Time to regulate volatile food markets

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With the current **extreme price increases for wheat**, we are observing potentially the early stages of another **global food-price crisis**. Even if this does not evolve into something as dramatic as the crisis of 2007-08, when prices of major agricultural commodities from corn to rice shot up to record levels, triggering food riots from Bangladesh to Haiti, it is a stark indication of the perilous state of the world food market. Some lessons have been learned from 2008, but too little has been done to prevent future crises. In particular the malfunctioning of world grain markets has not been addressed – a failure now haunting world markets. The fixing of international food prices today is the result of three forces: expectations on future supply and demand; the growing role of speculators in commodity markets, and the importance of food prices for political stability in countries such as Egypt. Today, low-income countries and the poor are actually more vulnerable than before the last food crisis.

The rapid recent increase in the international wheat price underlines the stakes. Last week, September **wheat futures** showed the steepest increase since 2008. Current futures prices are above $7 a bushel for the first time since September 2008. The reduced expectations for harvests in Russia, Ukraine and a few areas in western Europe are the trigger. **Russia's wheat export ban** accelerates the risk of a price spike and again undermines the trust in food trade. Even a small decline in the world's expected wheat harvest by about 3 to 4 percent induces large price swings.

So what lessons were taught by the 2008 crisis? It was in part the consequence of long-term neglect of investment in agriculture in developing countries and poorly thought-out agriculture subsidising policies in industrialised countries. It was then set off by adverse weather and exacerbated by inappropriate policies, such as export bans, hoarding by **importing nations** and lack of appropriate regulation of trade in commodities.

The setting of prices at the main international commodity exchanges was significantly influenced by speculation that boosted prices. Not only are food and energy markets linked, but also food and financial markets have become intertwined – in short, the "financialisation" of food trade. There are increasing indications that some financial capital is shifting from speculation on housing and complex derivatives to commodities, including food. While the financial markets have recently been regulated to curb excessive speculation, commodity markets have remained largely untouched and are the open flank of the system attracting speculation.

A food price crisis is not of great significance for the relatively rich. But for the bottom 3bn it poses a nutrition disaster with appalling long-term health consequences. The number of undernourished people has increased against the backdrop of economic recession. The poor, however, do not take extreme price crises calmly any more, as the 2008 price spike revealed. The food riots followed an increase of prices by about 100 per cent – the current wheat price changes made it more than halfway to that point in a matter of days – and calmed down quickly when prices came down. Policymakers have come to understand this tipping point and try to act long before it is reached.

Now we must distinguish between necessary measures that should largely be the preserve of national governments and those best handled at the international level. The food price volatility must be addressed at a global level. It is essential to ensure open trade and transparent, appropriately regulated market institutions. Excessive speculation in food commodities should be curbed. For that, increased transparency should be enforced and costs of speculation for non-commercial traders should be raised, for example through capital deposits. However, simply excluding food from speculative futures markets would be wrong, as these activities also play a useful intelligence role. Reliable international grain reserves policies need to be established. The Group of Eight meetings of 2008 and 2009 cited this as an option to be further explored, but failed to act.

The improved functioning of markets must be accompanied by accelerated public investment in agriculture. China, India, Brazil and parts of Africa have done well on that score since the 2008 food crisis. Also, corporate and investment funds are paying more attention to crop land. Internationally co-ordinated policy must ensure these investments are sound and sustainable, which they currently are not. Spending on international agricultural research and development is among the most effective types of investment for promoting growth and reducing poverty. Current resources are not enough to work at the frontiers of new science. At the same time, international support for initiatives such as improving early childhood nutrition is needed in low-income countries.

Finally, action is overdue to establish a global architecture for policies on agriculture and food. The current system lacks accountability, effectiveness and innovation. Food and nutrition security should figure prominently at the upcoming G20 summit and the UN conference on the millennium goals. They must follow up where the G8 left an incomplete job.

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