



## DON'T GAMBLE

## WITH FOOD!

### How the German financial industry is making a business out of hunger



### Summary

Banks and financial advisors in Germany have been promoting agricultural crops as an attractive investment category for the past few years: rising food prices promise high returns that no one should miss, so they argue. The higher the price of basic food commodities, the higher the profits for investors — a bittersweet formula indeed.

In Germany, we spend an average 10 per cent of our income on food. Families in poor countries, by contrast, must invest up to 80 per cent. As prices rise, hunger grows. This occurred in 2008: the global food crisis caused the number of hungry people worldwide to rise to over one billion and triggered hunger protests in 61 countries. “Everyone is eating less food. The women make the ultimate sacrifice. They take their food after everyone is done,” explained one agricultural worker during an interview with Oxfam.

In 2010/2011, food prices skyrocketed once again. Forty-four million people living in poor countries—a number equal to more than half of the German population—were driven into hunger because they could no longer afford to buy food. Speculation with food is one of the key factors responsible for this extreme price volatility.

### Index funds Soar to Staggering Heights

Trade in agricultural derivatives is booming. A quarter of global capital investments in June 2011 were directed at basic agricultural commodities. Since 2003, these investments have increased from nine billion US\$ to 99 billion US\$.

With Index funds, banks have created an investment product whose value is linked to a specific agricultural commodity index. This allows anyone to invest in agricultural commodities—even those who have no knowledge of the real developments on the agricultural market.

Between 1998 and 2008 the volume of investments in index funds grew from three billion to 174 billion US\$. Due to this explosion of index funds, commodity futures exchanges are now dominated by speculators. Excessive speculation artificially inflates demand and makes prices dependent on the motives of financial actors (so-called “financialisation”) rather than actual supply of physical commodities, leading to price distortion.

Speculators who bet on rising prices and volatile prices of agricultural raw materials can thus reap large returns. People living in poverty are left without protection as they face exploding food prices and extreme price volatility.

The UN special rapporteur on the right to food, Olivier de Schutter, observes that “a significant portion of the increases in price and volatility of essential food commodities during the food crisis of 2007/2008 can only be explained by the emergence of a speculative bubble.” He specifically points to the role of large institutional investors such as hedge funds, pension funds and investment banks.

## Allianz, Deutsche Bank & Co Gamble with Food

In late 2011, Oxfam commissioned a Swiss commodity analyst to examine German financial actors' food commodity investments. The results, along with Oxfam's own research, offers a first glimpse into the activities of German financial actors:

1. All major German banks speculate with food. These include private banks, credit unions or federal state banks, such as Bayern LB and the provincial bank Baden-Württemberg.
2. The Deutsche Bank and the Allianz insurance company are by far the largest German actors in agricultural futures trading. Both belong to the leading group of commodity speculators worldwide. In recent years, they have pushed forward the financialisation of agricultural markets—and as a result increased the risk of hunger for the poorest people of the world.

**The German financial institutions investigated for this study made a total of 11.4 billion Euros in investments that were directly linked to food prices. Taken together, German financial institutions are responsible for one sixth of the total global investment volume in agricultural commodities, which is estimated by the Barclays Bank to lie at 99 billion US\$ (68.8 billion EUR).**

This number is only an approximation, as the current lack of transparency permits merely estimates of both the German and the global investment volumes. What is clear, however, is the remarkable influx of investments into agricultural commodity funds: the volume of money invested has more than quadrupled between 2008 and 2011 (see Table).

The expansion of commodity speculation has not reached its end. Quite to the contrary: several financial institutions are only just beginning to deepen their involvement. Bayern LB, for instance, announced at the end of 2011 that they had established a two per cent position in agricultural Exchange Traded Funds (ETFs). Another example is the DZ bank: In September 2011, the bank created its own commodity index, the DZ Bank Best Commodity, in which wheat and corn each account for 12.5 per cent. Münchener Rück likewise announced an expansion of its agricultural investment in its annual report of 2010.

**Table: Capital invested in agricultural raw materials by German financial actors on commodity futures exchanges (estimated in millions of Euros)**

	2008	2009	2010	2011
<b>Allianz (incl. PIMCO)</b>	1413	3990	7496	6242
<b>Total Deutsche Bank (incl. DWS)</b>	1138	3445	4552	4570
<b>LBBW 1</b>	1	24	140	196
<b>Union Investment</b>	72	56	133	132
<b>Commerzbank</b>	0	23	37	104
<b>Deka Investment</b>	113	90	109	103
<b>Universal Investment</b>	0	0	28	34
<b>Oppenheim Fonds</b>	7	14	13	14
<b>Total</b>	<b>2745</b>	<b>7643</b>	<b>12509</b>	<b>11395</b>

Estimates based on the annual and bi-annual reports of the funds investigated in this study

## **The Allianz: Risking Hunger Through Risk Insurance**

**On the food speculation front, the Allianz insurance company is leading the way. In 2011, the firm's total funds invested in raw materials reached 18.44 billion EUR, with an estimated 6.24 billion Euros directly or indirectly invested in agricultural raw materials.**

These funds are issued by the two daughter companies of the Allianz, Allianz Global Investors and PIMCO. The PIMCO CommodityRealReturn Strategy Fund is one of the largest commodity funds in the world today. At the end of 2011, the fund had assets of nearly 17 billion EUR, with an estimated 5.86 billion invested in agricultural commodities.

According to the company website, „The Allianz has a clear goal: the company wants to build the strongest financial community in the world—and to become the most trusted global financial service provider.” They refer to the Global Compact of the United Nations as “our system of reference by which we measure how we exercise our corporate responsibility.” The Global Compact requires corporations to promote and respect internationally recognized human rights and to ensure that they do not take part in human rights violations.

When speculation with food and artificially inflated prices drive people into hunger, this violates their fundamental human right to food. Allianz's business deals with hunger are irreconcilable with its ethical obligations as a member of the Global Compact.

## **Deutsche Bank: Diverse Business Deals with Hunger**

The Deutsche Bank is one of the leading financial actors in international commodity trade. It ranks among the Top Ten players in raw material investments globally and is the number one in exchanged traded agricultural commodity funds. Currently, Deutsche Bank and its daughter companies, such as db x-trackers and DWS, offer at least 27 funds that contain agricultural raw materials and bet on rising prices.

**In 2011, Deutsche Bank's total investment in funds containing agricultural commodities was 10.9 billion Euros. Of this, an estimated 4.57 billion Euros are directly or indirectly invested in food commodities.**

Deutsche Bank bets almost exclusively on rising food prices. It clearly recognizes that this has an impact on real markets: In the official annual report of their US funds for the US financial authority, Deutsche Bank explained that the prices of raw materials are influenced in part by the investment and trade activities of investment funds, hedge funds and commodity funds.

The Deutsche Bank, too, is a member of the Global Compact. Like the Allianz, it has pledged to promote and respect internationally recognized human rights, and to ensure that it does not take part in human rights violations. And like the Allianz, Deutsche Bank is violating the human right to food by speculating with food commodities.

## **Don't Gamble with Food! Conclusion and Calls for Action**

The trade deals made at commodity futures exchanges determine food prices for consumers, producer prices for farmers and raw material prices for mills, bakers, and food processors. Small farmers, too, suffer fatal consequences: Every investment becomes risky, as plunging stock prices can push them into excessive debt or financial ruin. In this way, excessive speculation with food fuels the global food crisis.

It is high time to curb excessive speculation with food. Financial actors themselves carry the primary responsibility in this matter. All of us, as customers and citizens, have a responsibility to increase the pressure on political and financial leaders to take action.

On October 20, 2011, the EU Commission tabled its proposal for a directive and a regulation for markets in financial instruments (MiFID and MiFIR) . The will to correct negative developments is evident; however, several areas urgently require improvement. Much progress on this front will depend upon the position taken by Germany as a steering force in European fiscal politics. Germany has

a special responsibility, too, by virtue of the important role its financial institutions play at the global commodity futures markets. The federal government must act determinedly and do everything within its power to prevent future food crises. The regulation of commodity futures markets represents an indispensable step in this process.

#### **Oxfam calls upon the German financial sector to:**

- ▶ Cease its involvement in food speculation as soon as possible;
- ▶ Increase transparency: corporate reports should provide detailed accounts of speculative investments made and the markets targeted.

#### **Oxfam calls upon consumers to:**

- ▶ Support actions and campaigns against speculation with food, so that banks, insurance companies and pension funds will re-think and retract their commodity investments;
- ▶ Request information from banks, investments funds and insurance companies about their potential involvement in questionable speculative activities; demand information about investment strategies and insurance investment reserves from their account managers; and, where necessary, consider changing to a different financial service provider.

#### **Oxfam calls upon political leaders in Germany and Europe to:**

- ▶ Establish an effective regulation of European trade centres which prevents excessive speculation;
- ▶ Establish absolute transparency in commodity exchanges and other trading facilities;
- ▶ Strictly limit futures trading with food by establishing binding, European-wide position limits;
- ▶ Prohibit index funds on agricultural commodity markets or at least establish particularly strict position limits for this sector as a whole (aggregated position limits);
- ▶ Equip strong regulatory bodies with sufficient authority and means to conduct appropriate inspections and be able to take preventative action;
- ▶ Address the conditions that make food speculation possible by stabilizing food markets (e.g. through sensible biofuel and climate policies and the building up of food reserves).

*The full study (in German) is available for download at [www.oxfam.de/spekulationsstudie](http://www.oxfam.de/spekulationsstudie)*