“A number of measures can and should be taken to address the speculation on food prices. The G20 should commit now to move, and the UN should strengthen this call and confirm this in fora that are more inclusive of all the interests. Let us not forget however who the victims are of speculation: the poorest countries, who have to import their food to meet their needs, and whose food bills have already increased five- or six-fold since 1992, and who face insurmountable balance of payments problems when the prices suddenly increase. The G20 has an opportunity to help. It should do so”. Afronline's exclusive interview with Oliver De Schutter, the UN special rapporteur on the right to food, on the opening of the G20 agriculture summit today in Paris.

AFRONLINE: Many experts and institutions are saying that financial speculation on food should be limited. Do you agree?

OLIVER DE SCHUTTER: Financial speculation is the result of institutional investors — investment funds, pension funds, banks — trading options, swaps or futures contracts on commodities by anticipating that the price will rise or fall. The markets on which such financial products (“derivatives”) are traded serve a useful function since they can allow traders to protect themselves against risks linked to volatile prices, and send information to traders as to the prices they should base their transactions upon (the “price discovery” function). But since about ten years, these financial markets have taken a life of their own. They are dwarfing the “real”, “physical” markets. And the problem is that the massive arrival of institutional investors on these markets since the deregulation launched in the United States by the 2000 Commodity Futures Modernization Act, has disrupted markets entirely: the logic has become purely speculative, in which investors adopt a herding behaviour (they follow what other investors do), and do not made decisions anymore based on the “fundamentals” of supply and demand. The result is more volatility, bubbles that form, and bubbles that explode. This hurts in particular small producers and the poor food importing countries.

How is it possible to address this phenomenon?

We must do it. For example by ensuring that these financial markets function more transparently with appropriate regulatory oversight – and there is none at all on the “over-the-counter” transactions, which represent about 80 per cent of the activity -. And we must impose position limits on investors, to ensure that investors, with their sheer financial weight, disrupt the markets, influencing prices by prophecies which become self-fulfilling.

Are you aware of any attempt in doing that?

The United States have tried to impose regulations, with the 2010 Wall Street Reform and Consumer Protection Act, but a strong lobbying from the financial sector and the Republican majority in the House of Representatives are now making it difficult to adopt implementing regulations. The EU is trying, late, to make progress. It will be very important for the G20 to agree on a strong commitment on this issue: the markets should not be left to cause, and it is the responsibility of governments to exercise appropriate supervision.
You have said that “while not a cause of price volatility, speculation on derivatives of essential food commodities significantly worsens it”. How does that happen?

When private traders or governments see that a large number of futures contracts are traded, and that financial actors are betting on price increases, they tend to panic: they delay sales, they stock food, because they believe we may be heading towards scarcity. If all sellers hold on to their stocks and all buyers accelerate stock-building, an artificial scarcity is created: there is enough food, but there is too little on the markets that interested buyers can purchase. The result is that prices sky-rocket, and this may be entirely unrelated to lack of food availability: it may be just the result of financial speculation that feeds into the reactions of traders and governments on the physical markets. After some months, the “fundamentals” or course take over, the bubble explodes, the panic ends. But in the meantime, many countries may have experienced problems, and many poor families may have been unable to maintain their levels of consumption. This is manufactured hunger.

Do you think that the next G20 can play a role in introducing new regulations to limit the speculation on food?

The G20 has no decision-making power, but it does include the most important economies of the planet. If all G20 members agree on certain measures to be taken at national (or, for the EU, regional) level, it can succeed. In my view, more transparency about stocks detained both by governments and by private traders can help: they can limit the sense of panic that speculators thrive upon and contribute to create. Limiting the role of institutional (financial) investors is also important: we need some liquidity on these markets, but we currently have far too much liquidity. And imposing position limits (for instance, on how many long positions on one particular commodity such as wheat or corn one investor can hold) matters, to avoid the temptation of manipulating markets.

Can you give us an example of such manipulation?

In July 2010, one single London-based investment fund, Armajaro, cornered the cocoa market, buying 7 per cent of the global annual production at a time when the cocoa prices were reaching a 32-years high: they put one billion US dollars on the table, in the hope of creating a panic and of prices increasing further, which would have allowed them to make a huge profit. Although they lost — the harvests were good and markets did not panic —, this simply serves to illustrate the danger in the present situation. Therefore a number of measures can and should be taken to address speculation. Such measures against speculation are not a substitute for investment into agriculture and the strengthening of markets, but nevertheless they can help reduce volatility.

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