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Summary report: Agricultural Commodity Investing - A Controversy  
Zürich, 28 August 2013



What role do investors have in agricultural futures markets? Does “excess speculation” contribute to world hunger or do investors create stable, efficient markets?

A panel discussion organized by [Green Buzz](#), [The Commodity Club](#), and [The Club of Rome](#) offered the following answers:

- **Prof. Dr. Heinz Zimmermann** ([University of Basel](#)): “100 years ago we heard the same arguments against speculation. Financial markets are hard to understand.”
- **Dr. Thomas Braunschweig** ([Berne Declaration](#)): “The right to food is a basic human right. Out of precaution, the burden of proof should lie with investors to show they do no harm.”
- **Ian Johnson** ([Club of Rome](#)): “One can’t divorce private risk and reward from the public effect anymore. Externalities of all actions are getting bigger than ever.”
- **Dr. Stéphane Graber** ([Geneva Trading and Shipping Association](#)): “Volatility is in fact a problem for physical traders. But government interventions impact prices more than speculators.”

Moderator **Dr. Bernd Schanzenbächer** ([EBG Capital](#)) opened the discussion with an overview of the macro drivers of commodity prices. Increasing food demand from growing populations, higher incomes, food security concerns, changing diets and the use of biofuels all push prices higher. Decelerating yield enhancements, land loss from urbanization and desertification, rising input costs, water scarcity and increasingly frequent extreme weather events all serve to increase prices from the supply side. In markets for soft commodities, commercial producers and users of agricultural products are joined by investors seeking returns from an under-explored asset class in times of high inflation and low interest rates. Their presence has both pros and cons.

On one hand, investors (a.k.a. speculators) provide liquidity in derivatives markets and make price discovery more efficient. On the other hand, research indicates that investors increase commodity price volatility and perhaps also absolute price levels in certain markets. Heinz Zimmermann described four major classes of traders: 1) "the classic speculator" who sells insurance to commercial players by trading on the risk premium stemming from the divergence of forward and expected future spot prices 2) "the day trader" who takes positions on either side of the market, following a random walk path and contributing to background volatility; 3) "the index investor" who takes long positions in short-dated futures and profits when markets are in backwardation; and 4) "the manipulator" who rigs financial markets and about whom understandably little research exists.

Admittedly, research cannot definitively say whether investors aid or impair soft commodities market function. Professor Zimmermann stressed the positive effects of investor participation, and argued that "excessive" investor activity self-regulates when oversupply of investors drives the risk premium to zero. On the other hand, Thomas Braunschweig urged the audience to consider the precautionary principle when weighing evidence of detrimental effects.

Interestingly, physical traders, not financial investors represent the majority of Switzerland's commodity market participants. According to Stéphane Graber of the GTSA, Switzerland trades 60% of global coffee, 50% of sugar, 35% of rice and 25% of cocoa. The country also has traditional strength in trade finance. In contrast, many hedge fund "speculators" operate out of London. Graber stressed that the audience should understand the distinction between physical traders who use futures markets to manage position exposure related to actual flows of goods and investors who have no linkage to the physical commodity.

The discussion turned to solutions for proper commodity market function and, more broadly, the role of investors in promoting food security. Ian Johnson underscored the complexity of these questions, encouraging the audience to reflect on the fact that "systems of issues" underlie global hunger, and that "there is no simple solution". Johnson stressed the need to invest in agricultural research to increase yields and reduce environmental footprint. Furthermore, investment at the village level in better storage or enhanced access to markets can prevent most food losses. Trade barriers and "rich world" government subsidies also place "poor world" consumers and farmers at a disadvantage. Mr. Johnson stated that "as pricing barriers fall, non-tariff barriers are erected". However, Dr. Braunschweig opined that neoliberal ideology had caused "trade policy disasters" in the recent past.

Experts and laypeople alike often cite "regulation" and "transparency" as panacea solutions to food price shocks. On the panel, Bernd Schanzenbächer asked our experts

to be more specific and elaborate. Thomas Braunschweig offered several concrete suggestions, including transparency on private stocks, which have today grown to national proportions. Specific identification of what companies held what positions would also provide better safeguards against market manipulation. He also suggested aggregated position limits for investors. Dr. Graber countered that governments should disclose stocks before the private sector does, and said that the sector was rather overregulated than underregulated.

Ultimately, the panel agreed that hunger is an issue that requires a diversity of responses. Increasing developing world incomes by creating rural employment—especially for young people—was named as the number one component to any solution. More nuanced understanding of the responsibilities of investors, industry and government is certainly another important element, and debates such as tonight's aspire to that end.

The panel-discussion regarding agricultural commodity investing was the first result of a collaboration between Green Buzz, The Commodity Club and The Club of Rome. Invitations for further events can be retrieved via the organizations' mailing-lists.

## Organizers

The association **Green Buzz** brings together 800+ professionals involved and interested in **sustainability**, across all industries and sectors, with the aim to enable multipliers and changemakers to learn, connect and be most effective. [www.greenbuzz.ch](http://www.greenbuzz.ch)

The business club **The Commodity Club** aims to bring together business professionals and leaders who are actively involved in the **commodity industry** in Switzerland. The club fosters the exchange of interdisciplinary know-how and innovative ideas. [www.commodityclub.ch](http://www.commodityclub.ch)

**The Club of Rome** was founded in 1968 as an informal association of independent leading personalities from politics, business and science with a common concern for the future of humanity and the planet; **long-term thinkers**, interested in contributing in a systemic interdisciplinary and holistic manner to a better world. [www.clubofrome.org](http://www.clubofrome.org)

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