LESSONS LEARNED FROM THE RECENT SHARP RISE IN WORLD PRICES
DEVELOPING THE MEANS TO EFFECTIVELY FIGHT THE VOLATILITY OF AGRICULTURAL AND FOOD PRICES
Coordination SUD is the national coordination platform for French NGOs working toward international solidarity

It was founded in 1994 and now has over 175 NGO members, including around 100 via six umbrella organizations (CLONG-Volontariat, Chajep, Coordination Humanitaire et Développement, CRID, Forim, Groupe Initiatives). The activities of its NGO members include emergency humanitarian aid, development assistance, environmental protection, human rights among disadvantaged populations, as well as educational activities in citizenship and international solidarity and advocacy. Coordination SUD has a fourfold mission of 1) communicating its members’ common positions to public and private institutions in France, Europe and the world; 2) defending and promoting NGOs; 3) monitoring and analyzing the international solidarity sector; and 4) supporting and strengthening French NGOs.

The Agriculture and Food Commission (C2A) of Coordination SUD

This publication is produced by the Agriculture and Food Commission (C2A) of Coordination SUD. As part of its mission to support the collective advocacy of its members, Coordination SUD has set up working commissions. The C2A brings together international solidarity NGOs working to achieve the right to food and stronger support for family farming in policies that have an impact on global food security. These NGOs are:


The C2A represents Coordination SUD at institutions dealing with agriculture and food, such as the French Inter-ministerial Group on Food Security (GISA) and the Civil Society Mechanism (CSM) for the Committee on World Food Security (CFS).

Contact for the Agriculture and Food Commission (C2A):

Carline Mainenti, AVSF
Email: c.mainenti@avsf.org
Website: www.coordinationsud.org

This note was written by Laurent Levard (GRE) with contributions from Carline Mainenti (AVSF), Emilien Capdepon (CCFD – Terre Solidaire) and Guillaume Compain (Oxfam France).

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Russia’s invasion of Ukraine on 24 February 2022 was followed by a rapid increase in world agricultural and food prices, which quickly spread to the majority of national markets. World prices reached historic records. The FAO food price index reached a level 20% higher than the June 2008 peak\(^1\). Wheat, maize and oil seeds were particularly affected. These soaring prices occurred in a context where world prices had been rising substantially since 2020. So, although the food price index rose by 20% in the four weeks following the start of the war in Ukraine, the previous increase from mid-2020 up to the start of the war was already 50%. Since June 2022, world prices have tended to decrease. In August, on average, they had returned to the same level as before the start of the war (see diagrams n° 1 and 2). However, the sudden increase of production costs should lead to agricultural prices remaining high for 2023. In many countries, it could also lead to reduced use of inputs and therefore a decrease in yields in the coming crop year. The decrease in agricultural production could, in turn, generate further price increases.

These cyclical movements must be viewed in the context of longer-term evolutions. Two elements should be remembered concerning world agricultural and food prices over the last fifteen years: on the one hand, in real terms, they were globally at the high level of the early 1970s, after three decades of downward trends (1975-1985) and then stagnation (1985-2005); on the other hand, their volatility has never been greater (see diagram n° 3).

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Although price developments for the various agricultural commodities are often aligned, there are also evolutions specific to each commodity. Similarly, while developments observed on the different national markets are often parallel, there are many national specificities. Countries experiencing conflicts, countries where agriculture is subjected to extreme climate events and countries that are highly dependent on the world market are much more vulnerable to volatility of world prices. Countries such as India, which are largely self-sufficient and implement policies to regulate their domestic markets are, on the contrary, more protected from the phenomena of high volatility.

Generally, although the volatility of agricultural prices on world markets is, strictly speaking, partly linked to cyclical variations in supply and demand in major exportation and importation regions, it is also the result of two essential factors:

• on the one hand, variations in the price of energy. The latter influences production costs — in particular of synthetic fertilisers — and the costs of transporting agricultural products. In addition, as agrofuels are a substitute for petrol, their price is indexed to that of hydrocarbons. Given the proportion of agrofuels in the use of agricultural commodities (notably, 10% of cereals produced worldwide), their prices also affect agricultural prices\(^2\).

• on the other hand, speculation in markets, in a context where hedge funds have been investing massively in agricultural financial markets since the beginning of the 21st century and where four trading firms in an oligopolistic position (Archer Daniels Midland, De Bunge, Cargill and Louis Dreyfus, known as "ABCD") control 70% to 90% of volumes exchanged on physical markets\(^3\). These firms combine speculations in physical markets and in financial markets.

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3. See:
   - article by Thomas Beauchene and Aron Razif: "Halt à la spéculation débridée sur les denrées alimentaires, which analyses how commercial players use the information they possess on physical markets to speculate in financial markets (La Vie Economique - plateforme de politique économique 3-4/2015 - https://dievolkwirtschaft.ch/fr/2015/03/halte-a-la-speculation-debridee-sur-les-denrees-alimentaires);
   - study by the French Financial Markets Authority (AMF) highlighting that at least 35% of positions held by commercial players on the Paris wheat futures market (MATIF) correspond not to hedging activities, but to financial speculation: *Analyse des données de position MIF 2 sur les dérivés de matières premières: Qui sont les acteurs et quel est leur poids sur le segment MATIF des dérivés agricoles*, July 2022, https://www.amf-france.org/sites/default/files/private/2022-07/Analyse%20des%20donnees%20de%20position%20MIF%20sur%20les%20derives%20de%20matieres%20premieres.pdf;
The increase in world agricultural prices from mid-2020 to the start of the war in Ukraine can be explained mainly by the doubling of the price of petrol and the rise in demand in China, which experienced a period of strong growth following the Covid crisis and a phase of reconstituting its pig livestock, which had been decimated by swine fever.

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The major agricultural commodity traders made record profits thanks to the sharp rise in prices. The sharp rise in prices in February-March 2022 resulted mainly from speculation in physical and financial markets. The major agricultural commodity traders made record profits thanks to the sharp rise in prices. With regards financial speculation, let us mention for example that two of the main agricultural exchange traded funds (ETFs) received net investments of 1.2 billion dollars, compared to just 197 million dollars for the whole of 2021.

Furthermore, the daily volume of the Teucrium Wheat Fund (WEAT) ETF transactions was multiplied by 100 between January and early March, and throughout the months of March and April it remained at levels approximately ten times higher than daily volumes before the war. Given that Ukraine and Russia account for 30%, 20% and 80% respectively of world wheat, maize and sunflower exportations, this speculation was made possible by fears among some operators and countries that are highly dependent on these importations of being faced with a shortage of commodities. In fact, the first months of the war were marked by the blocking of Ukrainian ports, quasi-interruption of Ukrainian exportations and a slow-down in Russian exportations, generating momentary disruptions in supply.

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6. IPES Food, Another perfect storm? How the failure to reform food systems has allowed the war in Ukraine to spark a third global food crisis in 15 years, and what can be done to prevent the next one - https://ipes-food.org/_img/upload/files/AnotherPerfectStorm.pdf
The combination of the prolonged increase in food prices since the year 2000 and the sharp rise in 2022 has led to a food crisis in countries that are highly dependent on world markets. This crisis is accentuated by the growing vulnerability of working class consumers following the consequences of Covid, as well as in countries experiencing conflict and countries experiencing extreme climate events. Several countries in the Sahel, such as Sudan and Burkina Faso, are currently experiencing a combination of these crisis factors. According to the FAO, the number of people suffering from hunger in 2021 was estimated to be as high as 828 million (high scenario). This figure has been rising constantly since 2019, following a decade of stagnation at around 590 million. The FAO also estimated that the war in Ukraine could lead to an additional increase of 8 to 13 million people suffering from hunger. The World Food Programme (WFP) estimates that the increase could be as high as 57 million people.

Inaccurate Analyses and False Solutions

At a time when false solutions to the food crisis are re-emerging, it is crucial to highlight that the increase in prices is in no case attributable to a deficit in production or global scarcity, whether in the period before or after the war in Ukraine. Worldwide agricultural production continued to progress throughout the period and world stock levels remained at almost constant levels (see diagram n°4). The volume of world cereal stocks at the end of the crop year was 30.5% of annual use for 2021/22, a level that is comparable to the average over the three previous years (30.2%), even if a slight decrease (29.5%) is predicted for 2022/2023. It is mainly the unequal distribution of productive resources, income and food availability that has caused food insecurity and hunger, whereas a significant portion of primary agricultural production is wasted or used for agrofuels instead of food. In addition, a substantial portion of agricultural production of cereals and oilseeds worldwide is used for intensive livestock systems.

4. World Cereal Production, Utilizations and Stocks

Source: FAO


10. WFP, Projected increase in acute food insecurity due to war in Ukraine, March 2022, https://docs.wfp.org/api/documents/WFP-0000138155/download/
The sharp increase in prices in 2022, like that in the years 2007/2008 and 2010/2011, is a reminder of the need to provide responses to price volatility on national and world markets11. It is not just about protecting urban consumers from rising prices, it is also necessary to protect farming families from price drops. Price volatility penalises farmers’ incomes, because the consequences of price drops (decapitalisation, need to resort to loan sharks, etc.) are never compensated for by the positive effects of years with high prices. In addition, price volatility poses an obstacle to development of investments, and therefore of agricultural production, as farmers reduce risk-taking as much as possible. Apart from volatility, it is also a matter of ensuring sufficiently remunerative prices for farmers, in a context where agricultural work tends to be structurally under-remunerated12, and poverty and food insecurity mainly affect rural populations13.

It is by gradually reducing their dependency on the world market, therefore by developing their food production and reterritorializing their food systems, that countries will ultimately be able to most safely reduce their vulnerability to volatility of world prices. This requires paying farmers sufficiently remunerative and stable prices so that they can develop their production. At the same time, countries with high levels of importations or exportations must develop the capacity to avoid passing on sharp increases in world prices to their own markets.

Trade protection and stockholding policies
Such objectives require sufficiently flexible tools for trade protection and regulation, and particularly — for importations — variable levies mechanisms, with higher protection when world prices fall and lower protection in the event of price increases14. This type of tool proved effective in Europe between the 1960s and 1990s.

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13. See in particular the World Bank’s statistics on poverty (https://www.worldbank.org/en/topic/poverty/overview) and the study by Cornelia F.A. van Wesenbeeck (Amsterdam Centre for World Food Studies, VU University) Disentangling urban and rural food security in West Africa, West African Papers n°15, Sahel and West Africa Club Secretariat and OECD, May 2018

In addition to this, stockholding policies (public and private stockholding, including by farmers) are necessary, to cope with emergency situations (emergency stocks), regulate markets over time (buffer stocks) and to ensure distribution of food to certain vulnerable population groups as part of targeted public policies. Not only do countries need to protect themselves from vulnerability due to world price volatility, they also need to address volatility risks related to internal factors (irregularity of agricultural production).

In many cases, regional frameworks seem most pertinent to implement these policies, in order to draw on complementarities within regions (structural complementarities, but also circumstantial complementarities in the event of a climate accident in a country in the region) and pool stocks. Stockholding initiatives by ECOWAS in West Africa and ASEAN in South-East Asia, which deserve to be strengthened, are promising examples.

Furthermore, it is by supporting family farming as a priority, and not agri-business projects, that developing countries can minimize rural exodus, the spread of poverty in cities, internal conflicts and structural dependency on world markets for food. It is also through supporting agroecological transformation of production methods that countries can minimize risks related to dependency on world energy and fertiliser markets, which are also very volatile.

Protecting the poorest populations from risks generated by food price volatility requires implementation, strengthening and extension of national universal social protection systems. Additional funding is crucial so that countries can, at the very least, create social protections bases (in line with ILO recommendation 202), in particular concerning security of income for women, including those working in the informal economy. The creation of a new funding mechanism, in the form of a World social protection fund, would contribute to the implementation of social protection systems in the poorest countries.

One condition: revision of international trade rules

The implementation of such policies requires that the free trade rules decided in the framework of the World Trade Organisation (WTO) be called into question. Notably, the WTO’s rules do not authorise the implementation of variable levies systems, only fixed import duties are authorised, and their levels are often too low to ensure effective protection of national productions. Nor do the WTO’s rules authorise the implementation of new policies based on buffer stocks aimed at protecting both farmers and consumers. The 2013 Bali agreement resulted in a compromise, in particular between the United States and India, with the latter being authorised — while awaiting a definitive agreement — to continue its regulation policy. However, no country can implement new policies based on the same principles.

It is also necessary to call the free trade agreements (FTAs) into question. These agreements aim to eliminate any trade protection and are clearly in opposition with strategies to protect and reterritorialize food systems.

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16. Regarding the different vulnerability factors, see in particular the publication by Franck Galter, in collaboration with Bruno Vindel, Managing food price instability in developing countries, AFD, September 2012 - https://www.afd.fr/en/resources/managing-food-price-instability-developing-countries-critical-analysis-strategies-and-instruments
17. FAO, Public food stockholding, op. cit.
19. See in particular IPES Food, Another perfect storm? How the failure to reform food systems has allowed the war in Ukraine to spark a third global food crisis in 15 years, and what can be done to prevent the next one - https://ipes-food.org/_img/upload/files/AnotherPerfectStorm.pdf
In parallel, fighting agricultural and food price volatility on world markets is crucial to protect countries in structural deficit and which are likely to remain so over the long term, in particular countries in North Africa and the Middle East.

**A system of worldwide buffer stocks**

Greater transparency of stocks could contribute to reducing price volatility. However, above all, the existence of sufficiently substantial and mobilizable buffer stocks at affordable prices in the event of sharp price increases would provide an effective means to end speculation on prices. An international agreement or, if the latter is not possible, unilateral commitments — from the European Union for example — could ensure that exporting countries and trade players constantly maintain a certain level of stocks, equivalent to a certain number of months of exported or processed volumes. In the event of a crisis, based on a joint decision by States, these stocks would be made available for the most threatened countries, at a stringently regulated price.

This means that, if a country implements restrictions on exportations, the stocks associated with this global market regulation system would not be affected. As of now, it is also important that restrictions on exportations — which generally respond to legitimate objectives in terms of protecting food security for the population — do not affect exportations intended for the World Food Programme (WFP).
Ending financial speculation

The fight against speculation on agricultural financial markets is another crucial element in the fight against world price volatility. We mentioned that the sharp price increases in February-March 2022 were related to a huge flow of hedge funds that banked on price increases and contributed to generating the latter. These new increases demonstrated the extent to which measures taken by the United States and the European Union to establish position limits on futures markets following the 2007/2008 and 2010/2011 crises were insufficient. It is in fact financial speculation on food commodities that should be prohibited.

However, in addition to operators seeking to cover their operations on the physical market, the successful functioning of futures markets requires a minimal presence of players focusing exclusively on speculation. It is important therefore to agree on an “aggregate position limit”, limiting the global portion of positions held on agricultural futures markets by all speculative players (including trading firms conducting financial speculation in addition to their hedging activities). Before financial funds rushed onto the agricultural futures markets in the 2000s, the latter were functioning correctly with no more than 20% to 30% of positions held for financial speculation, whereas today the proportion is 65% on the French wheat futures market (MATIF)\(^\text{21}\) and higher than 80% in the United States. Additional restrictions, including prohibitions, concerning index funds and funds from people’s savings (retirement funds, etc.) and donations (foundations), should be envisaged\(^\text{22}\).

The aberration of public support for first generation agrofuels

The end of all public support for first generation agrofuels — which are in direct competition with food uses — and for agricultural production intended for them, would respond not only to an objective in terms of world food security, the fight against deforestation and climate change, but also to an objective in terms of the fight against price volatility. As previously mentioned, the substantial portion of world agricultural production used to produce agrofuels leads to energy price volatility being passed on to the agricultural products market.

CONCLUSION: THE ROLE OF THE CFS

It is important that all issues related to world food security, in particular the fight against volatility of agricultural prices, be dealt with in the legitimate forum of the Committee on World Food Security (CFS), a United Nations institution in which civil society organisations have their say\(^\text{23}\), and not within secondary forums bringing together the most powerful States, or in forums where agri-business multinationals can influence discussions. There is a significant risk that, as was the case following the sharp increase in prices in 2007/2008, the food crisis could serve as a pretext for multinational companies to drive States into a headlong rush to intensive farming, with chemical inputs, energy expenditure and GMOs, whereas this farming model leads Humanity into an impasse and ecological collapse.

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21. AMF, op. cit.
22. See in particular the report by Harald Schumann, op. cit.
23. In 2011, following the publication of the HLPE report, the CFS validated a certain number of recommendations to fight against agricultural and food price volatility - https://cfs-products.ifad.org/documents/75908/77946/3a-a5386e-pdfe9879-7e65-4cd2-88a5-c2b2953996b8fe8#page=1
Gathering & taking action
for international solidarity

14, passage Dubail 75010 Paris
Tel: +33 1 44 72 93 72
www.coordinationsud.org