Are we witnessing a replay of the 2008 hyperinflation in the price of basic foodstuffs which pushed hundreds of millions of people already living on the margins into the ranks of the acutely hungry?

In the past three months, the price of corn futures on the Chicago Board of Trade has increased by 70%. In July, hedge fund Armajor purchased in a single trade a quantity of cocoa beans equivalent to 7% of global production, helping push cocoa prices to their highest level in over three decades. Armajor had effectively cornered the world market in warehoused cocoa beans. In September, riot police opened fire on demonstrators in Maputo, Mozambique protesting the increased price of bread, killing at least 13. On October 12, the giant commodity trader and primary processor Cargill announced a 68% increase in quarterly earnings: "Our results were led by the food ingredients and the commodity trading and processing segments, both of which experienced resurgence in volatility across agricultural commodity markets." Commodity funds, reports the International Herald Tribune, "are scooping up money at a time when stocks have often been stumbling along and bonds are offering skimpy yields. This year through September, investors plowed $18.3 billion into commodity offerings, versus $11.9 billion for the first nine months of 2009." Global food prices, according to the FAO, are at their highest level since September 2008 - despite projections that this year's cereal output would be the third highest on record.

A new report from the UN Special Rapporteur on the Right to Food, Olivier De Schutter, examines the role of speculation in the accelerated volatility and hyperinflation of food commodity prices in the "food price crisis" of 2007/8. He concludes that the evidence shows that "a significant role was played by the entry into markets for derivatives based on food commodities of large, powerful institutional investors such as hedge funds, pension funds and investment banks." The massive entry of these new players into the markets, according to the report, "Was made possible because of deregulation in important commodity derivatives markets beginning in 2000. These factors have yet to be comprehensively addressed, and to that extent, are still capable of fuelling price rises beyond those levels which would be justified by movements in supply and demand fundamentals. Therefore, fundamental reform of the broader global financial sector is urgently required in order to avert another food price crisis."

The report provides a clear analysis of how financial market deregulation has created a world in which the price of virtual food, traded through exotic financial instruments, can drive movements in the price of real food - and with it drive up the number of hungry, which in 2008 surpassed one billion people. It offers concrete proposals for new regulation. It assess the potential impact of the Dodd-Frank legislative reform of futures markets in the US (which affords a grace period and has not yet come into effect), and warns that countries hosting other major financial trading centers have yet to even draft similar regulations.

The report serves as a strong reminder that states' obligations to contribute to realizing their citizens' right to food necessarily entails action to ensure that financial markets do not undermine this right. The Special Rapporteur's report also stresses the importance of re-establishing global food reserves as a necessary tool for reducing the volatile market conditions which feed financial bubbles: "The policy solutions that are needed to avert another crisis must address both the problems affecting underlying financial market fundamentals, and the conditions under which speculation is allowed to take place in essential food commodities, thereby exacerbating the effects of those movements in market fundamentals."

In June 2008, IUF General Secretary Ron Oswald told a special session on the food crisis of the International Labour Conference [1] at the ILO in Geneva that "The FAO sees speculation playing no significant role in pushing prices upwards, but meanwhile investment funds are betting hundreds of billions of dollars on higher prices, creating a bubble that drives prices upwards. It was speculation alone which drove up the price of rice futures by 31% in a few hours on March 31. Retail prices follow, and the consequences can be fatal. As Tom Giessel, a US wheat farmer said recently "We're commoditizing everything and losing sight that it's food, that it's something people need. We're trading lives". Private equity and hedge funds - investors focused on short-term, high-yield gains - have been expanding beyond futures markets and are now pouring billions into acquiring farmland, inputs and infrastructure.

"The forces generating hunger don't simply happen", said Oswald - "they are made to happen. If world cereal stocks are low, it is because governments were systematically pressured, lobbied, blackmailed and seduced into selling them off, thereby privatizing an essential mechanism for managing supply. The corporations now manage the planet's food stocks. Publicly funded agricultural research did not simply "decline" - it was consciously dismantled under the watchful eye of the World Bank."
This analysis is supported by De Schutter’s report, whose work during his mandate has given many practical
guideposts for action - by states but also by unions - to ensure that governments actively fulfill their obligations under
international human rights law to ensure the right to food.

Food Commodities Speculation and Food Price Crises is available on the website of the UN Special Rapporteur on
the Right to Food in English (download), French and Spanish.

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