

# How pervasive is the global farmland rush

Finance, land values & the instability of land investment

Paper presented at  
**LANDac International Conference on Land Governance for Equitable and Sustainable Development**  
9 July 2015, Utrecht, The Netherlands  
Session: Understanding the role of finance in farmland acquisitions

Oane Visser (ISS)

[visser@iss.nl](mailto:visser@iss.nl)



# Introduction



- ▶ Land rush research focuses on magnitude, general drivers or impact & resistance
- ▶ Fundamental assumptions haven't been questioned:
- ▶ **Land** is scarce, therefore land values will rise, consequently farmland investment is a profitable business.
- ▶ **Food** becomes scarce, food prices rise, agriculture will be profitable.
- ▶ Those 2 'trends' & 'market fundamentals' in place, historical records etc. -> farmland investment low risk
- ▶ Aim: Critical examination of these assumptions

# Introduction (2)



- ▶ financialisation in farmland, commoditization of land (or ‘resource’ & asset making)
- ▶ often referred to, but hardly studied empirically itself
- ▶ General view: rapid, pervasive, or ‘aggressive’ process of commoditization of a global scope.
- ▶ Questioned based on studies on ‘resource making’ (Richardson & Weskalnys 2013) & ‘asset making’
- ▶ examination of global investor discourse/actions

# Commoditisation & Resource making



- ▶ Not a one-way process (e.g. Appadurai)
- ▶ a human process (Zimmerman), BUT materiality sets limits (Barry 2005, R & W 2013)!
- ▶ a multi-step process
- ▶ process of abstraction (separation, reduction, standardisation)
- ▶ on material & conceptual levels (concept 'land')
- ▶ thus natural resource is 'an *assemblage* of materialities, relations, technologies & discourses' (Li 2012)

# Asset making



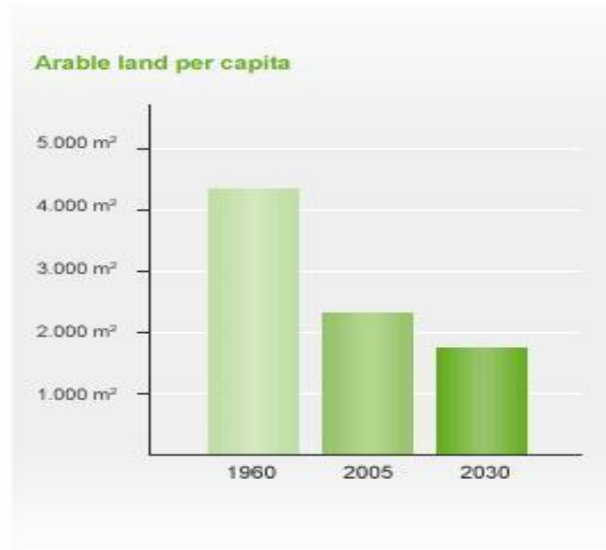
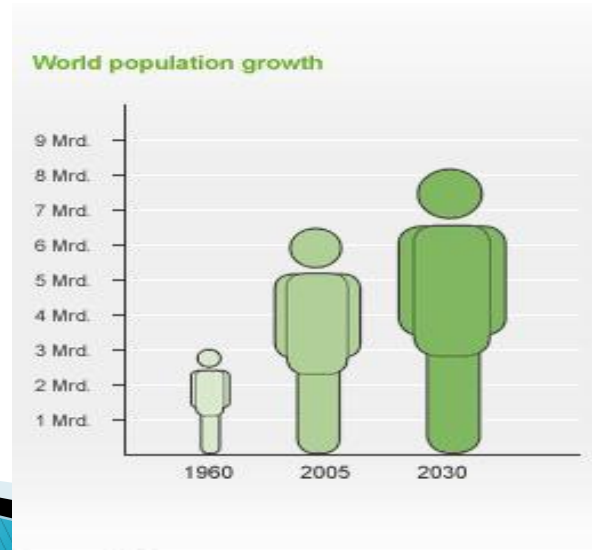
- ▶ ‘Advanced’ commoditization, resource making
- ▶ Farmland long excluded from financialisation.
- ▶ Aspects/requirements of asset making:
  - ▶ 1) Potential for predictable profit (outperforming others)
    - – baseline material aspects (soil, water)
    - – yield gap
  - ▶ 2) Scarcity (for land appreciation), real or perceived
  - ▶ 3) Liquidity (easy to buy, sell)
  - ▶ 4) Standardization (benchmarks, models)
  - ▶ 5) Framed as legitimate to invest in

# Farmland prices








































- ▶ A critical look at discourses and some data

# Global Investors' discourse on farmland: scarcity

- ▶ Malthusian scenario: demand, diets
- ▶ Market fundamentals (+Twain!) & urgency



# KNIGHT FRANK INTERNATIONAL FARMLAND INDEX

LOCATION		PRICE NOTES	AVERAGE PRICE/HA	PRICE CHANGE 2010	LAND VALUE RISKS**
ENGLAND		Average all land types	<b>\$22,000</b>	+13%	
ROMANIA		Price dependent on size of holding	<b>\$1,560- \$3,250</b>	0%	
POLAND		Price dependent on size of holding	<b>\$4,550- \$8,125</b>	0%	
UKRAINE		Five- to 10-year lease rights	<b>\$150- \$350</b>	0%	  
RUSSIA		Price dependent on size of holding and progress of freehold application	<b>\$300- \$1,000</b>	-10%	 
ZAMBIA		Long leasehold	<b>\$1,000- \$1,500**</b>	-	 
BRAZIL		Dryland double-cropping in Mato Grosso	<b>\$7,000</b>	+20%*	 
BRAZIL		Top sugar cane land in Sao Paulo	<b>\$12,000</b>	+24%*	 
BRAZIL		Dryland double-cropping in west Bahia	<b>\$6,000</b>	+6%*	 
BRAZIL		Native bush with high cattle potential in Para	<b>\$300</b>	+11%*	 
ARGENTINA		Northern provinces	<b>\$1,200- \$2,500</b>	+10%	 
ARGENTINA		Central provinces	<b>\$5,000- \$10,000</b>	+10%	 
CANADA		Saskatchewan province	<b>\$1,300</b>	+7%*	
AUSTRALIA		Dryland arable with reliable rainfall	<b>\$1,600- \$1,700</b>	+2%	 
NEW ZEALAND		Dairy farms	<b>\$23,000</b>	-3%	
UNITED STATES		Quality dryland in cornbelt states	<b>\$16,000</b>	+8%	

Prices are indicative and will vary widely depending on soil type, local climate and infrastructure. Price changes in local currency could vary widely from stated. \*Price change mid 2009-mid 2010. \*\*Risks exclude normal climate and commodity price fluctuations. Sources: Knight Frank Research, Knight Frank Zambia, Quotable Value, Brown & Co, AgriFrontiers, Philip Jarvis Associates, USDA, Statistics Canada, Farm Credit Canada, Hancock

POLITICAL   
 ECONOMIC   
 CLIMATE 

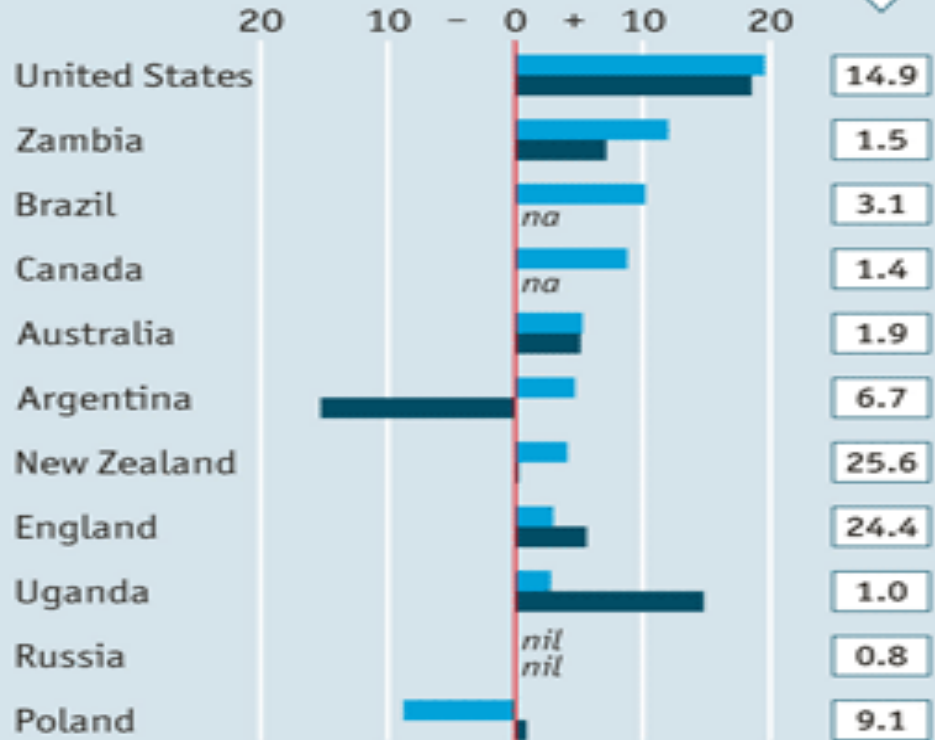


# Farmland prices

## Farmland prices

\$ terms, % change on end of previous year

■ End 2011 ■ Latest \$'000 per hectare, latest




Source: Knight Frank


# Agricultural profitability

- ▶ Africa; ‘Mounting evidence of failed land deals’ (Cotula 2012), (Ducastel & Anseeuw forthcoming), esp. Biofuel, Jatropha
- ▶ Indonesia: none of Gulf state investments materialized (Bakker & Nootboom 2014)
- ▶ Also investment which actually functioned:
  - ▶ Cases of Russia & Ukraine (Kuns)
  - ▶ CEE (e.g. Danish projects)
  - ▶ ‘Africa Invest’
  - ▶ Boom countries; Brazil (sugar), US; volatility


# Risk of farmland investments

- ▶ Idea of low risk attracts investors; ‘people will always eat’, ‘land is a simple asset’, back to the real sector etc.
  - ▶ Reality is different...
- 

# Conclusions (1)

- ▶ Land rush driven by idea of land appreciation (land banking instead of farming)
  - ▶ General assumption of rapid & ongoing land appreciation as a global, universal trend, based on increasing scarcity, is incorrect
  - ▶ Process is geographically very uneven (between & within macro-regions/countries)
  - ▶ Commoditisation not a 1-way process, but multi-step & (partly) reversible
- 

# Conclusions (2)

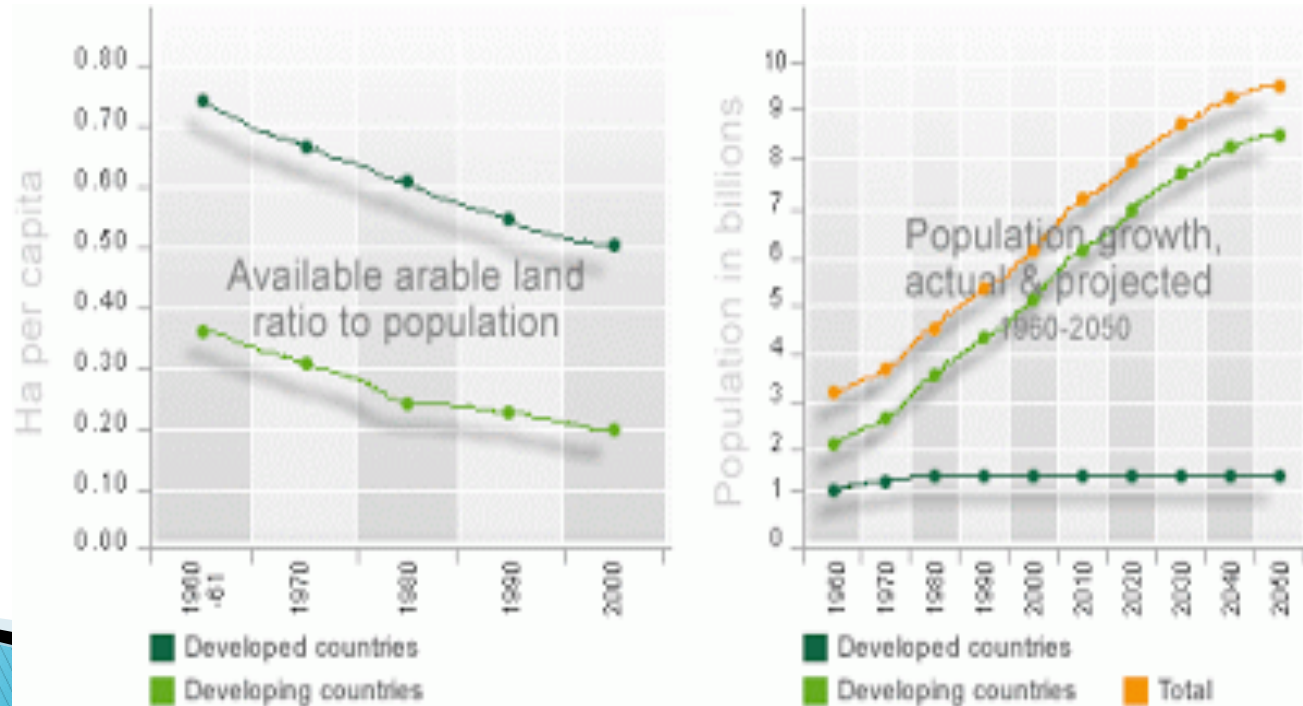
- ▶ Need to critically examine figures, graphs & data (as important elements in investor discourse)
  - ▶ Surprising fundamental similarity in the opposing discourses on commoditization among investors & opponents (NGOs, critical scholars)
- 

# Thank you for your attention


- ▶ Oane Visser
  - ▶ [visser@iss.nl](mailto:visser@iss.nl)
- 

# Global Investors' discourse on farmland: scarcity (2)

- ▶ Critique of drivers, but hardly of process

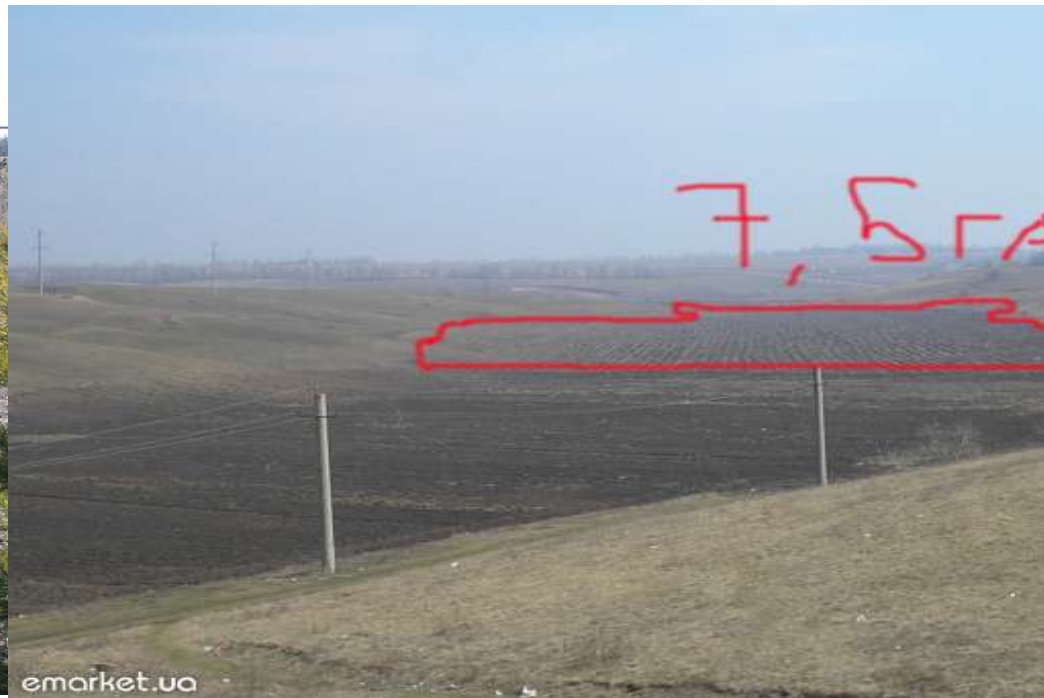


# Investors' discourse: Russia & FSU

- ▶ Large reserves of fertile but abandoned land, very low price.
  - ▶ “look at the unused farmland in our country: the potential for growth lies literally under our feet!”
  - ▶ “By the end of 2009, all the main agricultural land in Russia will be taken”
  - ▶ “It can be stressed without doubt, that their value will only increase”
- 



# Farmland for sale



# From land banking to 'real farming'



- ▶ Investors (globally & in Russia) primarily interested in land value instead of production
- ▶ low appreciation: exit or shift to real farming
- ▶ Costs: land tax, risk of losing land, interest on loans
- ▶ From 'Land Fund' to...



# Transformative approach: soil & technology



- ▶ Investors set out to increase value themselves
  - ▶ Transformative approach: closing yield gap
  - ▶ Assessment of yield increase: focus on soil
  - ▶ Black Earth: so fertile, you can't go wrong
  - ▶ Reducing 'land' (& farm investment) to 'soil'
- Soil + finance (technology & management) =  
yield increase = land appreciation
- ▶ Low productivity, profits & management

