

Global Trade, commodity markets and Food Security

Friedrich-Ebert-Foundation

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OXFAM
Deutschland

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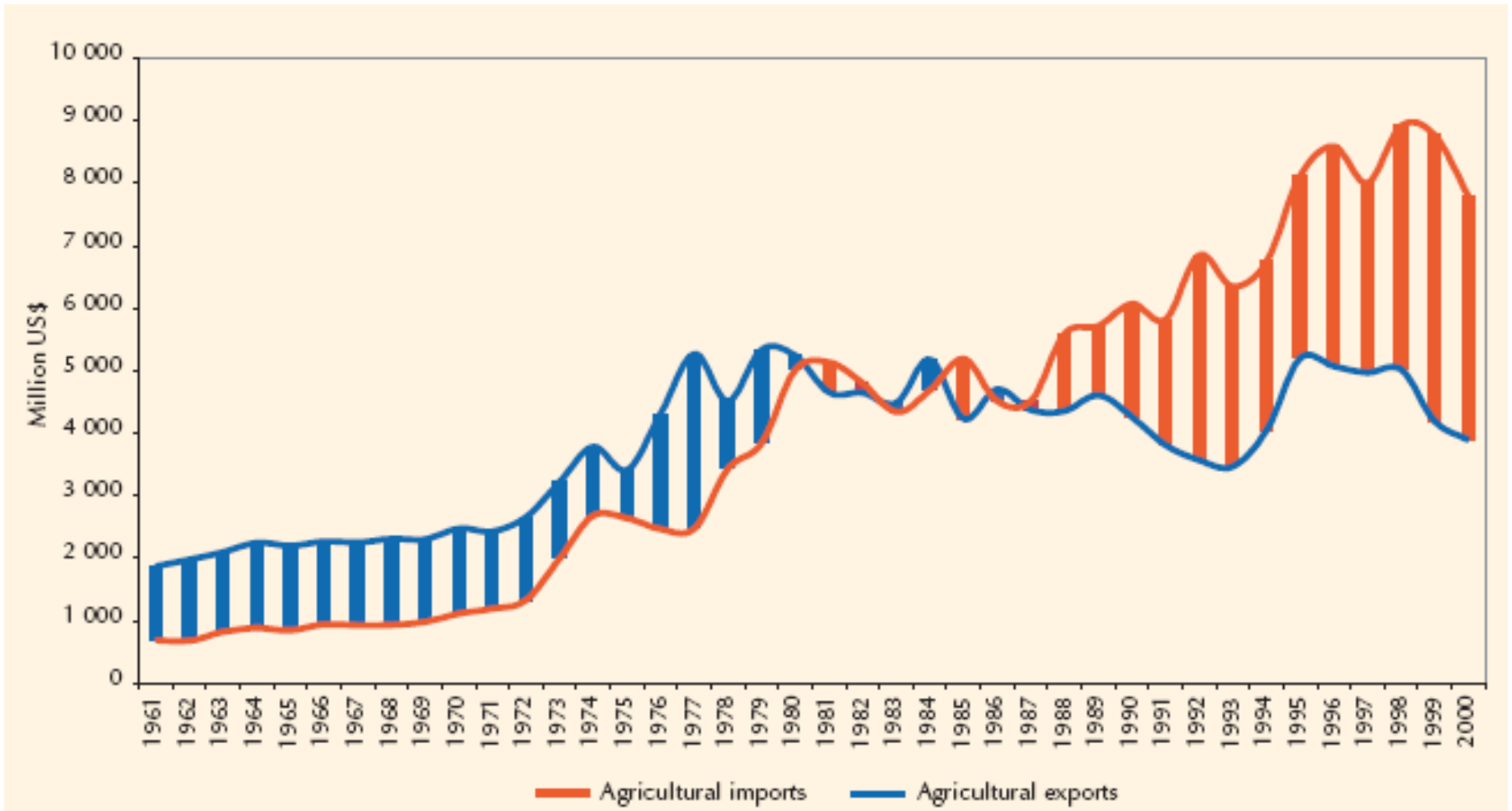


Introduction

- Beginning/Mid 2000: Deregulation
 - The CFTC expands position limits for speculation in trade with wheat, corn and soybeans.
 - The CFTC exempts Indexfunds from the position limits, which have to be respected by speculators.
- Promotion of biofuel through mandates
- Increasing number of PPPs with agricultural and food corporations
- Neo-liberal policy in agriculture (FTAs, SAP, WTO etc.)
- 2/3 of developing countries are now net food importers (NFIDCs)

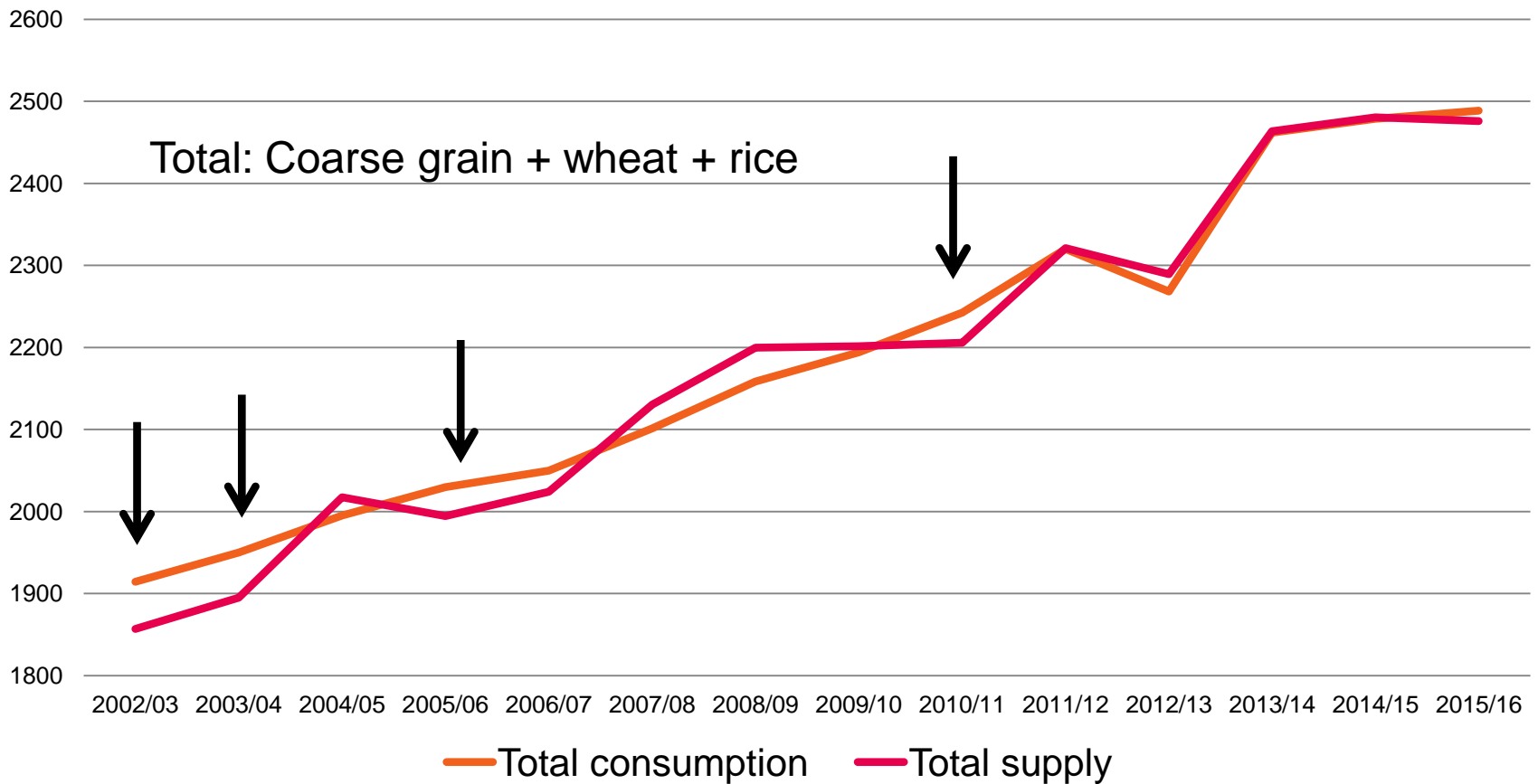


LDCs became NFIDCs



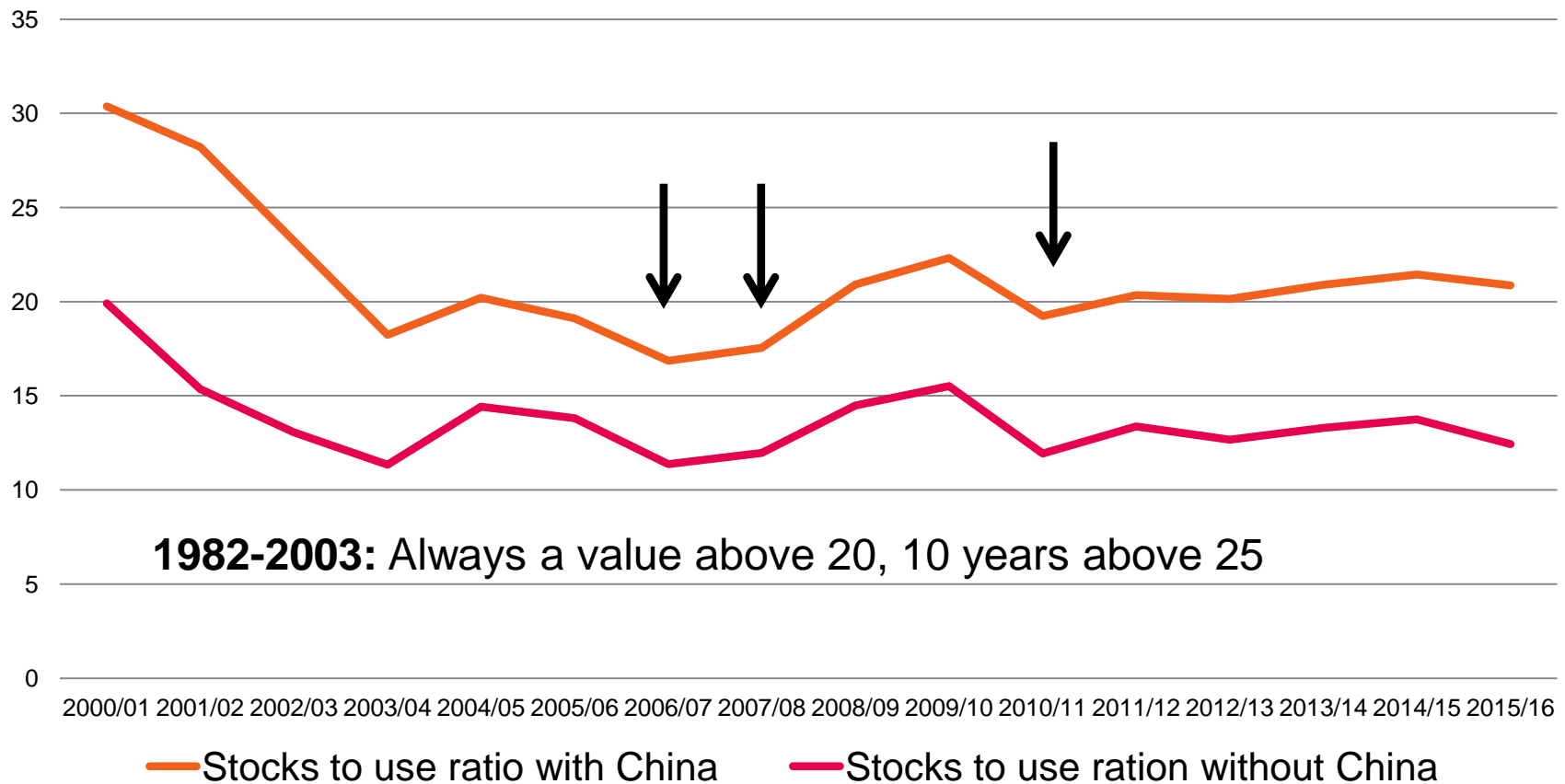
Quelle: FAO 2004:235

World Market: Supply and Demand



World Market: Cereals - comparison

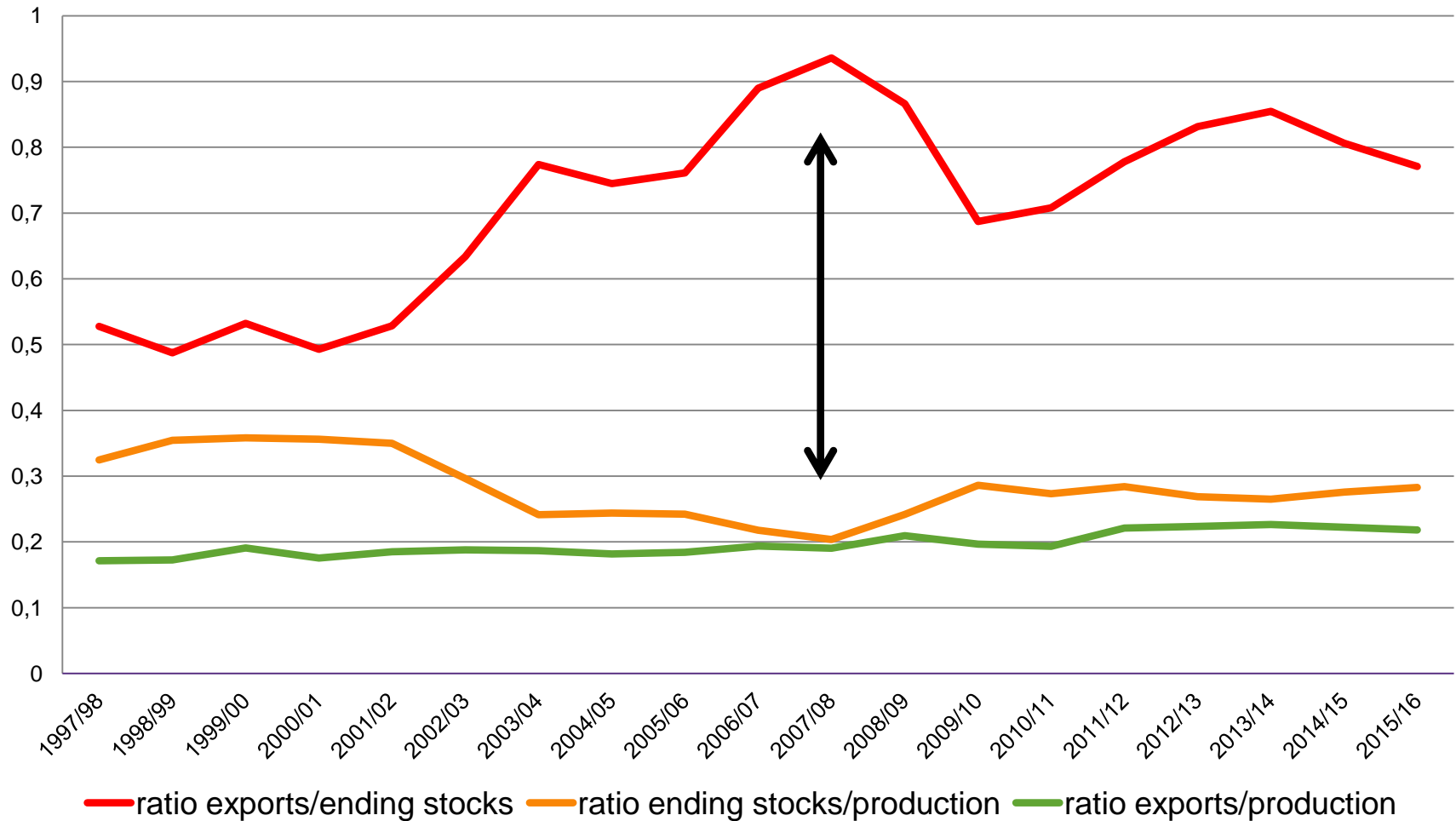
Ending Stocks to use ratio



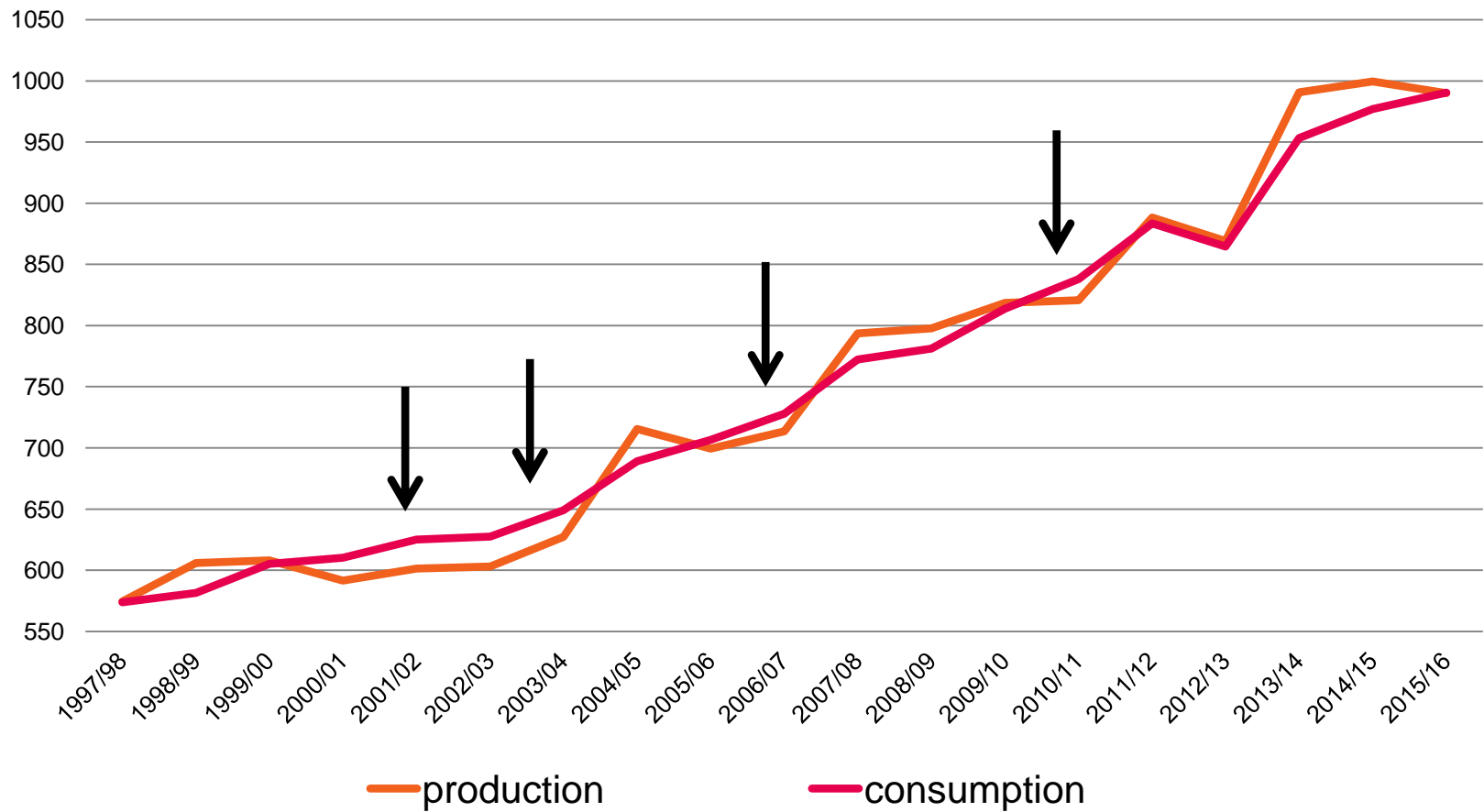
World Market: Wheat (in Mio. tons)



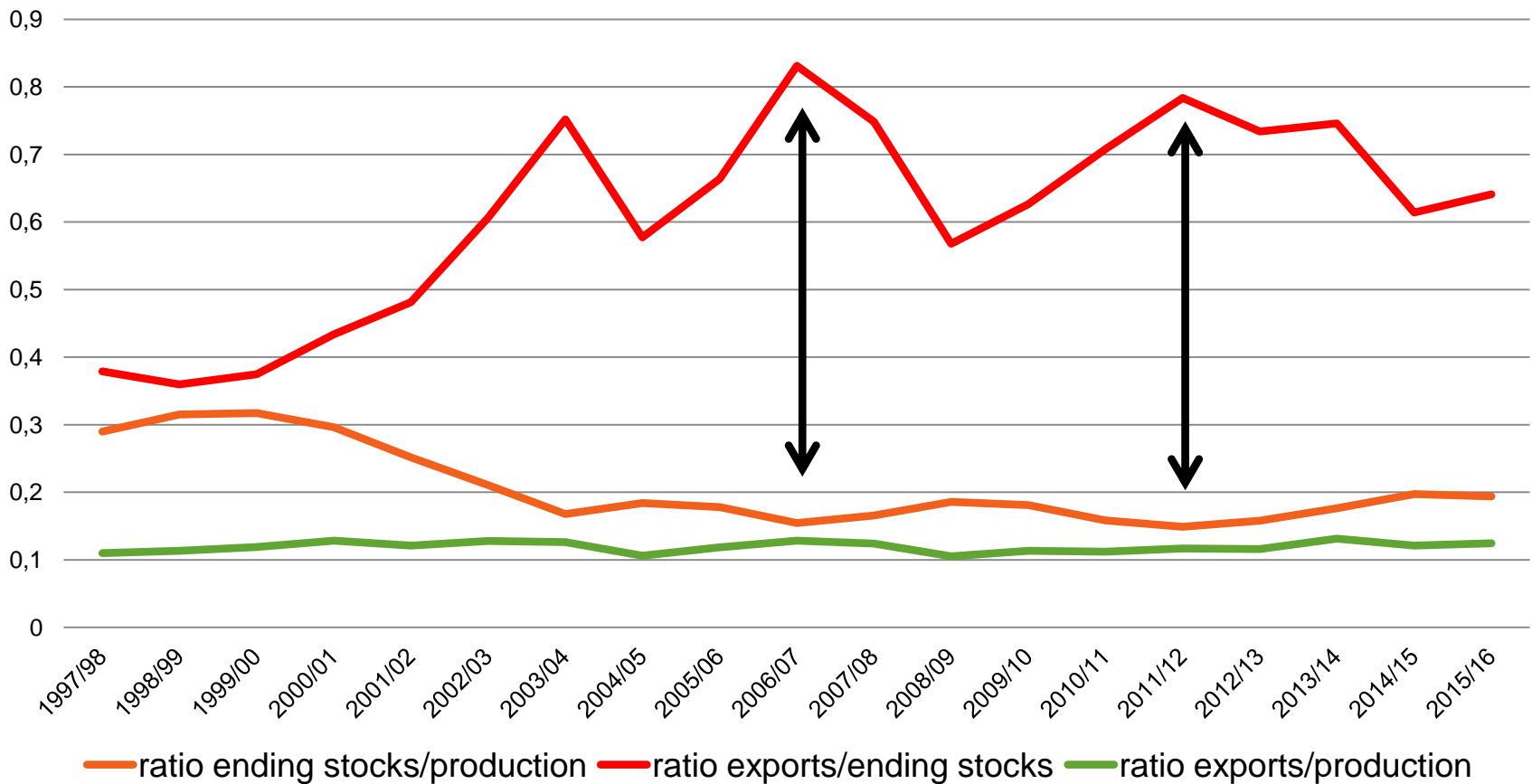
World Market: Wheat - comparison



World market: Corn (in Mio. tons)



World Market: Corn - comparison



Price Volatility

Price explosions:

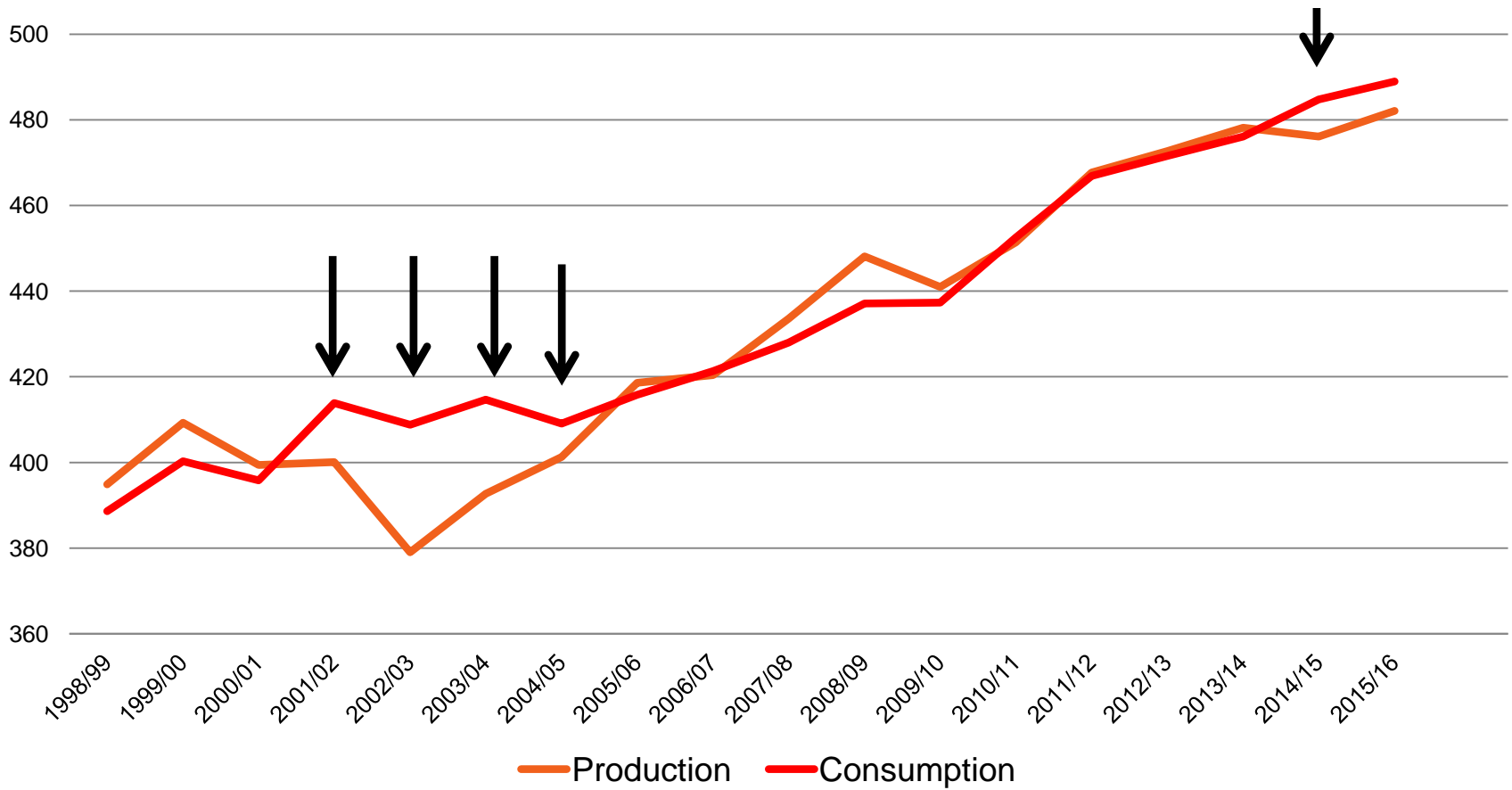
- 2008
- 2010/11
- 2012

2008-2013:

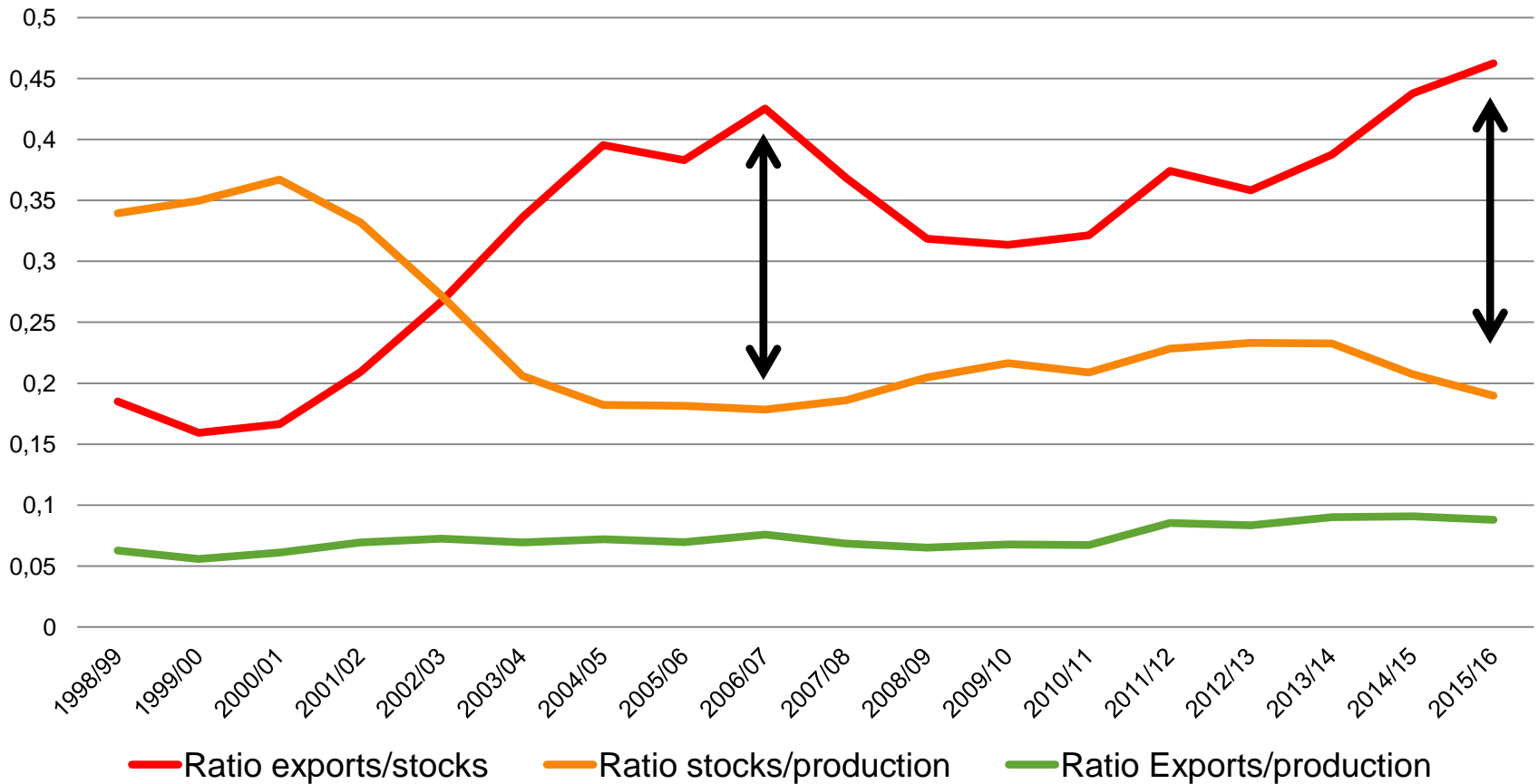
3 price explosions
within five years



World Market: Rice

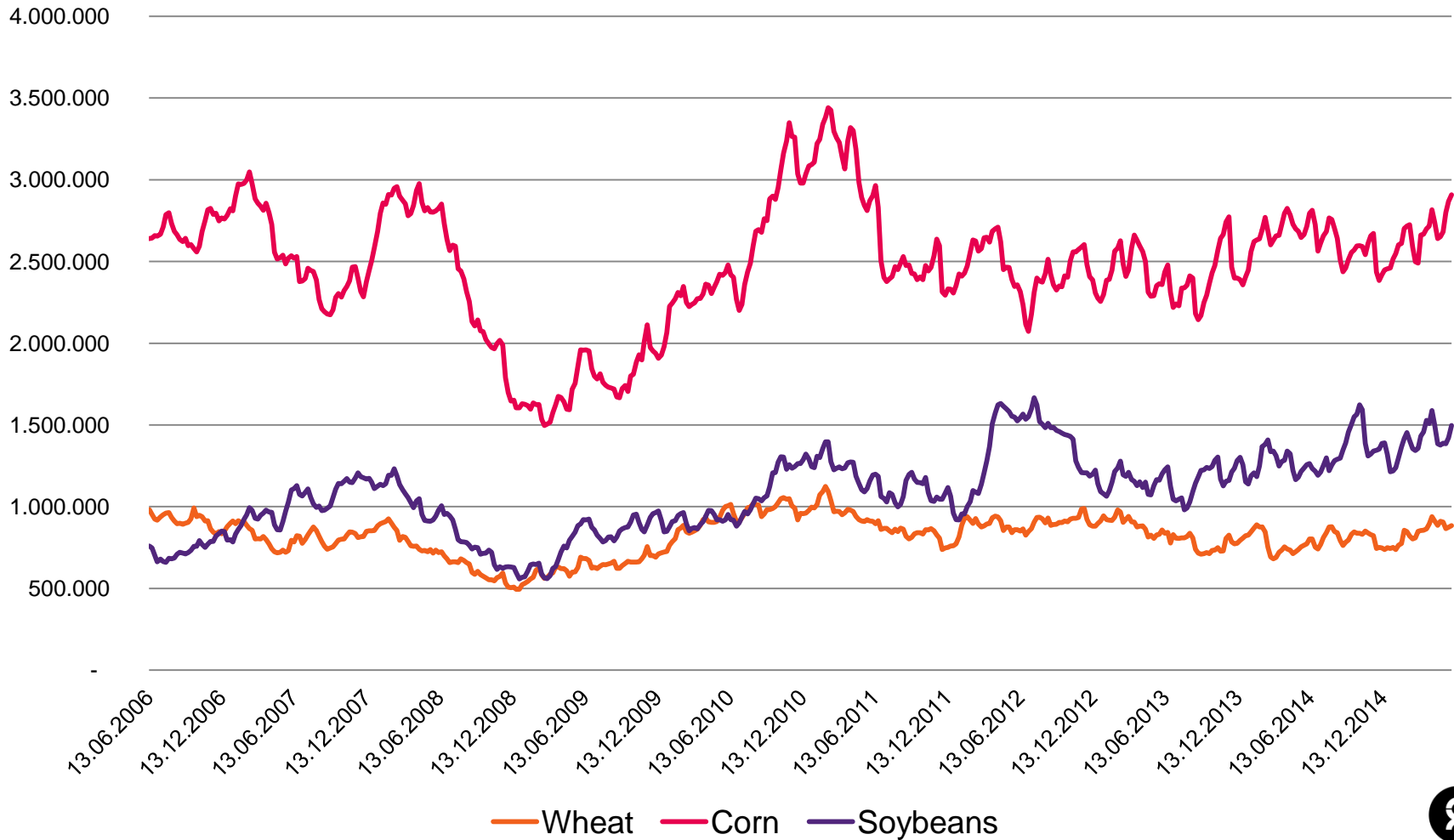


World market: Rice - comparison



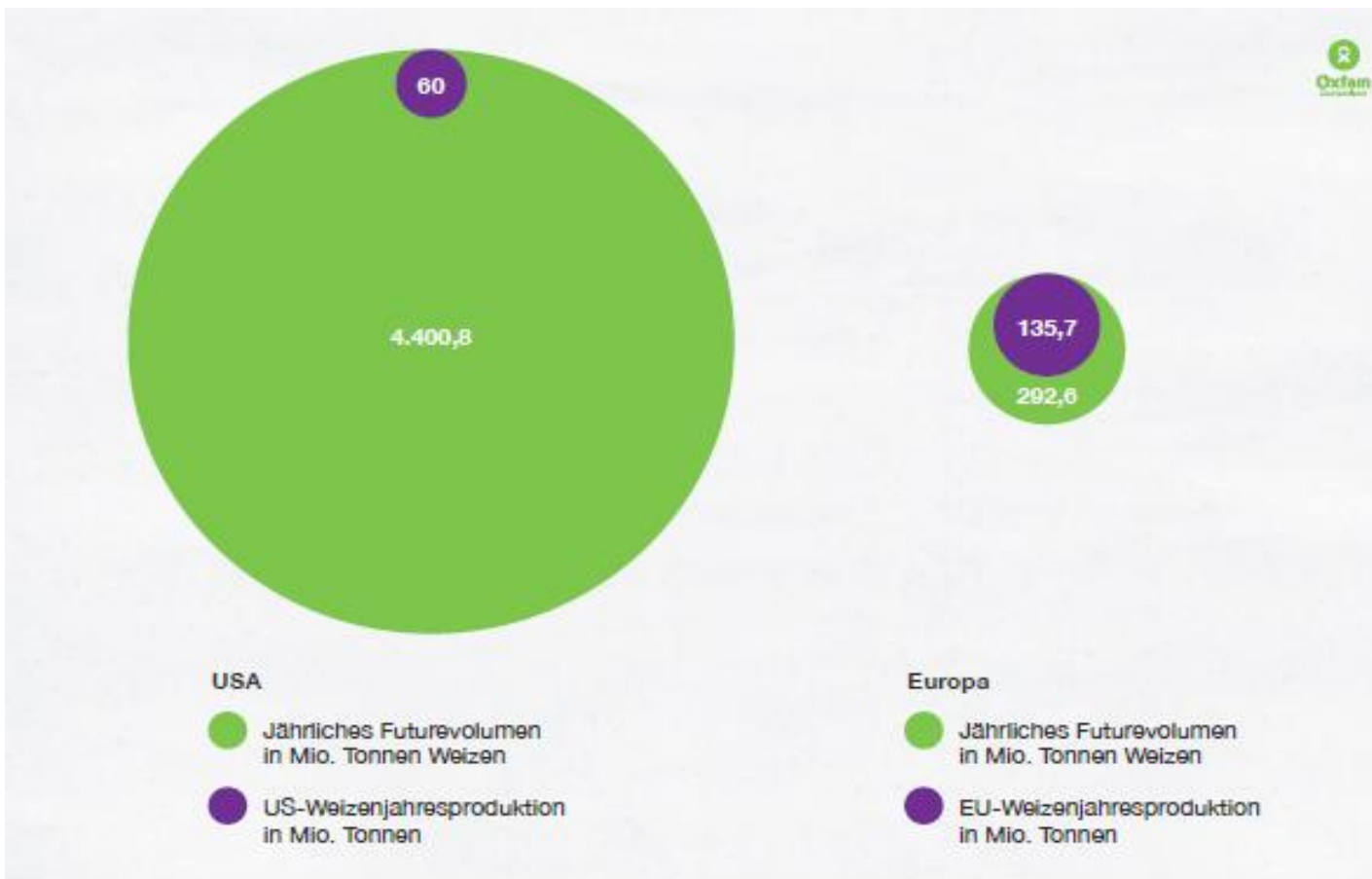
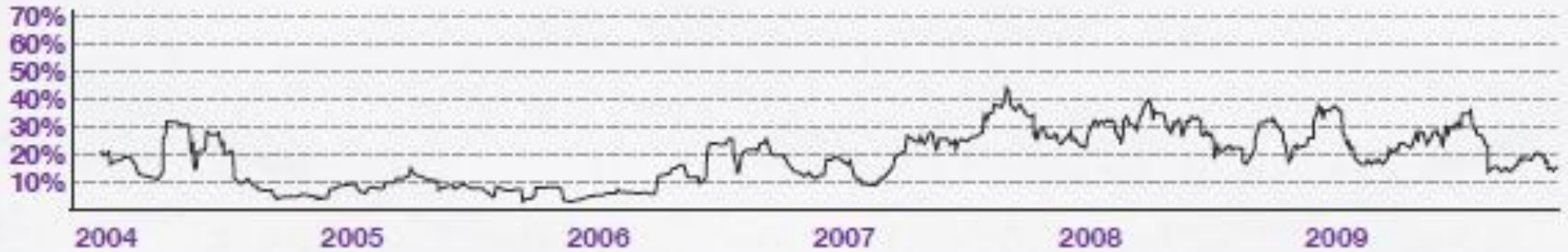
Commodity Markets: Total number of contracts

Wheat CBOT, Corn CBOT, Soybean CBOT. Data Commitment of Trader Report, CFTC. Long- and Short-Positions are counted once, spread-positions are counted twice



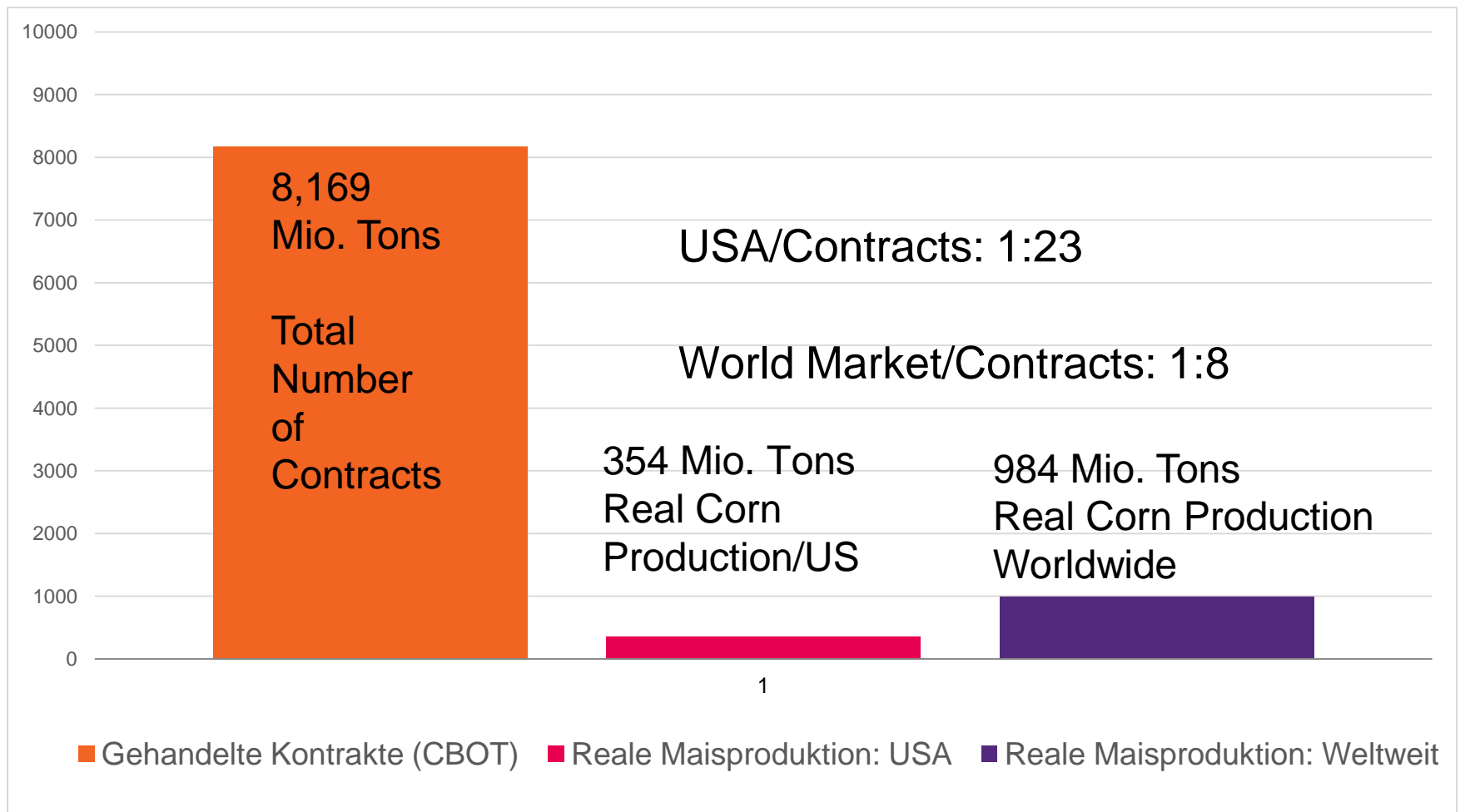
Historische Volatilität

CBOT Wheat future (1980-2000: Volatility ca. 20%; > 2005/06: on average 40%)



Wheat (2011)
Comparison:
Yearly future volumes is 70 times bigger than US harvest and 6 times bigger than global harvest

Relation between trade with corn futures and real corn production (2013)



Verhältnis der Händlerkategorien im Weizenterminmarkt an der CBOT

(Dezember 1998 und Dezember 2011)

29. Dezember 1998



■ Produzenten / reale Händler
■ Spekulanten

1998:
64,6%
producers
35,4%
speculators

27. Dezember 2011



■ Produzenten / reale Händler
■ Spekulanten
■ Swap-Händler

2011:
44,9%
producers
55,1%
speculators



Eigene Berechnung auf Grundlage von CFTC-Daten. Kleine Händler, die nicht unter die Berichtspflicht fallen, wurden nicht berücksichtigt.

Share of speculators:

- Corn (2.6.2015): 61 per cent
- Soy (2.6.2015): 55 per cent
- Wheat (2.6.2015): 73 per cent



CFTC sues Kraft/Mondelez

- April 2015: CFTC sued Kraft Foods Group Inc. and Mondelez Global LLC, because of buying large amounts of futures in order to artificially lowering the physical price of wheat in 2011. They exceeded hereby the allowed level of position limits.
- Kraft accumulated 15.75 million bushels or approximately \$93.5 million of wheat. As of December 7, 2011, Kraft's spot month wheat position constituted 87% percent of the CBOT December 2011 wheat futures open interest.
- Kraft and Mondelz earned profits of 5.4 Millionen US\$ through 2011 by artificially lowering the wheat price.

Quelle: <http://www.wsj.com/articles/kraft-mondelez-sued-by-cftc-for-alleged-manipulation-of-wheat-market-1427929832>;
<http://www.cftc.gov/ucm/groups/public/@lrenforcementactions/documents/legalpleading/enfkraftcomplaint040115.pdf>

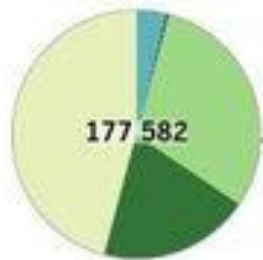


Glencore bets on rising cereal prices

- Heat in summer 2010 in Russia: Glencore demands export ban at the 3rd of August 2010 >> 2 days later implemented
- Effect: Price rally on wheat markets (prices rise by 15% within 48 hours)
- Glencore has made bets on rising wheat and corn prices before on commodity markets
- Profit: Income before interests and taxes out of agricultural business doubled in 2010 up to 659 Millionen US \$.
- Cargill also profited, whereas ADM made losses.



ARGENTINIEN
Agrarwirtschaft auf eigenem oder gepachtetem Land
Verarbeitung von Ölsamen
Reis- und Mehlproduktion
Produktion von Biodiesel*

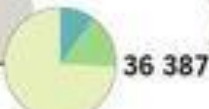


* Biodiesel wird auch in Deutschland und den Niederlanden produziert

UKRAINE
Agrarwirtschaft auf eigenem oder gepachtetem Land
Verarbeitung von Sonnenblumenkernen



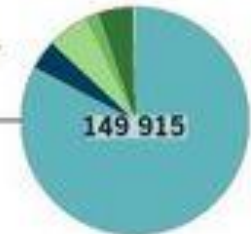
PARAGUAY
Agrarwirtschaft auf eigenem oder gepachtetem Land



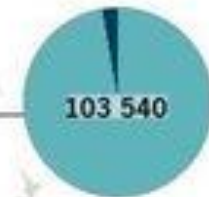
KASACHSTAN
Agrarwirtschaft auf eigenem oder gepachtetem Land



RUSSLAND
Agrarwirtschaft auf eigenem oder gepachtetem Land



AUSTRALIEN
Agrarwirtschaft auf eigenem oder gepachtetem Land



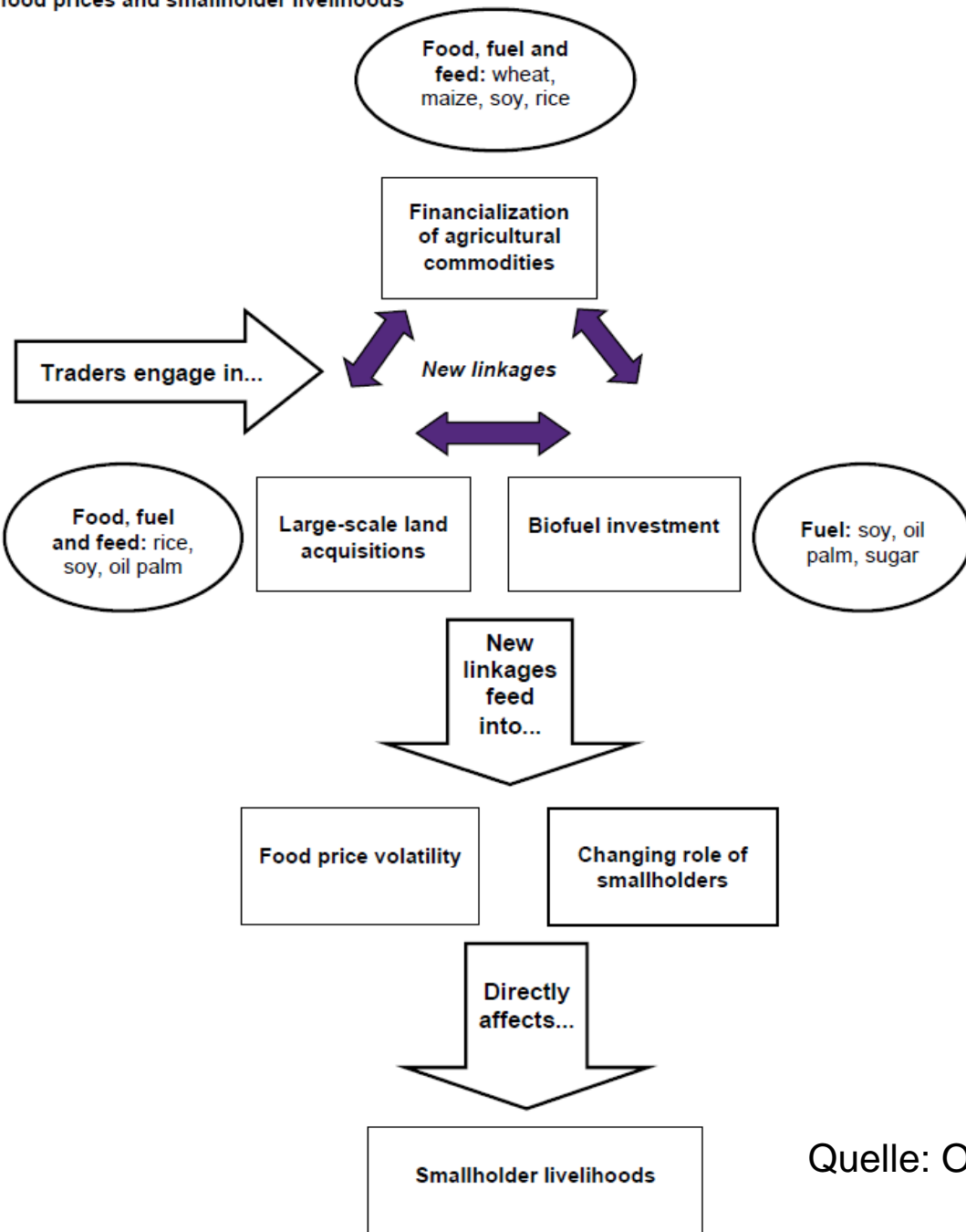
TÄ-Grafik ek / Quelle: Glencore

Quelle: <http://www.tagesanzeiger.ch/wirtschaft/unternehmen-und-konjunktur/Glencore-ernaehrt-die-Welt/story/25987904>

Glencore:

- Has farms in six countries on three continents.
- Ist farmland extends up to more than 270,000 ha
- It produces on own plantations 700,000 Tons of agricultural products.

Figure 1: Key activities of agricultural commodity traders and their knock-on effects for food prices and smallholder livelihoods

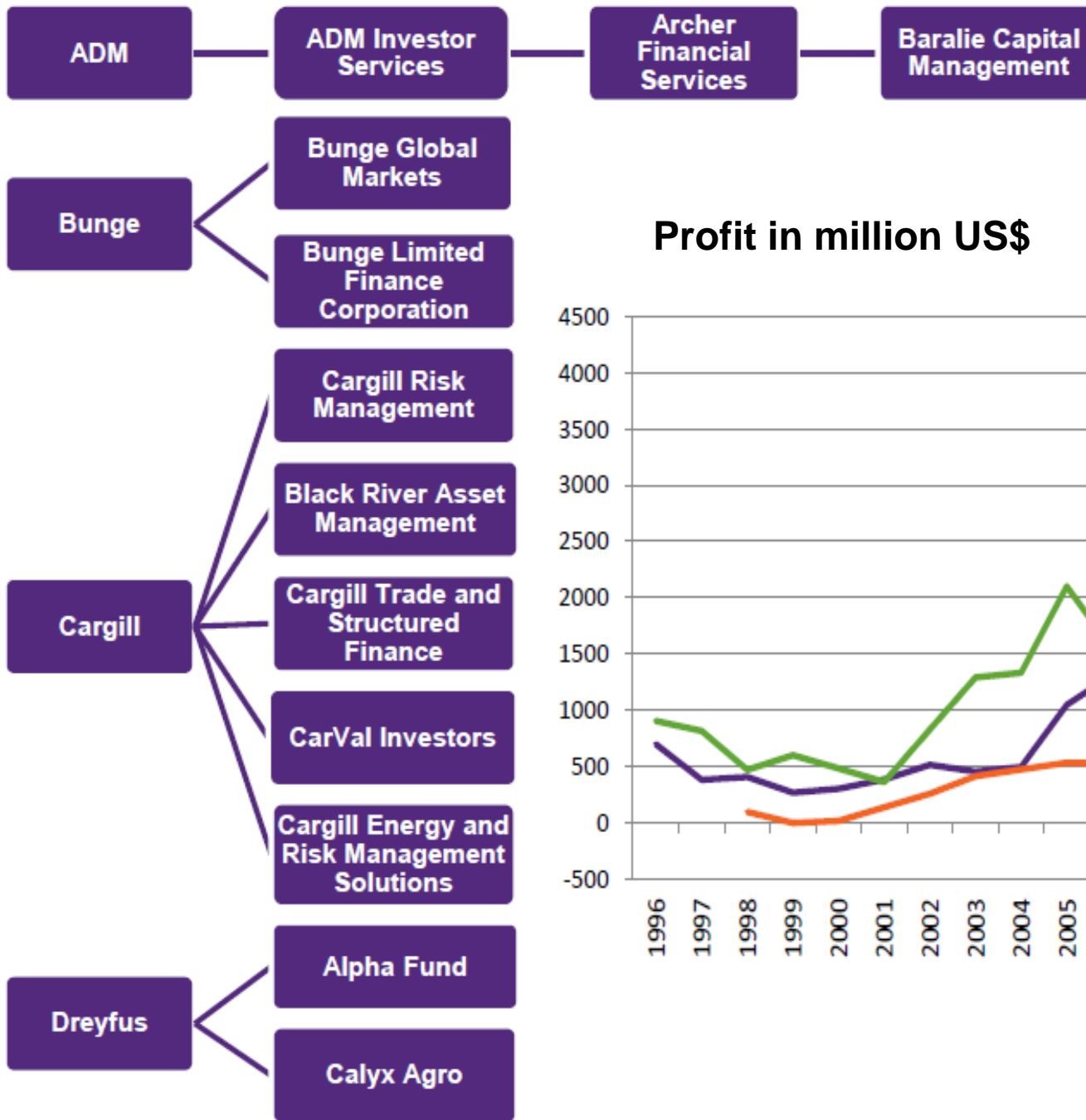


ADM
Bunge
Cargill
Dreyfuss

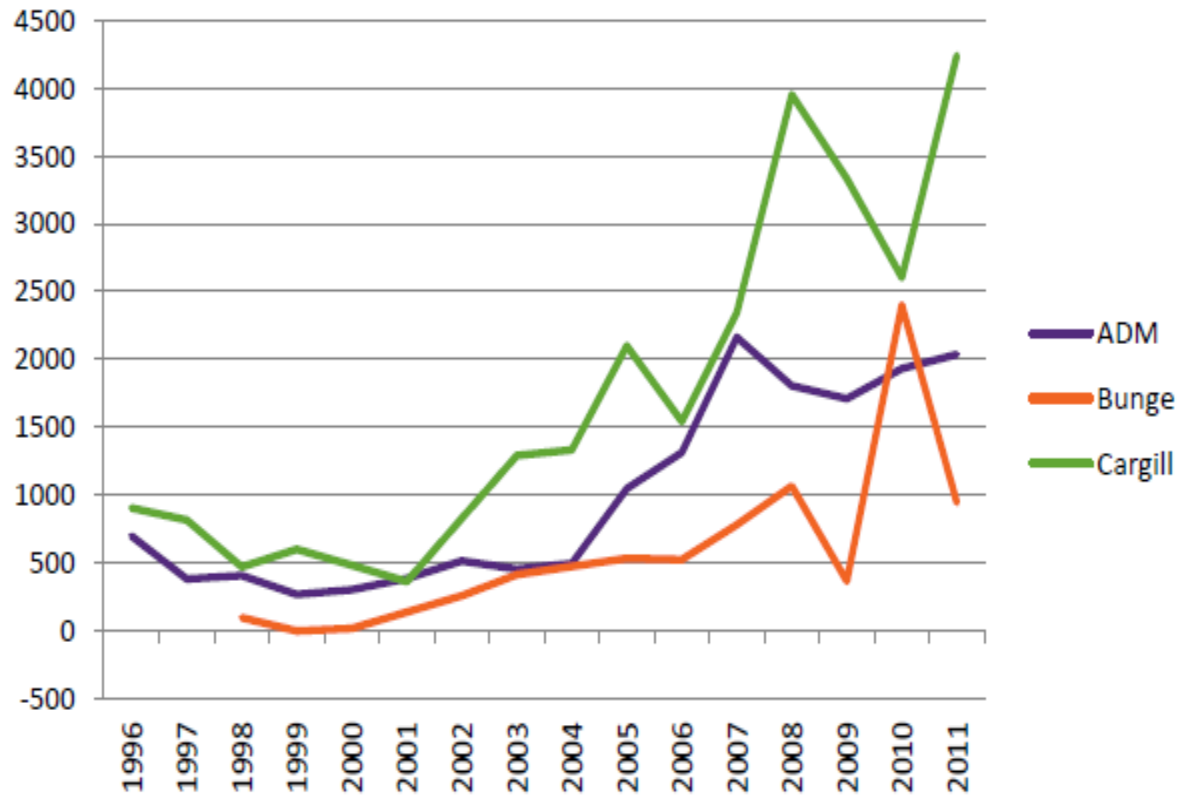
Control 73 per cent of world cereal trade (2003), five years before their share was 62 per cent.

Today?

Quelle: Oxfam (2012): Cereal secrets.



Profit in million US\$



Regulation of commodity markets (EU)

- Trade on stock markets or through clearing houses, as much as possible (Weitestgehend)
- Strong supervision authority (ESMA: No; no additional capacity, position limits at national level, competence only in case of market abuse)
- Price supervision, price limits, prevention of excessive speculation (no)
- Position limits: only for single traders per commodity (not sufficient, implementation provisions: 40% proposed)
- Prohibition of indexfunds (no)
- Reporting obligations, publication of weekly reports (yes, see USA)
- Control of speculation of multinational agricultural corporations (at least do not fall generally under hedging exemption)
- Transaction tax on commodity trade

Lessons from food crisis

- The more dependent on imports, the more countries are affected by high food prices
- >> **therefore**: expand domestic food production and support sustainable, smallholder agriculture
- Countries investing in smallholder agriculture, having social protection schemes or having increased wages for workers were less affected by crisis
- >> **therefore**: introduce respective policies. Important: support women incl. equal participation in programmes and projects.
- Countries, whose programmes and measures focused on food insecure and marginalised, were less affected by the crisis.
- >> **therefore**: targeted support of groups affected by hunger (60 % women, 50% smallholders, 20% landless people)