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Soya, satellites and lawyers

by Andrew Thompson

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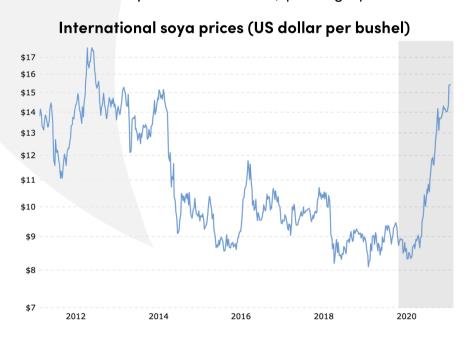
What happened?

Amid a boom in global demand and rising prices for soya, conflicts have broken out between farmers, who want to get the best price for their harvests, and soya crushers and traders, who want to hold them to their earlier promises to supply soya beans at lower prices.

The details

The big problem in Brazil's US\$45bn soya industry right now can be reduced to one word: gazumping. The word, mostly used in English-speaking countries like the UK, Ireland and Australia, refers to a situation where a seller agrees to sell something at a pre-agreed price to a potential buyer, but then breaks off that agreement, accepting instead a last-minute higher-priced offer from someone else. It often happens at times of rising prices in the housing market.

A fascinating <u>article</u> by Ana Mano of Reuters news agency explains how gazumping has taken off in the Brazilian soya market. The background is that China, seeking to rebuild its pig herd, much of which was slaughtered to eradicate African swine fever, has been buying record amounts of Brazilian soya for animal feed, pushing up international prices to an



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eight-year high. Prices have surged 71% since May 2020. If farmers honour their earlier, lower priced offers to sell their soya, the crushers and traders will make big profits. But if farmers break their promise, they could double their earnings this year.

A lot depends on the legal status of the promise. Farmers say standard contracts give them the right to opt-out without paying fines set at 30-50% of the spot price of the soya in question. They also claim that some promises are not binding because they have been informal, purely verbal, or contained in emails or WhatsApp messages. Traders disagree and have employed lawyers to defend that they call the integrity of contracts, and to help them avoid becoming victims of gazumping. Some have gone to extraordinary lengths, such as using satellite photographs and monitoring systems to track soya harvests and shipments. In one case a farmer in Goiás has accused a trader of invading his privacy, filming his farm without permission, to back a claim of ownership of his 12,000-tonne crop, worthUS\$7mn. South Korean-owned trader CJ Selecta says it has over 400 Brazilian farms under surveillance and has obtained court orders to prevent gazumping. Other industry sources, including the Chinese-owned Cofco trading house, say the number of legal disputes has rocketed this year.

What does it mean?

Brazil is the world's largest soya exporter. While the long-term outlook for soya prices is good, short term volatility, including a sharp boom-to-bust cycle, highlights the need for market reforms to reduce the negative effects of gazumping and other wasteful practices.

About the Author

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As well as being a Canning House Associate Fellow, Andrew is a former foreign correspondent (Buenos Aires, Mexico City, Rio de Janeiro) and a broadcaster for the BBC's Latin American Service. Working through La Rambla Research Ltd., he writes about economics, political risk, and business in Latin America.

These stories are also available on Andrew's blog site, La Rambla Research.