What's pushing up food prices?
As G20 ministers meet in Paris this week to discuss food security and the impact of speculative activity on prices, we look at the explanations put forward for the jump in food prices

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How high have food prices risen?
The UN's Food and Agriculture Organisation (FAO) said last week that global food prices have changed little from their high levels in April – the global price for a basket of basic foods is still 37% higher than it was this time last year. According to its biannual report on global food markets, the FAO warned that weather conditions – too much or too little rain – could weaken maize and wheat yields in Europe and North America, and an overall rundown on food inventories is set to tighten global supply. The rising cost of food helped spark deadly riots this year in Algeria and Tunisia, and at least 13 people died in Mozambique last year in protests against plans to increase bread prices. Earlier this year, international food prices soared to levels last seen in 2007-08, when a global food crisis provoked riots in 30 countries, including Egypt, Haiti and Cameroon.

Is speculation behind the jump in prices?
Opinion is deeply divided on whether or not the new money that has flooded into the commodities markets since 2003 is the cause of the problem – and if so, how to
regulate it. Some traders think underlying fundamentals – a serious mismatch between supply and rapidly growing global demand – are behind this year’s price rises. The company that owns the Chicago Board of Trade (the world's oldest futures and options exchange where the international price of agricultural commodities is set), the Chicago Mercantile Exchange group (CME), rejects the notion that the enormous rise in speculation in agricultural commodities in recent years has caused food price rises.

Has there been a growth in speculative activity in commodities?

There has been a big increase in the last eight years. Farmers and processors of physical goods have long used commodities exchanges such as Chicago's to hedge against risks such as bad harvests. Speculators willing to take the risk perform a useful role in providing liquidity, but much of the recent growth in speculation has been through new financial instruments invented by banks and sold to investors. After intense lobbying, banks won deregulation of commodities markets in the US in 2000, allowing them to develop these new products. Goldman Sachs pioneered commodity index funds, which offer investors a chance to track changes in a spread of commodity prices, including key agricultural commodities. Between 2003 and 2008, investment in commodity index funds rose from $13bn to $317bn.

What is the position of governments?

Agriculture ministers meeting in Berlin in January said they were "concerned that excessive price volatility and speculation" in international markets for agricultural commodities may threaten the security of the world's food supply. The ministers from 48 countries called on the G20 group (of developed and emerging economies) to "fight the abuse and manipulation of prices" in agricultural markets. France's agriculture minister, Bruno Le Maire, has said world agricultural markets require more regulation, and the German farm minister, Ilse Aigner, who hosted the Berlin meeting, said that price and position limits should be among measures considered.

What is the evidence that speculative activity contributes to high commodity prices?

Some hedge fund managers, such as Mark Newell, of Quiddity, and Mike Masters, who testified in the US Congress on the subject, argue that when billions of dollars of capital is put to work in small markets like agricultural commodities, it inevitably increases volatility and amplifies prices – and if financial flows amplify prices of foodstuffs and energy, the impact is more immediate than in property and shares. When food prices double, they assert, people starve or go hungry. The UN special rapporteur on the right to food, Olivier De Schutter, has called on G20 leaders to regulate the markets for agricultural products and make them more transparent. De Schutter says the impact of financial speculation on food prices is now widely recognised, and this needs to be subject to control without delay. He notes that the US legislated on derivatives nearly a year ago and that the G20 could encourage other major economies to follow the same path.

Has climate change had an impact?

Researchers say global warming has already harmed the world's food production and has driven up food prices by as much as 20% over recent decades. They warn that if the
world continues to have the same seed varieties and temperatures continue to rise, then food prices will rise further. A study published in the journal Science in May examined how rising temperatures affected the annual crop yields of all major producer nations between 1980 and 2008. Computer models were used to show how much grain would have been harvested in the absence of warming. Overall, yields have been rising over the last decades and the models took this into account. The scientists found that global wheat production was 33m tonnes (5.5%) lower than it would have been without warming, and maize production was 23m tonnes (3.8%) lower. Specific countries fared worse than the average, with Russia losing 15% of its potential wheat crop, and Brazil, Mexico and Italy suffering above average losses. A rising appetite for meat is also a critical factor as many kilogrammes of grain are needed to produce one kilogramme of meat.

**What about the impact of biofuels?**

A World Bank report in 2008, obtained by the Guardian, said the drive for biofuels by US and European governments has pushed up food prices by 75%, starkly contradicting US claims that using crops for fuel, rather than food, have only pushed prices up by 2%-3%. Other factors discussed – rising demand for food from China and India, back-to-back droughts in Australia – were, the report said, marginal: "Without the increase in biofuels, global wheat and maize stocks would not have declined appreciably and price increases due to other factors would have been moderate.

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