

Tackling hunger and protecting consumers

Curbing excessive speculation on food

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- Excessive financial speculation in food commodity derivatives has significantly increased price volatility and inflation for staple foods. This has negative impacts for consumers and businesses in Europe and has contributed to significant increases in hunger and poverty globally.
- This effect was most clearly seen in the food crisis in 2007-2008, when for example the price of maize rose by 180 per cent. Speculation continues to contribute

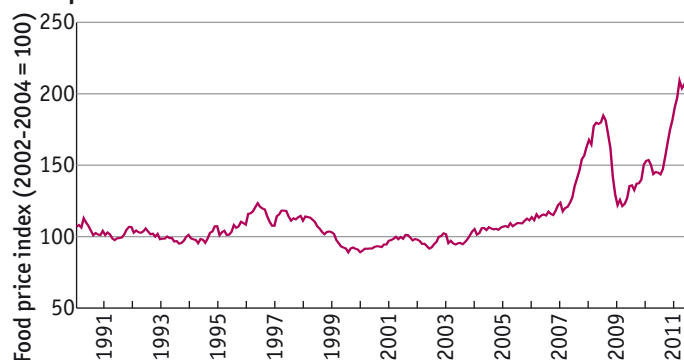
to food price spikes with food prices reaching record highs during 2011.

- The US has enacted new regulations to curb excessive speculation on food by moving most derivative trading onto exchanges and introducing position limits. It is vital that MEPs support similar measures to curb excessive speculation and prevent regulatory arbitrage as part of the review of the Markets in Financial Instruments Directive (MiFID).

High and volatile food prices

In 2008, food prices reached record levels, rising 80 per cent in 18 months, then declining rapidly. Since 2009 prices have climbed again, reaching new record levels in early 2011.

Food price index 1990-2011



"There is food on the shelves but people cannot afford it. People who were not previously vulnerable have become vulnerable in many different countries around the world."

Josette Sheeran,
Executive Director, UN World Food Programme

Such increases have a disastrous effect on low income households everywhere. The 2007-2008 food price crisis pushed the number of hungry people worldwide to over one billion. In the last six months of 2010 alone, 44 million people were driven into extreme poverty by rising food prices. As a result, over 16 per cent of people in developing countries, and one third of the population of sub-Saharan Africa, do not have enough food.

The increased price of food also led to households eating

less fruit, vegetables, dairy and meat; reducing savings, selling assets or taking out loans and reducing spending on 'luxuries' such as healthcare, education or family planning. Consolata M Kiswili, a farmer from the Makueni district in Kenya, said that when prices rose: *"I had to sell everything I had just to be able to feed myself and my four children. My last remaining cow was so wasted from drought and lack of food, I had to sell it for a mere 300 shillings (c. €2.30)."*

The cause of high volatility – excessive speculation

In the past 15 years, financial speculators' share of major commodity derivative markets for basic foods such as

"Without any real supply or demand issues we are witness to the fact that most agricultural food commodities are at record highs at once, and coffee is at a 34-year high. Through financial speculation ...the commodities market is in a very unfortunate position."

Howard Schultz,
Chief Executive, Starbucks Coffee Company

"It is deeply alarming that the greatest proportion of activity in the futures markets no longer involves those in the supply chain but is, instead, taken up by speculators. Food commodities are too important to be played about with by day traders and speculators."

Nigel Miller,
President, National Farmers Union, Scotland

wheat has risen from 12 to over 60 per cent. In the last five years alone, the value of assets held by financial institutions has nearly doubled, from US\$65 billion to \$126 billion.

Research by the UN Special Rapporteur on the Right to Food, UN Conference on Trade, Aid and Development, the World Development Movement and others demonstrates the central role of financial speculators in the 2007-2008 food crisis and other recent price spikes. These reports found that the scale of the increase in food prices seen in 2007-2008 was due to financial speculation in commodity markets. Indeed, some academics argue that recent food price volatility is more closely correlated with activity in financial markets than with agricultural supply and demand.

The influence of financial speculators is not just limited to the 2007-2008 food crisis. In June 2011, a report for the G20 by international organisations including the IMF and the OECD noted that *“too much speculation can cause frequent and erratic price changes”* in futures markets. A panel of experts for the UN Food and Agriculture Organisation went further, stating that *“tighter regulation of speculation is necessary.”*

While there is a role for some speculation in these markets in order to provide adequate liquidity, such levels have been far exceeded and speculation is now fuelling price volatility. Speculation is undermining the basic functions of commodity derivative markets; the hedging of price risk by commercial traders and acting as a benchmark for food prices in the physical markets.

An opportunity to address excessive food speculation

In the US, the Dodd–Frank Act introduced measures intended to address excessive commodity speculation. Provisions include mandatory exchange trading of derivatives that had previously been traded in

unregulated bilateral deals (over-the-counter) and position limits across commodity markets. Effective implementation is likely to be dependent upon the EU introducing regulation so as not to create a system of regulatory arbitrage in which Europe is used as an under-regulated venue for commodity speculation.

What can MEPs do?

In order to achieve food security for the world’s poorest people and to ensure that speculation does not contribute to increasing price inflation and volatility, MEPs should support regulation through MiFID and the associated regulation, MiFIR, that:

- Requires **exchange trading** of the vast majority, if not all, commodity derivatives on regulated trading venues, in the same way that shares are traded on the stock market. This will increase market transparency and regulatory oversight.
- Introduces fixed **position limits**, caps on the amount of the market that can be held by any individual or group of traders, such as financial speculators. This would effectively prevent financial speculators dominating the futures market and distorting prices. Alternative arrangements should not be permitted as they risk member states introducing regulation that would not effectively limit the role of financial speculators.
- Ensures all commodity derivative markets undertake regular, standardised **position reporting** on the trades of particular categories of traders. This will increase transparency and facilitate regulatory supervision.
- Allows **regulators to ban** financial products that undermine the effective functioning of commodity derivative markets.

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More detailed information and reports are available at www.wdm.org.uk/food



The World Development Movement campaigns against the root causes of poverty. Working in solidarity with activists around the world, we oppose injustice and challenge the policies and institutions which keep people poor.

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