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In the free market systems of the developed countries, and in developing countries, capital markets play a key role in agricultural activities; capital allocation is a determinant of production capacities, but it also provides an endorsement of production through prices, thanks to the financialisation of markets. For this new *Cahier Demeter*, the topic of “*Agriculture and finance: how to regulate in order to optimise capital allocation in production and agricultural markets?*” has been selected to analyse the general relationship of agriculture with the financial sphere.

In this context, the *Cahier* explores the specific dynamics of the two aspects of agriculture’s relationships with capital markets, for the dynamics provide an explanation of the evolution of production, domestically or internationally and, on the other hand, suggest proactive actions to address the challenges raised by population and climate changes pose the actors of world agriculture:

- In what ways are the current forms of financialisation of the economy determining for the future of agriculture and all the activities that rely on it?
- How can the detrimental effects of an insufficiently controlled financialisation be corrected?
- What lessons can be drawn from this, in terms of agricultural policies, economic and financial policies, international trade policies and development policies?

Each of the nine articles of this publication opens the doors to new ways of reflecting upon the links that exist between financial reform and the need to regulate agricultural commodity markets in future agricultural policies. Similarly, market financialisation calls for a readjustment of investments, between the market financial economy and the productive agricultural economy.

The ambition of this *Cahier* is to provide answers to the questions confronting professionals in the agricultural and food sectors, teachers and their students (the future actors of the agricultural economy), opinion leaders, policy-makers and all those which have a stake in the future of agriculture and the food processing industry. Its ambition is also to make sure that every reader can contribute to the general debate triggered by the trauma of the financial crisis that, since 2008, has played a role in revealing the new relationships of agriculture with the financial sphere and whose effects are still being felt in the world economy!

Similar to *Demeter – Agricultural Economy and Strategies*, the 20<sup>th</sup> edition of which will be published in Autumn 2013, *Cahiers Demeter* are authored by experts who put their names at the bottom of their articles. These publications therefore do not express the CLUB’s public views. Their aim is simply to offer an overview, but one that is backed by sufficient research to satisfy their readers’ need for clear information and to describe the main features of key topics for French agriculture and food processing industry. Their aim is also to foster a debate between the agricultural and non-agricultural worlds, about the main challenges that will shape our future.

This publication derives its original character from the personalities of the twelve authors of the nine articles, as well as from the way in which they have treated their topics. All of them are experts, individuals who carry some weight in economical life, and they are not just writing about their subjects. Each one of

them has agreed to stand back from their daily responsibilities in order to provide an analysis, taking into account the geographical, historical and economic dimensions, as necessary:

- Hence the “*lead article*” of the Cahier, under the heading *Agriculture in the hands of finance* written by Mr Bernard Valluis, who analyses the consequences for agriculture of the financialisation of the economy, looking at the economic and geopolitical aspects, reminding us of the strong relationships that exist between the evolution of economic thinking and the policies that have inspired national states and international institutions. This method makes it possible to highlight the limitations of an over-implementation of the theories and models that have created a neo-liberal doctrine, free from any challenge to its thinking. Beyond the consensus on the need to implement precise rules on financial market transparency and integrity, the author analyses the agricultural and land market mechanisms required for these markets to provide the services that are expected from them by society. What new regulations will be necessary in these areas to ensure that supply meets demand, while contributing to global food security? The possibilities explored are all part of a framework for reflection to which all stakeholders are invited to contribute in order to build an agriculture that finds its place in a world financialised economy.
- In his article on “Financing agricultural land” Mr Robert Levesque analyses the evolution, in France, of the relationships between farmland, farmers and agricultural production units, and the policies and strategies used by farming families to have the right to farm. He shows how this evolution developed over a long period—during which farm land capital and working capital by production units never stopped increasing—and how this leads us now to reflect upon the future of the relationships between landowners, farmers and production units.
- Taking a comparable historical standpoint, Mrs Catherine Migault explores “*One hundred and thirty years of financing agriculture*”. She demonstrates that access to banking finance has not always been simple for French farmers and that the current situation is the result of a long process in which the economic and social evolution of the rural world has combined with pro-active public policies. Yet she stresses that farms are constantly-adapting businesses, open to increasingly competitive markets, and that financial tools must support this trend. Her contention is supported by Mr Roger Courtinat’s article on “*Towards the financing of agricultural micro-enterprises and SMEs*”. Now that they are full-fledged businesses, farms also have increased needs and their capitalistic dimension calls for new financial responses. In this context, he explains, the relationships between banking and agriculture, banking and the public authorities, or banking and the agricultural profession are being revisited. The emergence of agricultural micro-enterprises, small- and medium-sized enterprises is one of the faces of tomorrow’s agriculture and this calls for a new approach by the banks.
- On the financialisation of agricultural markets, Messrs Michel Portier and Patrick Gentile explore “*futures markets and managing agricultural risks*”. The successive reforms of the CAP “*have opened the floodgates*” that had protected Europe from volatility in the world markets. New management tools were developed and the concept of risk has considerably evolved, forcing producers and industrialists alike to take up a new challenge: volatility, which can jeopardise the life of a business, with daily amplitudes of between 5 and more than 20 euros per ton in wheat markets.

- On the same topic, but from a broader perspective that includes acknowledging risks, Messrs Michel Lopez and Pierre-Emmanuel Lecoq are asking “Why is it important for banks that the income of agricultural businesses be secure?”. Underlining the fact that not all farms have the same exposure to economic risks and that not all farms manage risks in a similar way, they demonstrate that the main producer countries are gradually putting in place policies to help their farm holdings to improve risk management, and that new tools and services are allowing farmers to secure their income through equity and precautionary savings, through futures markets and options to cover the price risk or through crop insurance to cover climate risks.
- On the question of “Agricultural productions and their relationships with the financial sphere”, Mr Philippe Boullet offers a new analysis of how risk is acknowledged in the management strategy of farms. Economic indicators have an increasingly important place in managing an agricultural business, he explains. These new tools reflect the stakes, in this new era when business managers must mobilise both increasingly highly specialised skills and diversify their markets and risks. They must get advice, delegate some functions and make the most of what in which they are most competent. To do all this, it is essential to produce management information, to share information and more and more often to take joint decisions, all of this in real time.
- While major crops are covered by market risk management financial instruments, this is not the case for other productions: this is why Mr Yves Trégaro has selected the topic of “*Commodity price volatility and animal production financing: how can economic actors respond?*” His contention is that the term “market financialisation” does not have the same meaning in animal and plant productions. In dairy or meat productions, it covers mainly cash-flow needs. In this context, he describes possible responses in order to finance animal productions at the farm holding and/or during their processing by industry, while the high volatility of grains markets that has been observed since 2006, and the lesser intervention of the European Commission in the European market for agricultural products has made animal productions more vulnerable than in the past.
- Lastly, on the very topical issue of “How to regulate agricultural commodity derivatives markets?”, Messrs Frederick Courleux and Pierre Claquin describe how the specificities of agricultural commodities are acknowledged in the financial reform being developed at EU level. They describe the experience of the United States in this area, and its role in the international consensus that is gradually being built in terms of regulation, thus clearly putting into perspective the background and the stakes of the future EU regulatory framework. This is presented together with other possible, alternative or complementary solutions to those being discussed currently at EU level. They conclude by mentioning various aspects that advocate for closer coordination between agricultural market regulation and the regulation of its related derivatives markets.

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