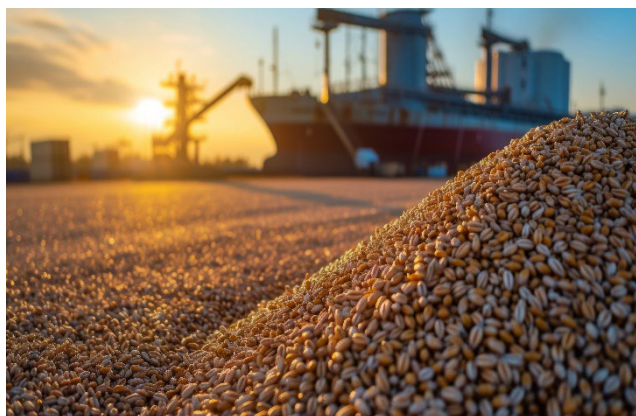


Research for AGRI Committee – The role of commodity traders in shaping agricultural markets

The ABCDs, historical agri-commodity traders reinventing themselves beyond trading



Archer Daniels Midland (ADM, operating since 1902), Bunge (1818), Cargill (1865), and Louis Dreyfus Company (LDC, 1851), collectively known as the ABCDs, play a pivotal role in the global agri-commodity trading market. They traditionally offer a portfolio of services ranging from the origination, merchandising, transportation and storage to the primary processing of agricultural raw materials like cereals, oilseeds and protein crops (COPs). Through integration and expansion processes, the

ABCDs have grown beyond their traditional core activities into sectors such as animal and pet nutrition; biofuels; chemicals; finance & investment; and human nutrition and health & wellness.

The present document is the executive summary of the study requested by the Committee on Agriculture and Rural Development on *The role of commodity traders in shaping agricultural markets: Oligopoly and Vertical Integration: ABCDs, Emerging Players, Novel Strategies, and Potential EU Intervention*.

The full study, which is available in English can be downloaded at: <https://bit.ly/4fJlBb1>.

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Despite emerging competition, ABCDs keep playing a big role in global agri-commodity trade

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 COPs. However, their dominance is challenged by emerging competitors in different commodities and geographies. These new actors, some of them former clients, include Asian traders who want to diversify and secure large supply volumes to address their respective countries' deficit in grains and oilseeds production, and large producers who want to market their supply directly.

Commodity traders' role in managing food stocks and market effects

Maintaining agricultural commodity reserves is crucial for food supply from surplus to deficit regions. However, lack of transparency in volumes and distribution increases the risk of price volatility. In 2022, the European Commission, facing increased unpredictability of food supply due to crises and climate change, required monthly data reporting on certain commodities (cereals, oilseeds, rice, and certified seed stock) to enhance market transparency. Indeed, there are concerns about vulnerabilities created by few dominant traders and questions about the need for strategic reserves despite the related challenges of costs, perishability, market interference, compliance with WTO rules, and deterrence of private actors.

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. A rough estimate suggests that the ABCDs may have the joint capacity to store approximately 10% of the current global COP stocks.

Evolution and challenges in the modern agri-commodity trading landscape

The contemporary food system is characterised by market consolidation, resulting in an oligopolistic structure dominated by major companies. These companies have grown both horizontally and vertically, expanding their roles across different business segments, geographies, and supply chain stages. Vertical integration involves controlling more stages of a supply chain, while horizontal integration involves expanding within the same stage, usually through mergers or acquisitions.

Recent trends have seen the ABCDs investing heavily in the processing and marketing of value-added downstream products such as biofuels, edible oils, animal feed, and food ingredients. Their involvement in the development of alternative proteins indicates that this direction is likely to continue. However, this market concentration and the resulting increased bargaining power of large integrated buyers poses a risk, particularly to smaller farmers, who may lose negotiating abilities and face threats to their independence.

Implications and challenges of market concentration in agri-commodity trading

The market concentration in agri-commodity trading, both vertically and horizontally, is driven by corporate aims such as economies of scale, shareholder satisfaction, and market dominance. Market dominance can lead to negative impacts, such as reducing competition, pressuring working conditions, and accelerating environmental degradation through unsustainable practices.

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, market transparency promotion, and empowerment of smaller stakeholders, are necessary. Additionally, measures such as requirements to disclose information about food reserves can promote transparency and balance in the food market, while imposing a windfall tax on excessive profits may help alleviate rising food prices.

Regulatory reforms in the global agriculture sector amid rising prices and economic volatility

Multinational corporations in the global agriculture sector significantly impact food security due to their extensive market knowledge and ties to the financial system. Experiences from the 2008 financial crisis have led to international regulatory initiatives to limit volatile food and oil prices and increase transparency. This has been further evidenced in the governance evolution in the EU and the US, with reforms aimed at controlling commodity market speculation and boosting corporate accountability. Discussions about increased regulation and supervision have heightened due to rising food prices and profits amid the COVID-19 pandemic and Russia's war on Ukraine, with key issues revolving around transparency and accountability.

Potential for monitoring transparency and accountability

The high concentration in the agri-commodity market necessitates a systematic regulatory approach. The soaring food and input prices, and their significant impact on low-and middle-income countries coupled with the inability of farmers to benefit from rising food prices due to escalating input costs, underscore the need for a deeper understanding of market dynamics and the roles of speculation and hedging. The study has highlighted the possibility of enhancing transparency and accountability in the sector by implementing the following recommendations:

- Increase the transparency of physical commodity markets by:
 - Strengthening reporting requirements to the EC dashboard system on EU agricultural markets and introducing reliability estimates.
 - Enhancing cooperation on the international level to improve the supervision of physical agri-commodity markets.
- Improve disclosure requirements of financial risks in the derivatives trading by all traders by:

- Fostering agreements on the international level to limit the financial risks taken through trading in agri-commodity derivatives.
- Introducing new reporting obligations for agri-commodity traders in the review of the Markets in Financial Instruments Directive and Regulation (MiFID II/MiFIR) to disclose how much of their derivatives trading is strictly hedging and how much speculative trading.
- Ensure the integrity of derivatives markets and orderly pricing by:
 - Preparing legislative proposals for improvement during the next review of MiFID and MiFIR regarding, in particular, the position limits regime, the position management controls, and the transparency on trading strategies used by non-financial and financial participants.
 - Ensuring that the European Security and Markets Authority (ESMA) has sufficient data and resources to effectively monitor the trading of agri-commodity derivatives, on and off exchanges.
- Investigate and regulate market concentration by:
 - Initiating an in-depth investigation of the status and impacts of market concentration at different stages of the agri-food sector.
 - Calling 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.
 - Repeating the call for an expansion of the ordinary legislative procedure to include the EP in competition law reviews and development.
 - Initiating research into the potential for a windfall tax on excessive profits in the agri-food sector.

Further information

This executive summary is available in the following languages: English, French, German, Italian and Spanish. The study, which is available in English, and the summaries can be downloaded at: <https://bit.ly/4fJIBb1>

More information on Policy Department research for AGRI:

<https://research4committees.blog/agri/>

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