

# Exporting Anxiety

What the changing food politics of the US, Europe, and other big grain exporters mean for the Middle East and Africa





Close to self-sufficient

■ Calorie importers

# The food “weapon”?

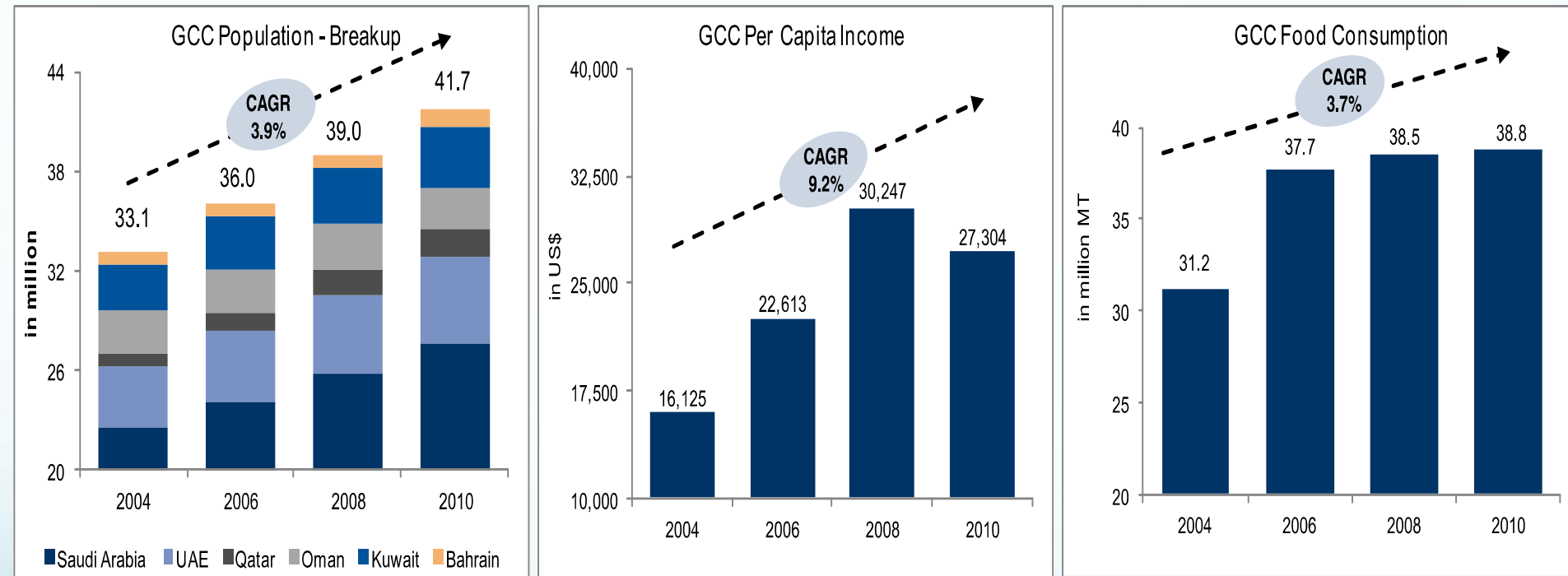
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- “The world’s food supply is currently in transition from an era of persistent surpluses to one of chronic shortages and imbalances.”

# The food “weapon”?

- In 2011, Samsung Economic Research Institute warned:
- “The world’s food supply is currently in transition from an era of persistent surpluses to one of chronic shortages and imbalances.”
- Under current trends, surplus producers might enact so many export restrictions that food would, in effect, become “weaponized”

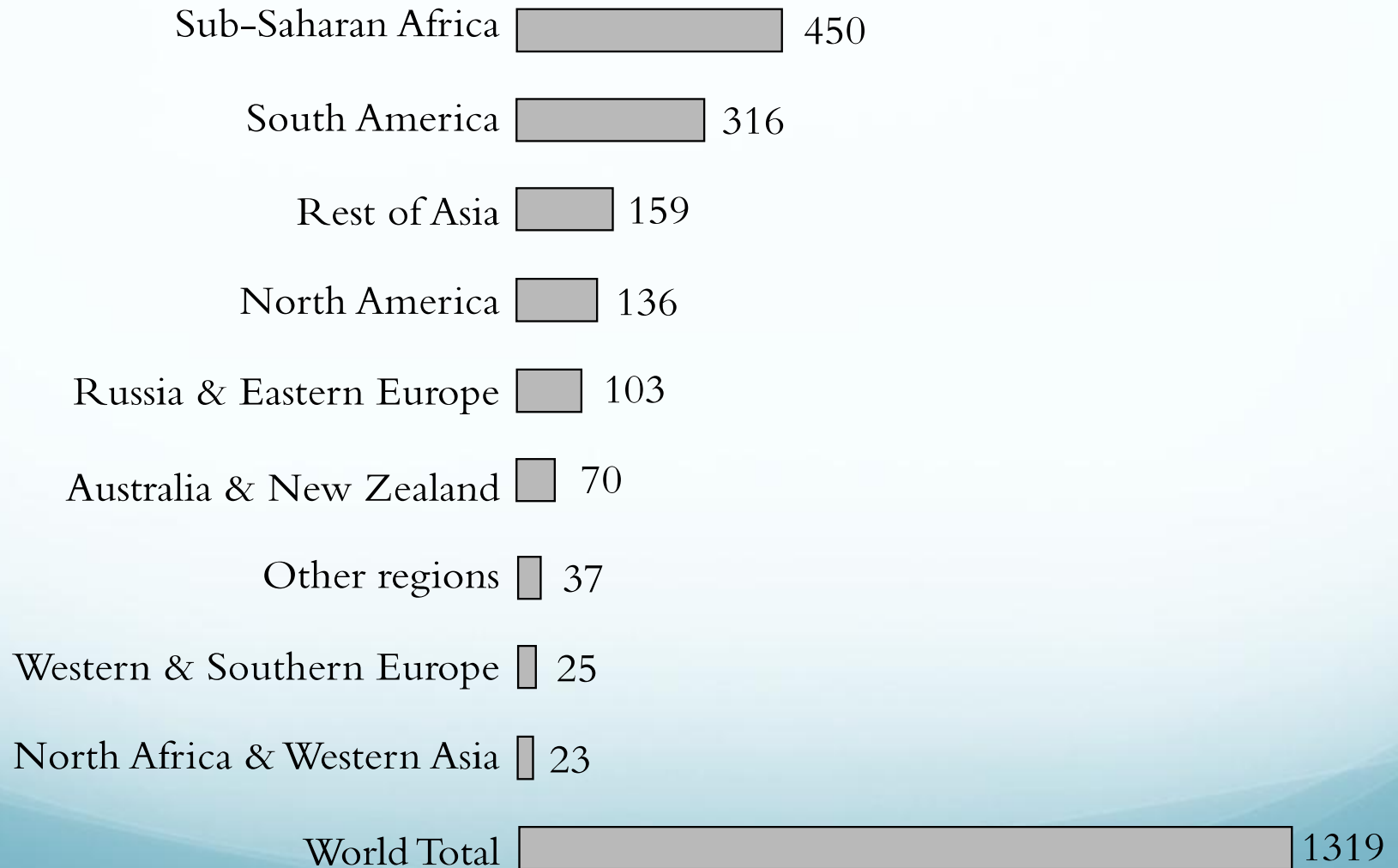
# Consumption

Exhibit 1: Rising population and per capita income driving food consumption



Source: IMF, Arab Agricultural Statistics, Alpen Capital

# Peak Soil



# Exporters versus Importers?



Calorie  
exporters

Close to  
self-sufficient

Calorie  
importers

- **Exporters versus Importers?**



- Exporters versus Importers?

- **Yes.....**

- Exporters versus Importers?
- **Yes....but not intentionally**

- US grain embargo strategies in the 1970s

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- Ukraine
- Argentina
- Pakistan, Macedonia, Serbia

# Export Bans 2008-2013





# “Accidental” Food Weapon

# Political Catalyst

# Ethanol

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    - Drought year

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- Unintended outcome:

# Ethanol

- Intended effect:
  - reduce oil consumption

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- Intended effect:
  - reduce oil consumption
  - Increase farm income

# Ethanol

- Unintended outcome:

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  - higher food prices



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  - zero 'buffer' for market shocks
  - Oil demand???

# Energy Return on Energy Invested (EROEI)

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- Crude oil: 1:10 to 1:40

Figure 1. Change in Corn Acres by County from 2006 to 2012.

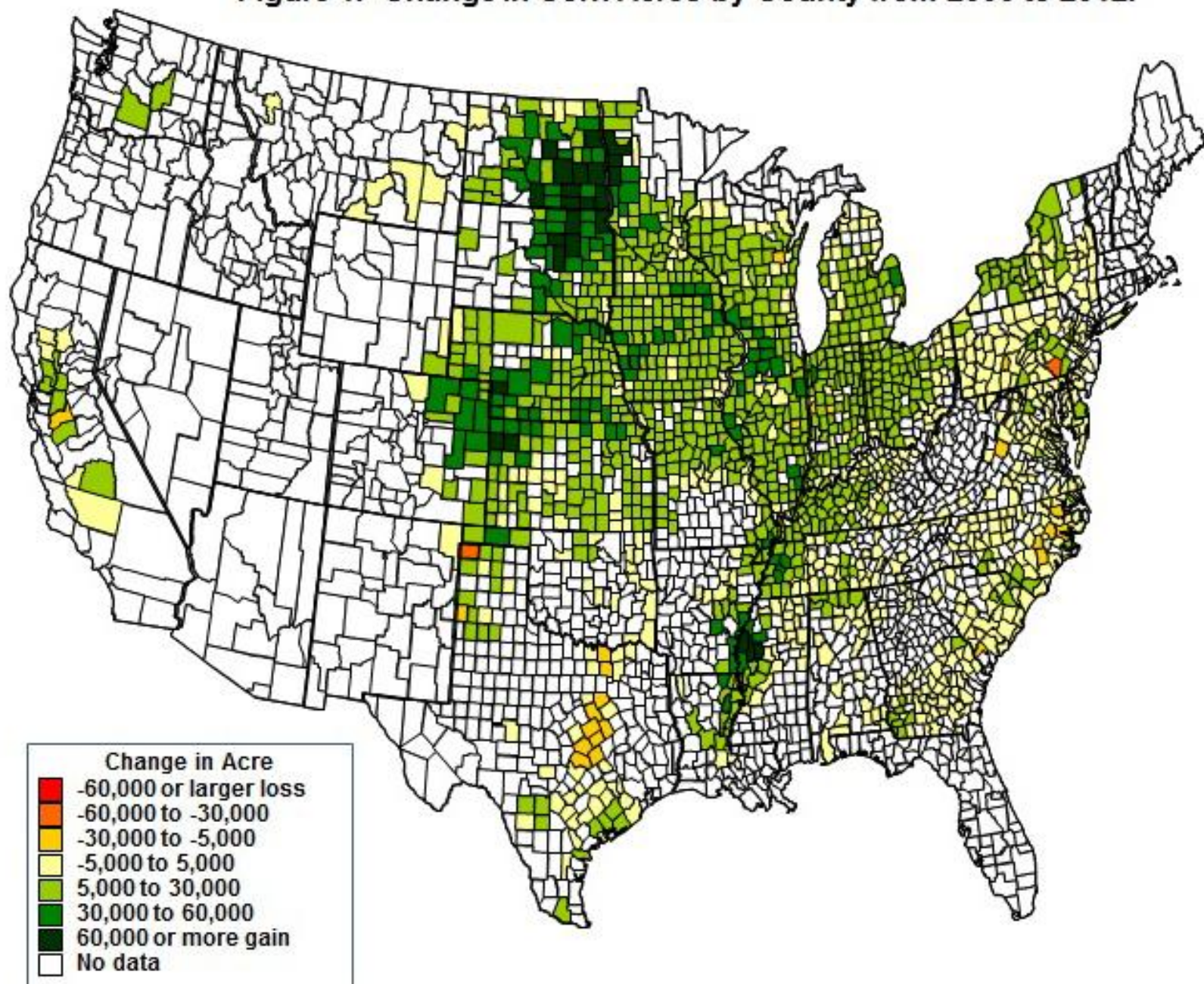




Figure 3. Change in Wheat Acres by County from 2006 to 2012.

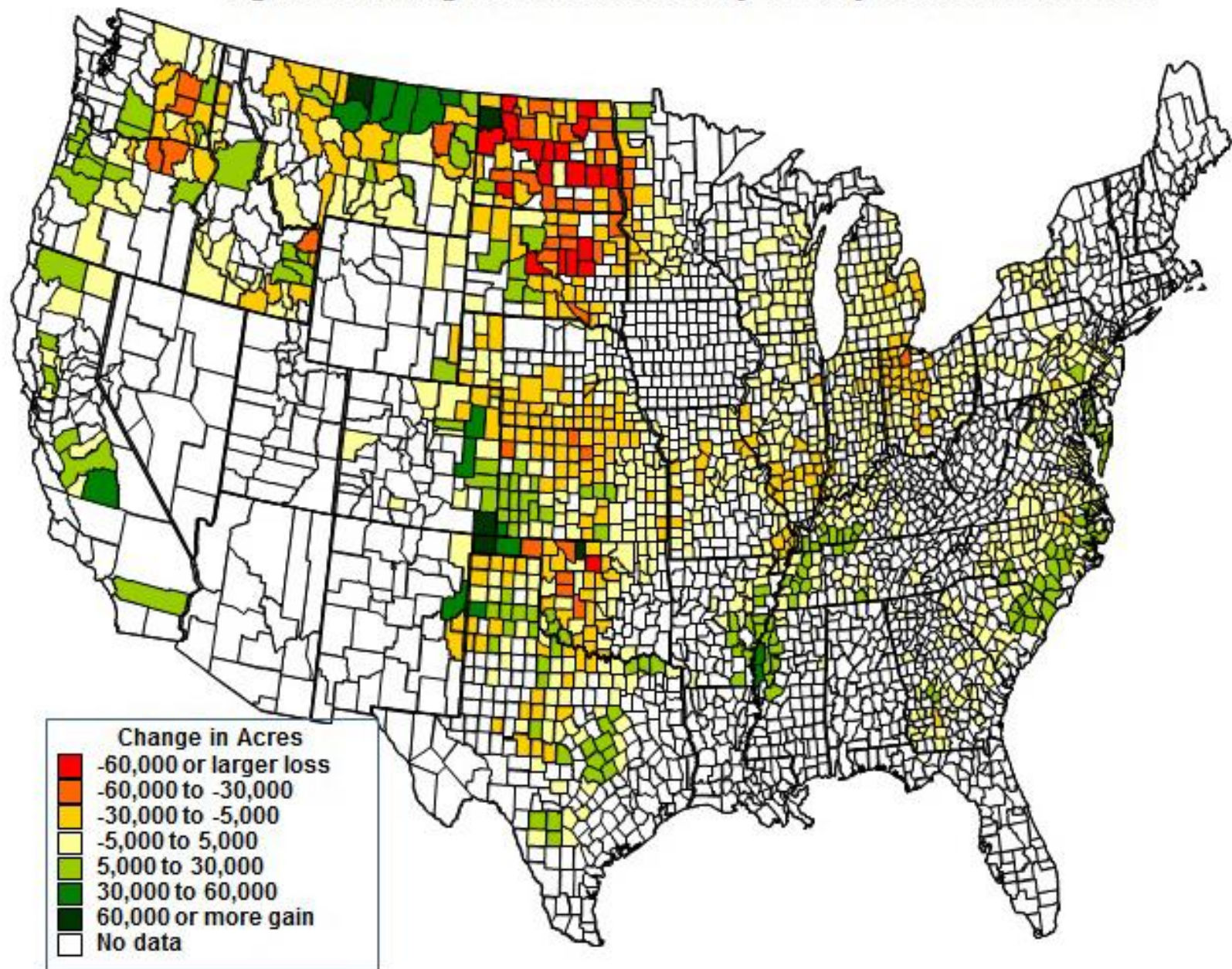




Figure 2. Change in Soybean Acres by County from 2006 to 2012.

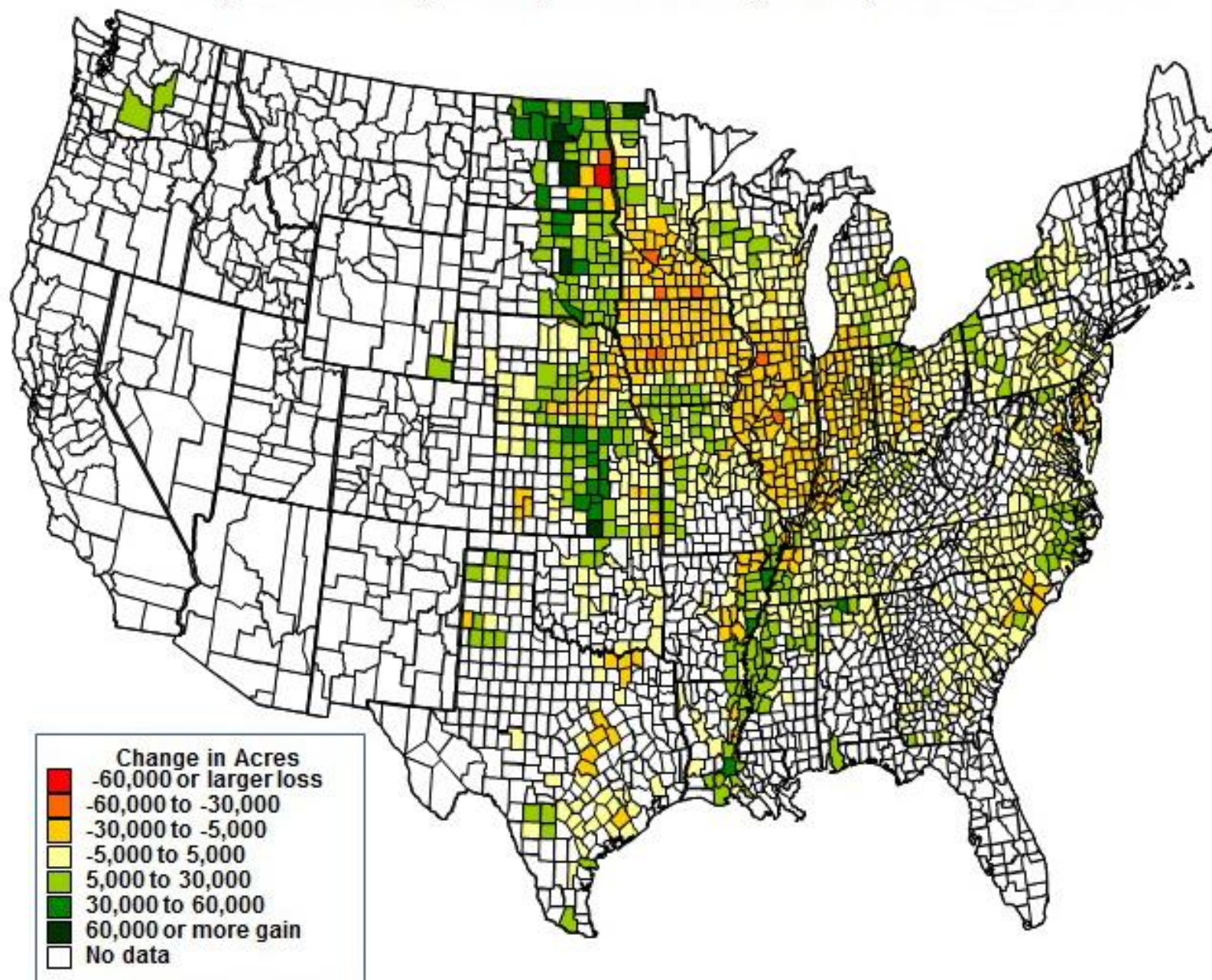
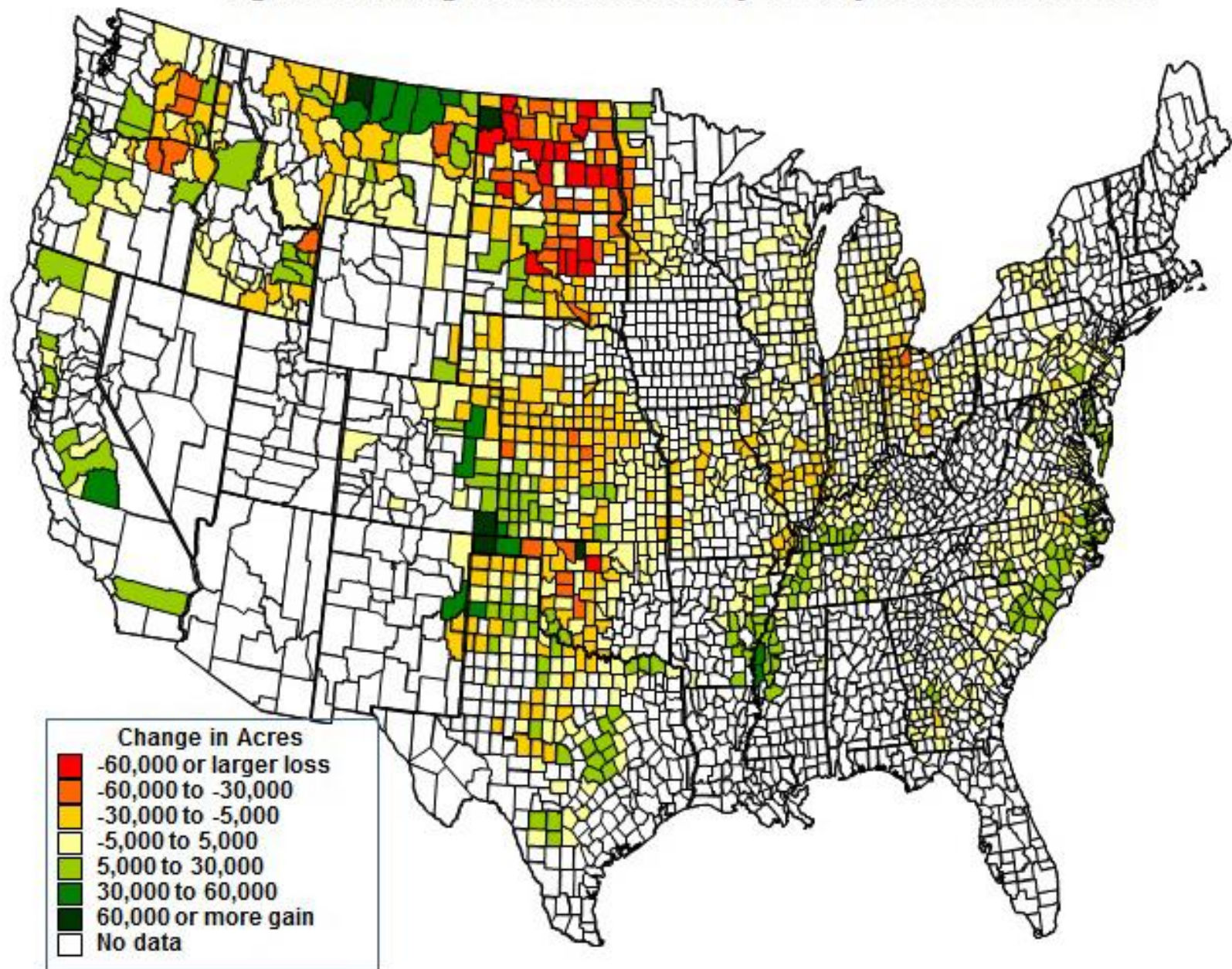




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# Many political catalysts

# Food Politics

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- From the Left – Anti-GMO Consumer Movement



Action

Reaction





Politics

Ethanol





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graph LR; A[Politics] --> B[Ethanol]; B --> C[Ethanol Credit]
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Politics

Ethanol

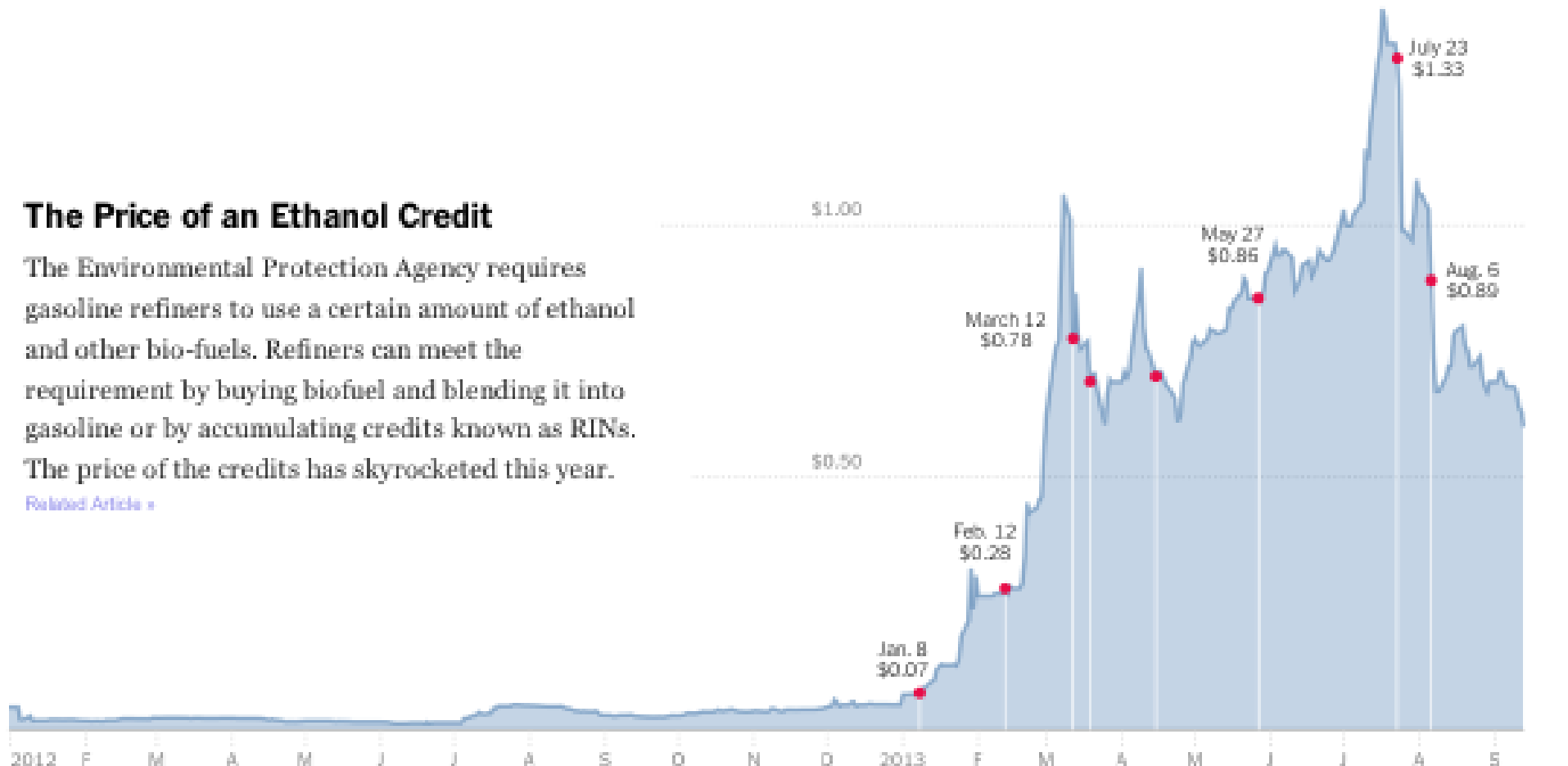
Ethanol  
Credit



## The Price of an Ethanol Credit

The Environmental Protection Agency requires gasoline refiners to use a certain amount of ethanol and other bio-fuels. Refiners can meet the requirement by buying biofuel and blending it into gasoline or by accumulating credits known as RINs. The price of the credits has skyrocketed this year.

[Related Article »](#)



JAN. 8, 2013

The E.I.A. forecasts that the "blend wall" is approaching, with ethanol mandates surpassing the amount that can be blended into gasoline by 2014.

FEB. 12

The E.I.A. forecasts that oil companies will need to use credits from last year to meet the 2013 mandate.

MARCH 12

Prices bounce on rumors that the E.P.A. might lower 2013 mandates.

MARCH 19

At an annual meeting, refinery executives term the market a "casino" and accuse financial traders of "hoarding."

APRIL 15

Platts Oilgram News reports that "the big trading houses, hedge funds and banks" are the most active players in the market, according to traders and brokers.

MAY 27

An industry newsletter reports a rumor that a large refiner will have to purchase millions of RINs later this year.

JULY 23

A Morgan Stanley research report sees an "upside" to RIN prices, and alludes to scenarios where RINs could trade for \$2 to \$5.

AUG. 6

The E.P.A. announces that it will not change the ethanol requirement for 2013 but would consider changes for 2014.

Not just ethanol credits

The “financialization” of the  
entire food market

# Financialization of food

- In 2000, the U.S. Commodity Futures Modernization Act allowed non-financial players, such as swap dealers, with no commercial interest in food, to bet on commodity indexes.

# Speculation is essential

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- Hedging



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- Liquidity

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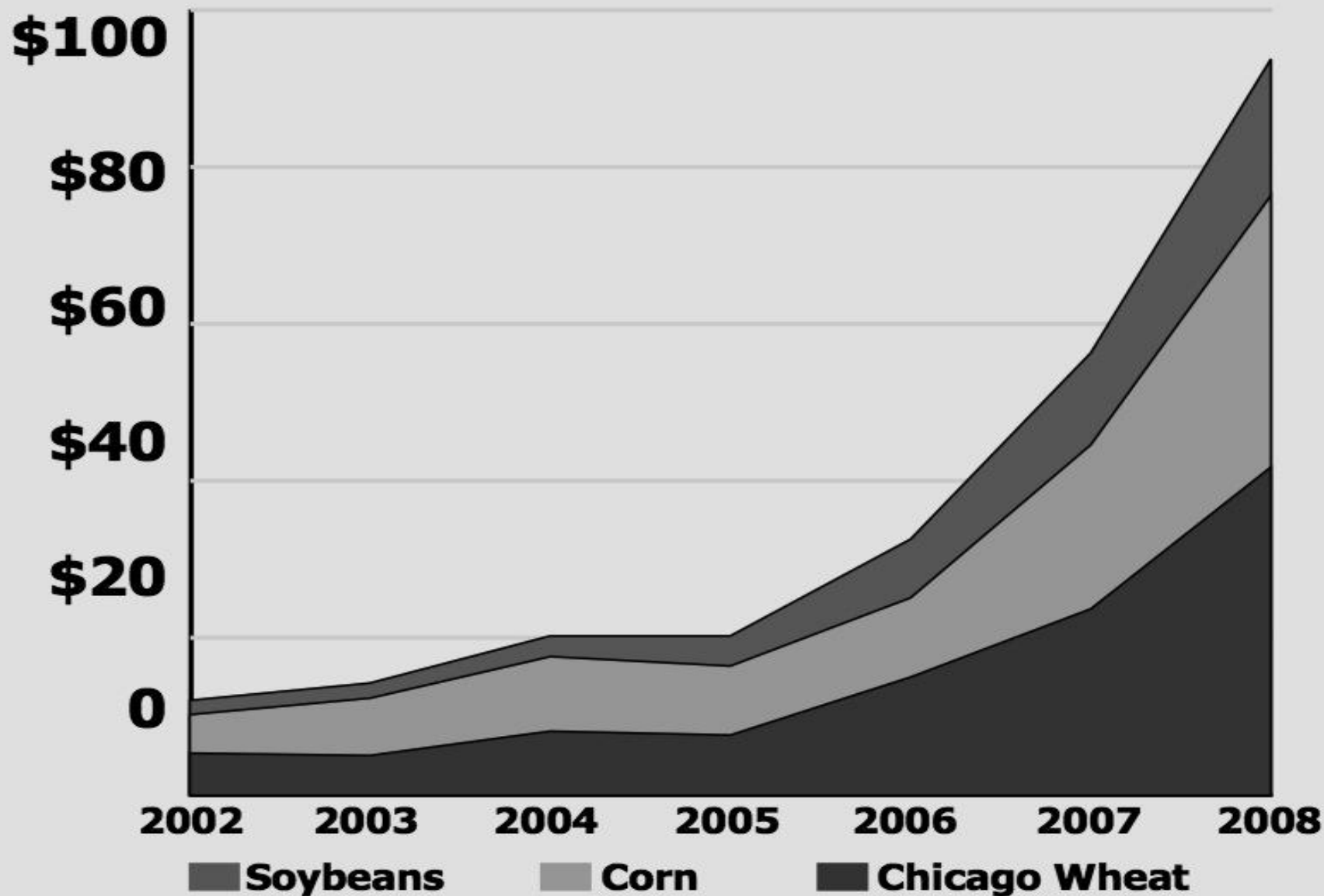
# Financialization

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- By 2008, it was 65 percent
- On the CBT, the value of grain contracts now exceeds physical production by a factor of 8



# Value of Open Interest

(in Billions of Dollars)



# Financialization

- According to Olivier De Schutter, the UN special rapporteur on the right to food.
- *“Financial markets have developed massively with the arrival of these new financial investors, who are purely interested in the short-term monetary gain and are not really interested in the physical thing – they never actually buy the ton of wheat or maize; they only buy a promise to buy or to sell.”*

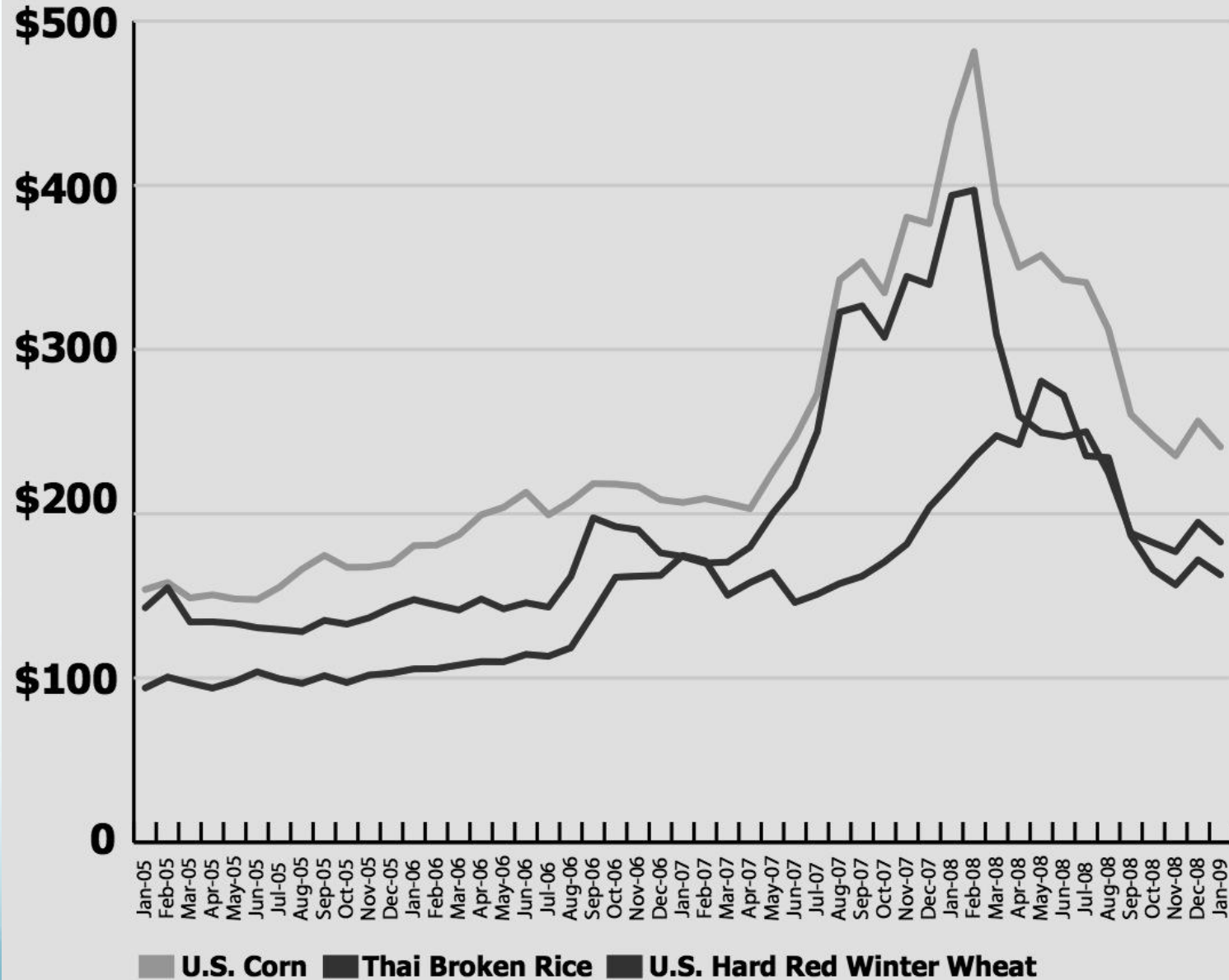


# Financialization

- As a result, food commodity prices “respond increasingly to a purely speculative logic. This explains why in very short periods of time we see prices spiking or bubbles exploding, because prices are less and less determined by the real match between supply and demand.”

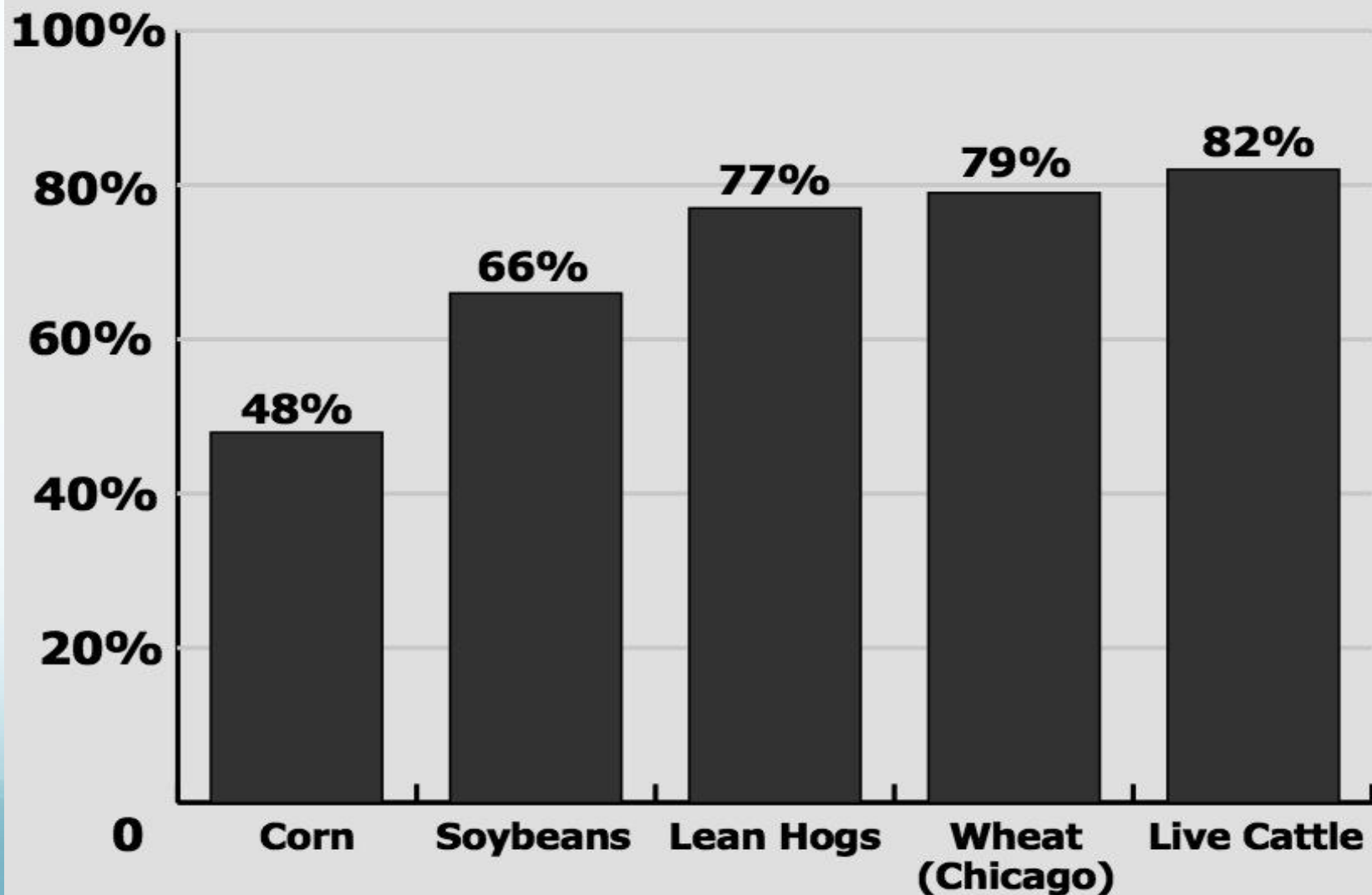
# Commodity Export Prices

(in Dollars per Metric Tonne)



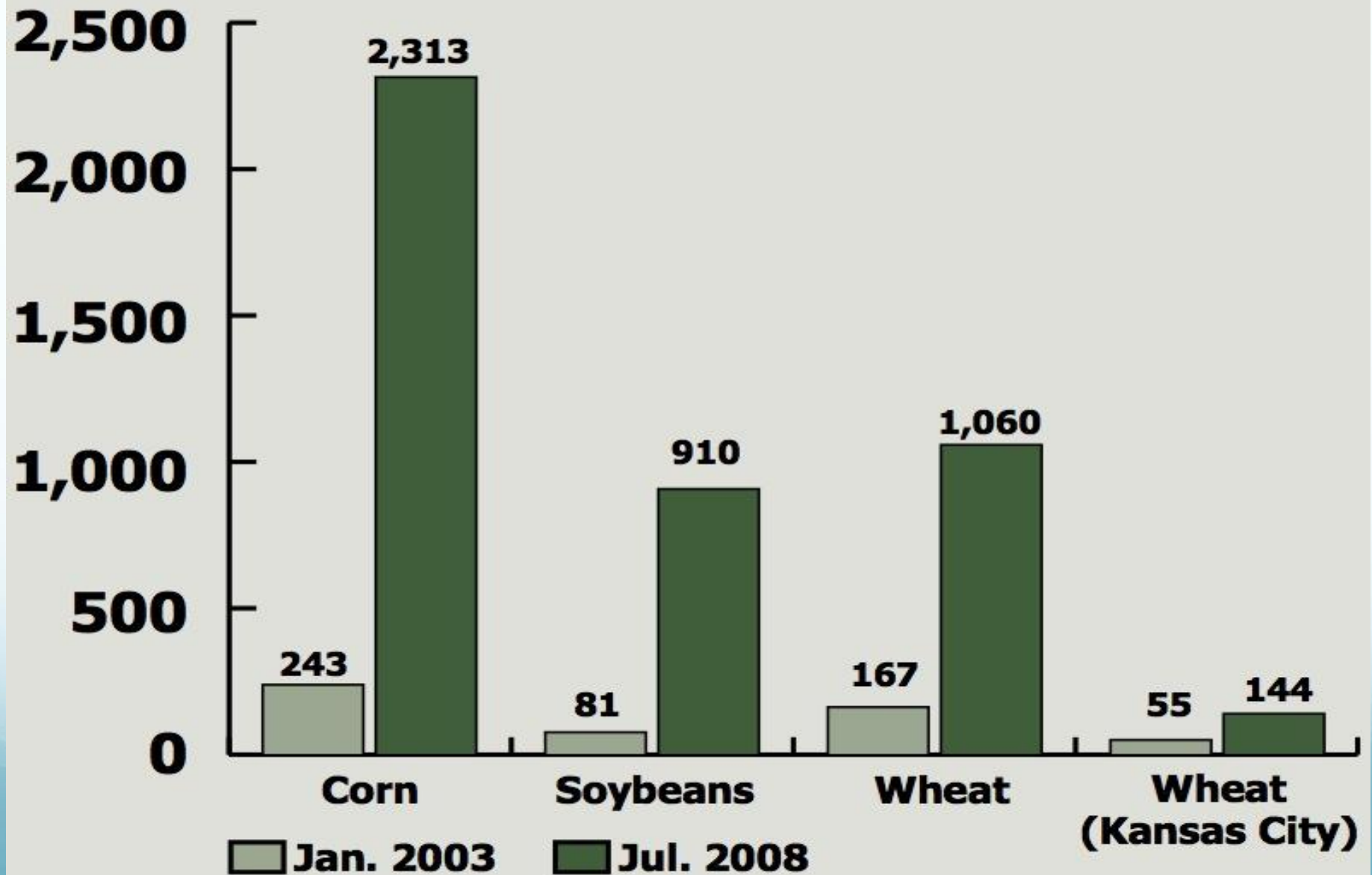
Source: UN FAO

## **Index Fund Share of Contract Purchases (January 2003 – July 2008)**



# Index Fund Agricultural Holdings

(in Millions of Bushels)



- Allianz, one of the biggest traders in Germany, concedes:
- “it cannot be totally dismissed that speculation supports excessive price developments.”

# Importers' Perceptions

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- Exporters undependable

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- Prices volatile



# Importers' Perceptions

- Exporters undependable
- Prices volatile
- Food Security at risk

# Strategic Scenarios

- Bilateral trade deals

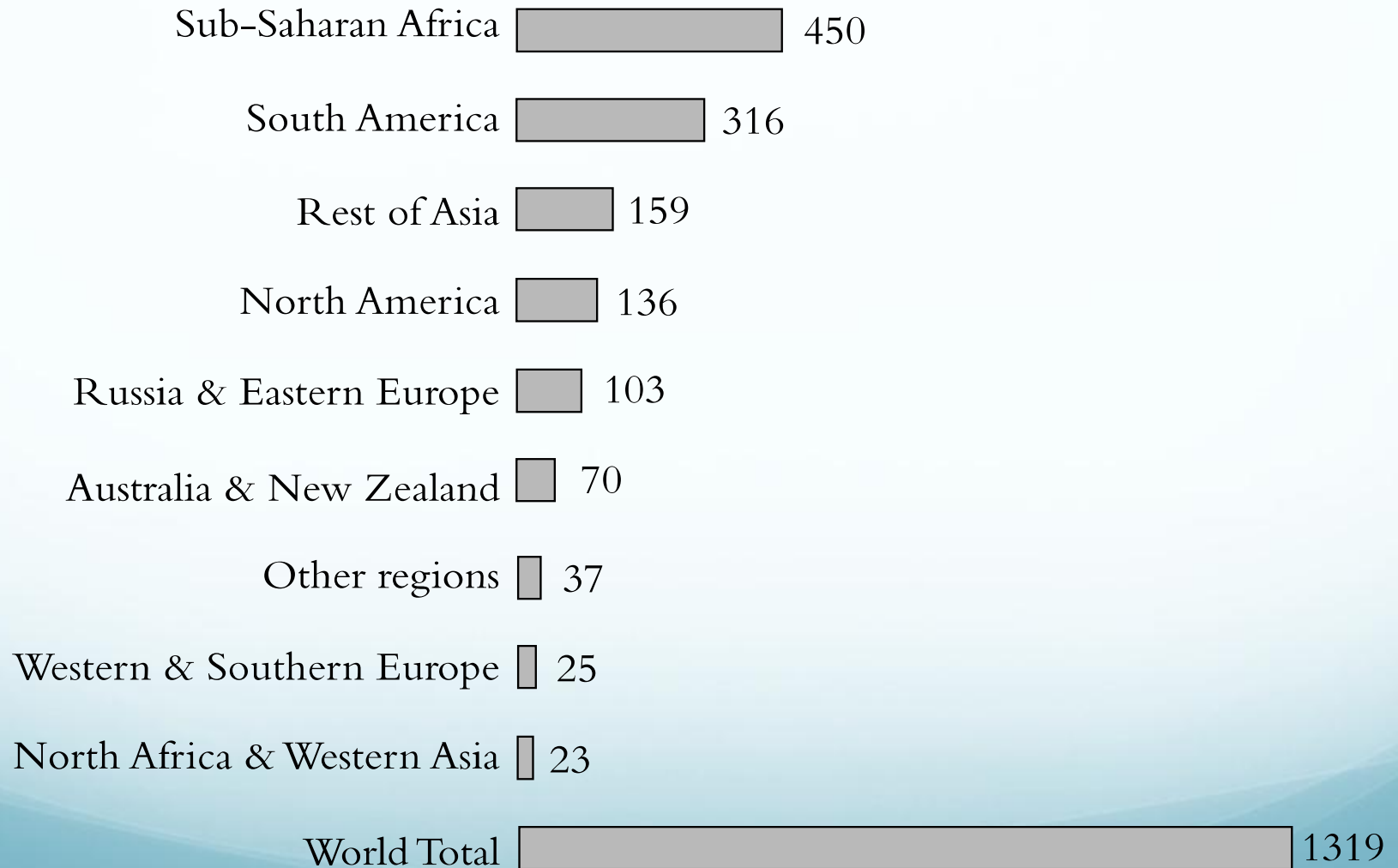
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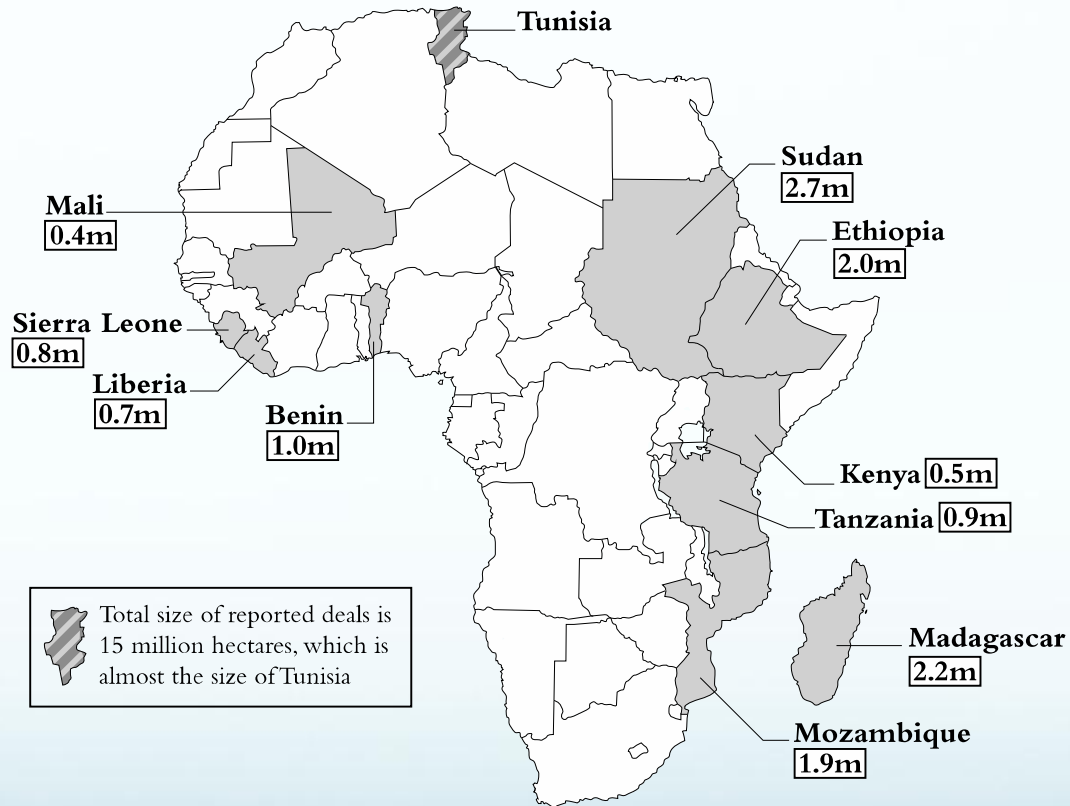
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- Bilateral trade deals
- Strategic Investment
- Land Deals

# The Next Frontier?



# Land deals thru July 2012: 372



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