Agriculture and raw materials.

New challenges – new solutions.
“If prices for agricultural raw materials do not increase, there will not be any farmers left in the foreseeable future. And if there are no more farmers, no more land will be cultivated, leading to a global food crisis. Stocks are already very low. I’m banking on prices increasing around the globe for practically all agricultural raw materials.”

Jim Rogers, US raw material investor
Interview on 7 April 2011 with the magazine “Märkte & Zertifikate”
Growth with a sense of proportion.

Think globally, trade responsibly

The global population grows by 150 people a minute. The United Nations forecasts that by 2050 the earth’s resources will have to be shared between at least nine billion people – 30 percent more than today. This throws up a number of questions, including the key question of how the demand for food is to be met, which will have virtually been doubled. Fertile agricultural land, which supports the production of food the world over, is as restricted a resource as water. The productivity and use of modern technology in agricultural production varies greatly in the different regions of the world. Added to the mix are climate change, weather influences and social, political and economic developments that are difficult to calculate.

This much is already for certain: as the producer of food and feed, the agricultural economy plays a central role in tackling the major challenges that will be faced by the global community in the future. The increasing globalisation and the task of feeding a growing world population are major challenges and special responsibilities. Farmers must therefore use resources carefully to ensure that food is constantly available in a sufficient quantity and that plants are grown for energy production, whilst also ensuring that the natural means of production are maintained and contribute to sustainable development.

The food that is produced must also reach consumers – at affordable prices. For some time, the trend has been that the increasing demand for agricultural raw materials has also changed agricultural trade and has at times led to sharp price increases. The price trends of agricultural raw materials cannot be underestimated with regard to social consequences: around a billion people across the world live in absolute poverty. They cannot afford expensive food. Insufficient nutrition brings the threat of hunger, disease and unrest.

Unlike food production, the sale of agricultural products has long been organised on a global level. Wheat, maize, sugar, rice and oilseed are traded via international commodity futures markets. This means the agricultural sector is increasingly involved in the international networking of trade flows. Attention must be paid to the tendency that, even in agricultural markets, it is no longer just the supply and demand on-site that dictate the direction of the prices – the speculative trade activities of internationally active financial professionals now also play a role. The topic of speculation is critically discussed in this context. Market players such as BayWa AG – one of the largest agricultural trade groups in Europe – view futures trading with agricultural raw materials as essential for ensuring liquidity in the market and securing a specific price level, with clear rules and transparent market activity given equal importance.
Food for all

There are an increasing number of mouths to feed. With regard to the coming decades, one question is asked with increasing urgency: how will it be possible to feed billions of people in the future? The current situation – provided harvests are average to good – remains comfortable. 2011 was a productive year in terms of agricultural production. The WASDE report (World Agricultural Supply and Demand Estimates), published in February 2012 by the United States Department of Agriculture (USDA), confirmed the worldwide record wheat harvests (just over 693 million tonnes) and noted that current stocks were at an all-time high (213 million tonnes). This means the global supply situation for one of the most important basic foods is secure for the time being. However, it is also the case that the stock sizes of agricultural raw materials that are required for the food supply have long been on a downward trend and the reserves – depending on the crop – are too low compared with demand, which is shown in the OECD/FAO 2011 agricultural forecast.

This is the case with maize. Although 2011 saw a record maize harvest, these higher yields failed to cover the global demand as maize is a very sought-after raw material – primarily in feedstuffs – that is subject to increasing demand. China and other Asian countries in particular require more and more maize for their fast-growing animal stocks. Hunger crises such as that seen in 2008 are a drastic reminder of the effects that growing consumption and high agricultural prices, coupled with bad harvests and trade restrictions, can have. According to the estimates of the World Bank, 33 countries saw unrest in 2008 due to increasing food prices.

There are also other topical issues in the world of global nutrition – including the unequal distribution of food. Whilst one billion people the world over are going hungry – largely in developing countries – around 1.3 billion tonnes of food are thrown away on an annual basis, primarily in industrial countries. This is approximately a third of global annual production, according to the Food and Agriculture Organization of the United Nations (FAO). The problem, at least currently, is not that there is not enough food, but that a lot of food is wasted. This could be a starting point in the fight against world hunger. However, experts are of the opinion that merely reducing food waste will not be sufficient for ensuring the supply in the future.

According to estimates from the United Nations, 80 percent of the population of 9 billion will be living in developing countries by 2050. The FAO has calculated that agricultural production needs to increase by 60 percent within a few years if the growing demand for food, agricultural raw materials and fuels, and feedstuffs for increasing animal stocks are to be reasonably met. The FAO has set an annual benchmark for a 30-40 million tonne increase in the production of all types of cereals. The aim is a 50 percent increase in production in 2050.

The situation is set to become even more challenging, because greater buying power and ongoing urbanisation in developing and newly industrialised countries is changing food consumption habits. Experts have observed a shift in prioritised consumption from basic foods such as cereals, root crops and tubers to meat and dairy products.

Focus on raw materials.
Clear positions

Plant breeding is the key issue

The global total of agricultural land will shrink from 5100 square metres per head in 1950 to 2000 square metres in 2050. However, the agricultural land for food production is limited. This will result in food becoming increasingly scarce and expensive. Accordingly, the world needs plants that are up to the challenges of tomorrow. Plant breeding is a fundamental part of this.

“We need to increase land productivity by using adapted varieties and improved cultivation methods to maximise the yield potential”, says Stefan Siebert from the institute of crop science and resource protection (INRES) at the University of Bonn, Germany. He argues that the best agricultural land should be reserved for the production of basic foods, with anything else ultimately representing a loss of food – a view shared by the FAO. Further extension of agricultural land would, according to FAO estimates, result in a maximum yield improvement of 25% – but would seriously encroach on pristine forest and grassland areas. The German farmers’ union (DBV) gives similar reasons for its legislative initiative on land protection: German agriculture is set to lose approximately 90 hectares a day as a result of construction and covering-over of land. However, they state that this land is essential for producing the required amount of food and biomass.

Agricultural research in the last 50 years, particularly in the field of plant breeding, has helped to enable agricultural production in Europe to keep pace with the increasing population. European agriculture currently has favourable conditions for participating in the dynamics of the world markets. With fertile land, sufficient water, good climatic conditions and efficient production processes, it may be better equipped than many other locations in the long term for making a considerable contribution to world nutrition in addition to ensuring its own adequate food supply, protecting the environment and doing good business.

In the medium to long term, European agriculture and European agricultural land, which agricultural expects consider best suited for high-performance production, will be required to be a producer for the global food supply and provide as large a contribution as possible to global nutrition through the development and deployment of state-of-the-art agricultural technology. For ecological reasons, it will also be obliged to prevent any unnecessary ecological pollution caused by the expansion of production to unsuitable locations.

Greater efficiency increases productivity

Raw materials for nutrition, feed and recycling, or plants for energy production: farmers can provide just about everything. This requires sustainable and efficient management of the available agricultural land, with targeted catch cropping meaning that the same land can be used for growing food and energy crops. Catch crops such as “Planterra” also improve the structure of the soils. The Munich-based company BayWa, for example, supplies special “Planterra” brand seed mixtures that can be used to increase the yield from grassland areas by means of the targeted selection of suitable types and varieties of seed mixture, provide high-quality grasses for animal feed from two cereal crops, or cater for biogas generation.

New technologies can also help increase productivity in field work. By now, many farmers are already using the new ‘precision farming’ instruments. High-tech tractors and harvesters equipped with minicomputers and GPS enable precise sowing, fertilisation and harvesting of fields.
With a global annual production of just over 870 million tonnes (2011), maize is the number one agricultural raw material, surpassing even wheat and rice. 150 million hectares of land are used for growing maize on an annual basis. This versatile crop is an important foodstuff, particularly in Latin America and Africa. However, it is predominantly processed for use in animal feed and is also used as an “energy plant” in the creation of biogas and fuel (ethanol). The largest producers by far are the USA and China, followed by Brazil and Argentina. In Germany, around 2.5 million hectares are used for growing grain maize and silage maize (2011). Since 2007, the amount of land used to grow maize in Germany has grown by 12 percent.

Wheat

Wheat is the world’s most important staple food (breadstuff) after maize and is also of major importance to animal nutrition. 693 million tonnes of wheat were produced globally in the record harvest of 2011, according to a World Agricultural Supply and Demand Estimates (WASDE) report. Just over 224 million hectares of land are used for growing wheat across the globe. The largest producer in the world is China, followed by India, Russia and the USA. Although Germany is only the eighth-largest producer, it can boast a yield of 7.5 tonnes per hectare. In comparison, the global average is around 2.9 tonnes per hectare. Cereals are grown on 54 percent of agricultural land in Germany, of which winter wheat accounts for the largest portion. The largest trading venues for wheat are the CBOT in Chicago, the LIFFE in London and the NYSE Euronext (Matif) in Paris.

Rice

Rice is one of the seven most important cereals. Rice is the main foodstuff for more than half the world’s population. This means that rice is predominantly used for human nutrition (92 percent). 462.75 million tonnes of rice were projected to be harvested in the 2011/2012 harvest year. Asia – especially China, India and other parts of south-east Asia – is the main rice-growing area. More than 95 percent of the harvest is produced there. There are also important rice-growing regions in the USA and in northern Italy. Other European rice-producing countries include Portugal, Spain and France.
Sugar

Sugar is predominantly produced from sugar beets and sugar cane. More than 100 countries produce sugar and more than 70 of this sugar comes from sugar cane. Brazil is the most important producer and exporter, followed by India. Sugar beets are mainly produced in the EU (France, Germany, Poland) and Russia. As an agricultural raw material, sugar has the distinction of not being tied to a best-before date. Sugar is traded with different classifications on the Chicago Board of Trade (CBOT), New York Mercantile Exchange (NYMEX) and London International Financial Futures and Options Exchange (LIFFE).

Soya bean

The soya bean is the agricultural product on the up. Today, the leguminous vegetable is grown on approximately 6 percent of global agricultural land, making it the world’s most important oilseed. Soya beans are extremely useful as a high-protein feedstuff. The high protein content also makes the soya bean valuable for human nutrition. The three largest producers by far are the USA, Brazil and Argentina. The increasing importance of soya beans is reflected in the largest increase in agricultural land used for any agricultural crop since the 1970s. Whereas 17 million tonnes were produced worldwide in 1960, this had increased to around 260 million tonnes by 2010. High increases in yield were primarily caused by the use of organic and genetic engineering. Around 90 percent of the soya beans harvested today are based on genetically modified seeds. Soya beans are traded on the Chicago Board of Trade (CBOT) and on various local exchanges such as Brazil and China.

Vegetable oils

Palm oil, soya bean oil and rapeseed oil are the world’s most-grown vegetable oils. For the 2011/2012 harvest year, around 457 million tonnes of oilseed are projected to be harvested. Since the 1990s, rapeseed has been the oilseed with the second-highest share in the world market – behind soya beans. Rapeseed is an economically important agricultural crop. The seeds are primarily used in the production of rapeseed oil. Just over a third of global rapeseed production comes from Europe: 21 of 60 million tonnes of rapeseed are processed here. Germany is the largest producer of rapeseed in the EU: in the 2009/2010 financial year, a record quantity of 6.3 million tonnes of rapeseed was harvested – 22 percent more than in the previous year.

Sources:
High demand – increasing prices

For a number of years, the global agricultural market has experienced strong fluctuations in the price of agricultural raw materials, with drastic upward and downward swings – as dramatically demonstrated by the 50 percent increase in the price of wheat between June and August 2010. Based on this, food prices are clearly on an upward trend. This development has provoked intense discussion on the causes, the potential need for action and required market regulations.

The real-life background to the price increase is shown by the upward tendency in demand as a result of key factors such as a growing global population and changes to food consumption with increasing prosperity in newly industrialised countries. This demand impinges on stagnating production, with limited sources of agricultural land throughout the world. In addition to this, there are also extreme weather conditions that are difficult to calculate, such as heavy rainfall or heatwaves – this includes the record drought in Russia in 2010, which not only caused considerable crop losses but also led to Russian President Vladimir Putin imposing a ban on wheat exports.

In addition, FAO and OECD estimates confirm that agricultural markets in our globalised world are more exposed than previously to the risks and turbulence of global markets and will remain so in the future. These prognoses have convinced agricultural economist Professor Michael Schmitz, based in Giessen (Germany), of the following: “In the next decade, the prices for agricultural raw materials will nominally increase by 40 to 60 percent compared to their prices in the previous decade.”

Whilst increasing prices for agricultural raw materials and foodstuffs raise the issue of food security, primarily in developing countries, this is a positive signal for agriculture, a sector that has recorded decades of decreasing prices in real terms. Higher prices offer producers that chance to achieve an income to secure their existence and make investments. On the futures markets, for example, farmers can use futures to protect their crops from price fluctuations that are too strong. The futures contracts for wheat and other raw materials contribute towards stabilising the income of farmers. It is also common practice in this business for harvest stocks to be stored and gradually offered on the market. The agent in the trade of cereals as a tangible asset fulfils an important function, as their decisions indicate to the market whether the supply is at low levels and expensive or whether the commodities are cheap due to a sufficient quantity being available.

In principle, price fluctuations on agricultural markets are not a new phenomenon and, from an expert point of view, are necessary for competitive markets to function. However, strong fluctuations in the price of particular raw materials in recent years have provoked a debate on the role of speculation and “speculators”.

Focus on market and finances.

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The raw materials trade as a preferred investment

The interest of the financial sector and the investor in the agriculture industry has clearly been on the increase for a number of years. Raw materials as an investment class (asset class) are on the radar of many investors. This is demonstrated by the various financial and investment instruments that have been developed in recent years and have been successfully sold and traded. For example, index funds or ETFs (Exchange Traded Funds), investment funds traded on exchanges, have introduced products to the market that illustrate or trace the price trends of agricultural raw materials. With ETFs, raw materials can be traded by everyone, as financial products.

Why do agricultural raw materials provoke such interest among investors?

For investors, raw materials and agricultural raw materials have established themselves as an alternative to classic shares and loans as the chances of return on investment are excellent. They are in short supply, and demand is high – particularly from newly industrialising countries. For professional investors, raw materials can also provide a considerable contribution to risk diversification of the deposit, as their prices are influenced by factors other than share and loan prices.

The production of agricultural raw materials cannot be increased arbitrarily and is subject to natural fluctuations, whereas demand grows continuously. This is an excellent breeding ground for what are sometimes extreme fluctuations in yield and price, as previous harvests have shown. As cereals are traded on international commodity futures exchanges, various financial instruments are available that enable investments in raw materials without the need to operate directly as a buyer at the physical market. Without a direct production and commodities risk, the leverage effect of investments is considerably increased, something regularly demonstrated in the development of market prices. There are also investment bankers or hedge funds, who make massive investments for their own account or with the money of their wealthy clients. There are no exact figures in this case – the transactions are all performed off-market, a process known as over the counter (OTC).

Even against a backdrop of possible inflation, seen by many experts as a likely prospect in the coming years, raw materials investments can be an attractive asset alternative for many investors. For the agricultural industry and all the parties concerned, this means that the merry-go-round of the stock exchange will continue to turn and even gather pace.
The leading commodity futures exchanges

ICE WCE (Winnipeg Commodity Exchange): The Canadian agricultural exchange on the US American Intercontinental Exchange (ICE) is one of the most important agricultural exchanges in the world.

CME (CBOT, NYMEX):
- CBOT (Chicago Board of Trade) – Stock exchange for all agricultural raw materials
- NYMEX (New York Mercantile Exchange) – The world’s largest commodity futures exchange. Trades are primarily in metal and energy futures.

Bursa Malaysia:
Global stock exchange for palm oil and located in Kuala Lumpur.

Euronext.Liffe:
Stock exchange for the European trade of agricultural raw materials. Location: London.

Bursa Malaysia:
Global stock exchange for palm oil and located in Kuala Lumpur.

MATIF (Marché à Terme International de France):
French commodity futures exchange located in Paris, merged with the European exchange Euronext. Traded commodities include rapeseed, maize and bread wheat.

Multi Commodity Exchange of India (MCX):
India’s largest raw materials exchange, trading in commodities including cotton wool, potatoes etc. and located in Mumbai.

Zhengzhou Commodity Exchange (CZC):
Chinese commodity futures exchange on which contracts for crops such as wheat and rapeseed oil are traded. Location: Hangzhou.

Dalian Commodity Exchange (DCE):
Chinese stock exchange for futures, mainly soyas and maize.

Euronext.Liffe:
Stock exchange for the European trade of agricultural raw materials. Location: London.

Shanghai Future Exchange:
Stock exchange for the trade of metals.

Singapore Commodity Exchange:
Leading exchange for rubber, palm oil.

ICE WCE (Winnipeg Commodity Exchange):
The Canadian agricultural exchange on the US American Intercontinental Exchange (ICE) is one of the most important agricultural exchanges in the world.
Price hedging versus excessive betting

With the involvement of large financial investors and institutional funds in agricultural exchanges, the element of speculation can no longer be ignored. There are two aspects to this development: on the one hand, the investor funds ensure sufficient liquidity on the commodity futures exchanges. They give farmers and traders the chance to use futures to secure their investments against excessive fluctuations and also enable contract providers to find clients. On the other hand, the involvement of investors and speculators can cause orderly turbulence affecting everything up to and including the fundamental trade. In 2008, for example, fifty times the global physical quantity of cereals was traded on the Chicago Board of Trade (CBOT), the world’s leading futures exchange for agricultural raw materials. Financial experts are no longer able to account for volumes of this kind purely through the use of hedges such as futures contracts. Studies by UN institutions and the German non-governmental organisation Deutsche Welthungerhilfe, as well as various academic studies, suggest that the upward price trend for agricultural products is reinforced by banks and in particular by agents from outside the industry such as index, hedge and pension funds, and that large-scale market entry can cause completely speculative bubbles. The studies go on to state that these agents therefore bear some of the responsibility for world hunger. The title of a study commissioned by foodwatch sums this up succinctly: “How Deutsche Bank, Goldman Sachs and Other Financial Institutions Are Speculating With Food at the Expense of the Poorest” Hans-Heinrich Bass, author of a study for Deutsche Welthungerhilfe on the topic of financial markets as the cause of hunger, attributes 15 percent of the responsibility for the price explosion in agricultural production between 2007 and 2009 to investors on the cereals markets. The number of agricultural raw materials contracts concluded on the commodity futures exchanges is taken as evidence for the influence of speculators: there was a six fold increase in such contracts between 2002 and 2010.

However, the extent of the contribution made by speculation to the price shocks of the last five years (2006 to 2008 and 2010/2011) remains disputed. Factors such as currency fluctuations, the correlation of prices for agricultural raw materials and energy and the coupling of economic growth (disproportionate consumption of resources due to increased welfare) are not taken into consideration. In the OECD/FAO Agricultural Outlook 2011, the key term is price volatility: “Most researchers agree that high levels of speculative activity in futures markets may amplify price movements in the short term although there is no conclusive evidence of longer term systemic effects on volatility.”

The Giessen-based agricultural expert Professor Michael Schmitz, who has observed the global agricultural market for decades, views the price explosions of recent years as being primarily attributable to the fundamental conditions of supply and demand in the agricultural markets, as well as trade policy compartmentalisation of domestic markets and macroeconomic influences. “The structure of the agents on the cash markets for agricultural raw materials, meaning the real markets, has not been subject to considerable changes in recent years”, he states, adding that there has been a clear increase in institutional investors on the commodity futures markets. However, there has been just as little empirical evidence for a destabilising effect as there has been for a negative impact on the traditional functions of the futures market – risk hedging and price forecasting. “There have also been price explosions in commodity futures and agricultural raw materials markets in which index funds are not involved – such as rice, as well as in raw materials markets for which no commodity futures markets exist, such as apples, onions and beans.”

Futures

Futures traded on futures markets are contracts that regulate the time, price, quantity and quality of raw materials to be provided. This means that, upon the conclusion of the contract, the commodities are often not yet in stock or are yet to be produced. Therefore, rather than reflecting current price trends (spot prices), the majority of raw materials certificates reflect the price trends of these futures for future deliveries.

Soft commodities

The term ‘agricultural raw materials’, also called soft commodities, is used in the financial world as an umbrella term for the corresponding group of commodities. The raw materials from agricultural production are used as a basis for human nutrition, animal feed and renewable raw materials.
Approaches for solutions.

The importance of rules

Greater transparency and better information for all market participants via commodity futures markets, OTC transactions and markets that once more function according to fundamental market data – supply, demand and stocks: industry experts have long demanded clear rules for raw materials trading. In February 2012, politics made the decision. The European Parliament and the EU member states agreed on stricter rules for off-market trading with risky financial betting, so-called derivatives. In the future, all off-market futures trading must be processed by a central clearing house – so-called counterparties. They will compensate for losses, meaning that a chain reaction cannot be caused if a market participant becomes insolvent. Most derivatives must be backed by equity. Mandatory reporting will also be introduced for price betting on shares, bonds and raw materials. The European Securities and Markets Authority (ESMA) is integrated into the authorisation of the clearing houses. The data are to be published to increase the level of transparency on the opaque markets. With the new law, the EU has honoured one of the obligations resulting from the G20 summit in Pittsburgh in 2009. The USA and Japan have already introduced similar rules for derivatives trading.

This fulfils important demands from critics of financial markets for greater insight into over-the-counter trading. However, this has not silenced calls for stricter regulations. The introduction of position and price limits could prevent a concentration of raw materials contracts with individual agents and price bubbles, according to Deutsche Welt hungerhilfe. foodwatch goes one step further, demanding the removal of institutional investors such as pension funds and insurances from commodity futures trading and a ban on mutual funds on the basis of raw materials indices.

The Giessen-based agricultural economist Professor Michael Schmitz warns against excessive market restrictions. “The danger is that participants in the commodity futures exchanges will be driven out, costing the exchanges their reliability in terms of price hedging and price forecasting,” he states. “This would ultimately destabilise the agricultural raw materials markets.” He rejects general dynamic upper and lower price limits for forward prices: “That would represent price manipulation by the state.”
Minimising the risk for producers

Globalisation and volatile markets not only require classic trade mechanisms but also strategic changes and adapted risk management, which is something that affects both traders and producers. Farmers have learnt from the difficult year of 2008 and now sell their cereals in a very targeted manner. A modern farmer must have a more clear view of the market and maintain this clearer view in the future. On the agricultural markets, for example, farmers can use futures to hedge their crops against excessive price fluctuations.

As a partner for farmers, the agricultural trade group BayWa AG is active in this area and introduced the price hedging system “LandeaTM” onto the market in June 2011. “This tool not only gives farmers the opportunity to hedge against low prices, but also to profit from increasing prices,” explains Klaus Josef Lutz, CEO of BayWa AG. He views the restriction of price risks as being of the utmost importance. With Landea, BayWa therefore provides farmers two new models for hedging contractually stipulated minimum prices, in addition to the previous buying-up contracts.

For these marketing models, the company works as a secure and established partner of Cargill GmbH, the German branch of Cargill Inc., the world’s largest cereals wholesaler.

Fluctuations in the agricultural markets mean that farmers require increasing expertise in how best to market their products. BayWa uses marketing and price hedging models to help in marketing and provides farmers with expert on-site consultancy.

Price hedging systems such as “LandeaTM” enable farmers to market their agricultural products in the best way possible.
Backgrounder: Agriculture and raw materials

Greater transparency.

Interview – Klaus Josef Lutz, CEO of BayWa AG

As an agricultural trade group, BayWa AG is active on the commodity futures exchanges. What rules have you set for yourself?

We are not involved in raw materials speculation. Every one of our transactions is backed by physical commodities. The company also has strict guidelines: a maximum of 15 percent of the commodities purchased may be retained for an extended period of time.

Is speculation good or bad?

Speculation is not bad in principle as investors’ money ensures sufficient revenue and liquidity, which is fundamental for a futures exchange to function. It has also not been proven that speculation has been responsible for the sometimes excessive price fluctuations in recent years. To date, funds have had little impact on food prices in the long term. Hitherto, the market has always returned to the “hard factors” of production, consumption and development of final stocks.

What is the difference between normal traders and speculative investors?

Unlike financial investors, who only speculate on rising or falling prices and then buy or sell commodities, the trading activity of BayWa does not involve simply betting on the numbers, but rather the buying and selling of physically available commodities. If staple foods are exclusively subject to virtual speculation, the concern is that this will cause the prices on the futures exchanges to become increasingly incalculable and uncontrollable.

What correlation do you see between agricultural prices and the hunger situation in developing countries?

The main causes of hunger and poverty are not to do with agriculture, but are often a result of bad government, corruption, civil war or extreme weather conditions. A 2011 study by the FAO also established that higher agricultural prices lead to investment in agriculture and stimulate greater production, contributing to a long-term improvement in the food situation.

What can agriculture do to combat hunger?

First and foremost, increase productivity. We must achieve a greater yield per hectare without losing sight of sustainability in agriculture and concentrate on how crops can be made even more resistant against dehydration and climate change. We must also allow developing countries to share in this knowledge.

What trade regulations can you envisage for promoting functioning commodity futures trading?

The growth of raw materials as a purely financial commodity necessitates discussion on the moral and ethical handling of the commodities. Requirements that are just as strict as those currently in place for other financial products should be demanded and implemented for the trade of financial products in the area of agricultural raw materials. However, it is impossible to make the sweeping statement that all raw materials speculation should be restricted. We need trade to maintain liquidity in the market. It is therefore difficult to establish a reasonable limit. What is important is greater transparency.

As a listed company, BayWa is also an agent on the financial market: what is the situation with risk management?

We operate a very cautious and conservative system of risk management. This means that on the one hand we do not make a proportional profit on increasing raw materials prices, but on the other hand we also make losses that are just as small proportionally in the event of falling raw materials prices. For example, we sell on the majority of our cereals immediately after acquisition; this all but eliminates speculation. We are also cautious when it comes to acquisitions. We do not trade at the expense of the substance and stability of our company.

Since January 2012, BayWa has supported an Endowed Chair for “Governance in International Agribusiness” at the Freising campus of Weihenstephan-Triesdorf University of Applied Sciences. What do you expect to see as a result of this?

The idea of sustainability will gain in importance in an international context. Therefore, we must ensure that our raw materials are produced from the viewpoint of sustainability. This means it is important that we are familiar with the structures in other countries. The research into these processes is of great social and economic importance.
“Food security and market stability are best achieved through investment in the agricultural economy, an opening and international coordination of trade, by combating poverty, hunger and corruption in a targeted manner and through the provision of the broadest possible range of private risk management tools.”

Michael Schmitz, Professor for Agricultural and Development Politics at Justus Liebig University Giessen