



Impact of geopolitical situation on the commodities market and subsequent risk aggravation

F Levesque

flevesque@cl-surveys.com

CL Surveys CEO



#IUMI2024 X



Commodities

Evolution or/and REvolution...

Through some historical facts...



- **Roman invasions** were dictated by the **availability of commodities**: example : Gaul (France) and Noricum (Austria) for **mines and grain**, Egypt for **gold and wheat**, North Spain for **gold and iron...**
- **Nazi invasion plan for the Second World War** was also oriented to monopolize various raw material basins (Austria, Hungary and the southern USSR for **minerals and oil**, Poland and the black lands of the southern USSR for **grain**, etc.)
- Most **revolutions** have been triggered by **famines** (the French revolution following several consecutive years of poor harvests), more recently the Arab revolution (following the increase in the price of wheat, flour and therefore bread), etc.
- **England's predominance** in the **industrial revolution** of the 19th century can be traced back to **coal mining**. This is how Jules Verne came to call England 'the Black Indies', also in view of the power that the colonies provided the British Kingdom with access to numerous commodities.



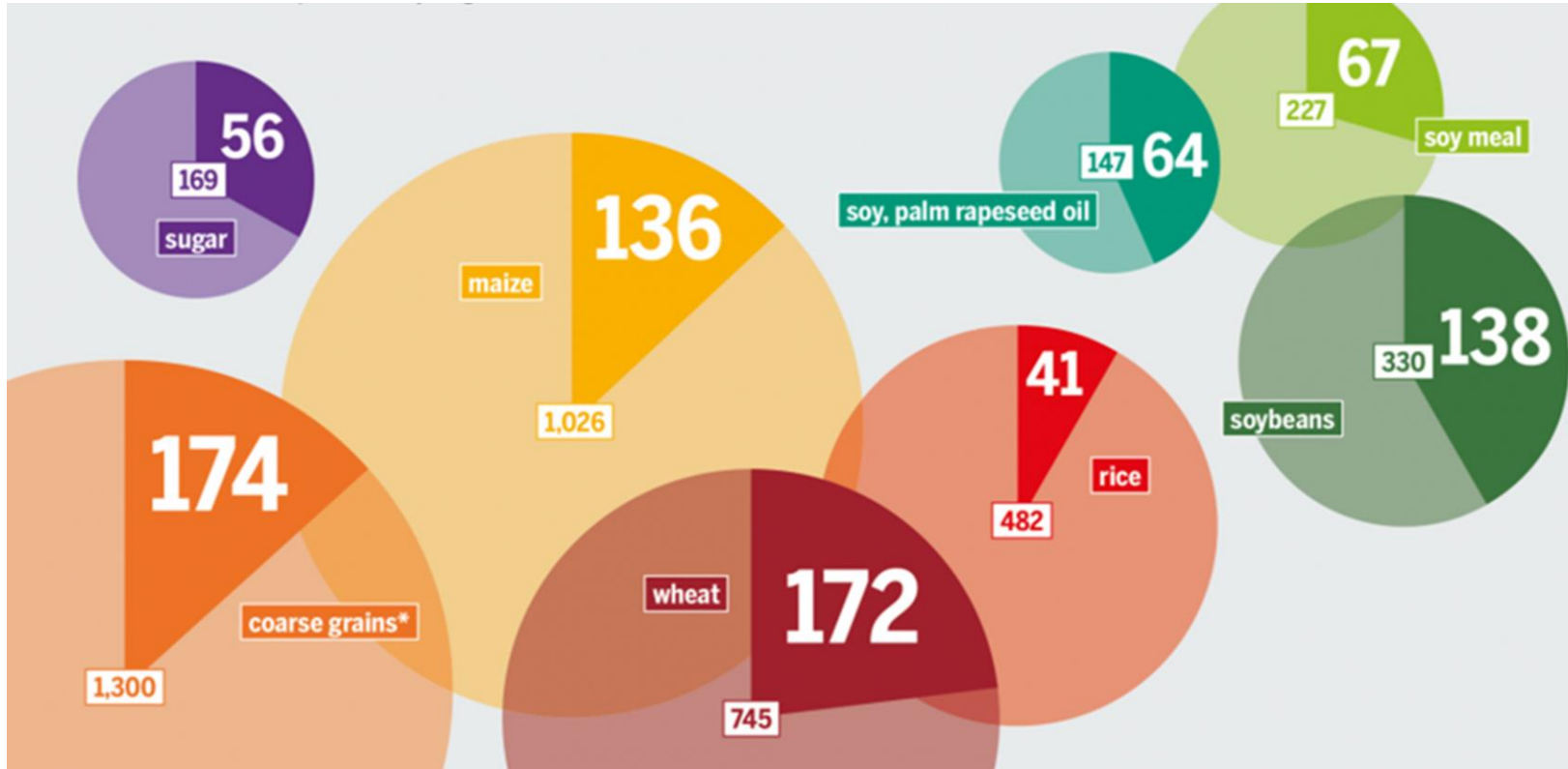
„Commodities“

**Concentration, influence
&
power...**

Actual situation...

- **Few countries are feeding the planet** (also concerning hard commod. production)
 - **The top five rice exporting countries** (India, Thailand, Vietnam, Pakistan and the United States of America) are **exceeding 70% of the global trade**
 - **Two countries** (Brazil and USA) are **exporting more than 90% of the soya beans** in the world
 - **Four countries** (USA, India, Russia, Canada) account for **80% of the world's fertiliser production** (250 million tons yearly) and **Russia alone has more than 20% of the world's fertilizer export capacity... These countries have the power to starve the world...**
 - **11 BRICS countries** (also recently called OCEC for Organization of Commodities Exporting Countries) are **concentrating world production of most of essential's commodities** (83% of Platine, 77% of Aluminium, 77% of Paladium, 72% of Titane, 59% of Soya, 50% of Iron, 48% of Chrome, 47% of Gas, 45% of meat, 43% of Petrol, 41% of Cereals, etc.)

- Few Commodities are feeding the planet



TOP 20 SOFT COMMODITIES : EXPORT
originating or processed from agricultural crops

RANK

1	Wheat
2	Maize
3	Soybeans
4	Cake soybeans
5	Oil, palm
6	Rice-total (rice milled equivalent)
7	Sugar raw (centrifugal)
8	Barley
9	Sugar refined
10	Bananas
11	Rapeseed
12	Flour, wheat
13	Barley (for malt)
14	Potatoes
15	Wine
16	Oil soybean
17	Cake rapeseed
18	Apples
19	Cotton lint
20	Rubber natural dry

World production (circle) versus exports (triangle) in yearly Mt

- Few companies are feeding the planet



The big five ...

(agricultural trading companies)

CARGILL, ADM, LOUIS DREYFUS COMPANY, BUNGE and COFCO

About 400 **billion USD revenues** (+15% compared to 2015) for net profits of about USD 15 billion.

About a third of the global soft commodities world trade



Commodities

The illogical equation

Increasing protectionism
=
Increasing trade

TRADE RESTRICTING FACTORS (POLITICAL)

Increasing food safety & environmental protection rules

- **Pesticides and fertilizers restriction** : affecting production and storage/transport
- **Water use restriction**
- **Increasing food safety rules**

Increasing trade restriction versus security stocks

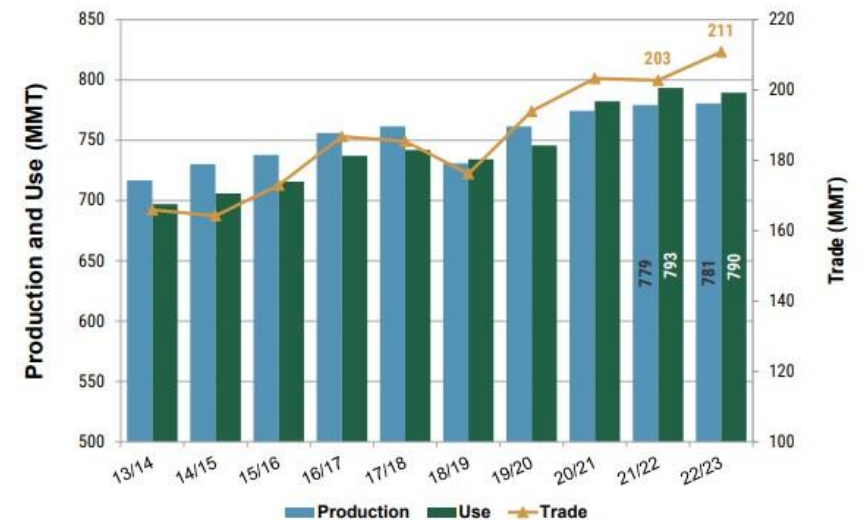
- **Social stability** : security stocks

The illogical equation

Example of the wheat...

- 5 “countries” are concentrating 60% of the world production
- Despite **stable production over the last 4 years**, the **trade keep on increasing** as **consumption areas are moving further and further away from production areas** (geographic factor and demographic pressure)

World Wheat Production, Use and Trade



„Commodities“

Concentration

Example of the Ukrain war

(among many others such Trump trade war with China in 2018, Red sea crisis,...)

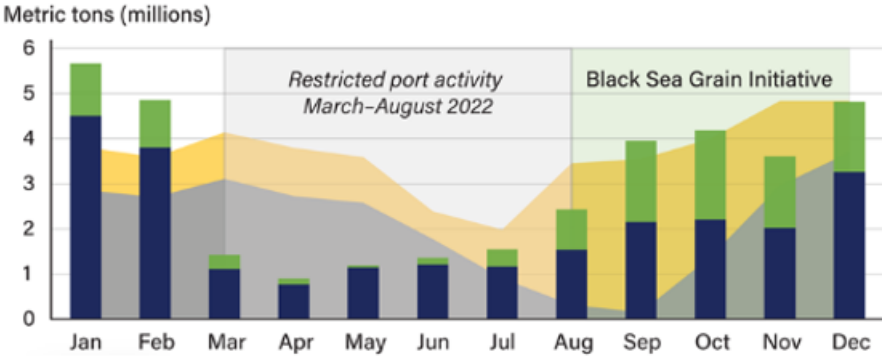


A world of increasing tension

- Limiting the trade become a factor of instability and volatility

On 24th February 2022 : **Russia launched assault on Ukrain.**

- **About 80 vessels were blocked** in various port of Azov sea and Black sea.
- **Before war, Ukrain was exporting from 4 to 7 millions tons a month.** It **abruptly reduced to few hundreds' tons** (170 mt in March, 510 mt in April, 749 mt in May,...) for some month the time to find grain export alternatives routes and to set up the corridor agreement.
- new crop arrived in the meantime and storage capacity were limited : **20 millions tons were blocked in the country (from which 5 millions tons in ports)** on top of which came about **additional 65 millions tons** from new crop with a total **storage capacity of about 35 millions ton inland and 5 millions tons in ports.** Consequences : long storage time and storage tension.



longer storage time which lead to major casualties, mostly for maize blocked on d the vessels (some vessels are still blocked at the time being in Nikolaev port)

High world price volatility (example wheat)



„Commodities“

What next ?

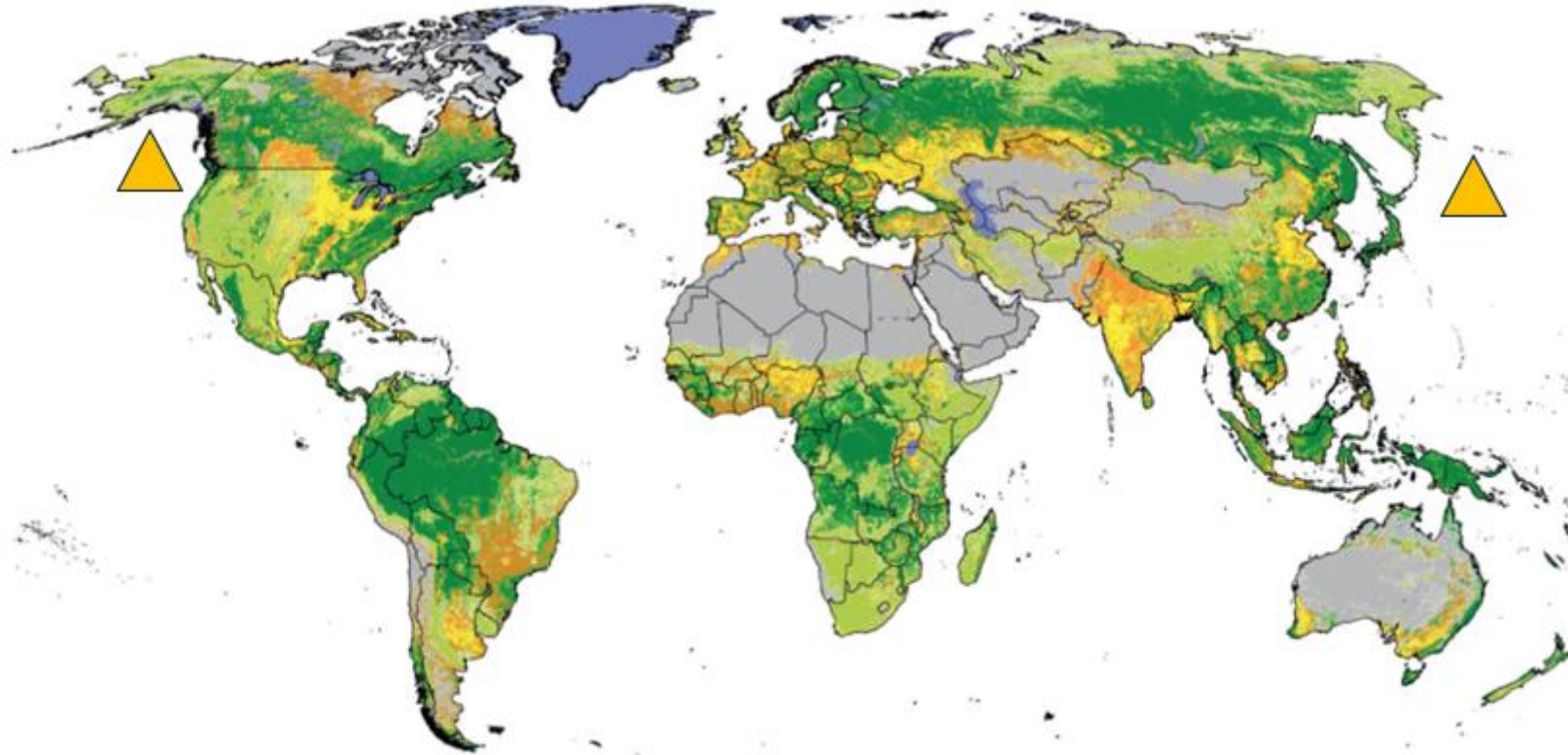
the ‘snowball effect’ ...



Some key facts

- **29.1% of the Earth's surface** is over water,
- **75%** of this surface is already **used by humans**,
- **Freshwater represents 3% of the world's water** resources, **70% of which is already used for agriculture...**
- **In 1961, there were 0.45 hectares needed to feed one person.**
- **In 2011, there are only 0.20 hectares needed** (due to scientific evolution)
- **In 2018, there were 1,386 million hectares of arable land** (plus 3,400 million hectares for livestock farming out of a total of 14,900 million hectares).
- **Over the last 10 years, 5.2 million hectares of forest have been destroyed, having impact on climatic change.**
- **To feed the world's estimated population in 2050, agricultural production will have to increase by 70% worldwide, and without additional productivity, 6 million hectares** (Norway's surface area) **will have to be freed up before 2030** (forest = aggravation of climate change)...

some thoughts on climate change and “geo-evolution”



Arable areas due to pedoclimatic factors: yellow/orange are actual production areas and dark green are actual forest



Transfer of production areas

THE GEOGRAPHICAL BALANCE WILL BE UPSET BY GLOBAL WARMING ...

CANADA

28% of the potential for extending agricultural land by the end of the century > 4.2 million additional km².

RUSSIA

Russia, already dominant in wheat exports, will become the alpha and omega of grain production, particularly cereals > 4.3 million additional km². Russia will become the key feeding country of the planet...

OTHERS

Maintaining, adapting, decreasing, except for a few specific areas that will be able to colonize higher ground (e.g. New Zealand).



“GEO” SHALL LEAD “POLITICAL”...

The climactic change will have an heavy impact as concentrating the keys production capacities of critical commodities in few countries

We can bet that this shall aggravate the “geopolitical tension” : **the “green bomb” might be a much more efficient weapon in the future** than any other actual war system : politically more latent and odorless...

The commodities trade will definitely increase and more and more become a factor of power as it should concentrate more and more... **Trade and transport risk will massify ... and increase...**

Who will be in position to afford embargo in such situation...?