



## **CORPORATE SOCIAL RESPONSIBILITY POSITION PAPER – SOFT COMMODITIES**



BNP Paribas recognises the critical importance of stable food supplies for the world's most exposed populations. The Group is therefore detailing its role in financing for the agrifoods industry and agricultural commodities, notably those considered as basic food supplies<sup>1</sup>.

Rising transaction volumes on derivatives markets and the sharp rise and volatility of food prices have led stakeholders to examine the potential responsibility of financial establishments for the increase in basic food prices.

BNP Paribas supports economic development in all its host countries, placing priority to investments in projects with demonstrated utility. The Group finances business activities and offers solutions to protect against unforeseeable changes in the economic environment and world markets.

In the agriculture and commodities sector, this approach spans a variety of actions, ranging from conventional loans to more sophisticated hedging and investment products. Although their ultimate objective is clearly legitimate, certain of these products raise questions as to their impact on commodities prices and thus their impact on the lives of the world's most exposed populations.

To make a positive contribution to establishing a stable long-term relationship between physical and financial commodities markets, BNP Paribas has adopted measures to ensure that its financial instruments do not contribute to destabilisation of the market for basic food commodities. BNP Paribas has therefore adopted a prudent posture in this area and chosen to limit its activities in certain sectors whose benefits for the economic well-being of the most exposed populations are questionable.

BNP Paribas also supports the recommendations of the Paris Europlace work group on soft commodities, particularly those concerning the regulation and transparency of agricultural commodities markets.

**a. As a bank whose activities include this business, BNP Paribas plays an important role in financing producers and intermediaries in the agricultural commodities market.**

Growth in the world population and changing food habits have generated a significant rise in demand for basic foods. Furthermore, the supply is limited by available land, impacted a shortage of water, and increasingly exposed to violent climate swings.

BNP Paribas is a recognised leader in this sector (named Best Global Commodity Finance Bank 2010 by Global Trade Review and ranked #1 in Global Trade Finance Loans by Dealogic in January 2011) and contributes to ensuring the sustainable availability of agricultural commodities by helping develop the commodities sector at every level (production, transport, storage, processing, etc.). Specialised commodities teams support producers, intermediaries and manufacturers of basic foods by financing their activities.

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<sup>1</sup> As defined by the FAO Food Price Index of basic food commodities.



**b. BNP Paribas is particularly vigilant in monitoring its activities in the area of basic food supplies.**

To meet the needs of its clients, the BNP Paribas Commodity Derivatives team proposes solutions to hedge against the risk of price volatility.

To address the Group's specific responsibilities in the particularly sensitive area of basic food commodities, BNP Paribas has established a framework that analyses the ultimate purpose of each transaction.

In the area of basic food commodities, the Group has made a commitment to never sell derivative instruments to external intermediaries whose sole objectives are financial, meaning that these objectives are unrelated to the need to protect a physical activity against price volatility. All derivatives transactions are therefore analysed to identify the goal of the client, and only transactions with true social utility are carried out.

**c. All investment products available from BNP Paribas whose underlying assets include basic soft commodities must have medium-to-long-term investment horizons.**

Commodities are an asset class that enables BNP Paribas clients to diversify their portfolios and protect their assets against inflation. Consequently, there is no reason to automatically exclude a commodity from the Group's investment solutions. However, special measures are taken when basic soft commodities (i.e. basic food commodities) are involved.

To avoid any contribution to price volatility by the Group's investment products, BNP Paribas has made a commitment to only offer to its clients instruments designed for medium- and long-term investments, in order to prevent rapid purchase and reselling ("flipping") of basic soft commodities at minimal cost.

**d. The BNP Paribas group is committed to limiting its exposure in the agricultural commodities market.**

BNP Paribas closely monitors its exposure in agricultural commodity derivative markets. The Group in particular ensures that its exposure remains within limits so that its activities, even when the transactions play a socially useful role, do not impact commodities prices.

For example, for all products designed to provide long-term exposure to commodities and thus measured against a benchmark index (DJ UBS Index, for example), the asset management units of the BNP Paribas group track exposure to basic soft commodities on a daily basis to ensure that their weightings remain closely aligned with those of the index.

