AT A GLANCE
Requested by the AGRI Committee

European Parliament

The role of commodity traders in shaping agricultural markets

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Main observations

The current global food system is dominated by a few major players dubbed the ABCDs. These companies, **Archer Daniel Midlands**, **Bunge**, **Cargill** and **Louis-Dreyfus** have what can be described as an oligopolistic market presence. Estimates of the exact **share the ABCDs** have of global agriculture trading is unclear, due to differences in mandatory reporting regulations for private companies and geographic locations, but analysts suggest that the ABCDs **collectively account for 70-90%** of the global grain trade and approximately **50-60% of the world trade in cereals, oilseeds and protein crops.**

The study

This study provides an overview of the impact of commodity traders on agricultural markets. It examines the ramifications of financialisation, explores prevailing trends, and confronts the challenges that characterise the industry's landscape. Moreover, after analysing the regulatory state of play at the international level, it provides suggestions towards bolstering the sector's accountability and transparency, essential for fostering trust and sustainability. By scrutinizing these aspects, this study offers insights into the intricate dynamics of agricultural trading and its broader socioeconomic implications.

Despite recent economic turbidities, the **ABCDs have all seen considerable growth in profits**, experiencing compound annual growth rates (CAGRs) between 6-13%. This considerable growth is attributed to their dominant market positions, increased corporate concentration in all levels of the value chain and financial activity (those activities not directly related to the trading of goods).

The **increased activity of financial investors** (hedge funds, investment banks, Exchange Trade Funds (ETFs), and others) in agriculture commodity derivatives trading, combined with the increased importance and implementation of financial strategies within the traders themselves explains why the traders are participating in excessive speculative activity. Researchers suggest that excessive speculation is responsible, in greater part, for the recent volatility and **price spikes of agriculture commodities** and have also shown a significant correlation between increased investments from Agriculture ETFs and a rise in commodity prices for agricultural produce like maize, wheat, and soy.

An increase in financial activities enable capitalisation on market volatility. Price spikes of traded goods result in higher global prices, with a **large margin** between the prices at which they are sold and the physical production costs of the goods by the ABCD agribusinesses. This difference contributes to their high profits. The much higher food prices affected poor people around the world, and especially poor food importing countries, and contributed to high inflation.

Prices of commodities are affected by multiple factors such as supply and demand- based on real or assumed availability or supply influenced by the level of (good or failed) harvests, costs of production, availability and accessible of stock, and others. In the case of food prices rising between 2020-2024 there was no lack of availability of stock/storage at global level.

Conclusions and policy recommendations

The disclosure of financial risks in agricultural commodity trading is complex, with listed companies required to include some insights into inventories and derivatives in their public financial accounts, while private companies and financial players like hedge funds often do not, and are not required to, disclose such information.

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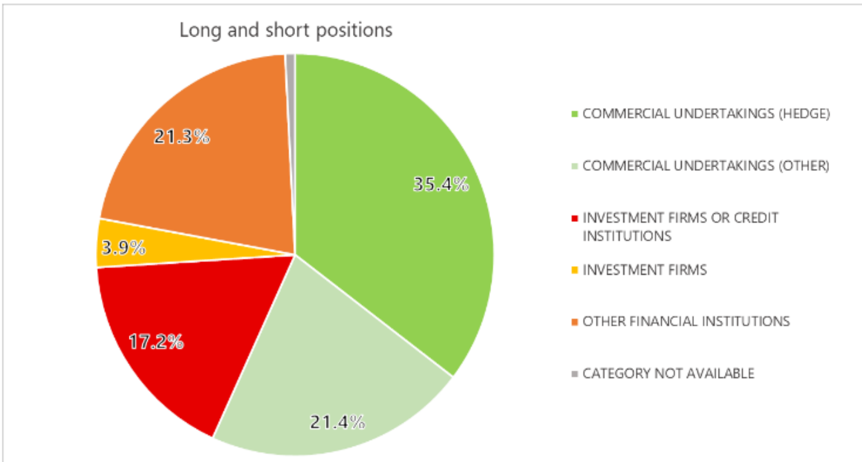
Against this background, **recommendations include**:

- Greater transparency of physical market through the standardisation and strengthening of reporting requirements for the levels of stocks of cereals, oilseeds, and rice to the EC dashboard system
- An improvement of the Markets in Financial Instruments Directive (MiFID) and the Markets in Financial Instruments Regulation (MiFIR) including necessary legislative proposals that address the effectiveness of the current regulations on position limit rules, how to improve transparency of the trading strategies employed by the financial and non-financial participants, address ways to prevent an overconcentration of speculative, non-hedging participants in any single commodity derivative market, ensure that regulators have comprehensive information about all derivatives market participants to fulfil their mandate and enhance governance in financial agricultural commodity markets, in coordination with monitoring physical trading.
- Re-assess if the current threshold for ancillary activities are sufficient and reassess if the current Regulation and Directive on Market Abuse (MAR) and the Criminal Sanctions for Market Abuse Directive (CSMAD) regulations prevent insider information abuse. The European Securities and Market Authority (ESMA) should have adequate data and resources to publish detailed reports on agricultural commodity trading derivatives, both on and off exchanges, separately from energy derivatives. These reports should be annual or more frequent and include individual analyses for each main agricultural commodity, along with an examination of traders' commitments and price benchmarks.
- To initiate an in-depth investigation of the status and impacts of market concentration for agriculture commodity traders; to call on the EU to initiate the discussion of the concentration issue at the international level and to explore possibilities for more cooperation among competition authorities; To repeat the call for an expansion of the ordinary legislative procedure to include the EP in competition law reviews and development, and initiate research into the potential for a windfall tax on excessive profits in the agri-food sector.

Key findings

Over the past decade, the ABCDs have continued to play a significant role in the global agri-commodity trade. Based on updated estimates, they handle around 50-60% of the worldwide trade in essential crops. Even with significant investments in storage infrastructure, the ABCDs are not obligated to reveal their capacities, which hampers a comprehensive analysis of their roles in agricultural commodity storage. Regulatory and institutional frameworks struggle to curtail market monopolisation due to the lack of global competition policy and the influencing power exerted by large agri-traders. To address these issues, regulatory interventions, such as antitrust measures, and market transparency promotion, are necessary.



Source: Consortium elaboration based on AMF data, Analysis of MiFID II position data on commodity derivatives: who are the market participants and what is their weight in the MATIF grain derivatives segment [2018-2021], 19 July 2022, https://www.amf-franc/

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