
- *Allianz RCM Commodities - I - EUR* was launched in October 2010. It aims at replicating the performance of the *RCM Active Commodity Index*¹²⁹. 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.).¹³⁰

€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.¹³¹ 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.¹³²
- *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%).¹³³ It seeks to outperform the *Dow Jones-UBS Commodity Index Total Return* by actively managing its commodity exposure.¹³⁴
- *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.¹³⁵

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

127 *Allianz: Annual Report 2010*, p. 59, available at https://www.allianz.com/static-resources/en/investor_relations/reports_and_financial_data/annual_report/ar2010/v_1310727324000/ar2010_group.pdf

128 Trustnet: *Allianz Commodities Strategy Fact Sheet*, Data s of 30 November 2011, accessed December 2011, available at <http://www.trustnetoffshore.com/Factsheets/Factsheet.aspx?univ=DC&fundCode=CAFF9&pagetype=overview>

129 Bloomberg: *Allianz RCM Commodities*, available at <http://www.bloomberg.com/quote/ALLRCIE:IX>

130 Allianz: *Allianz RCM Commodities - I - EUR Fact Sheet*, available at <http://www.allianzgi-b2b.eu/intb2b/download?docid=1153108>

131 PIMCO: *Commodities PLUS Strategy Fund Monthly Commentary*, 31 October 2011, available at http://investments.pimco.com/ShareholderCommunications/External%20Documents/CommoditiesPLUS_Strategy_Monthly_Commentary_4702.pdf

132 See also PIMCO: *Prospectus for PIMCO Commodities PLUS Strategy Fund*, 31 July 2011, p.14-15, available at

<http://pe.newriver.com/summary.asp?doctype=pros&cid=PIMCOLL&cusip=72201P159>, and PIMCO: *Commodities PLUS Strategy Fund* Product Page, available at

<http://investments.pimco.com/Products/pages/458.aspx?ShareClassCode=A>

133 PIMCO: *CommodityRealReturn Strategy Fund Investment Fact Sheet*, 30 September 2011, available at

http://investments.pimco.com/ShareholderCommunications/External%20Documents/pimco_commodityrealreturnstrategy_PF40491.pdf

134 PIMCO Prospectus, *ibid.*, p. 17

135 Data from PIMCO: *CommoditiesPLUS Short Strategy Fund*, July 2011, see http://investments.pimco.com/ShareholderCommunications/External%20Documents/pimco_commoditiesplus_short_strategy_pf6017i.pdf, and <http://investments.pimco.com/Products/pages/461.aspx>, and <http://www.bloomberg.com/apps/quote?ticker=PCSDX:US>

sectors. As of 16 September 2010, the fund's total assets 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%).¹³⁶

Allianz also holds 26% of *Elana Agricultural Land Opportunity Fund*, a real estate investment fund in Bulgaria.¹³⁷ 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 Commodities Radar*'¹³⁸ 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*".¹³⁹ 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*".¹⁴⁰

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*".¹⁴¹ 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.¹⁴² 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 2011¹⁴³ and U.S. \$575 million, as of 17 October 2011.¹⁴⁴ 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*".¹⁴⁵

136 Information from FIAN Deutschland: *German Investment Funds involved in Land Grabbing*, Research paper by Profundo, October 2010, available at

http://www.fian.de/online/index.php?option=com_remository&Itemid=160&func=startdown&id=406, and Finanzen online, at http://www.finanzen.net/fonds/AGIF_-_Allianz_RCM_Global_Agricultural_Trends_-_A_-_EUR

137 FIAN Deutschland, p.16, *ibid*.

138 See : *Commerzbank Commodities Radar* – Issue July 2011, https://www.corporate-clients.commerzbank.com/files/flyers/_en/rohstoffradar.pdf (downloaded 4 October 2011)

139 *Commerzbank* website, see https://www.commerzbank.com/en/hauptnavigation/institutions/products_services/market_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://nachhaltigkeit2009.commerzbank.de/reports/commerzbank/annual/2009/nb/English/701055/reputation-risk-management.html>

143 Information from <http://www2.comstage.commerzbank.com/Products/ProductSearchPage.aspx?pac=6&c=24908> and http://www2.comstage.commerzbank.com/SiteContent/4/2/2/196/15/ETF090_COMM_O_eng.pdf

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

145 *Commerzbank: Questionnaire Response, ibid*. *Commerzbank* included references to their Policies & Statements, available at

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 commodity 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*, *IOI*, *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

<http://nachhaltigkeit2009.commerzbank.de/reports/commerzbank/annual/2009/nb/English/701055/reputation-risk-management.html> (in German only) and <https://www.nachhaltigkeit.commerzbank.de/de/internetportal/governance/internerichtlinien/internerichtlinien.html>

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.

147 Deka Bank: *Factsheet as of 31 October 2011, Deka-Commodities CF (A)*, available at <http://www.rb.cz/attachements/pdf/financni-trhy/cenne-papiry/kontakt-ni-banka-prospekty/deka-bank/deka-reporty/commodities-0263138306.pdf>

148 DekaBank, *Fondsporträt per 31.08.2011, Deka-Commodities CF (A) – alternative Investmentfonds Rohstofffonds*, p.2: the agricultural sector was covered by 28.6% during the previous month.

149 Deka International, *Jahresbericht zum 31. August 2010. Deka-commodities*, p 8.

150 Deka: *UBS (Lux) Structured Sicav-Rogers Commodity Index Fund (EUR)*, available at https://www.deka.de/decontent/produkte/fonds/portrait/portraitLU0239752115.jsp?isFromFondsFinder=true&rMode=R1¤tPage=&universalValue=&sMode=S1&savingsModelFlag=0&filterFlag=0&contextFlag=0&fundCcy=0&assetClassId=50&assetFocusId=&disbursementLoad=&ACTION_FIELD=backFromPortrait&issueCompany=

151 UBS, *Jahresbericht 2009/2010 – Geprüfter Jahresbericht*, August 2010, p. 31, available at https://www.deka.de/mms/UBS_Lux_StructuredSICAV_JB.pdf.

152 See Table 1

153 FIAN Deutschland: *German Investment Funds involved in Land Grabbing*, Research paper by Profundo, October 2010, p.13, available at http://www.fian.de/online/index.php?option=com_remository&Itemid=160&func=startdown&id=406

154 *ibid.*, p. 13.

155 See, for example, Human Rights Advocates: *Land Grabbing for Food & Fuel Outsourcing: A Rising Threat to the Right to Food*, 2009, available at

<http://www.humanrightsvocates.org/wp-content/uploads/2010/05/Right-to-Food.pdf>

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.

157 Deutsche Bank: *db x-trackers DBLCI – OY BALANCED ETF (EUR) Fact Sheet*, Data as of 31 October 2011, available at http://www.etf.db.com/UK/pdf/EN/factsheet/factsheetLU0292106167_2011_11.pdf

158 Deutsche Bank: *Agriculture Exchange Traded Notes*, official website, accessed December 2011, available at <http://dbfunds.db.com/notes/Agriculture/index.aspx>

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 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 2010.¹⁵⁹ 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 2010.¹⁶⁰ 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.¹⁶¹
- *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 2010.¹⁶² 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.¹⁶³ 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.¹⁶⁴

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 2010.¹⁶⁵

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).¹⁶⁶ For example:

- *DB Platinum Agriculture Euro I1C*, 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 2011.¹⁶⁷
- *DB Platinum Commodity Euro I1C*, benchmarked against S&P GSCI TR Hedged EUR, which is composed of 19.6% in agricultural and livestock commodity derivatives, has net assets of €19.98 million, as of 31 October 2011, which could account for up to/around €180 million in agriculture and livestock futures.¹⁶⁸

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

159 Deutsche Bank (DB Commodity Services LLC): *Audited Annual Financial Report 2010 for the PowerShares DB Agricultural Fund*, 14 March 2011, p. 2, available at http://dbfunds.db.com/dba/Pdfs/DBA_Annual_Report_2010.pdf

160 SEC, PowerShares DB Commodity Index Tracking Fund (exact name of Registrant as specified in its charter), Annual Report [2010] pursuant to section 13 or 15(d) 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.

162 Deutsche Bank (DB Commodity Services LLC): *Audited Annual Financial Report 2010 for the PowerShares DB Agricultural Fund*, 14 March 2011, p. 2, available at http://dbfunds.db.com/dba/Pdfs/DBA_Annual_Report_2010.pdf

163 SEC, PowerShares DB Agriculture Fund (A Series of PowerShares DB Multi-Sector Commodity Trust) - Annual Report Pursuant to Section 13 Or 15(D) of the Securities Exchange Act OF 1934, For the fiscal year ended December 31, 2010, p. 41; Deutsche Bank (DB Commodity Services LLC), Annual [2010] financial report for the PowerShares DB

Agricultural Fund, with KPMG Report of Independent Registered Public Accounting Firm (28 February 2011), 14 March 2011, p. 2.

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*.

167 Global Fund Data: *DB Platinum Agriculture Euro I1C*, data as of 31 October 2011, accessed December 2011, available at <http://www.globalfunddata.com/node/100823/funds>

168 Global Fund Data: *DB Platinum Commodity Euro I1C*, data as of 31 October 2011, accessed December 2011, available at <http://www.globalfunddata.com/node/97069/funds>

agricultural and livestock commodity futures.¹⁶⁹ According to SOMO's estimates and calculations, *Deutsche Bank Group* owned outstanding agricultural commodity contracts valued up to € billion, as of 31 December 2010.¹⁷⁰

Deutsche Bank also uses derivatives for hedging against overall balance sheet exposures, thus, it seems that *Deutsche Bank* uses derivatives for proprietary trading.¹⁷¹ 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 deals¹⁷² 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.¹⁷³
- *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.¹⁷⁴

Deutsche Bank has also invested in the *Bramdean Alternatives Ltd St. Brazilian Farmland Fund*, a private equity fund investing directly in Brazilian farmland.¹⁷⁵

Munich RE and *ERGO*, its retail branch, have their global assets managed by *MEAG*. *MEAG* does not offer commodity

funds for retail customers.¹⁷⁶ However, it was exposed to commodity risks of €764 million in 2010, according to its annual report.¹⁷⁷ 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.”¹⁷⁸ No further information is available.

169 Deutsche Bank: *DWS Invest Commodity Plus, Fund Reporting*, October 2011, data as of 31 October 2011, available at http://www.dws.nl/MediaLibrary/Document/000331_K.EN.pdf

170 *ibid.*

171 Deutsche Bank: *Annual Review 2010 - Delivering in the face of uncertainty*, Chapter 2 – Consolidated Financial Statements, p. 307

172 Based on: FIAN Deutschland, *German Investment Funds involved in Land Grabbing*, Research paper by Profundo, October 2010, available at http://www.fian.de/online/index.php?option=com_remository&Itemid=160&func=start_down&id=406

173 GRAIN: *Corporate investors lead the rush for control over overseas farmland*, October 2009, website: <http://www.dws-galof.com/EN/> (not accessible)

174 DWS Access: *DWS ACCESS Global Timber*, February 2008.

175 Merian Research and Campagna per la riforma della Banca Mondiale: *The Vultures of Land Grabbing*, 2010, available at <http://www.pambazuka.org/en/category/land/68535> [accessed on 26 Nov 2011]

176 See http://www.meag.com/reddot/html/de/privatanleger/p_meag_fonds.asp, and <http://www.ergo.de/de/Privatkunden/Produkte/Finanzen/Fondssparen>

177 Munich RE Group: *Annual Report 2010*, p.197, available at http://www.munichre.com/publications/302-06773_en.pdf

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 and 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".¹⁸³

Intesa-Sanpaolo Group member *Eurizon Capital Sgr*¹⁸⁴ 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 *ETFS 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".¹⁸⁷

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,¹⁸⁸ including five ETFs focusing on agriculture, four focusing on cattle, six on wheat and six on agricultural commodities (sugar, coffee and cotton).

179 Gruppo Assicurazioni Generali: *Annual Report 2010*, published 31 December 2010, available online at <http://generali2010.message-asp.com/en>

180 Trustnet: *Generali Absolute Return Multi Strategies*, data as of 31 September 2011, available at <http://www.trustnetoffshore.com/Factsheets/Factsheet.aspx?fundCode=G5F50&univ=D>

181 Generali Investments Sicav: *Prospectus*, April 2010, p. 114, available at <http://www.generali-investments.it/contenuti/funds/LU0499461126/LU0499461126PEN.pdf>

182 Gruppo Assicurazioni Generali: *Annual Report 2010*, published 31 December 2010, available online at <http://generali2010.message-asp.com/en>

183 CRBM: report forthcoming. Contact Antonio Tricarico at <http://www.crbrm.org/contatti/>

184 CRBM: *ibid*.

185 See <http://retailhub.bancaimi.com/retailhub.html>

186 CRBM: *ibid*.

187 Unicredit: *Response to FoEE/BankTrack questionnaire by email from Unicredit representative*, 30 November 2011

188 See <http://www.unicreditgroup.eu/en/home.htm>

Benchmark Certificates allow Unicredit's retail clients to follow agricultural commodities indexes. The *Open End Indice Materie Prime Agricoltura DJ-AIG Agriculture (Total Return)* benchmark follows the *Dow Jones AIG Agriculture Total Return Index* (composed of 100% agricultural commodities). The *Open End Indice Materie Prime AJ-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 Sukses 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

189 See section on Credit Agricole, and for example, Human Rights Advocates: *Land Grabbing for Food & Fuel Outsourcing: A Rising Threat to the Right to Food*, 2009, available at <http://www.humanrightsadvocates.org/wp-content/uploads/2010/05/Right-to-Food.pdf>

190 Knoepfel, Ivo: *Responsible investment in commodities; The issues at stake and a potential role for institutional investors*, January 2011, p. 2-3, available at http://www.unpri.org/files/RI_commodities_Jan2011.pdf

191 ABP Annual Report 2010, *ibid.*, p. 118

192 See Table 1

193 Onstad, Eric: *Pension funds mull ethics of commodity investments*, 22 June 2011, Reuters, available at <http://farmlandgrab.org/post/view/18838>.

194 McFarlane, Sarah: *Analysis - Pension funds to bulk up farmland investments*, 29 Jun 2010, Reuters, available at <http://farmlandgrab.org/post/view/14033>

195 Carter, Drew: *Fertile ground for investment*, 19 April 2010, Pensions & Investments Online, available at http://primary-im.eu/nieuws_item?item_id=124&previous_page=/nieuws

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 the land of local people, promising to compensate them, but failed to honour their promise.*”¹⁹⁸

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 2010.¹⁹⁹ *ING* has launched at least one commodity fund: with about \$55.5 million (€38.5 million) assets under management (AuM),²⁰⁰ 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.²⁰¹ Further commodity funds are offered by regional retail branches, for instance *Allianz RCM Rohstoffe* by *ING DiBa* in Germany.²⁰² *ING* market research and recommendations also supported speculation with commodities, namely wheat and corn.²⁰³

Published financial reports indicate that proprietary trading has significant influence on the company’s earnings, at least for

activities in the U.S.²⁰⁴ In 2010, *ING Group’s* total income decreased by €161 million, to €1,106 million (down from €1,267 million in 2009).²⁰⁵ According to their Annual Report 2010, the Financial Market Unit showed a strong proprietary trading performance in Brussels and New York.²⁰⁶ In 2010, general account assets (proprietary) increased to 37% of total assets (€387 billion) under management.²⁰⁷ 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),²⁰⁸ and the fact that commodities are a strategic priority of the *ING Financial Market* business unit, a significant involvement seems likely.

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.*”²⁰⁹

According to FAO, *Rabobank*, “*once known as a more conservative international agriculturally oriented bank, is also very active in commodity derivatives. 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.*”²¹⁰ A Full Rating Report issued by *Fitch* notes “*a small amount of proprietary trading*”, without giving any further quantification.²¹¹

196 Information from APG Responsible Investment Report 2009, p. 17, available at: http://www.apg.nl/apps/site/pages/images/40.0802.10%20APG%20Responsible%20Investment%20Report%202009_tcm124-109870.pdf

197 Friends of the Earth Europe, *Press Release; Lufthansa’s green claims don’t fly*, 15 July 2011, available at http://www.foeeurope.org/press/2011/Jul15_lufthansas_green_claims_dont_fly.html

198 Mozambique Political Process Bulletin 45: *Niassa: peasants versus Nordic churches*, 22 February 2010, pp. 8-10, available at: <http://www.gg.rhul.ac.uk/Simon/GG3072/2011-07-1.pdf>. See also Witteman, Jonathan: *Investing ABP mondt uit in landroof, de Volkskrant*, 3 December 2011, available at <http://www.volkskrant.nl/vk/nl/2664/Nieuws/article/detail/3062074/2011/12/03/Project-pensioenfondsen-ABP-in-Mozambique-mondt-uit-in-landroof.dhtml>

199 *ING Group Annual Report 2010, ibid.*, p. 40

200 As of 23 November 2011. Source: Bloomberg <http://www.bloomberg.com/apps/quote?ticker=INCEPHE:LX>

201 See Table 1

202 See https://www.ing-diba.de/wertpapiere/fonds/spitzenfonds/fondsportraits/index_spitzenfonds_01616.html and <http://www.attac.de/aktuell/bankwechsel/bankenkritik/negativkriterien/hungerprofite/#c26118>

203 Further information available at http://www.ingim.com/EU/MarketCommentary/Archive/IWP_038014

204 *ING Group: Annual Report on Form 20-F*, 2010 p. 75, available at <http://www.ing.com/Our-Company/Investor-relations/Annual-Reports.htm>, and *ING Group: Annual Report 2010, ibid.*, p. 40

205 *ibid.*

206 *ING Group: Annual Report 2010, ibid.*, p. 40

207 *ibid.*, p. 52

208 *ibid.*, p. 52: “General account assets (proprietary) increased to 37% of total AuM”, where total Assets Under Management are 387 billion euros (also p. 52), which comes to approximately 143 billion euro proprietary assets. Thus, with proprietary assets of around 140 billion euros, prop trading must be 140 billion or less.

209 For more information see

http://www.rabobank.com/content/food_agri/fapprinciples/index.jsp, http://www.sarasin.ch/internet/iech/en/index_iech/about_us_iech/about_us_history_iech.htm, and http://www.rabobank.com/content/about_us/, and <http://en.wikipedia.org/wiki/Rabobank>

210 McNellis, P. E.: *Foreign Investment in Developing Country Agriculture – The Emerging Role of Private Sector Finance*, FAO Commodity and Trade Policy Research Working Paper No. 28, June 2009, pp. 18-19, available at <http://www.fao.org/es/esc/common/ecg/612/en/mcnellis.pdf>

211 For more information, see *Fitch*, August 2010, at http://www.rabobank.com/content/images/Fitch_August2010_tcm43-33486.pdf

Rabobank has subsidiaries in countries that are high risk for land grabbing, including Mozambique, Tanzania and Rwanda. *Rabobank's* mutual shares funds invest in agribusiness companies such as *Bunge Ltd* and *Archer-Daniels-Midlands*,²¹² some of which have faced allegations relating to dubious land acquisition in third countries, often relating to agrofuels production.²¹³ Funds investing in such companies include *Rabo Farm Europe Fund*²¹⁴ and *Robeco Agribusiness Equities D EUR*, a specialized shares fund of subsidiary *Robeco Group N.V.*²¹⁵

Rabobank might be involved in financing land grabs in Ethiopia and other African countries. India's largest exporter of roses, *Karuturi Global Ltd*, was (as of July 2010) in active discussions with various investors to raise around U.S. \$150 million (€112 million), as part of its push for expansion into Africa;²¹⁶ *Rabobank* Equity Advisors may have been in talks with *Karuturi*; however, there is no confirmation or up-to-date information available on this.²¹⁷

On 1 June 2011, *Bunge Ltd.* and certain of its subsidiaries entered into a U.S. \$700 million trade receivables securitization program with *Rabobank*, as administrative agent, and certain commercial paper conduit purchasers and committed purchasers.²¹⁸

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.²¹⁹ In January 2009, they launched the *PGGM Commodities Fund*.²²⁰

In their 2010 Annual Report, *PFZW* announced that due to risk-considerations it would reduce its assets invested in commodities from 7% in 2010 (€7 billion out of a total €100 billion, primarily through investments in funds that gain exposure through derivatives) to 6% in 2011.²²¹ In 2010, return on agricultural commodities was +26%, due to rising price levels of cotton, maize and grain.²²²

PGGM concludes in a position paper on agricultural commodities: "[...] *PGGM* is convinced that long-term commodity price trends in the world market are determined by relationships between the supply of and demand for physical commodities."²²³ 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.

212 FIAN Deutschland: *German Investment Funds involved in Land Grabbing*, Research paper by Profundo, October 2010, p. 11, available at http://www.fian.de/online/index.php?option=com_remository&Itemid=160&func=startdown&id=406

213 For example, see <http://farmlandgrab.org/cat/show/527> and Levitt, Tom: 'Biomass is the next biofuel 'land grab' on tropical forests, warn campaigners', *The Ecologist*, 5th December, 2011, available at http://www.theecologist.org/News/news_analysis/1154003/biomass_is_the_next_biofuel_land_grab_on_tropical_forests_warn_campaigners.html

214 For more information, see Merian Research and Campagna per la riforma della Banca Mondiale: *The Vultures of Land Grabbing*, 2010, available at <http://farmlandgrab.org/wp-content/uploads/2010/11/VULTURES-completo.pdf> [accessed on 26 Nov 2011]

215 FIAN Deutschland, p. 11, *ibid.*, Robeco: *Robeco Agribusiness Equities D EUR shares Factsheet*, 31 December 2010, at <https://www.robeco.com/extranet/f4i/downloadselector/showDocument?id=478336> and Robeco: *Robeco Capital Growth Funds Annual Report 1 July 2009 – 30 June 2010*, p. 159, available at https://www.robeco.com/extranet/f4i/downloadselector/showDocument/1306793_AN NU_2010_EN.pdf

216 Farmlandgrab.org: *Karuturi eyes \$150M fundraise for Africa push*, 07 July 2010, available at <http://farmlandgrab.org/post/view/14232>

217 *ibid.*

218 For more information, see <http://biz.yahoo.com/e/110607/bg8-k.html> (that is asset-based lending, see: <http://www.demica.com/solutions/securitization/54-securitization-benefits>)

219 Beenen, Jelle: *Commodity Investing; A Pension Fund Perspective*, October 2005, available at <http://www.futuresindustry.org/fi-magazine-home.asp?v=p&a=1059>

220 *PGGM*, 2009, see http://www.pggm.nl/Images/09-2814%20PGGM%20Fondsenbeh%20Jaarrek-03_tcm21-148656.pdf

221 *PFZW: Detailed Annual Report 2010*, p. 32, available at http://www.pfzw.nl/Images/11-4174%20Jaarverslag%202010-6_tcm20-178861.pdf

222 Tilburg, Rens van: *Food Markets in Dutch - Dutch banks and pension funds in agricultural derivatives markets*, SOMO, Amsterdam, December 2011, p. 29, available at http://somo.nl/publications-en/Publication_3729

223 *PGGM: Position Paper; Investment in agricultural commodities*, November 2011, available at http://www.pggm.nl/Images/20111115_11-4508%20PGGM%20Position%20paper%20Agricultural%20commodities-02-LoRes_tcm21-180938.pdf

Spain

Banco Popular invests in commodities through several of its funds, but their portfolios revolve mainly around energy and mining.²²⁴ 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.²²⁵

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.²²⁶
- The *Quality Commodities FI Top 3* fund includes 20.95% in *Pioneer EUR Commodities*, which is comprised of 19% agricultural commodities and livestock,²²⁷ and 5.73% in *ETFS Agriculture DJ-UBSCI*, which is comprised of 100% agricultural commodities and livestock.²²⁸

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.²²⁹

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.²³⁰ A percentage of the *Fondo Commodity Trio* open-end fund²³¹ 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.²³²

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 2010.²³³ Moreover, *Santander* had €252 million invested in commodity derivatives in 2010.²³⁴ 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.²³⁵

224 Harvard Business Review: http://hbr.org/hbr-main/resources/pdfs/marketing/HBR_UncertainTimes.pdf#page=20 [accessed on 20 Nov 2011]

225 See <http://www.popularbancaprivada.es/banca-privada/inversion/fondos-inversion/sectoriales/sectoriales.htm>

226 Segarra Sobral, Jesus: *BBVA launches new fund of funds*, Citywire, 8 June 2010, available at <http://citywire.co.uk/global/bbva-launches-new-fund-of-funds/a405069>; Dow Jones Indices: *Dow Jones-UBS Commodity Index Fact Sheet*, All information as of October 31, 2011, available at http://www.djindexes.com/mdsidx/downloads/fact_info/Dow_Jones-UBS_Commodity_Index_Fact_Sheet.pdf

227 Pioneer Investments: *Pioneer S.F. - EUR Commodities Overview*, Data as of 23 November 2011, available at <http://www.pioneerinvestments.at/jsp/xslt.jsp?ctrl=fonds/all/fonds&fonds=AS33205&lang=english>

228 ETF Securities: *ETFS Agriculture DJ-UBSCI*, January 2011, available at http://www.etfsecurities.com/csl/classic/etfs_agriculture.asp

229 BBVA: *Financial Report 2010*, Table: OTC Derivatives-Equivalent maximum exposure BBVA, S.A., 2010, available at <http://inversores.bbva.com/TLBB/micros/informes2010/en/Riskmanagement/Creditriskmarketactivities.html>

230 Braid, David: *Santander to close down its ETFs: Wednesday's fund news in Europe*, 17 September 2008, available at <http://www.citywire.co.uk/global/santander-to-close-down-its-etfs-wednesdays-fund-news-in-europe/a314520>.

231 Trustnet Offshore: *Fund Factsheet; Santander Fondo Commodity Trio*, 2011, available at <http://www.trustnetoffshore.com/Factsheets/Factsheet.aspx?univ=DC&fundCode=VNF30&pagetype=overview>

232 Bloomberg: *Fondo Commodity Trio FI*, 2011, available at <http://www.bloomberg.com/quote/SANGCOM:SM>

233 *Santander: Annual Report 2010*, p. 145, available at <http://www.santander.com/cs/cs/StaticBS?blobcol=urldata&blobheader=application%2Fpdf&blobkey=id&blobtable=MungoBlobs&blobwhere=1265299530310&cachecontrol=immediate&ssbinary=true&maxage=3600>

234 *ibid*, p. 178

235 For more information, see International Rivers: *Spain's Banco Santander Criticized for Hypocrisy*, 13 May 2009, available at <http://www.internationalrivers.org/node/4319>, and Survival International, *Santander Bank reports suspension of funding for controversial Brazilian dam*, 5 May 2011, available at <http://www.survivalinternational.org/news/7255>

United Kingdom

Barclays PLC is the third largest bank globally, with assets of nearly € trillion.²³⁶ Its investment banking division, *Barclays Capital*, dominates the UK commodities market and is generally considered the third largest player in commodities world-wide.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.

236 Assets on 30 June 2010 were 1,938,203 million euros, according to Bloomberg: *BNP Grows to Biggest Bank as France Says Size Doesn't Matter*, 4 November 2010, available at <http://www.bloomberg.com/news/2010-11-03/bnp-grows-to-biggest-bank-as-france-says-size-doesn-t-matter.html>

237 Scott, Brett: *Barclays PLC & agricultural commodity derivatives*, World Development Movement, 2011, available at <http://www.wdm.org.uk/food-speculation/barclays-plc-and-agricultural-commodity-derivatives-report>

238 Financial Times: *BarCap growth drives record profits for Barclays*, 17 February 2010, available at <http://www.ft.com/cms/s/0/fb5fff28-1b62-11df-838f-00144feab49a.html#ixzz1ejTkKrtE>

239 Scott, *ibid.*

240 Scott, *ibid.*

241 Barclays Capital: *Barclays Capital Delivers Commodities-Linked Solutions to Brazilian Asset Managers*, 13 January 2010, available at <http://www.barcap.com/About+Barclays+Capital/Press+Office/News+releases/News,15,18,Barclays+Capital+Delivers+Commodities-Linked+Solutions+to+Brazilian+Asset+Managers>

242 Scott, *ibid.*

243 Yahoo Finance: *iPath Dow Jones UBS Agriculture*, data as of 30 November 2011, available at <http://finance.yahoo.com/echarts?s=JJA+Interactive> and Global Fund Data, available at <http://www.globalfunddata.com/node/79409/funds>

244 Yahoo Finance: *iPath DJ-UBS Grains TR Sub-Idx ETN (JG)*, data as of 30 November 2011, available at <http://finance.yahoo.com/q?s=JG> and Global Fund Data, available at <http://www.globalfunddata.com/node/77824/funds>

245 Yahoo Finance: *iPath Dow Jones UBS Livestock T (COW)*, data as of 30 November 2011, available at <http://finance.yahoo.com/q?s=COW> and Global Fund Data, available at <http://www.globalfunddata.com/node/78871/funds>

246 Scott, *ibid.*

247 Scott, *ibid.*

248 HSBC: *Resources and Energy*, 2011, available at <http://www.hsbcnet.com/gbm/products-services/resources-energy> [accessed 18 Nov 2011]

249 HSBC: *Fund Factsheet; JPM Natural Resources Fund*, 2011, available at http://investments.hsbc.co.uk/PDF/jpmorgan_natural_resources_retail_class_a_september.pdf [accessed 18 Nov 2011]

250 HSBC: *Resources and Energy*, 2011, available at <http://www.hsbcnet.com/gbm/products-services/resources-energy> [accessed 18 Nov 2011]

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).²⁵¹ *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 financier 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 financiers 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 agribusiness

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 Policy*²⁶⁰ 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 agri-businesses carries the risk of contributing indirectly to land-grabbing. A range of *Lloyds'* funds invest in agri-businesses, 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

251 Zaway Funds Monitor: *HSBC Saudi Arabia launches new commodity fund*, 17 Sept 2011, available at http://www.zaway.com/funds/story.cfm/sidZAWYA20110917074540/HSBC_Saudi_Arabia_launches_new_commodity_fund [accessed 18 Nov 2011]

252 *HSBC Broking Services Asia* (n.d.): *Exchange Traded Commodities*, 2011 available at <http://www.hsbc.com.hk/1/2/broking/products-services/#ExchangeTradedCommodities> [18 Nov 2011]

253 Profundo: *European financing of agrofuel production in Latin America. A research paper prepared for Friends of the Earth Europe*, 2008, available at http://www.foeeurope.org/agrofuels/financers_report_May08.pdf [accessed 18 Nov 2011]

254 Forest Peoples Programme & Profundo: *HSBC and the Palm Oil Sector in South East Asia: towards accountability*, 2008, available at <http://www.forestpeoples.org/sites/fpp/files/publication/2010/08/hsbcandoilpalmnov08eng.pdf> [accessed 18 Nov 2011]

255 *HSBC: Forest Land and Forest Products Sector Policy*, September 2008, available at http://www.hsbc.com/1/PA_1_1_S5/content/assets/csr/080905_forest_land_and_forest_products_sector_policy_summary.pdf

256 *The Examiner: More than 22,500 Bull McCabes in Uganda*, 20 Oct 2011, available at <http://farmlandgrab.org/post/view/19492> [accessed 18 Nov 2011]

257 Trade Finance: *Multigrain signs pre-export financing*, 29 August 2011, available at <http://www.tradefinancemagazine.com/Article/2891530/Multigrain-signs-pre-export-financing.html> [access on 18 Nov 2011]

258 *Adecoagro: AGRO Shares Commence Trading on NYSE*, 1 February 2011, available at <http://in.reuters.com/article/2011/01/29/idUS23282+29-Jan-2011+PRN20110129> [accessed 18 Nov 2011]

259 Trade Finance: *Cocobod signs record PXF syndication*, 29 September 2011, available at <http://www.tradefinancemagazine.com/Article/2909377/Cocobod-signs-record-PXF-syndication.html> [accessed 18 Nov 2011]

260 *HSBC: Forest Land and Forest Products Sector Policy*, September 2008, available at http://www.hsbc.com/1/PA_1_1_S5/content/assets/csr/080905_forest_land_and_forest_products_sector_policy_summary.pdf

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

262 *Lloyds TSB: Fund Finder*, available at: <http://www.lloydstsbsharedealing.com/en/funds/finder/index.html>, accessed on 25 November 2011. Also see <http://globaldocuments.morningstar.com/documentlibrary/Document/d4a05d0fca791706.msdoc/original> and <http://funds.ft.com/uk/listedfactsheet/0P0000JAK4?selectedTab=AssetsAndHoldings&selectedCurrency=GBP>

agricultural production company, focusing on cotton, 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 Index*²⁷² – 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 ETFs* 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 ETCs 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

263 Lloyds Fund Finder, *ibid.*, and <http://www.trustnet.com/Factsheets/Factsheet.aspx?fundCode=BGFH1>

264 Thomson One: *Deals: Syndicated loans database*, 2011, available at www.thomsonone.com/ [accessed 24 Nov 2011]

265 Norton, L.: *Asia's hungry agribusinesses*, Barron's, 8 January 2011, available at <http://farmlandgrab.org/post/view/17970> [accessed 23 Nov 2011]

266 Thomson One: *Deals: Syndicated loans database*, 2011, available at www.thomsonone.com/ [accessed 24 Nov 2011]

267 Profundo: *European financing of agrofuel production in Latin America. A research paper prepared for Friends of the Earth Europe*, 2008, available at www.foeeurope.org/agrofuels/financers_report_May08.pdf [accessed 18 Nov 2011]

268 RBS: *Our products – Matrix*, 2011, available at <http://markets.RBS.com/EN/Showpage.aspx?pageID=36> [accessed on 23 Nov 2011]

269 Riley, S.: *Quantum co-founder bullish on commodities*, Top1000Funds.com, 11 Aug 2011, available at <http://farmlandgrab.org/post/view/19052> [accessed 23 Nov 2011]

270 RBS: *RICI Agriculture Index ETF*, 2011, available at <http://marketaccess2.RBS.com/services/GetDocument.aspx?id=6d948b1c-3c34-4dfa-aa47-a2d0ede18840&version=1> [accessed 23 Nov 2011]

271 Global Fund Data: *RBS Market Access RICI Agricltre ldx ETF*, data as of 31 November 2011, available at <http://www.globalfunddata.com/node/77340/funds>

272 RBS: *Rogers International Commodity Index ETF*, 2011 available at <http://marketaccess2.RBS.com/services/GetDocument.aspx?id=c414d860-6298-495a-9345-294336a0f6a5&version=1> [accessed 23 Nov 2011]

273 See Table 1

274 RBS: *RBS Market Access S&P GSCI Capped Component 35/20 2X Inverse Monthly Index ETF*, 2011, available at <http://marketaccess2.RBS.com/services/GetDocument.aspx?id=90754270-5f61-4613-aea7-f383398ee289&version=1> [accessed 23 Nov 2011]; and RBS: *RBS Market Access S&P GSCI Capped Component 35/20 2X Leverage Monthly Index ETF*, 2011, available at <http://marketaccess2.RBS.com/services/GetDocument.aspx?id=f51080de-41c9-462a-8fb4-ee57341b0ea2&version=1> [accessed 23 Nov 2011]

275 Financial Times: *RBS launches world's first CTA ETF*, 12 September 2011, available at <http://www.ft.com/cms/s/0/ac3855ca-da07-11e0-b199-00144feabdc0.html#axzz1eXSnRAOa> [accessed 23 Nov 2011]

276 RBS: *RBS Market Access CTA Index ETF*, 2011, available at <http://marketaccess2.RBS.com/services/GetDocument.aspx?id=66b6b368-9e78-410e-aba4-334548303507&version=2> [accessed 23 Nov 2011]

277 Global Fund Data: *RBS Market Access CTA Index Fund*, data as of 31 October 2011, available at <http://www.globalfunddata.com/node/133821/funds>

278 RBS: *RBS RICI Enhanced Agriculture ETC*, 2011, available at <http://markets.RBS.com/EN/Showpage.aspx?pageID=10&isin=NL0009360726> [accessed 23 Nov 2011]

279 Global Fund Data: *RBS RICI Enhcd Agriculture Index ETC*, data as of 31 October 2011, available at <http://www.globalfunddata.com/node/79214/funds>

- *RBS RICI Enhanced Grains and Oilseeds Index Exchange Traded Commodities*,²⁸⁰ which based on *RICI Enhanced Grains & Oilseeds*, and, as of 31 October 2011, had net assets of €6.25 million.²⁸¹

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.²⁸²

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.²⁸³ *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.²⁸⁴
- *RBS* is part of a banking syndicate providing large revolving credit facilities to *Bunge Finance Europe*. For details, see *Lloyds*

280 *RBS: RBS RICI Enhanced Grains ETC*, 2011, available at <http://markets.RBS.com/EN/Showpage.aspx?pageID=10&isin=NL0009360742> [accessed 23 Nov 2011]

281 Global Fund Data: *RBS RICI Enhanced Grains & Oilseeds Idx ETC*, data as of 31 October 2011, available at <http://www.globalfunddata.com/node/77636/funds>

282 *RBS: Our products*, 2011, available at <http://markets.RBS.com/EN/Showpage.aspx?pageID=5>

283 ThomsonOne, *ibid*.

284 *Olam: Olam to invest USD236 million in palm oil plantations in Gabon*, 2010, available at <http://farmlandgrab.org/post/view/17131> [accessed 23 Nov 2011]

Conclusions and policy recommendations



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.²⁸⁵ However, the scope of this report is limited to the involvement of European private financial institutions in commodity

285 For more information, read: Friends of the Earth Europe: „A New Food and Agriculture Policy for the European Union. Policy Paper“, http://www.foeeurope.org/agriculture/CAP_PP_full_final.pdf

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 coherence²⁸⁶ 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.**²⁸⁷ 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,²⁸⁸ 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*,²⁸⁹ 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.

287 Food and Agriculture Organisation of the United Nations (FAO): *ibid*; http://www.fao.org/fileadmin/templates/est/Volatility/Interagency_Report_to_the_G20_on_Food_Price_Volatility.pdf

288 See: http://ec.europa.eu/internal_market/securities/isd/mifid_en.htm
289 See: <http://stopgamblingonhunger.com>

- **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.²⁹⁰
- **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.²⁹¹

²⁹⁰ Merian Research et al., *ibid.*

²⁹¹ Where not otherwise referenced, glossary terms are sourced from SOMO: *Feeding the Financial Hype*, November 2011, eds. Rens van Tilburg and Myriam Vander Stichele, available at http://somo.nl/publications-en/Publication_3726

Glossary

- 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 it²⁹⁶ (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.

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#ixzz1gWo7dBpz>

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#ixzz1gWqOxAl2>

297 Investopedia: *Index Fund Definition*, accessed December 2011, available at <http://www.investopedia.com/terms/i/indexfund.asp#ixzz1gWtyr9lj>

298 Website US Commodity Futures Trading Commission, CFTC Glossary, available at http://www.cftc.gov/ConsumerProtection/EducationCenter/CFTCGlossary/glossary_s.html

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Friends of the Earth Europe

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.foeeurope.org

BANKTRACK

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



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Campagna per la riforma della Banca Mondiale

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, Middle-East 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



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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

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