



Towards a financial market providing an
economical framework for the EU
combined crops sector



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Who are Copa and Cogeca?

Copa – European farmers

Bringing together 60 EU farmers' organisations

Cogeca – European agri-cooperatives

Bringing together 35 EU agricultural cooperative organisations

Who are Copa and Cogeca?

Two organisations...

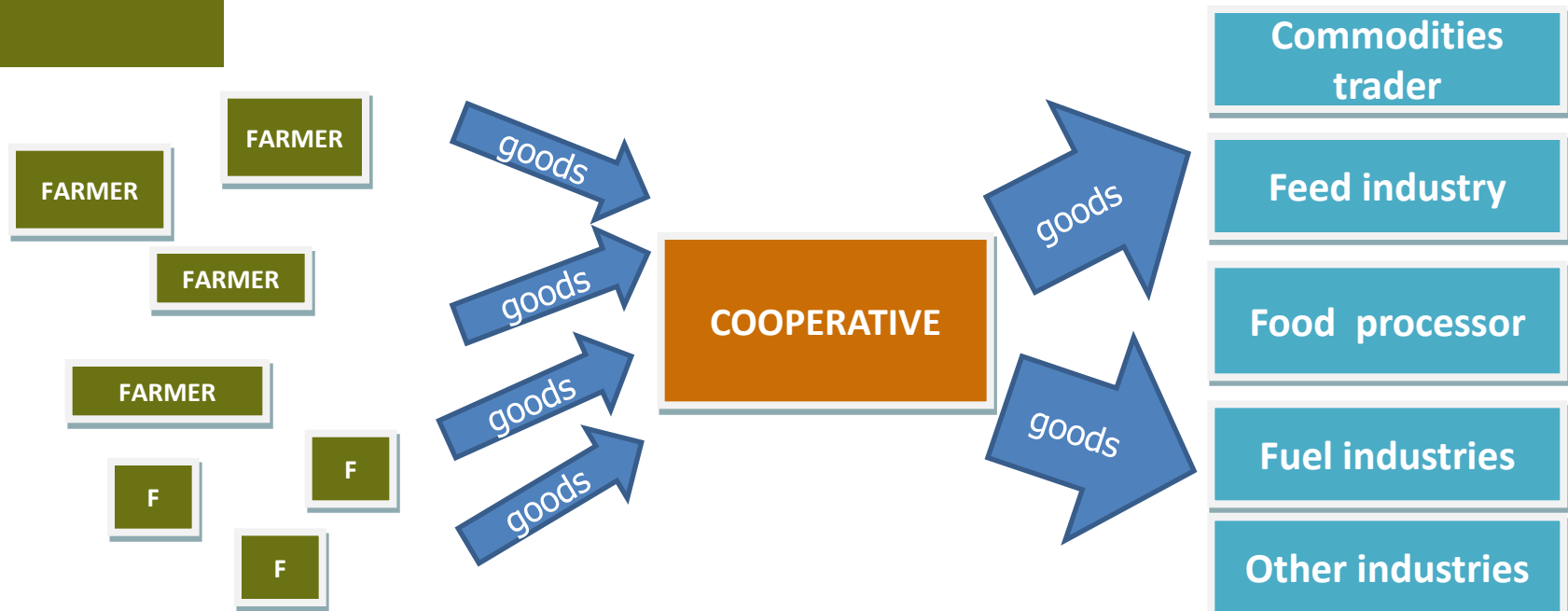
- representing 30 million farmers and their families
- as well as around 40,000 cooperatives
- with strong links to other European countries

Market share of agri-ccops in cereals

- cooperatives collect:
 - 74% of cereals produced in France;
 - 50% in Germany;
 - 28% in Italy,
 - 35% in Spain,
 - 12% in Hungary,
 - 7% in Poland...
- There is a more of Primary (57%) than secondary cooperatives (agri-food activities);
- There is a growing number of transnational cooperatives (they contract with farmers, buy their products or sell them inputs , they have a membership relationship with those supplying or purchasing farmers in various MS).

Cooperatives : a link between farmers and users of agricultural products

Cooperatives' aim is to collect products, to sort and prepare them for to the different users, to store and deliver them to customers. They do it in order to provide the best price possible to farmers.



Cooperatives rarely buy products from farmers at the same time as they sell them to customers. Their activities are more complex than a « back to back business ». Cooperatives are exposed to price volatility. That's why they need to use financial instruments, and why they have been using it more and more since the rise in volatility in the grain sector (2007)

The relationship between farmers and their cooperatives

Cooperatives have different kinds of relations with farmers which could be separated in two categories:

- 1. « the price established by the cooperative along the campaign ».** The purpose of cooperatives is to sell the goods all along the campaign (a period of 12 to 18 months) in order to provide the best income as possible to the farmer.
 - A real challenge in the context of volatility, because cooperatives have the obligation to guarantee/provide a minimum price to the farmer, while keeping the ability to catch any price increase.
 - Cooperatives sell on the physical market in response to user demand. They use financial instruments (futures and options) to hedge their commitments to the producers.
- 2. « price of the day » or « firm price » or « fixed price ».** The purpose of cooperatives is to offer the best price on the market every day and the farmer decides if he sells or not.
 - Because of volatility (higher than the margin), cooperatives have to buy and sell at the same time (back to back). If it's not possible on the physical market, cooperatives use the financial market = this is HEDGING.
 - Because of volatility, it's more and more difficult to find a buyer when you want to sell and to find a seller when you want to buy! Financial markets create an opportunity to get the price you want when you want.

Some cooperatives mix the two systems, some choose only one

The relationship between farmers and their cooperatives

Farmers increasingly hedge their production price risk. A minority of them do it directly with a financial partner, a majority do it with their cooperatives

FARMER

goods

COOPERATIVE

1 - «campaign price »

2 - « fixed price »

Classical goods contract

Contract of goods where the price is **set by reference** to the futures market.

- the number of these contracts is increasing because farmers want more transparency and predictability

-some contract are very simple, some are more complex

What is at stake ?

1) Do we need an exemption to establish this kind of contract ? If yes, how can the notion of *ancillary activity* be defined ?

2) According to us these contracts between coops and farmers **are not Financial OTC** because **goods are physically delivered for COMMERCIAL PURPOSES**

The relationship between the cooperative and different users

COOPERATIVE

goods

CUSTOMERS

Financial Instrument =
HEDGE

INVESTMENT
FIRMS &
BANKS

Hedging is becoming systematic – In France more than 95% of rapeseed contracts and a constantly increasing number of wheat transactions is hedged with financial instruments. For some cooperatives, it's 100% of their rapeseed and wheat contracts.

The result of the hedge position (which could be a profit or a loss) is completely **included in the result of the main activity** of the cooperative.

What is at stake ?

- 1) Hedging is becoming systematic and is a necessity for the company to survive in a volatile market. It's very important for cooperatives, as stated in the MIFID II project, that hedging activities **are excluded from the appreciation of ancillary activity**.
- 2) We need to make sure that **“financial activities”** (trading of financial instruments with the aim to benefit from volatility and not to reduce the risk of a commodity) are not confused with **“hedging activities”** (using financial instrument **to reduce the risk linked to the price volatility of our commodity**).

Cooperatives need efficient financial markets

LIQUIDITY : When you want to hedge your production, you need to find the equivalent quantity at the same time in the financial market. The more volatile the price, the more liquidity you need. You need to be able to take and to cancel a position at the same time you do it on the physical market.

→ **Investors are useful to share the risk with professionals and to give liquidity.**

For example : the malting barley market is not liquid enough ; wheat and rapeseed are just enough liquid.

CONVERGENCE : Before using a derivatives you check that this tool enables you **to reduce the risk** you are exposed to. This is possible only if the price of the derivatives market and the price of the product are correlated.

→ When the impact of the investors is too high, the physical market and the derivatives market could progress in different direction which is problematic for hedgers.

What is at stake ?

1) For the efficacy of hedge strategy : cooperatives need to have liquidity on the financial market and need a good correlation between physical and financial market (convergence).

MATIF activities in 2012

Contrats: 50 tonnes

Wheat : 5 687 888 contrats or 285 MT

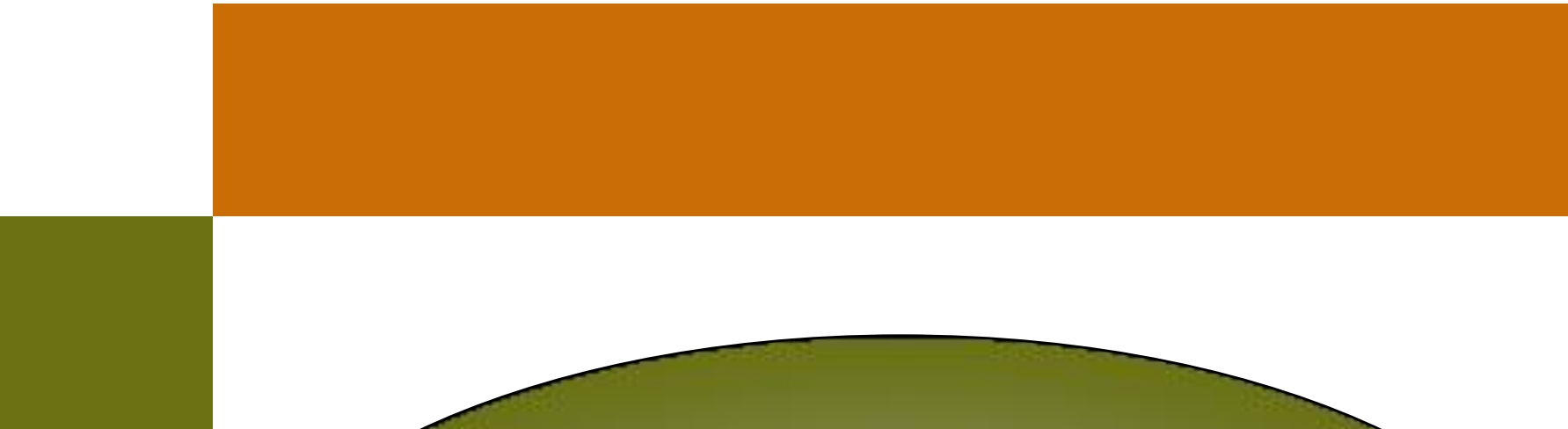
OPTIONS : 1 298 748 contrats

Rapeseed : 1 908 310 contrats or 96 MT

OPTIONS : 408 554 contrats

Corn : 402 397 contrats or 20 MT

OPTIONS : 43 794



Thank you!
www.copa-cogeca.eu