A number of measures can and should be taken to address the financial speculation on food. 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». Exclusive Afronline’s interview with Oliver De Schutter, the UN special rapporteur on the right to food, on eve of the G20 agriculture summit on 22-23 June.

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 make 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 skyrocket, 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 retained 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.

**An agreement among the G20 countries is enough or should this decision be taken in a more inclusive international forum (at UN level)?**

The two are not contradictory. I have consistently advocated for a stricter regulation of financial speculation within the UN, and the United Nations Conference on Trade and Development last week presented a report on this that reinforces my conclusions: they ask for action, like I do. The Committee on World Food Security, an inclusive forum of governments, international agencies, and civil society organisations convening in Rome to coordinate action on global hunger could also take a position and encourage governments to act. But there is an urgency. 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.

**Do you think it is useful to introduce new regulations to prevent the speculation on food also at a national level?**

At national and regional level, speculation should be addressed not simply by adequate supervision of the financial markets (as the EU is now trying to achieve), but also by an adequate use of food reserves. Where governments set up systems in which they buy when prices are low (to support the stability of incomes of farmers) and release stocks when prices are high (to alleviate the burden on poor households), this can have an important impact and reduce price volatility. In the past, these food reserves were not always well managed, and they were sometimes tainted by corruption and political favoritism. But if managed transparently with appropriate oversight mechanisms, they can work.
A recent report by Oxfam says that the price of food could double by 2030. Do you think that this prediction is realistic?

Climate change is already causing less predictable rainfall, and droughts and floods that are more severe and frequent than in the past. Food production is very dependent on the prices of fossil energies, oil and gas, which themselves will increase and be more volatile in the future. And speculation is worsening volatility. Therefore, in the future, we can fear higher and more volatile prices on the international markets. However, the transmission belts to the local markets -- where people actually buy their food -- vary significantly from country to country, depending on the policies in place in the areas of trade and agriculture, and of course consumers are hurt to the extent that they are poor and that they are not supported by adequate social protection schemes. Prices will rise, and the populations that will be impacted are those living in poor countries that are highly dependent on food imports to feed themselves, that cannot support their local population, and that in the past have invested too little in supporting local agricultural production.

What are in your opinion the main causes of food volatility?

I mentioned climate change, fossil-energy-dependent food systems, and speculation. We therefore must reinvest in agriculture, in ways that lead to build more resilient types of production, and in order to move towards sustainable forms of agriculture that disentangle the food markets from the energy markets. At the same time, we must act on the fundamentals. Not just by increasing production, but also by reducing waste : one-third of the edible parts of food produced for human consumption, gets lost or wasted globally, which is about 1.3 billion ton per year, because in developing countries more than 40% of the food is lost after harvest because of poor storage and transport facilities, and because in industrialized countries we waste huge amounts -- food waste at consumer level in industrialized countries (222 million ton) is almost as high as the total net food production in sub-Saharan Africa (230 million ton).

A rise of productivity is the only way to guarantee the food security or do you think that there are other measures to be taken?

Rising productivity will serve to address the question of hunger and malnutrition if these productivity gains are made in the regions that are poorest, and if they benefit the farmers that are the most vulnerable. Because hunger is not just a question of enough food being available : it is a matter of people being too poor to feed themselves, and the majority of them are small-scale farmers who have not been supported in the past.

But in addition, boosting production to ensure that supply matches with increased demand is not the only answer. We also must accept to tackle the demand side of the equation. For instance, nearly half of the world’s cereal production is used to produce animal feed and meat consumption is predicted to increase from 37.4 kg/person/year in 2000 to over 52 kg/person/year by 2050, so that, by mid-century, 50 per cent of total cereal production may have to go to increasing meat production.

Is the reallocation of cereals used in animal feed to human consumption a possible option?

Yes, above all in developed countries where the excess animal protein consumption is a source of public health problems, could go a long way towards meeting the increased needs. The United Nations Environmental Programme (UNEP) estimates that, even accounting for the energy value of the meat produced, the loss of calories that result from feeding cereals to animals instead of using cereals directly as human food represents the annual calorie need for more than 3.5 billion people. Nor is this the only area in which the impact of increased demand for agricultural commodities could be questioned. Like other major developed economies, the EU has decided to encourage the production of biofuels, by subsidies and fiscal incentives, and it adopted a target of 10 per cent of renewable energies in transport by 2020, the bulk of which shall have to be met by relying on
Biofuels. This goal has a significant impact on global agricultural markets, increasing the tension between supply and demand, and it is already resulting in more pressures on land and water resources in developing countries.

**What about Africa? Do you think that this continent can protect itself from a new food crisis? How?**

245 million in Sub-Saharan African are hungry because they are too poor; the vast majority of them live in the rural areas, and they are victims of a lack of investment in agriculture. These are also net-food-importing countries, who have only developed export-led agriculture and have neglected supporting agriculture to serve local consumption needs: they were forced to do so in order to repay a foreign debt and because they were encouraged to perpetuate the colonial pattern in which they provide us with raw commodities, and we provide them with manufactured goods, including processed food. Now this should change, and it is changing. These countries should be helped to strengthen their agricultural sectors by investing in storage facilities and infrastructure improving the ability of small-scale producers to be linked to markets; by supporting their farmers through extension services; by encouraging small-scale farmers to form cooperatives in order to achieve economies of scale in the processing, packaging and marketing of food. And they should support the urban consumers’ access to affordable and nutritious food by setting up or strengthening social protection schemes providing income support, and by connecting the local food producers to the nearby urban markets.

This transition shall take time, and it shall require investments. It is one which, although it is in the long-term interest of the countries concerned, may be in tension with their short-term interest in continuing to rely on cheap food imports, even at the expense of their agricultural sector. But this transition is needed, and African countries should be helped to make it a success.

**The European Commissioner Michel Barnier has recently initiated reform measures to regulate financial markets, but this initiative is encountering a lot of obstacles. Do you think that this attempt can be successful? At what conditions?**

I am unable to predict whether the efforts underway shall succeed. What is clear is that there is considerable resistance from the financial sector. And one difficulty in this area is that it is very difficult to identify reliable experts that are not linked to the financial actors benefiting from the current status quo. Change under these conditions is difficult to achieve. It requires strong political will.

**In Italy, Britain and Usa advocacy campaigns form civil society are asking to protect the right of food from speculation and to the governments to put the food security at the top of their agenda. Do you think that civil society can play a role?**

The mobilisation of civil society is key. Governments will only move decisively once they understand the strong expectations that are building, and once they will be held truly accountable. I am not a believer in international aid being a magic bullet, but consider that in the United States, 700 billion USD were spent on bailing out banks in late 2008 under the Troubled Asset Relief Program (TARP), and the American Recovery and Reinvestment Act (ARRA), passed in February 2009, represented 787 billion USD in fiscal stimulus. Compare these sums with estimates according to which, in order to overcome three decades of underinvestment in agriculture in developing countries, about 45 billion USD would be need over a period of 5 years. It is not that the money cannot be found. It is that the political will to make hunger a thing of the past is still not there. There is now more goodwill of governments. But the pressure bearing upon them is still insufficient.

*By Emanuela Citterio - Afronline*