NATIONAL FAMILY FARM COALITION

U.S. Farmland: The Next Big Land Grab? May 2012

Although land and food prices are rising in the United States, many small U.S. farmers are facing economic distress similar to peasant farmers worldwide. For some, mainly large corporate farms and landowners, this combination has meant a boon for agricultural profits. For others, however, this period of relative economic well-being masks a more menacing story. Small farmers currently face rapidly increasing cash rent prices,[i] barriers to credit,[ii] and price volatility that far outpaces historical trends. Meanwhile, investors - including banks, universities, pension funds, hedge funds and commercial agribusinesses - are adding to pressures forcing small farmers off their land. Lacking other avenues for income, many may turn to these very same investors to escape financial ruin, resulting in further consolidation within American agriculture. Without intervention, the coming years could mark the beginning of the great American land grab.

Global Land Grabs

Over the past few years, increasing attention has been paid to the issue of large scale land acquisitions. Insecure land tenure and mounting pressure to find new markets for massive capital influxes have led to volatile conditions for peasant farmers worldwide. In 2008, the problem worsened. The global financial crash, coupled with the collapse of the housing market, left investors searching for new avenues for capital. Many of them have found the answer in developing countries where financially depleted governments were willing to capitalize on loosely structured land rights for the sake of foreign investment. At the 2012 World Bank Conference on Land and Poverty, a representative from the International Monetary Fund announced that their research showed that insecure land tenure was actually a motivating factor for most investors seeking to buy land in developing countries.[iii] Otherwise known as "land-grabbing," this global phenomenon has been garnering attention from peasants and NGOs world-wide, little time or research has been done to determine the state of farmland investment in the U.S.

The international non-profit GRAIN has documented 416 large-scale land grabs that have transferred nearly 86 million acres of land in 66 countries to investors and agribusiness over the past six years alone. In one example, the Sayegh Group, based out of the United Arab Emirates, purchased 3.7 million acres in Sudan in a single deal.[iv] These large scale grabs frequently wreak havoc on local communities and peasant farmers who have organized resistance movements in many regions. In Bajo Aguan, Honduras, thousands of peasant farmers have been fighting to remain on their land after Mexican- and U.S.-backed private companies have taken over most of the arable land in the region. The resulting conflicts have left many peasants hurt or killed, including a leader of the Peasant Movement of San Manuel (MOCSAN) last month.[v]

On May 10, 2012, the international peasant movement, La Via Campesina, released a statement confirming that the rapid pace of land grabs has been escalating conflicts all over the world, with violence evictions occurring in Mali, Honduras, and Spain in the last few weeks. Noting that land grabs are "displacing millions of peasants and small-scale producers around the world," La Via Campesina is urging the United Nations to adopt the proposed Guidelines on Responsible Governance of Land, Fisheries and Forests while the Committee on World Food Security meets this week.[vi]

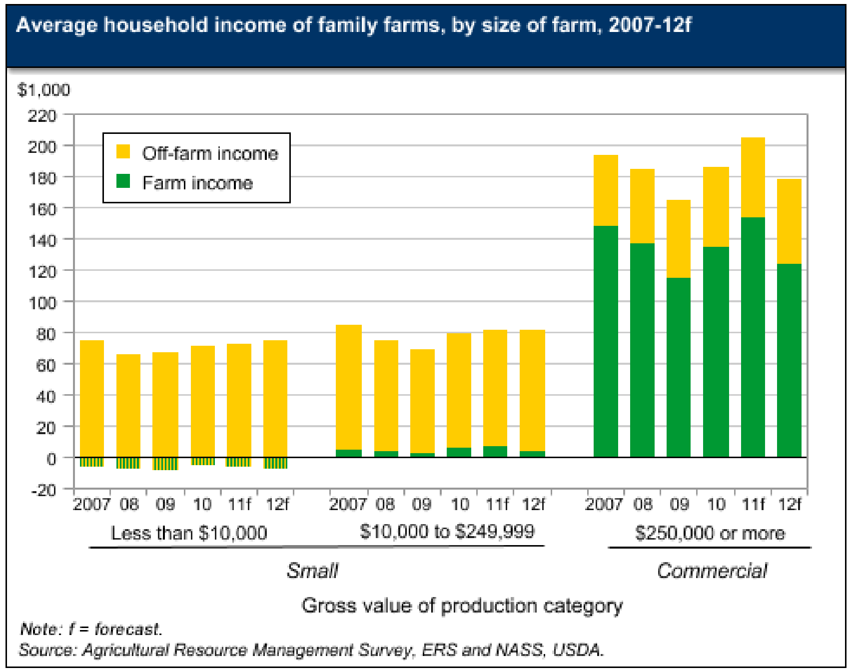
Last year, the United Nations' Special Rapporteur on the Right to Food, Olivier De Schutter, similarly announced the importance of establishing international guidelines to protect land tenure of peasant farmers from land grabbing. He noted that "The threat of 'land grabbing' has reminded us how vital access to land is for 500 million food-insecure households around the world."[vii] Without protections for peasant farmers, global land grabs will likely continue to accelerate as investors seek high-yielding investments for excess capital.

Priming U.S. Farmland for Ruin…and Investment

Barriers to Credit

Over the past few years, most Americans have felt the pinch of the economic downturn. Small farmers are no exception. A 2011 report entitled "Don't Bank On It"- issued by Farm Aid, Food and Water Watch, National Family Farm Coalition and the Rural Advancement Foundation International—USA - showed that since 2009, small farmers have been having an increasingly hard time accessing the credit needed to finance their operations,[viii] endangering them of losing their farms and livelihoods. Tightened credit markets have made farm production especially difficult for smaller farmers because they typically rely on credit for loans to pay for necessary inputs like fertilizer, seeds and livestock. For some sectors, such as dairy and pork, volatile pricing schemes coupled with poor economic conditions have left a significant portion of farmers at risk of losing their operations.

Most small farmers have turned to off-farm jobs to augment their income.[ix] The inability for small farmers to access credit not only means that many farmers lack the capital for inputs, it also creates a cycle in which farmers are unable to maintain production and fall deeper into debt as a result. Between 2009 and 2011, an increasing number of farmers were rejected for commercial loan applications because of short-term negative cash flow. A rising number of farmers are turning to Farm Service Agency (FSA) loans if they have been turned down for other types of credit. The uptick in applications for FSA loans indicate signal hardship for small farmers because in order to be eligible for the loan, farmers have to be been denied for all other loans.[x] Large, commercial farms are faring well in comparison and are far outcompeting small farmers. In this climate, the struggle for small farmers to maintain their operations is extremely difficult without access to credit or supportive government programs.



Price Volatility

Financial speculation in food markets has been wreaking havoc on price stability since 2005.[xi] Globally, food prices have been rising at rates unrelated to supply and demand with some commodity prices, such as maize, nearly tripling between 2005 and 2008. To understand the peaks and valleys that have become commonplace in agricultural markets over the past decade, it's important to understand commodity speculation.

Historically, farmers and buyers agreed on a future price for a commodity, also known as a "future" or "forward." Reminiscent of modern day Community Supported Agriculture, futures were once a way for farmers to hedge against possible disasters or price drops and for buyers to determine a fair price ahead of time while securing their purchase. These agreements made between farmers and their buyers used prices that were based on the actual or predicted supply of a physical commodity. Known as "price discovery," this method allowed for a somewhat predictable pricing scheme for both farmers and buyers in the market.

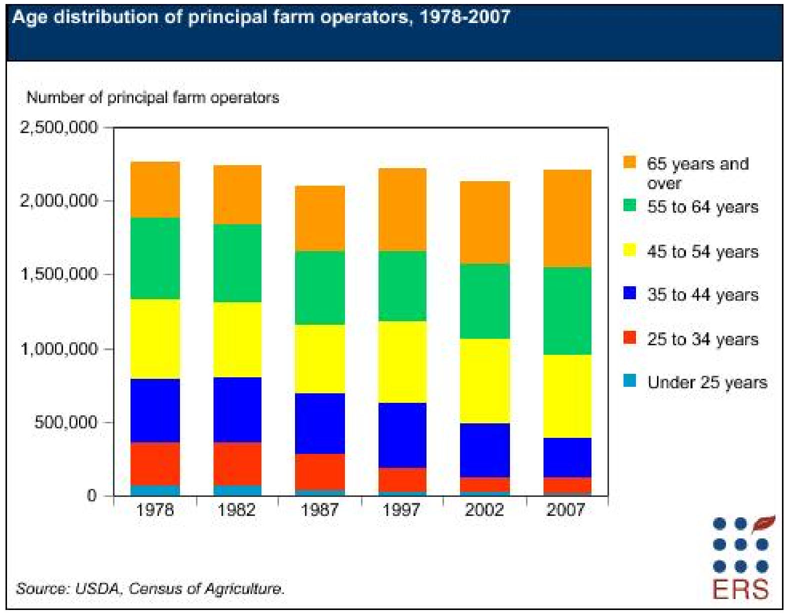
In present day agricultural markets, however, the game has been fundamentally changed. While some of the traditional hedgers, or buyers, are still participating in the purchase of farm commodities, a massive influx of speculative investors has un-tethered commodity exchanges from supply-and-demand economics. These speculators place bets on whether or not the price of a given commodity will rise or fall, which creates perceptions about price that are not based on the physical availability of a commodity.[xii] Excessive speculation does not only occur in food commodity markets, it is also highly influential in the oil and gas markets. Ben Burkett, a Mississippi farmer and NFFC President, commented that the price of fertilizer has doubled in the past year because the price of natural gas, which is necessary for fertilizer production, has ballooned.[xiii] The result has been volatile food prices that do not accurately reflect the global supply of food. So while momentarily high prices for items such as corn and soy have buoyed some farmers out of poverty, the inability to predict where prices will go next based on production leaves smaller farmers incredibly vulnerable.

High Cash Rents

While many farmers are suffering from lack of credit, cash rents, or the price farmers pay to lease land, are quickly rising. Just since 2011, cash rents increased by an average of 40% nationally.[xiv] As noted earlier, farmers who are experiencing negative cash flow due to low prices or decreased production may have trouble keeping pace with cash rents and would have to relinquish part or all of their land to pay for inputs. For farmers that are doing relatively well, investing in newly available farmland or leasing more land seems like a highly profitable idea. However, if the commodity prices fall, farmers who have invested their capital in high-priced land will be saddled with an enormous amount of debt and with limited backup options. If farmers are hit by particularly low commodity prices due to volatile markets and cannot meet their lease agreements, it is up to their landlord to renegotiate their cash rent. Yet if landlords are unwilling or unable to negotiate, the door will be left wide open for corporate or agribusiness investors to meet the demands of high land and rent prices.

Aging Farmer Population

With 30 percent of current farm operators at age 65 or older,[xv] the U.S. is facing an impending crisis in farmland turnover. Beginning and young farmers, who would otherwise take over family operations or farms within their communities, face heightened barriers to credit and land tenure.[xvi] Once aging farmers begin to retire, if their successors are not already prepared to take over, farmland will most likely transfer to large, commercial operators who have the capital or investors who are interested in coveting American farmland.



Sub-Priming Commodities

Some financial strategists and analysts are starting to compare the methods of trading food commodities to the practices that led to the housing market crash in 2008. Coined as the “sub-priming” of commodities, investors and Wall Street traders have been increasingly completing financial deals using commodities as leverage. Trading bundled commodities not only accelerates the growth of price bubbles, it also makes prices vulnerable to extreme incidents, as evidenced by the housing market. Due to the lack of transparency within large financial institutions, confirming these practices is difficult to do. However, increasing anecdotal evidence indicates that sub-priming commodities is becoming common practice among Wall Street traders.[xvii]

Implications for U.S. Farmers and Consumers

While farming is an inherently risky venture, the present conditions in the agricultural world seem to foreshadow a bubble upon which the livelihoods of small farmers rest. Large agribusiness corporations have been uniquely buffered from the economic downturn and have benefitted from close ties with large banks and economies of scale. George Naylor, an Iowa corn and soybean farmer, commented that large banks and companies like Wells Fargo or Cargill are willing to finance giant operations to get their hands on valuable land. Equally beneficial, if the farm managers go broke, the banks or private companies pick up a bunch of farmland.[xviii] For them it is a win-win scenario. Meanwhile, small farmers continue to bear the brunt of the recession and must absorb the price shocks created by speculators with limited-to-no access to credit. These set of conditions has primed the U.S. for investors who are eager to buy up farmland and get in on rising land values.

Investors who have been formerly focused on purchasing land in less-developed countries are now setting their sights on U.S. farmland. At the Global Ag Investing Conference held May 2012 in New York, special attention was paid to the added benefits of investing in U.S. farmland. The capital management firm AEW noted that U.S. farmland investment produced better values with lower risks. Compared to other popular countries for agricultural investments such as Argentina and Brazil, investing in land in the American Corn Belt would generate triple the profit with relatively similar rent rates and costs.[xix]

The Federal Reserve Bank of Kansas City -- which collects agricultural data for Colorado, Kansas, Nebraska, Oklahoma, Wyoming, and portions of western Missouri and northern New Mexico – has noted that investors are already playing a larger role in U.S. farmland purchases.[xx] The Bank announced last month that 7 percent of farmland purchasers in its district over the past year have been executed by investors.[xxi] While that is still a relatively small percentage, not enough data is available to determine the actual *volume* of farmland that investors are purchasing. In Illinois, initial evidence is pointing toward massive increases in farmland purchases from outside investors. An analysis of Soy Capital Ag Services, a brokerage and property management company based in Illinois, showed that “73% of the $70.5 million of listed and auction farm sales in 2011” were by outside investors, a 66 percent increase since 2010.[xxii]

With growing enthusiasm from investors and concurrent crises for small U.S. farmers, the question remains whether small farmers will be able to stay on their land without government intervention. Though further data must be published to show the rate of consolidation and how much acreage investors are purchasing, preliminary information demonstrates an alarming trend in the U.S. that reflects what is happening globally.

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This backgrounder is the first in a series that will focus on the impact of non-farmer investment in farmland, both in the U.S. and internationally. Please check our website for the next addition.

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