Trade and Development Report 2023:

Growth, Debt and Climate: Realigning the Global Financial Architecture

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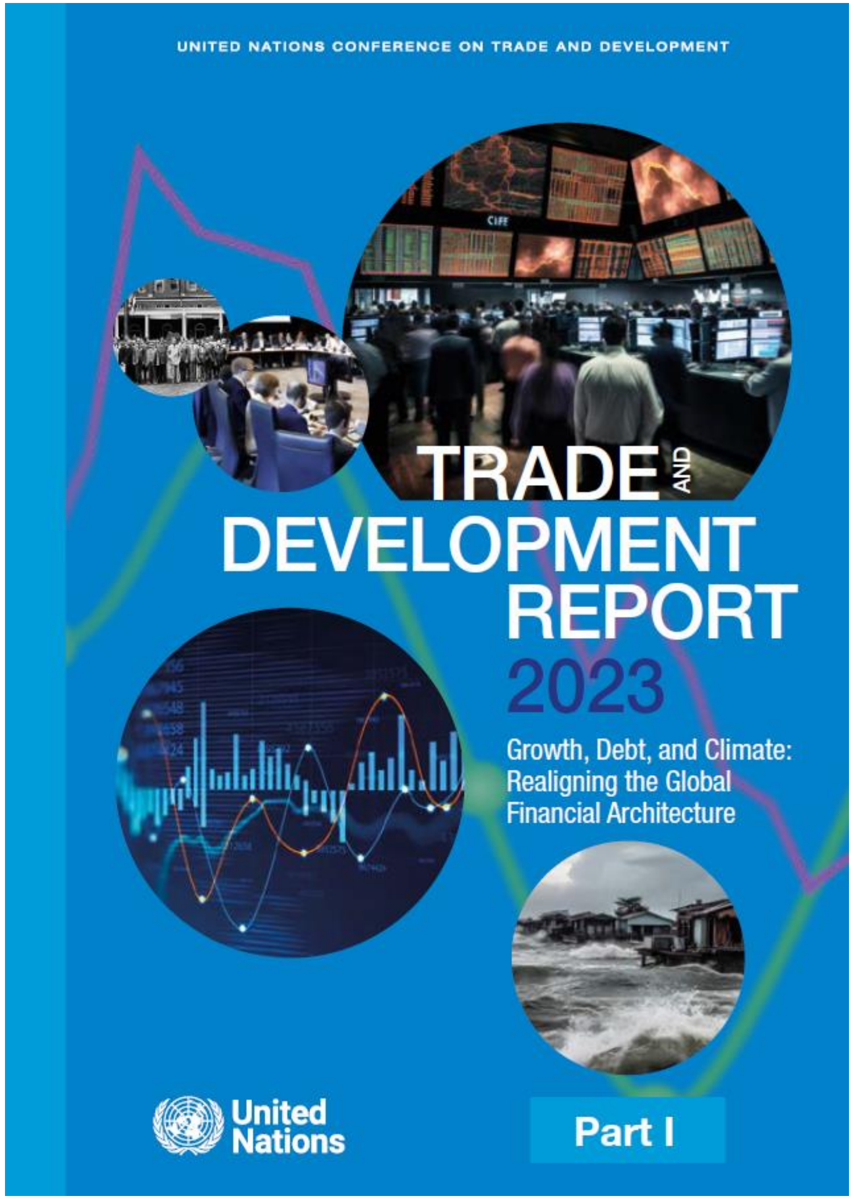


International Financial Architecture

- IFA – an offspring of crises, is being tested by the current cycle of compound shocks and crises.

- Across trade, sovereign debt and climate, the scope of the International Financial Architecture (an offspring of several crises and most recently, of 2008 crisis), is now too small.

- The scope and mechanisms of the IFA need to be adjusted and scaled up to reflect and accommodate the needs of the developing countries, including their diversity, and priority of sustainable growth in the era of climate change.

UNCTAD: a systemic approach to the IFA

- Earning foreign exchange through exports requires access to developed country markets and policy space at the national level to support the creation of competitive industries.

- Both these conditions are increasingly difficult to meet in the current framework of international trade and finance.

- Unequal gains from trade, market concentration and growing debt servicing burdens imperil many developing countries' social and financial sustainability.

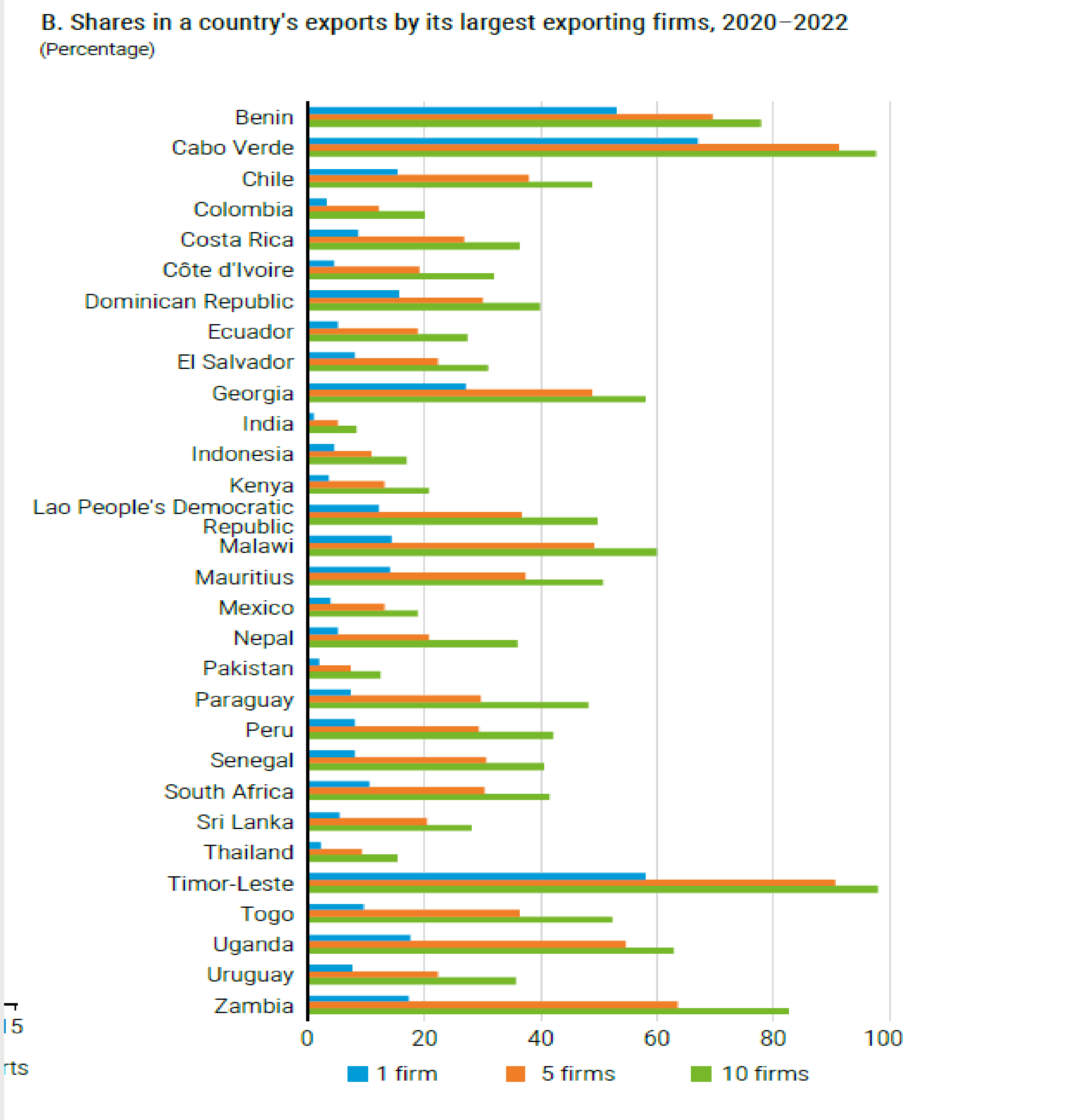
- A balanced policy response at the multilateral level should include reforms to the debt ecosystem, and revisions to existing trade agreements to create policy space for countries to redesign their production, consumption and trading profiles to face contemporary global challenges.

- Just transition requires divestment from fossil fuels and delivery of previously pledged funding. **Annual investment needs for green transition are less than 1% of total global financial assets (around $4 trillion).**

Concentration of commodity exports

Within each country, the top 1-per cent largest exporting firms altogether received between 40–90 per cent of the total export revenues of the entire country.

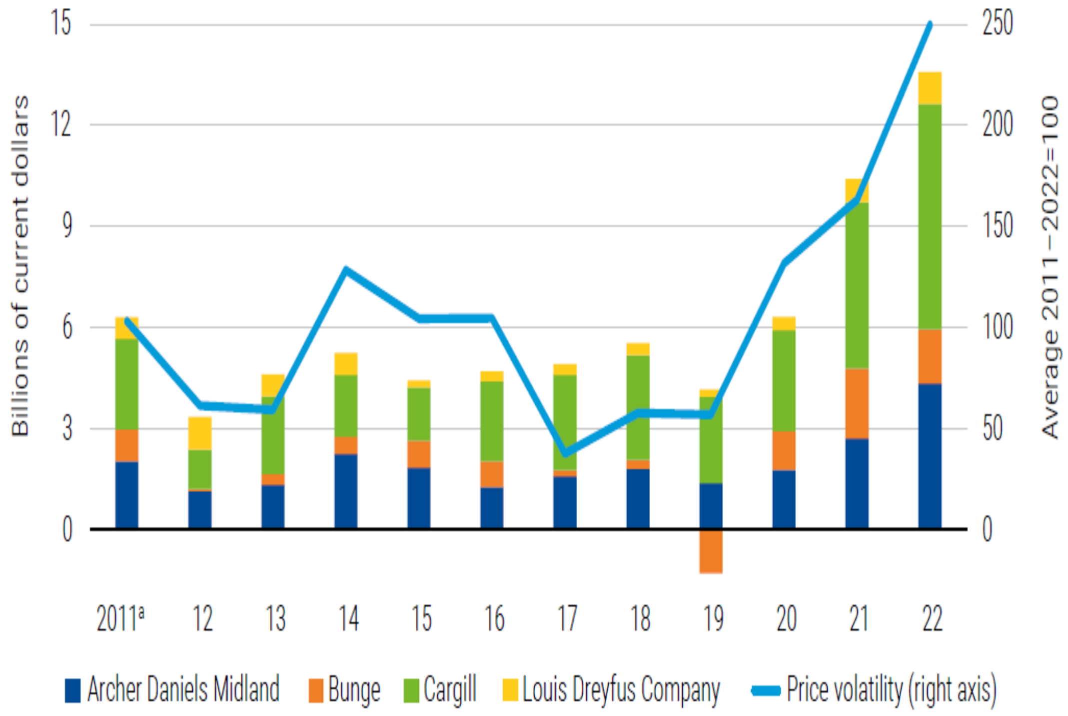
One firm often accounts for > 50 per cent of country's exports.



Global Food Trading: Concentration of Control and Financialization of the Sector

Figure III.4 Profits of the "ABCD" food companies surge during periods of price volatility

Profits of selected large agricultural trading firms and food price volatility

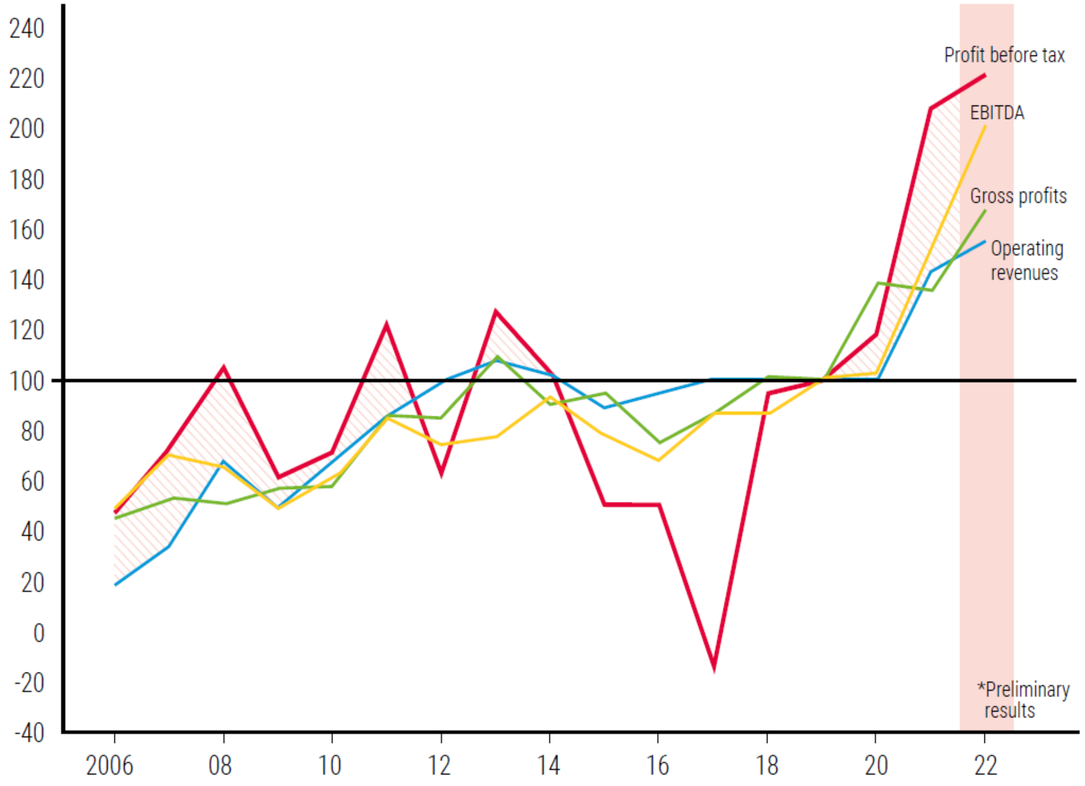


Source: UNCTAD calculations based on FAO *Real Food Price Index*, Blas and Farchy (2021: Appendix ii), Eikon Refinitiv, and Louis Dreyfus Commodities' Financial Results Reports (various issues).

Figure III.6 Financial operations drive profit growth in the food trading sector

Median food traders' profits and revenues

(Index numbers, 2019=100)



Source: UNCTAD calculations based on Orbis database.

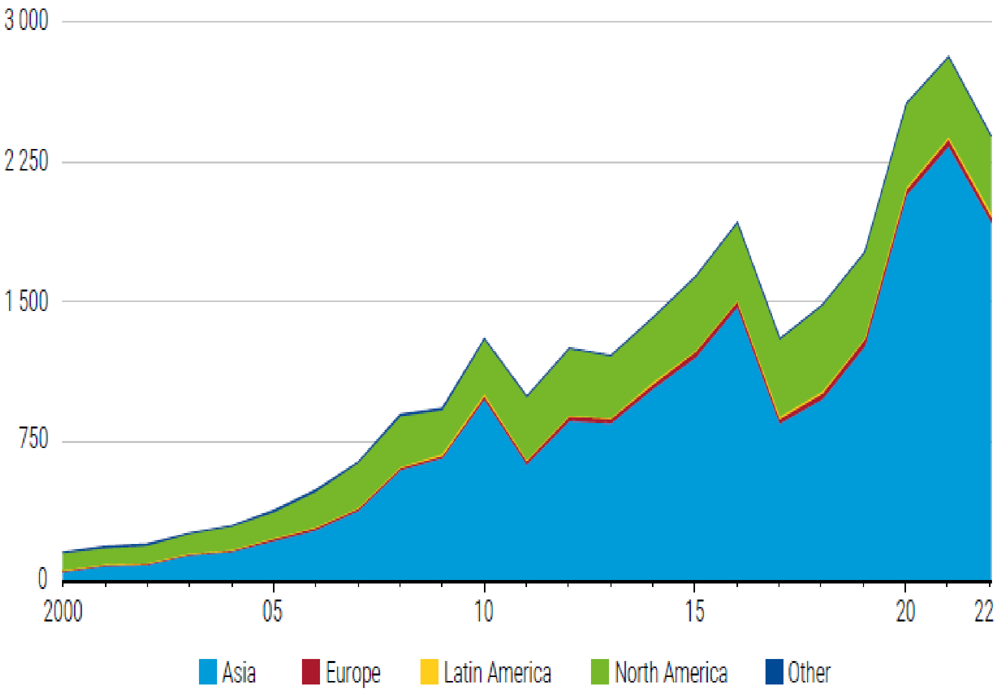
Note: Based on available corporate data from Akira Holding, Andersons, Archer Daniels Midland, Bunge, Cargill, CGB Enterprises, CHS, CMOC Group, COFCO International, Glencore, GrainCorp, OFI Group, Noble Group, Scoular and Wilmar International.

Commodity derivatives: large, opaque and unregulated

Figure III.3 Most exchange-traded agriculture derivatives are traded in Asia and North America

Volume, by region

(Number of contracts, millions)



Source: UNCTAD calculations based upon FIA ETD Tracker database.

Note: Derivative contracts include futures and options.

Outstanding OTC commodity derivatives: 4-fold increase compared to 2015-20 ($486 billion in 2022).

Notional principal values of these outstanding derivatives was > $1.5 trillion at the end of 2022, its second highest since records began, after reaching an all-time-high of more than $2 trillion in mid-2022 (BIS, 2023).

Table III.1 Global food trading companies: Number of subsidiaries

Global ultimate owner	Number of subsidiaries
Glencore	877
Archer Daniels Midland	825
Cargill	780
COFCO International	734
Wilmar International	619
CHS	353
Bunge	352
OFI Group (includes Olam)	207
Akira Holding (includes Louis Dreyfus Corporation)	187
Andersons	150
CMOC Group	100
GrainCorp	60
Noble Group	56
CGB Enterprises	46
Scoular	20

Source: UNCTAD calculations based on Orbis database.

IFA: Loopholes and Loopholing

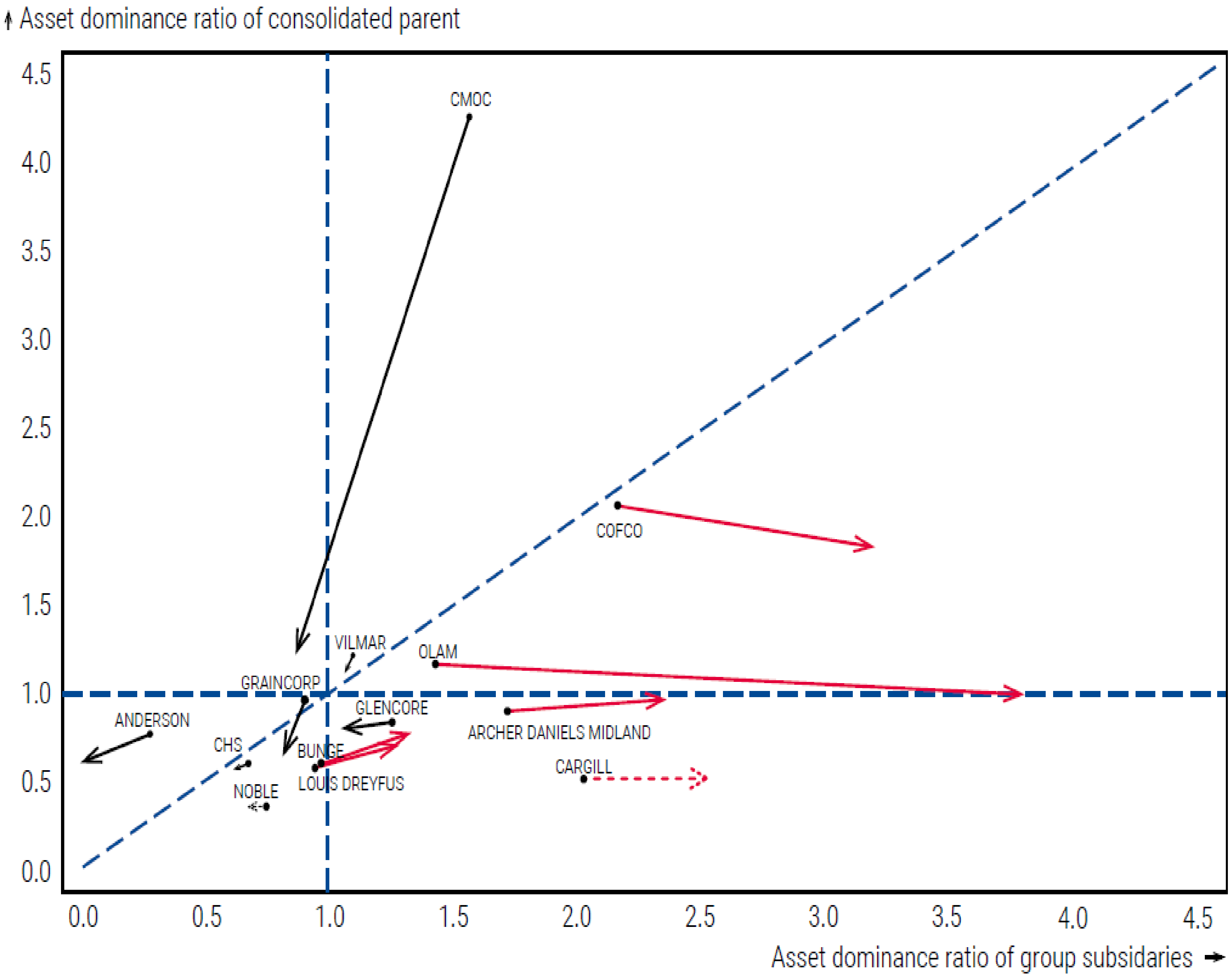
Only 8 out of 15 main food trading companies examined are publicly traded and required to publish consolidated accounts.

The majority of food trading companies are not regulated as financial institutions but are treated as manufacturing companies.

But the largest of them have transformed into unregulated shadow banks

The change in asset dominance ratio between the consolidated parent and group subsidiaries in the food trading industry, 2014–2018 versus 2019–2022.

This raises financial stability, revenue mobilization and cross-sector concentration risks



Source: UNCTAD calculations based on Orbis database.

Policy lessons for International Financial Architecture

Market-level reform: close loopholes, facilitate transparency. Isolated anti-trust measures cannot address growing cross-sector control and connections.

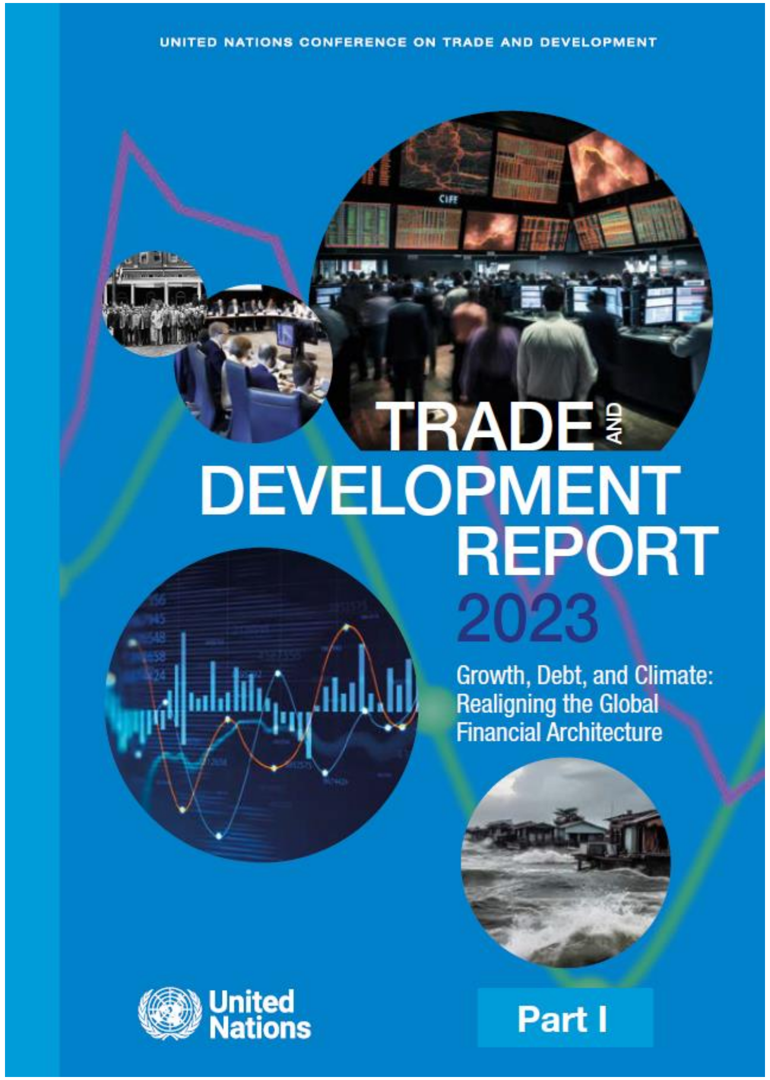
2. Systemic-level reform: **recognize aspects of food traders' activities as financial institutions** and extend relevant regulations. Post-2008 banking regulations contain some relevant measures.

3. Global governance-level reform: extend monitoring and regulations **to the level of corporate subsidiaries in the sector** to address the problem of unregulated profits, enhance transparency and curb the risks of illicit financial flows.

Please follow:

- *Trade and Development Report, 2023:*

- https://unctad.org/publication/trade-and-development-report-2023



Intra-company financial operations

- By using a series of subsidiaries located in appropriate jurisdictions, food monopolies have found a way to combine several advantages:

- a superior knowledge of the agricultural commodities markets (real-time supply and demand and prospective knowledge of their evolution);
- **an ability to store agricultural commodities to harness price surges when they occur, ABCD have invested heavily in infrastructure for storage and built significant grain reserves; but with no obligation to disclose their grain stocks;**
- secrecy of their operations and the benefit from derogations to the rules applicable to pure financial actors. ABCD have all legally structured their operations using hundreds of subsidiaries incorporated to take advantage of the various menus of regulations (or lack thereof) offered by the different jurisdictions, including secrecy jurisdictions, around the world (table III.1).

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